

PennyMac Mortgage Investment Trust  
Form 10-Q  
May 08, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC 20549**

**Form 10-Q**

(Mark One)

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

**For the quarterly period ended March 31, 2015**

**Or**

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

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

**Commission file number: 001-34416**

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

|  |  |
|--|--|
| <p><b>Maryland</b><br/>                 (State or other jurisdiction of<br/>                 incorporation or organization)</p> <p><b>6101 Condor Drive, Moorpark, California</b><br/>                 (Address of principal executive offices)</p> <p style="text-align: center;"><b>(818) 224-7442</b></p> <p style="text-align: center;">(Registrant's telephone number, including area code)</p> | <p><b>27-0186273</b><br/>                 (IRS Employer<br/>                 Identification No.)</p> <p><b>93021</b><br/>                 (Zip Code)</p> |
|--|--|

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 May 5, 2015 |
|--|----------------------------|
| Common Shares of Beneficial Interest, \$0.01 par value | 74,585,222                 |



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**PENNYMAC MORTGAGE INVESTMENT TRUST**

**FORM 10-Q**

**March 31, 2015**

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

the concentration of credit risks to which we are exposed;

the degree and nature of our competition;

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

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

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

the adequacy of our cash reserves and working capital;

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

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;

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

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

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

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

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

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

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

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

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

our failure to maintain appropriate internal controls over financial reporting;

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

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

our ability to detect misconduct and fraud;

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



developments in the secondary markets for our mortgage loan products;

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

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

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

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

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

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

the effect of public opinion on our reputation;

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

our organizational structure and certain requirements in our charter documents.

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

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

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

|   | <b>March 31,<br/>2015</b>                | <b>December 31,<br/>2014</b> |
|---|--|------------------------------|
|   | <b>(in thousands, except share data)</b> |                              |
| <b>ASSETS</b>   |  |                              |
| Cash  | \$ 65,668                                | \$ 76,386                    |
| Short-term investments  | 44,949                                   | 139,900                      |
| Mortgage-backed securities at fair value pledged to secure assets sold under agreements to repurchase   | 316,292                                  | 307,363                      |
| Mortgage loans acquired for sale at fair value (includes \$1,272,132 and \$609,608 pledged to secure assets sold under agreements to repurchase and \$74,051 and \$20,862 pledged to secure mortgage loan participation and sale agreement) | 1,366,964                                | 637,722                      |
| Mortgage loans at fair value (includes \$2,846,806 and \$2,709,161 pledged to secure assets sold under agreements to repurchase and asset-backed secured financing of the variable interest entity at fair value)                           | 2,859,326                                | 2,726,952                    |
| Excess servicing spread purchased from PennyMac Financial Services, Inc. at fair value  | 222,309                                  | 191,166                      |
| Derivative assets   | 12,668                                   | 11,107                       |
| Real estate acquired in settlement of loans (includes \$200,504 and \$150,649 pledged to secure assets sold under agreements to repurchase)   | 317,536                                  | 303,228                      |
| Mortgage servicing rights (includes \$49,448 and \$57,358 carried at fair value)  | 359,160                                  | 357,780                      |
| Servicing advances  | 79,261                                   | 79,878                       |
| Due from PennyMac Financial Services, Inc.  | 5,778                                    | 6,621                        |
| Other assets  | 87,499                                   | 66,193                       |
| <b>Total assets</b>   | <b>\$ 5,737,410</b>                      | <b>\$ 4,904,296</b>          |
| <b>LIABILITIES</b>  |  |                              |
| Assets sold under agreements to repurchase  | \$ 3,563,293                             | \$ 2,730,130                 |
| Mortgage loan participation and sale agreement  | 71,829                                   | 20,236                       |
| Asset-backed secured financing of the variable interest entity at fair value  | 162,222                                  | 165,920                      |
| Exchangeable senior notes   | 250,000                                  | 250,000                      |
| Derivative liabilities  | 2,071                                    | 2,430                        |
| Accounts payable and accrued liabilities  | 71,835                                   | 67,806                       |
| Due to PennyMac Financial Services, Inc.  | 18,719                                   | 23,943                       |
| Income taxes payable  | 39,903                                   | 51,417                       |
| Liability for losses under representations and warranties   | 15,379                                   | 14,242                       |

|                   |           |           |
|-------------------|-----------|-----------|
| Total liabilities | 4,195,251 | 3,326,124 |
|-------------------|-----------|-----------|

Commitments and contingencies

**SHAREHOLDERS EQUITY**

Common shares of beneficial interest authorized, 500,000,000 common shares of \$0.01 par value; issued and outstanding, 74,585,222 and 74,510,159 common shares, respectively

|                            |           |           |
|----------------------------|-----------|-----------|
|                            | 746       | 745       |
| Additional paid-in capital | 1,482,250 | 1,479,699 |
| Retained earnings          | 59,163    | 97,728    |

|                           |           |           |
|---------------------------|-----------|-----------|
| Total shareholders equity | 1,542,159 | 1,578,172 |
|---------------------------|-----------|-----------|

|   |              |              |
|---|--------------|--------------|
| Total liabilities and shareholders equity | \$ 5,737,410 | \$ 4,904,296 |
|---|--------------|--------------|

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):

|  | March 31,<br>2015 | December 31,<br>2014 |
|--|-------------------|----------------------|
|  | (in thousands)    |                      |
| <b>ASSETS</b>  |                   |                      |
| Mortgage loans at fair value                             | \$ 515,944        | \$ 527,369           |
| Other assets - interest receivable                       | 1,608             | 1,651                |
|  | \$ 517,552        | \$ 529,020           |
| <b>LIABILITIES</b>                                       |                   |                      |
| Asset-backed secured financing at fair value             | \$ 162,222        | \$ 165,920           |
| Accounts payable and accrued expenses - interest payable | 463               | 477                  |
|  | \$ 162,685        | \$ 166,397           |

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

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

|  | <b>Quarter ended March 31,</b>               |             |
|--|--|-------------|
|  | <b>2015</b>                                  | <b>2014</b> |
|  | <b>(in thousands, except per share data)</b> |             |
| <b>Net investment income</b>                           |  |             |
| Net interest income:                                   |  |             |
| Interest income  |  |             |
| From nonaffiliates                                     | \$ 36,933                                    | \$ 36,484   |
| From PennyMac Financial Services, Inc.                 | 3,752  | 2,862       |
|  | 40,685                                       | 39,346      |
| Interest expense                                       | 25,746                                       | 19,775      |
|  | 14,939                                       | 19,571      |
| Net gain on mortgage loans acquired for sale           | 10,160                                       | 9,971       |
| Loan origination fees                                  | 5,287  | 2,356       |
| Net gain on investments:                               |  |             |
| From nonaffiliates                                     | 9,694  | 45,486      |
| From PennyMac Financial Services, Inc.                 | (6,247)                                      | (2,901)     |
|  | 3,447  | 42,585      |
| Net loan servicing fees                                | 8,001  | 7,421       |
| Results of real estate acquired in settlement of loans | (5,832)                                      | (6,626)     |
| Other  | 1,655  | 1,317       |
| Net investment income                                  | 37,657                                       | 76,595      |
| <b>Expenses</b>  |  |             |
| Expenses earned by PennyMac Financial Services, Inc.:  |  |             |
| Loan fulfillment fees                                  | 12,866                                       | 8,902       |
| Loan servicing fees                                    | 10,670                                       | 14,591      |
| Management fees  | 7,003  | 8,074       |
| Compensation   | 2,808  | 2,942       |
| Professional services                                  | 1,828  | 1,731       |
| Other  | 6,302  | 4,066       |
| Total expenses   | 41,477                                       | 40,306      |
| (Loss) income before benefit from income taxes         | (3,820)                                      | 36,289      |
| Benefit from income taxes                              | (11,328)                                     | (1,584)     |
| Net income   | \$ 7,508                                     | \$ 37,873   |

|  |  |         |         |
|--|--|---------|---------|
| <b>Earnings per share</b>                  |  |         |         |
| Basic                                      |  | \$ 0.09 | \$ 0.52 |
| Diluted                                    |  | \$ 0.09 | \$ 0.50 |
| <b>Weighted-average shares outstanding</b> |  |         |         |
| Basic                                      |  | 74,528  | 71,527  |
| Diluted                                    |  | 74,956  | 80,289  |
| <b>Dividends declared per share</b>        |  | \$ 0.61 | \$ 0.59 |

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)**

|   | <b>Common shares<br/>Number</b> | <b>Par<br/>value</b> | <b>Additional<br/>paid-in<br/>capital<br/>(in thousands)</b> | <b>Retained<br/>earnings</b> | <b>Total</b> |
|---|---------------------------------|----------------------|--|------------------------------|--------------|
| <b>Balance at December, 2013</b>        | 70,458                          | \$ 705               | \$ 1,384,468   | \$ 81,941                    | \$ 1,467,114 |
| Net income                              |                                 |                      |  | 37,873                       | 37,873       |
| Share-based compensation                | 85                              |                      | 1,814  |                              | 1,814        |
| Dividends, \$0.59 per share             |                                 |                      |  | (43,618)                     | (43,618)     |
| Proceeds from issuance of common shares | 3,387                           | 34                   | 80,983   |                              | 81,017       |
| Underwriting and offering costs         |                                 |                      | (918)  |                              | (918)        |
| <b>Balance at March 31, 2014</b>        | 73,930                          | \$ 739               | \$ 1,466,347   | \$ 76,196                    | \$ 1,543,282 |
| <b>Balance at December 31, 2014</b>     | 74,510                          | \$ 745               | \$ 1,479,699   | \$ 97,728                    | \$ 1,578,172 |
| Net income                              |                                 |                      |  | 7,508                        | 7,508        |
| Share-based compensation                | 75                              | 1                    | 2,543  |                              | 2,544        |
| Dividends, \$0.61 per share             |                                 |                      |  | (46,073)                     | (46,073)     |
| Proceeds from issuance of common shares |                                 |                      | 8  |                              | 8            |
| <b>Balance at March 31, 2015</b>        | 74,585                          | \$ 746               | \$ 1,482,250   | \$ 59,163                    | \$ 1,542,159 |

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



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

|  | <b>Quarter ended March 31</b> |             |
|--|-------------------------------|-------------|
|  | <b>2015</b>                   | <b>2014</b> |
|  | <b>(in thousands)</b>         |             |
| <b>Cash flows from operating activities</b>  |                               |             |
| Net income   | \$ 7,508                      | \$ 37,873   |
| Adjustments to reconcile net income to net cash used by operating activities:  |                               |             |
| Accrual of unearned discounts and amortization of premiums on mortgage-backed securities, mortgage loans at fair value, and asset-backed secured financing | (402)                         | (240)       |
| Capitalization of interest on mortgage loans at fair value   | (10,209)                      | (12,470)    |
| Accrual of interest on excess servicing spread   | (3,752)                       | (2,862)     |
| Amortization of credit facility commitment fees and debt issuance costs  | 2,581                         | 2,360       |
| Net gain on mortgage loans acquired for sale   | (10,160)                      | (9,971)     |
| Accrual of costs related to forward purchase agreements  |                               | 2,200       |
| Net gain on investments  | (3,447)                       | (46,727)    |
| Change in fair value, amortization and impairment of mortgage servicing rights   | 14,628                        | 10,020      |
| Results of real estate acquired in settlement of loans   | 5,832                         | 6,626       |
| Share-based compensation expense   | 2,544                         | 1,814       |
| Purchases of mortgage loans acquired for sale at fair value from nonaffiliates   | (8,366,569)                   | (5,043,212) |
| Purchases of mortgage loans acquired for sale at fair value from PennyMac Financial Services, Inc.   | (8,405)                       |             |
| Repurchase of mortgage loans subject to representation and warranties  | (7,708)                       | (3,391)     |
| Sales and repurchase of mortgage loans acquired for sale at fair value to nonaffiliates  | 2,644,244                     | 2,026,306   |
| Sales of mortgage loans acquired for sale to PennyMac Financial Services, Inc.   | 4,990,358                     | 3,130,531   |
| Increase in servicing advances   | (5,804)                       | (5,647)     |
| Decrease in due from PennyMac Financial Services, Inc.   | 886                           | 3,196       |
| Decrease in other assets   | 7,164                         | 17,434      |
| Increase (decrease) in accounts payable and accrued liabilities  | 4,163                         | (1,124)     |
| (Decrease) increase in payable to PennyMac Financial Services, Inc.  | (5,067)                       | 2,212       |
| Decrease in income taxes payable   | (11,514)                      | (1,626)     |
| Net cash (used in) provided by operating activities  | (753,129)                     | 113,302     |
| <b>Cash flows from investing activities</b>  |                               |             |
| Net decrease in short-term investments   | 94,951                        | 1,060       |
| Purchases of mortgage-backed securities at fair value  | (25,129)                      |             |
| Repayments of mortgage-backed securities at fair value   | 17,802                        | 1,978       |
| Purchases of mortgage loans at fair value  | (241,981)                     | (256,280)   |
| Sales and repayments of mortgage loans at fair value   | 59,596                        | 252,292     |
| Repayments of mortgage loans under forward purchase agreements at fair value   |                               | 5,329       |
| Purchase of excess servicing spread from PennyMac Financial Services, Inc.   | (46,412)                      | (20,526)    |

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|  |          |          |
|--|----------|----------|
| Repayment of excess servicing spread by PennyMac Financial Services, Inc.              | 12,731   | 7,413    |
| Settlements of derivative financial instruments  | (13,466) | (259)    |
| Purchase of real estate acquired in settlement of loans                                |          | (3,049)  |
| Sales of real estate acquired in settlement of loans                                   | 65,976   | 31,772   |
| Sales of real estate acquired in settlement of loans under forward purchase agreements |          | 1,620    |
| Sale of mortgage servicing rights  | 376      |          |
| Increase in margin deposits and restricted cash  | (15,792) | (21,857) |
| Net cash used in investing activities  | (91,348) | (507)    |

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)****(CONTINUED)**

|  | <b>Quarter ended March 31,</b> |              |
|--|--------------------------------|--------------|
|  | <b>2015</b>                    | <b>2014</b>  |
|  | <b>(in thousands)</b>          |              |
| <b>Cash flows from financing activities</b>                |                                |              |
| Sales of assets under agreement to repurchase              | \$ 9,744,632                   | \$ 6,814,735 |
| Repurchases of assets sold under agreements to repurchase  | (8,911,469)                    | (6,966,561)  |
| Sales of mortgage loan participation certificates          | 1,014,727                      |              |
| Repayments of mortgage loan participation certificates     | (963,134)                      |              |
| Repayments of borrowings under forward purchase agreements |                                | (13,124)     |
| Repayments of asset-backed secured financing at fair value | (4,641)                        | (1,805)      |
| Issuances of common shares                                 | 8                              | 81,017       |
| Payment of common share underwriting and offering costs    |                                | (918)        |
| Payment of contingent underwriting fees payable            | (470)                          | (109)        |
| Payment of dividends                                       | (45,894)                       | (41,570)     |
| Net cash provided (used in) by financing activities        | 833,759                        | (128,335)    |
| Net decrease in cash                                       | (10,718)                       | (15,540)     |
| Cash at beginning of period                                | 76,386                         | 27,411       |
| Cash at end of period                                      | \$ 65,668                      | \$ 11,871    |

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 ( *PCM* or the *Manager* ) and PennyMac Loan Services, LLC ( *PLS* or the *Servicer* ), both indirect subsidiaries of PennyMac Financial Services, Inc. ( *PFSI* ).

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

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

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

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

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The accompanying consolidated financial statements have been prepared in compliance with accounting principles generally accepted in the United States ( GAAP ) as codified in the Financial Accounting Standards Board's ( FASB ) *Accounting Standards Codification* ( Codification ) for interim financial information and with the SEC's instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, these financial statements and notes do not include all of the information required by 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, 2014.

The accompanying unaudited consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, income, and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for the full year ending December 31, 2015. Intercompany accounts and transactions have been eliminated.

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

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**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;

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

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

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

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

|   | <b>Quarter ended</b>  |             |
|---|-----------------------|-------------|
|   | <b>March 31,</b>      |             |
|   | <b>2015</b>           | <b>2014</b> |
|   | <b>(in thousands)</b> |             |
| <b>Investment portfolio purchases:</b>  |                       |             |
| Mortgage loans  | \$ 241,981            | \$ 257,200  |
| REO   |                       | 3,087       |
|   | \$ 241,981            | \$ 260,287  |
| <b>Investment portfolio purchases above through one or more subsidiaries of Citigroup Inc.:</b> |                       |             |
| Mortgage loans  | \$                    | \$          |
| REO   |                       | 38          |
|   | \$                    | \$ 38       |

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

|  | <b>March 31,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|--|---------------------------|------------------------------|
|  | <b>(in thousands)</b>     |                              |
| Mortgage loans at fair value             | \$ 912,951                | \$ 943,163                   |
| REO                                      | 98,174                    | 108,302                      |
|  | \$ 1,011,125              | \$ 1,051,465                 |
| Total holdings of mortgage loans and REO | \$ 3,176,862              | \$ 3,030,180                 |

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

The Company recognized these assets and related obligations as of the dates of the forward purchase agreements and recognized 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 for the period presented include the following amounts related to the forward purchase agreements:

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

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





**Table of Contents****Note 3 Transactions with Related Parties**

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

|   | <b>Quarter ended<br/>March 31,</b> |              |
|---|------------------------------------|--------------|
|   | <b>2015</b>                        | <b>2014</b>  |
|   | <b>(in thousands)</b>              |              |
| Fulfillment fee expense earned by PLS   | \$ 12,866                          | \$ 8,902     |
| Unpaid principal balance of loans fulfilled by PLS                              | \$ 2,890,132                       | \$ 1,919,578 |
| Sourcing fees received from PLS   | \$ 1,421                           | \$ 892       |
| Unpaid principal balance of loans sold to PLS                                   | \$ 4,735,374                       | \$ 2,974,077 |
| Purchases of mortgage loans acquired for sale at fair value from PLS            | \$ 8,405                           |              |
| At period end:  |                                    |              |
| Mortgage loans included in mortgage loans acquired for sale pending sale to PLS | \$ 599,390                         | \$ 48,909    |

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

|   | <b>Quarter ended<br/>March 31,</b> |             |
|---|------------------------------------|-------------|
|   | <b>2015</b>                        | <b>2014</b> |
|   | <b>(in thousands)</b>              |             |
| Mortgage loans acquired for sale at fair value: |                                    |             |
| Base  | \$ 26                              | \$ 17       |
| Activity-based                                  | 31                                 | 26          |
|   | 57                                 | 43          |
| Distressed mortgage loans:                      |                                    |             |
| Base  | 4,032                              | 4,966       |
| Activity-based                                  | 2,894                              | 6,386       |
|   | 6,926                              | 11,352      |
| MSRs:   |                                    |             |
| Base  | 3,656                              | 3,148       |
| Activity-based                                  | 31                                 | 48          |
|   | 3,687                              | 3,196       |
|   | \$ 10,670                          | \$ 14,591   |

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Average investment in:

|  |               |               |
|--|---------------|---------------|
| Mortgage loans acquired for sale at fair value | \$ 751,172    | \$ 334,442    |
| Distressed mortgage loans                      | \$ 2,080,704  | \$ 1,976,166  |
| Average mortgage loans servicing portfolio     | \$ 34,599,043 | \$ 26,492,742 |

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

|   | <b>Quarter ended<br/>March 31,<br/>2015      2014<br/>(in thousands)</b> |          |
|---|--|----------|
| Base  | \$ 5,730   | \$ 5,521 |
| Performance incentive                           | 1,273  | 2,553    |
| Total management fee incurred during the period | \$ 7,003   | \$ 8,074 |

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

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

|                          | <b>Quarter ended<br/>March 31,</b> |             |
|--------------------------|------------------------------------|-------------|
|                          | <b>2015</b>                        | <b>2014</b> |
|                          | <b>(in thousands)</b>              |             |
| Purchases of ESS         | \$ 46,412                          | \$ 20,526   |
| Interest income from ESS | \$ 3,752                           | \$ 2,862    |
| Net loss on ESS          | \$ (7,536)                         | \$ (2,901)  |
| ESS recapture recognized | \$ 1,289                           | \$ 1,890    |
| Repayment of ESS         | \$ 12,731                          | \$ 7,413    |
| MSR recapture recognized | \$                                 | \$ 8        |

*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 PCM pursuant to which the Company agreed to reimburse PCM 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 PCM of the Conditional Reimbursement if the Company is required to pay PCM 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 quarters ended March 31, 2015 and 2014, the Company paid \$157,000 and \$36,000 to PCM, respectively.

The Company has also agreed to pay the IPO underwriters an amount to which it agreed at the time of the offering if the Company satisfies certain performance measures over a specified period. As PCM 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 PCM. 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 quarters ended March 31, 2015 and 2014, the Company paid \$313,000 and \$72,000 to the underwriters, respectively.

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

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

|  | <b>Quarter ended<br/>March 31,</b> |             |
|--|------------------------------------|-------------|
|  | <b>2015</b>                        | <b>2014</b> |

|   | <b>(in thousands)</b> |                  |
|---|-----------------------|------------------|
| <b>Reimbursement of:</b>                              |                       |                  |
| Common overhead incurred by PCM and its affiliates    | \$ 2,729              | \$ 2,578         |
| Expenses incurred on the Company's behalf             | 379                   | 445              |
|   | \$ 3,108              | \$ 3,023         |
| <b>Payments and settlements during the period (1)</b> | <b>\$ 22,752</b>      | <b>\$ 18,386</b> |

- (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.

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Amounts due to PCM and its affiliates are summarized below:

|                              | <b>March 31,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|------------------------------|---------------------------|------------------------------|
|                              | <b>(in thousands)</b>     |                              |
| Allocated expenses           | \$ 6,434                  | \$ 6,582                     |
| Management fees              | 7,003                     | 8,426                        |
| Servicing fees               | 3,432                     | 3,457                        |
| Contingent underwriting fees | 980                       | 1,136                        |
| Fulfillment fees             | 870                       | 506                          |
| Unsettled ESS investment     |                           | 3,836                        |
|                              | <b>\$ 18,719</b>          | <b>\$ 23,943</b>             |

Amounts due from PCM and its affiliates totaled \$5.8 million and \$6.6 million at March 31, 2015 and December 31, 2014, respectively. At March 31, 2015, 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.

PFSI held 75,000 of the Company's common shares at both March 31, 2015 and December 31, 2014.

**Note 4 Earnings Per Share**

Basic earnings per share is determined using the two-class method, under which 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.

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.

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

|  | <b>Quarter ended<br/>March 31,</b>             |             |
|--|--|-------------|
|  | <b>2015</b>                                    | <b>2014</b> |
|  | <b>(in thousands except per share amounts)</b> |             |
| <b>Basic earnings per share:</b>                                   |  |             |
| Net income   | \$ 7,508                                       | \$ 37,873   |
| Effect of participating securities share-based compensation awards | (576)  | (408)       |
| Net income attributable to common shareholders                     | \$ 6,932                                       | \$ 37,465   |
| Weighted-average shares outstanding                                | 74,528   | 71,527      |
| Basic earnings per share   | \$ 0.09  | \$ 0.52     |
| <b>Diluted earnings per share:</b>                                 |  |             |
| Net income   | \$ 7,508                                       | \$ 37,873   |
| Effect of participating securities share-based compensation awards | (576)  |             |
| Interest on Notes, net of income taxes                             |  | 2,079       |
| Net income attributable to diluted shareholders                    | \$ 6,932                                       | \$ 39,952   |
| Weighted-average shares outstanding                                | 74,528   | 71,527      |
| <b>Potentially dilutive securities:</b>                            |  |             |
| Shares issuable pursuant to exchange of the Notes                  |  | 8,379       |
| Shares issuable under share-based compensation plan                |  | 383         |
| Diluted weighted-average number of shares outstanding              | 74,528   | 80,289      |
| Diluted earnings per share   | \$ 0.09  | \$ 0.50     |

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

For the quarter ended March 31, 2015, approximately 8,433,000 shares issuable pursuant to the exchange feature embedded in Notes were excluded from the diluted earnings per share calculation as inclusion of the exchange of such shares would have been antidilutive.

**Note 5 Loan Sales and Variable Interest Entities**

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



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

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

|   | <b>Quarter ended<br/>March 31,</b> |               |
|---|------------------------------------|---------------|
|   | <b>2015</b>                        | <b>2014</b>   |
|   | <b>(in thousands)</b>              |               |
| <b>Cash flows:</b>  |                                    |               |
| Proceeds from sales   | \$ 2,644,244                       | \$ 2,026,306  |
| Servicing fees received (1)                                   | \$ 15,732                          | \$ 16,838     |
| <b>Period end information:</b>                                |                                    |               |
| Unpaid principal balance of mortgage loans outstanding        | \$ 35,036,725                      | \$ 27,192,550 |
| <b>Unpaid principal balance of delinquent mortgage loans:</b> |                                    |               |
| 30-89 days delinquent   | \$ 112,083                         | \$ 70,365     |
| 90 or more days delinquent                                    |                                    |               |
| Not in foreclosure  | 26,090                             | 7,700         |
| In foreclosure or bankruptcy                                  | 16,345                             | 10,569        |
|   | 42,435                             | 18,269        |
|   | \$ 154,518                         | \$ 88,634     |

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

**Note 6 Netting of Financial Instruments**

The Company uses derivative financial instruments to manage exposure to interest rate risk created by its MBS, interest rate lock commitments ( IRLCs ), mortgage loans acquired for sale at fair value, mortgage loans at fair value, 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. As of March 31, 2015 and December 31, 2014, the Company did not enter into reverse repurchase agreements or securities lending transactions that are required to be disclosed in the following tables.

**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.

|   | March 31, 2015                                 |  |  | December 31, 2014                              |  |  |
|---|--|--|--|--|--|--|
|   | Gross<br>amounts<br>of<br>recognized<br>assets | Gross<br>amounts<br>offset<br>in the<br>consolidated<br>balance<br>sheet | Net<br>amounts<br>of assets<br>presented<br>in the<br>consolidated<br>balance<br>sheet<br>(in thousands) | Gross<br>amounts<br>of<br>recognized<br>assets | Gross<br>amounts<br>offset<br>in the<br>consolidated<br>balance<br>sheet | Net<br>amounts<br>of assets<br>presented<br>in the<br>consolidated<br>balance<br>sheet |
| Derivatives subject to master netting arrangements:     |  |  |  |  |  |  |
| MBS put options   | \$ 557   | \$   | \$ 557   | \$ 374   | \$   | \$ 374   |
| Forward purchase contracts                              | 12,171   |  | 12,171   | 3,775  |  | 3,775  |
| Forward sale contracts                                  | 461  |  | 461  | 52   |  | 52   |
| Put options on interest rate futures                    | 403  |  | 403  | 193  |  | 193  |
| Call options on interest rate futures                   | 3,642  |  | 3,642  | 3,319  |  | 3,319  |
| Netting   |  | (12,809)   | (12,809)   |  | (2,284)  | (2,284)  |
|   | 17,234   | (12,809)   | 4,425  | 7,713  | (2,284)  | 5,429  |
| Derivatives not subject to master netting arrangements: |  |  |  |  |  |  |
| Interest rate lock commitments                          | 8,243  |  | 8,243  | 5,678  |  | 5,678  |
|   | \$ 25,477                                      | \$ (12,809)  | \$ 12,668  | \$ 13,391                                      | \$ (2,284)   | \$ 11,107  |

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

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

|                                | March 31, 2015   |                          |                  | December 31, 2014  |                          |                  |
|--------------------------------|--|--------------------------|------------------|--|--------------------------|------------------|
|                                | Gross amounts not offset in the consolidated balance sheet       |                          |                  | Gross amounts not offset in the consolidated balance sheet       |                          |                  |
|                                | Net amount of assets presented in the consolidated balance sheet | Cash collateral received | Net amount       | Net amount of assets presented in the consolidated balance sheet | Cash collateral received | Net amount       |
|                                | (in thousands)   |                          |                  |  |                          |                  |
| Interest rate lock commitments | \$ 8,243   | \$                       | \$ 8,243         | \$ 5,678   | \$                       | \$ 5,678         |
| RJ O Brien                     | 2,839  |                          | 2,839            | 3,034  |                          | 3,034            |
| Bank of America, N.A.          | 348  |                          | 348              | 738  |                          | 738              |
| Daiwa Capital Markets          |  |                          |                  | 29   |                          | 29               |
| Fannie Mae Capital Markets     | 427  |                          | 427              |  |                          |                  |
| Morgan Stanley Bank, N.A.      | 22   |                          | 22               | 104  |                          | 104              |
| Credit Suisse First Boston     |  |                          |                  |  |                          |                  |
| Mortgage Capital LLC           | 68   |                          | 68               | 253  |                          | 253              |
| Other                          | 721  |                          | 721              | 1,271  |                          | 1,271            |
| <b>Total</b>                   | <b>\$ 12,668</b>   | <b>\$</b>                | <b>\$ 12,668</b> | <b>\$ 11,107</b>   | <b>\$</b>                | <b>\$ 11,107</b> |

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

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

|  | March 31, 2015                          |  |  | December 31, 2014                       |  |  |
|--|---|--|--|---|--|--|
|  | Gross amounts of recognized liabilities | Gross amounts offset in the consolidated balance sheet | Net amounts of liabilities presented in the consolidated balance sheet<br>(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 |
| <b>Derivatives subject to master netting arrangements:</b>     |   |  |  |   |  |  |
| Forward purchase contracts                                     | \$ 431                                  | \$   | \$ 431   | \$ 34                                   | \$   | \$ 34  |
| Forward sales contracts  | 17,321                                  |  | 17,321   | 6,649                                   |  | 6,649  |
| Treasury futures sales contracts                               | 1,172                                   |  | 1,172  | 478                                     |  | 478  |
| Netting  |   | (16,882)   | (16,882)   |   | (4,748)  | (4,748)  |
|  | 18,924                                  | (16,882)   | 2,042  | 7,161                                   | (4,748)  | 2,413  |
| <b>Derivatives not subject to master netting arrangements:</b> |   |  |  |   |  |  |
| Interest rate lock commitments                                 | 29                                      |  | 29   | 17                                      |  | 17   |
|  | 18,953                                  | (16,882)   | 2,071  | 7,178                                   | (4,748)  | 2,430  |
| Assets sold under agreements to repurchase                     | 3,563,293                               |  | 3,563,293  | 2,750,366                               |  | 2,750,366  |
|  | \$ 3,582,246                            | \$ (16,882)  | \$ 3,565,364   | \$ 2,757,544                            | \$ (4,748)   | \$ 2,752,796   |

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

|   | Net amount of liabilities presented in the consolidated balance sheet | March 31, 2015   |                         |                     | December 31, 2014  |                         |               |
|---|---|--|-------------------------|---------------------|--|-------------------------|---------------|
|   |   | Gross amounts not offset in the consolidated balance sheet | Cash collateral pledged | Net amount          | Gross amounts not offset in the consolidated balance sheet | Cash collateral pledged | Net amount    |
|   |   | Financial instruments                                      |                         |                     | Financial instruments                                      |                         |               |
|   |   |  |                         | (in thousands)      |  |                         |               |
| Interest rate lock commitments                  | \$ 29   |  |                         | \$ 29               |  |                         | \$ 17         |
| Morgan Stanley Bank, N.A.                       | 201,177   | (201,177)  |                         |                     | 121,975  |                         | (121,975)     |
| Daiwa Capital Markets                           | 127,537   | (127,298)  |                         | 239                 | 126,909  |                         | (126,909)     |
| Citibank  | 999,765   | (999,329)  |                         | 436                 | 797,851  |                         | (797,663) 188 |
| Credit Suisse First Boston Mortgage Capital LLC | 1,047,735   | (1,047,735)  |                         |                     | 966,155  |                         | (966,155)     |
| JPMorgan Chase & Co.                            | 459,182   | (458,802)  |                         | 380                 |  |                         |               |
| Bank of America, N.A.                           | 728,952   | (728,952)  |                         |                     | 529,144  |                         | (529,144)     |
| RBS Securities                                  |   |  |                         |                     | 208,520  |                         | (208,520)     |
| Other   | 987   |  |                         | 987                 | 2,225  |                         | 2,225         |
| <b>Total</b>                                    | <b>\$ 3,565,364</b>   | <b>\$ (3,563,293)</b>                                      | <b>\$ 2,071</b>         | <b>\$ 2,752,796</b> | <b>\$ (2,750,366)</b>                                      | <b>\$ 2,430</b>         |               |

**Note 7 Fair Value**

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

***Fair Value Accounting Elections***

The Manager identified all of the Company's non-cash financial assets and MSR's relating to loans with initial interest rates of more than 4.5%, to be accounted for at fair value. The Manager has elected to account for these financial statement items at fair value so such changes in fair value will be reflected in income as they occur and more timely reflect the results of the Company's performance. The Manager has also identified the Company's asset-backed secured financing of the VIE to be accounted for at fair value to reflect the generally offsetting changes in fair value of these borrowings to changes in fair value of mortgage loans at fair value collateralizing this financing.

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

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

**Table of Contents****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:

|  | <b>March 31, 2015</b> |                |                |              |
|--|-----------------------|----------------|----------------|--------------|
|  | <b>Level 1</b>        | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
|  | <b>(in thousands)</b> |                |                |              |
| <b>Assets:</b>   |                       |                |                |              |
| Short-term investments   | \$ 44,949             | \$             | \$             | \$ 44,949    |
| Mortgage-backed securities at fair value                                     |                       | 316,292        |                | 316,292      |
| Mortgage loans acquired for sale at fair value                               |                       | 1,366,964      |                | 1,366,964    |
| Mortgage loans at fair value   |                       | 515,944        | 2,343,382      | 2,859,326    |
| Excess servicing spread purchased from PFSI                                  |                       |                | 222,309        | 222,309      |
| <b>Derivative assets:</b>  |                       |                |                |              |
| Interest rate lock commitments   |                       |                | 8,243          | 8,243        |
| MBS put options  |                       | 557            |                | 557          |
| Forward purchase contracts   |                       | 12,171         |                | 12,171       |
| Forward sales contracts  |                       | 461            |                | 461          |
| Put options on interest rate futures   | 403                   |                |                | 403          |
| Call options on interest rate futures  | 3,642                 |                |                | 3,642        |
| Total derivative assets before netting                                       | 4,045                 | 13,189         | 8,243          | 25,477       |
| Netting (1)  |                       |                |                | (12,809)     |
| Total derivative assets after netting  | 4,045                 | 13,189         | 8,243          | 12,668       |
| Mortgage servicing rights at fair value                                      |                       |                | 49,448         | 49,448       |
|  | \$ 48,994             | \$ 2,212,389   | \$ 2,623,382   | \$ 4,871,956 |
| <b>Liabilities:</b>  |                       |                |                |              |
| Asset-backed secured financing of the variable interest entity at fair value | \$                    | \$ 162,222     | \$             | \$ 162,222   |
| <b>Derivative liabilities:</b>   |                       |                |                |              |
| Interest rate lock commitments   |                       |                | 29             | 29           |
| Treasury futures sale contracts  | 1,172                 |                |                | 1,172        |
| Forward purchase contracts   |                       | 431            |                | 431          |
| Forward sales contracts  |                       | 17,321         |                | 17,321       |
| Total derivative liabilities before netting                                  | 1,172                 | 17,752         | 29             | 18,953       |
| Netting (1)  |                       |                |                | (16,882)     |
| Total derivative liabilities after netting                                   | 1,172                 | 17,752         | 29             | 2,071        |
| Total liabilities  | \$ 1,172              | \$ 179,974     | \$ 29          | \$ 164,293   |



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

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|  | <b>December 31, 2014</b> |                   |                |                   |
|--|--------------------------|-------------------|----------------|-------------------|
|  | <b>Level 1</b>           | <b>Level 2</b>    | <b>Level 3</b> | <b>Total</b>      |
|  | <b>(in thousands)</b>    |                   |                |                   |
| <b>Assets:</b>   |                          |                   |                |                   |
| Short-term investments   | \$ 139,900               | \$                | \$             | \$ 139,900        |
| Mortgage-backed securities at fair value                                     |                          | 307,363           |                | 307,363           |
| Mortgage loans acquired for sale at fair value                               |                          | 637,722           |                | 637,722           |
| Mortgage loans at fair value   |                          | 527,369           | 2,199,583      | 2,726,952         |
| Excess servicing spread purchased from PFSI                                  |                          |                   | 191,166        | 191,166           |
| <b>Derivative assets:</b>  |                          |                   |                |                   |
| Interest rate lock commitments   |                          |                   | 5,678          | 5,678             |
| MBS put options  |                          | 374               |                | 374               |
| Forward purchase contracts   |                          | 3,775             |                | 3,775             |
| Forward sales contracts  |                          | 52                |                | 52                |
| Put options on interest rate futures   | 193                      |                   |                | 193               |
| Call options on interest rate futures  | 3,319                    |                   |                | 3,319             |
| <b>Total derivative assets</b>   | <b>3,512</b>             | <b>4,201</b>      | <b>5,678</b>   | <b>13,391</b>     |
| <b>Netting (1)</b>   |                          |                   |                | <b>(2,284)</b>    |
| <b>Total derivative assets after netting</b>                                 | <b>3,512</b>             | <b>4,201</b>      | <b>5,678</b>   | <b>11,107</b>     |
| <b>Mortgage servicing rights at fair value</b>                               |                          |                   | <b>57,358</b>  | <b>57,358</b>     |
|  | \$ 143,412               | \$ 1,476,655      | \$ 2,453,785   | \$ 4,071,568      |
| <b>Liabilities:</b>  |                          |                   |                |                   |
| Asset-backed secured financing of the variable interest entity at fair value | \$                       | \$ 165,920        | \$             | \$ 165,920        |
| <b>Derivative liabilities:</b>   |                          |                   |                |                   |
| Interest rate lock commitments   |                          |                   | 17             | 17                |
| Treasury futures sales contracts   | 478                      |                   |                | 478               |
| Forward purchase contracts   |                          | 34                |                | 34                |
| Forward sales contracts  |                          | 6,649             |                | 6,649             |
| <b>Total derivative liabilities</b>  | <b>478</b>               | <b>6,683</b>      | <b>17</b>      | <b>7,178</b>      |
| <b>Netting (1)</b>   |                          |                   |                | <b>(4,748)</b>    |
| <b>Total derivative liabilities</b>  | <b>478</b>               | <b>6,683</b>      | <b>17</b>      | <b>2,430</b>      |
| <b>Total liabilities</b>   | <b>\$ 478</b>            | <b>\$ 172,603</b> | <b>\$ 17</b>   | <b>\$ 168,350</b> |

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



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

|  | <b>March 31, 2015</b>                           |  |   |  |  | <b>Total</b> |
|--|---|--|---|--|--|--------------|
|  | <b>Mortgage<br/>Loans<br/>at fair<br/>value</b> | <b>Excess<br/>servicing<br/>spread</b> | <b>Interest<br/>rate lock<br/>commitments (1)</b> | <b>Mortgage<br/>servicing<br/>rights</b> |  |              |
| (in thousands)   |   |  |   |  |  |              |
| <b>Assets:</b>   |   |  |   |  |  |              |
| Balance, December 31, 2014   | \$ 2,199,583                                    | \$ 191,166                             | \$ 5,661  | \$ 57,358                                |  | \$ 2,453,768 |
| Purchases  | 241,981   | 46,412                                 |   |  |  | 288,393      |
| Repayments and sales   | (45,882)  | (12,731)                               |   |  |  | (58,613)     |
| Capitalization of interest   | 10,209  |  |   |  |  | 10,209       |
| Accrual of interest  |   | 3,752                                  |   |  |  | 3,752        |
| ESS received pursuant to a recapture agreement with PFSI   |   | 1,246                                  |   |  |  | 1,246        |
| Interest rate lock commitments issued, net   |   |  | 19,400  |  |  | 19,400       |
| Servicing received as proceeds from sales of mortgage loans  |   |  |   | 1,906                                    |  | 1,906        |
| Changes in fair value included in income arising from:   |   |  |   |  |  |              |
| Changes in instrument-specific credit risk   | 7,206   |  |   |  |  | 7,206        |
| Other factors  | 9,980   | (7,536)                                | 12  | (9,816)                                  |  | (7,360)      |
|  | 17,186  | (7,536)                                | 12  | (9,816)                                  |  | (154)        |
| Transfers of mortgage loans to REO   | (79,695)  |  |   |  |  | (79,695)     |
| Transfers of interest rate lock commitments to mortgage loans acquired for sale                    |   |  | (16,859)  |  |  | (16,859)     |
| Balance, March 31, 2015  | \$ 2,343,382                                    | \$ 222,309                             | \$ 8,214  | \$ 49,448                                |  | \$ 2,623,353 |
| Changes in fair value recognized during the period relating to assets still held at March 31, 2015 | \$ 24,665                                       | \$ (7,536)                             | \$ 8,214  | \$ (9,816)                               |  | \$ 15,527    |

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

| <b>Mortgage<br/>loans<br/>at fair<br/>value</b> | <b>Mortgage loans under<br/>forward<br/>purchase<br/>agreements</b> | <b>March 31, 2014</b>                  |   |  | <b>Total</b> |
|---|---|--|---|--|--------------|
|   |   | <b>Excess<br/>servicing<br/>spread</b> | <b>Net<br/>interest<br/>rate lock<br/>commitments (1)</b> | <b>Mortgage<br/>servicing<br/>rights</b> |              |

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(in thousands)

| Assets:  |              |            |            |          |            |              |
|--|--------------|------------|------------|----------|------------|--------------|
| Balance, December 31, 2013   | \$ 2,076,665 | \$ 218,128 | \$ 138,723 | \$ 1,249 | \$ 26,452  | \$ 2,461,217 |
| Purchases  | 256,280      | 920        | 20,526     |          |            | 277,726      |
| Repayments and sales   | (246,839)    | (5,329)    | (7,413)    |          |            | (259,581)    |
| Capitalization of interest   | 11,726       | 744        |            |          |            | 12,470       |
| Accrual of interest  |              |            | 2,862      |          |            | 2,862        |
| ESS received pursuant to a recapture agreement with PFSI   |              |            | 1,113      |          |            | 1,113        |
| Interest rate lock commitments issued, net   |              |            |            | 12,596   |            | 12,596       |
| Servicing received as proceeds from sales of mortgage loans  |              |            |            |          | 11,757     | 11,757       |
| Changes in fair value included in income arising from:   |              |            |            |          |            |              |
| Changes in instrument-specific credit risk   | 15,742       | 2,397      |            |          |            | 18,139       |
| Other factors  | 25,116       | (3,337)    | (4,792)    | 2,430    | (2,028)    | 17,389       |
|  | 40,858       | (940)      | (4,792)    | 2,430    | (2,028)    | 35,528       |
| Transfers of mortgage loans under forward purchase agreements to mortgage loans                        | 4,460        | (4,460)    |            |          |            |              |
| Transfers of mortgage loans to REO   | (64,130)     |            |            |          |            | (64,130)     |
| Transfers of mortgage loans under forward purchase agreements to REO under forward purchase agreements |              | (6,402)    |            |          |            | (6,402)      |
| Transfers of interest rate lock commitments to mortgage loans acquired for sale                        |              |            |            | (13,004) |            | (13,004)     |
| Balance, March 31, 2014  | \$ 2,079,020 | \$ 202,661 | \$ 151,019 | \$ 3,271 | \$ 36,181  | \$ 2,472,152 |
| Changes in fair value recognized during the period relating to assets still held at March 31, 2014     | \$ 34,209    | \$ (1,623) | \$ (4,792) | \$ 3,271 | \$ (2,028) | \$ 29,037    |

(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 and mortgage loans held in a consolidated VIE):

|  | Fair value   | March 31, 2015<br>Principal<br>amount due<br>upon maturity<br>(in thousands) | Difference   |
|--|--------------|--|--------------|
| <b>Mortgage loans acquired for sale at fair value:</b> |              |  |              |
| Current through 89 days delinquent                     | \$ 1,366,697 | \$ 1,307,804   | \$ 58,893    |
| 90 or more days delinquent (1)                         |              |  |              |
| Not in foreclosure                                     | 267          | 340  | (73)         |
| In foreclosure   |              |  |              |
|  | 267          | 340  | (73)         |
|  | 1,366,964    | 1,308,144  | 58,820       |
| <b>Other mortgage loans at fair value:</b>             |              |  |              |
| Current through 89 days delinquent                     | 1,239,392    | 1,486,030  | (246,638)    |
| 90 or more days delinquent (1)                         |              |  |              |
| Not in foreclosure                                     | 573,208      | 819,048  | (245,840)    |
| In foreclosure   | 1,046,726    | 1,501,506  | (454,780)    |
|  | 1,619,934    | 2,320,554  | (700,620)    |
|  | 2,859,326    | 3,806,584  | (947,258)    |
|  | \$ 4,226,290 | \$ 5,114,728   | \$ (888,438) |

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

|  | Fair value | December 31, 2014<br>Principal<br>amount due<br>upon maturity<br>(in thousands) | Difference |
|--|------------|---|------------|
| <b>Mortgage loans acquired for sale:</b> |            |   |            |
| Current through 89 days delinquent       | \$ 637,518 | \$ 610,372  | \$ 27,146  |
| 90 or more days delinquent (1)           |            |   |            |
| Not in foreclosure                       | 204        | 255   | (51)       |
| In foreclosure                           |            |   |            |

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|                                     |              |              |              |
|-------------------------------------|--------------|--------------|--------------|
|                                     | 204          | 255          | (51)         |
|                                     | 637,722      | 610,627      | 27,095       |
| Other mortgage loans at fair value: |              |              |              |
| Current through 89 days delinquent  | 1,191,635    | 1,452,885    | (261,250)    |
| 90 or more days delinquent (1)      |              |              |              |
| Not in foreclosure                  | 608,144      | 875,214      | (267,070)    |
| In foreclosure                      | 927,173      | 1,371,371    | (444,198)    |
|                                     | 1,535,317    | 2,246,585    | (711,268)    |
|                                     | 2,726,952    | 3,699,470    | (972,518)    |
|                                     | \$ 3,364,674 | \$ 4,310,097 | \$ (945,423) |

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

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

|  | Quarter ended March 31, 2015                 |                     |  |                         |           |
|--|--|---------------------|--|-------------------------|-----------|
|  | Net gain on mortgage loans acquired for sale | Net interest income | Net gain on investments (in thousands) | Net loan servicing fees | Total     |
| <b>Assets:</b>                                 |  |                     |  |                         |           |
| Short-term investments                         | \$   | \$                  | \$                                     | \$                      | \$        |
| Mortgage-backed securities at fair value       |  | 86                  | 1,516                                  |                         | 1,602     |
| Mortgage loans acquired for sale at fair value | 23,081                                       |                     |  |                         | 23,081    |
| Mortgage loans at fair value                   |  | 489                 | 18,986                                 |                         | 19,475    |
| Excess servicing spread at fair value          |  |                     | (6,247)                                |                         | (6,247)   |
| Mortgage servicing rights at fair value        |  |                     |  | (9,816)                 | (9,816)   |
|  | \$ 23,081                                    | \$ 575              | \$ 14,255                              | \$ (9,816)              | \$ 28,095 |
| <b>Liabilities:</b>                            |  |                     |  |                         |           |
| Asset-backed secured financing at fair value   | \$   | \$(173)             | \$(770)                                | \$                      | \$(943)   |
|  | \$   | \$(173)             | \$(770)                                | \$                      | \$(943)   |

|  | Quarter ended March 31, 2014                 |                     |  |                         |           |
|--|--|---------------------|--|-------------------------|-----------|
|  | Net gain on mortgage loans acquired for sale | Net interest income | Net gain on investments (in thousands) | Net loan servicing fees | Total     |
| <b>Assets:</b>   |  |                     |  |                         |           |
| Short-term investments   | \$   | \$                  | \$                                     | \$                      | \$        |
| Mortgage-backed securities at fair value                       |  | 33                  | 2,652                                  |                         | 2,685     |
| Mortgage loans acquired for sale at fair value                 | 18,632                                       |                     |  |                         | 18,632    |
| Mortgage loans at fair value                                   |  | 330                 | 52,165                                 |                         | 52,495    |
| Mortgage loans under forward purchase agreements at fair value |  |                     | (940)                                  |                         | (940)     |
| Excess servicing spread at fair value                          |  |                     | (2,901)                                |                         | (2,901)   |
| Mortgage servicing rights at fair value                        |  |                     |  | (2,027)                 | (2,027)   |
|  | \$ 18,632                                    | \$ 363              | \$ 50,976                              | \$ (2,027)              | \$ 67,944 |



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Liabilities:

|  |    |          |            |    |            |
|--|----|----------|------------|----|------------|
| Asset-backed secured financing at fair value | \$ | \$ (124) | \$ (2,780) | \$ | \$ (2,904) |
|  | \$ | \$ (124) | \$ (2,780) | \$ | \$ (2,904) |

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

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

|  | <b>March 31, 2015</b> |                |                       | <b>Total</b> |
|--|-----------------------|----------------|-----------------------|--------------|
|  | <b>Level 1</b>        | <b>Level 2</b> | <b>Level 3</b>        |              |
|  |                       |                | <b>(in thousands)</b> |              |
| Real estate asset acquired in settlement of loans                  | \$                    | \$             | \$ 146,365            | \$ 146,365   |
| Mortgage servicing rights at lower of amortized cost or fair value |                       |                | 94,374                | 94,374       |
|  | \$                    | \$             | \$ 240,739            | \$ 240,739   |

|  | <b>December 31, 2014</b> |                |                       | <b>Total</b> |
|--|--------------------------|----------------|-----------------------|--------------|
|  | <b>Level 1</b>           | <b>Level 2</b> | <b>Level 3</b>        |              |
|  |                          |                | <b>(in thousands)</b> |              |
| Real estate asset acquired in settlement of loans                  | \$                       | \$             | \$ 157,203            | \$ 157,203   |
| Mortgage servicing rights at lower of amortized cost or fair value |                          |                | 91,990                | 91,990       |
|  | \$                       | \$             | \$ 249,193            | \$ 249,193   |

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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:

|   | <b>Quarter ended<br/>March 31,</b> |             |
|---|------------------------------------|-------------|
|   | <b>2015</b>                        | <b>2014</b> |
|   | <b>(in thousands)</b>              |             |
| Real estate asset acquired in settlement of loans                                   | \$ (10,615)                        | \$ (7,314)  |
| Real estate asset acquired in settlement of loans under forward purchase agreements |                                    | (528)       |
| Mortgage servicing rights at lower of amortized cost or fair value                  | (6,379)                            | (627)       |
|   | \$ (16,994)                        | \$ (8,469)  |

*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 as indicated by the purchase price in the case of purchased REO or as measured by the fair value of the mortgage loan immediately before 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 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 property's cost 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's at lower of amortized cost or fair value for impairment with reference to the assets' fair value. For purposes of performing its MSR impairment evaluation, the Company stratifies its MSR's at lower of amortized cost or fair value based on the interest rates borne by the mortgage loans underlying the MSR's. Mortgage loans are grouped into pools 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's 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's in any of the interest rate pools is below the amortized cost of the MSR's reduced by the existing valuation allowance for that pool, those MSR's are impaired.

When MSR's are impaired, the impairment is recognized in current-period income and the carrying value of the MSR's is adjusted using a valuation allowance. If the fair value of the MSR's 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.

The Manager periodically reviews the various impairment strata to determine whether the fair value of the impaired MSR's in a given stratum is likely to recover. When the Manager deems recovery of value to be unlikely in the foreseeable future, a write-down of the cost of the MSR's 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. The Manager has concluded that the fair values of *Cash, Assets sold under agreements to repurchase, and Mortgage loan participation and sale agreement* 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 mortgage loans participation and sale agreement are classified as Level 3 financial statement instruments as of March 31, 2015 due to the lack of current market activity and the Company's reliance on unobservable inputs to estimate these instruments' fair values.

The Notes are carried at amortized cost. The fair value of the Notes at March 31, 2015 and December 31, 2014 was \$239.6 million and \$239.0 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 March 31, 2015 due to the lack of current market activity and use of a broker's indication of value to estimate the instrument's fair value.

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

Most of the Company's assets and its ESS liability are carried at fair value with changes in fair value recognized in current period income. A substantial portion of these items are Level 3 financial statement items which require the use of unobservable inputs that are significant to the estimation of the items' 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.

Because the fair value of Level 3 financial statement items is difficult to estimate, the Manager's valuation process includes performance of these items' valuation by a specialized staff and significant executive management oversight. The Manager 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 Manager's FAV group submits the results of its valuations to the Manager's valuation committee, which oversees and approves the fair values before such fair values are included in the Company's periodic financial statements. The Manager's valuation committee includes the chief executive, financial, operating, credit, and asset/liability management officers of PFSI.

The following is a description of the techniques and inputs used in estimating the fair values of Level 2 and Level 3 financial statement items:

#### ***Mortgage-Backed Securities***

The Company's MBS securities include Agency and senior non-agency MBS. Agency MBS and senior non-agency MBS are categorized as Level 2 financial statement items. Fair value of Agency and senior non-Agency MBS is estimated based on quoted market prices for the Company's MBS or similar securities.

#### ***Mortgage Loans***

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

Mortgage loans that are saleable into active markets, comprised of the Company's mortgage loans acquired for sale at fair value and mortgage loans at fair value held 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 fair value for the mortgage loans.

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 the loans' fair values 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 the Manager'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:

| <b>Key inputs</b>                                 | <b>March 31, 2015</b> |       | <b>December 31, 2014</b> |       |
|---|-----------------------|-------|--------------------------|-------|
| <i>Mortgage loans at fair value</i>               |                       |       |                          |       |
| Discount rate                                     |                       |       |                          |       |
| Range   | 2.4%                  | 15.0% | 2.3%                     | 15.0% |
| Weighted average                                  | 7.4%                  |       | 7.7%                     |       |
| Twelve-month projected housing price index change |                       |       |                          |       |
| Range   | 1.9%                  | 5.3%  | 4.0%                     | 5.3%  |
| Weighted average                                  | 4.0%                  |       | 4.8%                     |       |
| Prepayment speed (1)                              |                       |       |                          |       |
| Range   | 0.0%                  | 5.6%  | 0.0%                     | 6.5%  |
| Weighted average                                  | 3.5%                  |       | 3.1%                     |       |
| Total prepayment speed (2)                        |                       |       |                          |       |
| Range   | 0.0%                  | 29.8% | 0.0%                     | 27.9% |
| Weighted average                                  | 21.6%                 |       | 21.6%                    |       |

(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 may 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 the fair value of ESS. 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 on the consolidated statement of income as *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:

| <b>Key inputs</b>  | <b>March 31, 2015</b> | <b>December 31, 2014</b> |
|--|-----------------------|--------------------------|
| Unpaid principal balance of underlying mortgage loans (in thousands) | \$33,142,366          | \$28,227,340             |
| Average servicing fee rate (in basis points)                         | 30                    | 31                       |
| Average ESS rate (in basis points)                                   | 16                    | 16                       |
| Pricing spread (1)   |                       |                          |
| Range  | 1.7% - 12.4%          | 1.7% - 12.0%             |
| Weighted average   | 5.5%                  | 5.3%                     |
| Life (in years)  |                       |                          |
| Range  | 0.3 - 7.3             | 0.4 - 7.3                |
| Weighted average   | 5.7                   | 5.8                      |
| Annual total prepayment speed (2)                                    |                       |                          |
| Range  | 7.6% - 77.3%          | 7.6% - 74.6%             |
| Weighted average   | 11.6%                 | 11.2%                    |

(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 a Level 3 financial statement item.

The significant unobservable inputs used in the fair value measurement of the Company's IRLCs are the pull-through rate and the MSR component of the Company's estimate of the value of the mortgage loans it has committed to purchase. Significant changes in the pull-through rate and the MSR component of the IRLCs, in isolation, may result in a significant change in fair value. 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:

| <b>Key inputs</b>       | <b>March 31, 2015</b> | <b>December 31, 2014</b> |
|-------------------------|-----------------------|--------------------------|
| Pull-through rate       |                       |                          |
| Range                   | 55.9% - 99.9%         | 65.0% - 98.0%            |
| Weighted average        | 91.0%                 | 94.9%                    |
| MSR value expressed as: |                       |                          |



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|  |             |             |
|--|-------------|-------------|
| Servicing fee multiple                 |             |             |
| Range                                  | 1.6 - 5.1   | 0.7 - 5.2   |
| Weighted average                       | 4.3         | 4.3         |
| Percentage of unpaid principal balance |             |             |
| Range                                  | 0.4% - 3.1% | 0.2% - 1.3% |
| Weighted average                       | 1.2%        | 1.1%        |

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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 established 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 the Manager'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 the Manager 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 PCM'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 fair 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 March 31,  |               |                   |               |
|---|--|---------------|-------------------|---------------|
|   | 2015   |               | 2014              |               |
|   | Amortized<br>cost  | Fair<br>value | Amortized<br>cost | Fair<br>value |
|   | (MSR recognized and unpaid principal balance of underlying loan amounts<br>in thousands) |               |                   |               |
| MSR recognized  | \$25,554   | \$1,906       | \$9,118           | \$11,757      |
| Unpaid principal balance of<br>underlying mortgage loans        | \$2,282,756  | \$223,653     | \$850,548         | \$1,091,714   |
| Weighted-average annual servicing<br>fee rate (in basis points) | 26   | 26            | 25                | 25            |
| Pricing spread (1)  |  |               |                   |               |
| Range   | 6.8% - 17.5%   | 10.3% - 14.3% | 6.3% - 14.3%      | 8.5% - 12.3%  |
| Weighted average  | 8.6%   | 11.0%         | 8.5%              | 8.9%          |
| Life (in years)   |  |               |                   |               |
| Range   | 1.3 - 7.7  | 2.6 - 7.2     | 1.1 - 7.3         | 2.8 - 7.3     |
| Weighted average  | 6.5  | 5.9           | 5.9               | 7.1           |
| Annual total prepayment speed (2)                               |  |               |                   |               |
| Range   | 7.6% - 51.0%   | 8.6% - 33.3%  | 7.6% - 56.4%      | 8.0% - 23.8%  |
| Weighted average  | 9.3%   | 13.8%         | 10.3%             | 9.3%          |
| Annual per-loan cost of servicing                               |  |               |                   |               |
| Range   | \$62 - \$134   | \$62 - \$62   | \$68 - \$68       | \$68 - \$68   |
| Weighted average  | \$63   | \$62          | \$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:

|  | March 31, 2015  |               | December 31, 2014 |               |
|--|---|---------------|-------------------|---------------|
|  | Amortized<br>cost   | Fair<br>value | Amortized<br>cost | Fair<br>value |
|  | (Carrying value, unpaid principal balance and effect<br>on fair value amounts in thousands) |               |                   |               |
| Carrying value   | \$309,712   | \$49,448      | \$300,422         | \$57,358      |
| <b>Key inputs:</b>   |   |               |                   |               |
| Unpaid principal balance of underlying mortgage loans        | \$29,155,694  | \$6,000,743   | \$28,006,797      | \$6,278,676   |
| Weighted-average annual servicing fee rate (in basis points) | 26  | 25            | 26                | 25            |
| Weighted-average note interest rate                          | 3.81%   | 4.78%         | 3.80%             | 4.78%         |
| Pricing spread (1) (2)                                       |   |               |                   |               |
| Range  | 6.3% - 17.5%  | 8.1% - 16.3%  | 6.3% - 17.5%      | 8.1% - 16.3%  |
| Weighted average   | 8.1%  | 11.0%         | 7.9%              | 10.3%         |
| Effect on fair value of a:                                   |   |               |                   |               |
| 5% adverse change  | \$(5,846)   | \$(742)       | \$(5,801)         | \$(937)       |
| 10% adverse change   | \$(11,499)  | \$(1,463)     | \$(11,410)        | \$(1,845)     |
| 20% adverse change   | \$(22,263)  | \$(2,842)     | \$(22,086)        | \$(3,577)     |
| Weighted average life (in years)                             |   |               |                   |               |
| Range  | 1.7 - 7.2   | 2.1 - 7.2     | 1.8 - 7.2         | 1.8 - 7.2     |
| Weighted average   | 6.3   | 6.1           | 6.4               | 6.7           |
| Prepayment speed (1) (3)                                     |   |               |                   |               |
| Range  | 7.8% - 40.7%  | 8.0% - 35.0%  | 7.8% - 47.9%      | 8.0% - 39.6%  |
| Weighted average   | 8.9%  | 13.5%         | 8.8%              | 11.4%         |
| Effect on fair value of a:                                   |   |               |                   |               |
| 5% adverse change  | \$(6,490)   | \$(1,335)     | \$(6,166)         | \$(1,430)     |
| 10% adverse change   | \$(12,769)  | \$(2,612)     | \$(12,138)        | \$(2,803)     |
| 20% adverse change   | \$(24,731)  | \$(5,002)     | \$(23,532)        | \$(5,394)     |
| Annual per-loan cost of servicing                            |   |               |                   |               |
| Range  | \$62 - \$134  | \$62 - \$134  | \$62 - \$134      | \$62 - \$134  |
| Weighted average   | \$62  | \$62          | \$62              | \$62          |
| Effect on fair value of a:                                   |   |               |                   |               |
| 5% adverse change  | \$(1,882)   | \$(300)       | \$(1,807)         | \$(334)       |
| 10% adverse change   | \$(3,764)   | \$(600)       | \$(3,614)         | \$(668)       |
| 20% adverse change   | \$(7,527)   | \$(1,200)     | \$(7,228)         | \$(1,337)     |

- (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's.

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

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

**Table of Contents***Securities Sold Under Agreements to Repurchase*

Fair value of securities sold under agreements to repurchase is based on the accrued cost of the agreements, which approximates the fair values of the agreements, due to the short maturities of such agreements.

**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   | March 31, 2015 |                          | December 31, 2014 |                          |
|---|----------------|--------------------------|-------------------|--------------------------|
|   | Fair value     | Unpaid principal balance | Fair value        | Unpaid principal balance |
|   | (in thousands) |                          |                   |                          |
| Conventional:   |                |                          |                   |                          |
| Agency-eligible   | \$ 684,063     | \$ 657,887               | \$ 290,007        | \$ 277,355               |
| Jumbo   | 83,511         | 81,613                   | 138,390           | 135,008                  |
| Government insured or guaranteed loans held for sale to PennyMac Loan Services, LLC | 599,390        | 568,644                  | 209,325           | 198,265                  |
|   | \$ 1,366,964   | \$ 1,308,144             | \$ 637,722        | \$ 610,628               |
| Loans pledged to secure assets sold under agreements to repurchase                  | \$ 1,272,132   |                          | \$ 609,608        |                          |
| Loans pledged to secure mortgage loan participation and sale agreements             | \$ 74,051      |                          | \$ 20,862         |                          |

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

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. The Company is exposed to loss if mortgage interest rates increase, because the value of the purchase commitment or mortgage loan acquired for sale decreases.

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 includes MSR's in its hedging activities.

The Company enters into Eurodollar futures, which settle daily, to economically hedge net fair value changes of a portion of fixed-rate mortgage loans at fair value held by VIE and MBS securities at fair value and the related variable rate repurchase agreement liabilities indexed to LIBOR. The Company uses the Eurodollar futures with the intention of moderating the risk of rising market interest rates that will result in unfavorable changes in the value of the Company's fixed-rate assets and economic performance of its indexed variable interest LIBOR rate repurchase agreement liabilities.

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The Company does not use derivative financial instruments for purposes other than in support of its risk management activities other than IRLCs, which are generated in the normal course of business when the Company commits to purchase mortgage loans acquired for sale.

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

| Instrument   | March 31, 2015  |                   |                        | December 31, 2014 |                   |                        |
|--|-----------------|-------------------|------------------------|-------------------|-------------------|------------------------|
|  | Notional amount | Fair value        |                        | Notional amount   | Fair value        |                        |
|  |                 | Derivative assets | Derivative liabilities |                   | Derivative assets | Derivative liabilities |
|  | (in thousands)  |                   |                        |                   |                   |                        |
| Derivatives not designated as hedging instruments:                         |                 |                   |                        |                   |                   |                        |
| Free-standing derivatives:   |                 |                   |                        |                   |                   |                        |
| Interest rate lock commitments   | 996,074         | \$ 8,243          | \$ 29                  | 695,488           | \$ 5,678          | \$ 17                  |
| Forward sales contracts  | 2,958,492       | 461               | 17,321                 | 1,601,282         | 52                | 6,649                  |
| Forward purchase contracts   | 2,132,616       | 12,171            | 431                    | 1,100,700         | 3,775             | 34                     |
| MBS put options  | 190,000         | 557               |                        | 340,000           | 374               |                        |
| Eurodollar future sales contracts  | 6,355,000       |                   |                        | 7,426,000         |                   |                        |
| Eurodollar future purchase contracts                                       |                 |                   |                        | 800,000           |                   |                        |
| Treasury futures sales contracts   | 85,000          |                   | 1,172                  | 85,000            |                   | 478                    |
| Call options on interest rate futures                                      | 1,165,000       | 3,642             |                        | 1,030,000         | 3,319             |                        |
| Put options on interest rate futures                                       | 1,020,000       | 403               |                        | 275,000           | 193               |                        |
| Total derivative instruments before netting                                |                 | 25,477            | 18,953                 |                   | 13,391            | 7,178                  |
| Netting  |                 | (12,809)          | (16,882)               |                   | (2,284)           | (4,748)                |
|  |                 | \$ 12,668         | \$ 2,071               |                   | \$ 11,107         | \$ 2,430               |
| Margin deposits with (collateral received from) derivatives counterparties |                 | \$ 4,073          |                        |                   | \$ 2,465          |                        |

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

| Period/Instrument            | Quarter ended March 31, 2015 |           |                           |
|------------------------------|------------------------------|-----------|---------------------------|
|                              | Balance, beginning of period | Additions | Dispositions/ expirations |
|                              | (in thousands)               |           |                           |
| Quarter ended March 31, 2015 |                              |           |                           |



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|                                      |           |           |             |           |
|--------------------------------------|-----------|-----------|-------------|-----------|
| Forward sales contracts              | 1,601,283 | 9,829,527 | (8,472,318) | 2,958,492 |
| Forward purchase contracts           | 1,100,700 | 7,047,676 | (6,015,760) | 2,132,616 |
| MBS put options                      | 340,000   | 405,000   | (555,000)   | 190,000   |
| Eurodollar future sale contracts     | 7,426,000 | 100,000   | (1,171,000) | 6,355,000 |
| Eurodollar future purchase contracts | 800,000   |           | (800,000)   |           |
| Treasury future sale contracts       | 85,000    | 96,500    | (96,500)    | 85,000    |
| Call option on interest rate futures | 1,030,000 | 640,000   | (505,000)   | 1,165,000 |
| Put options on interest rate futures | 275,000   | 1,120,000 | (375,000)   | 1,020,000 |

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| Period/Instrument                     | Quarter ended March 31, 2014       |           |  | Balance,<br>end<br>of period |
|---------------------------------------|------------------------------------|-----------|--|------------------------------|
|                                       | Balance,<br>beginning<br>of period | Additions | Dispositions/<br>expirations<br>(in thousands) |                              |
| Quarter ended March 31, 2014          |                                    |           |  |                              |
| Forward purchase contracts            | 2,781,066                          | 6,397,817 | (7,401,530)                                    | 1,777,353                    |
| Forward sales contracts               | 3,588,027                          | 8,668,939 | (9,759,006)                                    | 2,497,960                    |
| MBS put option                        | 55,000                             | 430,000   | (225,000)                                      | 260,000                      |
| MBS call option                       | 110,000                            | 60,000    | (135,000)                                      | 35,000                       |
| Eurodollar Future sale contracts      | 8,779,000                          | 126,000   | (2,821,000)                                    | 6,084,000                    |
| Eurodollar future purchase contracts  |                                    | 2,597,000 | (2,597,000)                                    |                              |
| Treasury Future sale contracts        | 105,000                            | 103,800   | (133,800)                                      | 75,000                       |
| Treasury Future purchase contracts    |                                    | 96,600    | (96,600)                                       |                              |
| Put options on interest rate futures  | 52,500                             | 437,000   | (109,500)                                      | 380,000                      |
| Call options on interest rate futures |                                    | 150,000   | (60,000)                                       | 90,000                       |

The Company recorded net losses on derivative financial instruments used to hedge the Company's IRLCs and inventory of mortgage loans totaling \$15.1 million and \$10.7 million for the quarters ended March 31, 2015 and 2014, respectively. Derivative gains and losses are included in *Net gain on mortgage loans acquired for sale* in the Company's consolidated statements of income.

The Company recorded net gains (losses) on derivative financial instruments used as economic hedges of MSR's totaling \$11.1 million and \$(99,000) for the quarters ended March 31, 2015 and 2014, respectively. The derivative net losses are included in *Net loan servicing fees* in the Company's consolidated statements of income.

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 \$10.0 million and \$5.6 million for the quarters ended March 31, 2015 and 2014, respectively. The derivative losses are included in *Net gain on investments* in the Company's consolidated statements of income.

**Table of Contents****Note 10 Mortgage Loans at Fair Value**

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

| Loan type   | March 31, 2015               |  | December 31, 2014            |  |
|---|------------------------------|--|------------------------------|--|
|   | Fair value<br>(in thousands) | Unpaid principal balance<br>(in thousands) | Fair value<br>(in thousands) | Unpaid principal balance<br>(in thousands) |
| Nonperforming loans   | \$ 1,619,934                 | \$ 2,320,554                               | \$ 1,535,317                 | \$ 2,246,585                               |
| Performing loans:   |                              |  |                              |  |
| Fixed interest rate   | 350,758                      | 471,794                                    | 322,704                      | 449,496                                    |
| Adjustable-rate mortgage ( ARM )/hybrid                     | 143,105                      | 177,611                                    | 127,405                      | 162,329                                    |
| Interest rate step-up                                       | 229,424                      | 332,631                                    | 213,999                      | 323,350                                    |
| Balloon   | 161                          | 208  | 158                          | 210  |
|   | 723,448                      | 982,244                                    | 664,266                      | 935,385                                    |
| Fixed interest rate jumbo loans held in a VIE               | 515,944                      | 503,786                                    | 527,369                      | 517,500                                    |
|   | \$ 2,859,326                 | \$ 3,806,584                               | \$ 2,726,952                 | \$ 3,699,470                               |
| Mortgage loans at fair value pledged to secure borrowings : |                              |  |                              |  |
| Assets sold under agreements to repurchase                  | \$ 2,684,584                 |  | \$ 2,543,242                 |  |
| Mortgage loans held in a consolidated VIE                   | \$ 515,944                   |  | \$ 527,369                   |  |

Following is a summary of certain concentrations of credit risk in the portfolio of mortgage loans at fair value, excluding mortgage loans held in a VIE securing asset-backed financing:

| Concentration  | March 31, 2015                    | December 31, 2014                 |
|--|-----------------------------------|-----------------------------------|
| Portion of mortgage loans originated between 2005 and 2007   | 73%                               | 75%                               |
| Percentage of fair value of mortgage loans with unpaid-principal-balance-to-current-property-value in excess of 100% | 52%                               | 55%                               |
| Percentage of mortgage loans secured by California real estate   | 23%                               | 22%                               |
| Additional states contributing 5% or more of mortgage loans  | New York<br>New Jersey<br>Florida | New York<br>New Jersey<br>Florida |



**Table of Contents****Note 11 Real Estate Acquired in Settlement of Loans**

Following is a summary of financial information relating to REO:

|  | <b>Quarter ended<br/>March 31,<br/>2015                  2014<br/>(in thousands)</b> |            |
|--|--|------------|
| Balance at beginning of period   | \$ 303,228   | \$ 138,942 |
| Purchases  |  | 3,049      |
| Transfers from mortgage loans at fair value and servicing advances                                   | 86,117   | 68,902     |
| Transfers from REO under forward purchase agreements   |  | 92         |
| Results of REO:  |  |            |
| Valuation adjustments, net   | (11,400)   | (8,408)    |
| Gain on sale, net  | 5,568  | 2,182      |
|  | (5,832)  | (6,226)    |
| Proceeds from sales  | (65,977)   | (31,772)   |
| Balance at end of period   | \$ 317,536   | \$ 172,987 |
| At period end:   |  |            |
| REO pledged to secure assets sold under agreements to repurchase                                     | \$ 71,716  | \$ 29,966  |
| REO held in a consolidated subsidiary whose stock is pledged to secure financings of such properties | \$ 128,788   | \$ 51,649  |

**Note 12 Real Estate Acquired in Settlement of Loans Under Forward Purchase Agreements**

The Company held no real estate acquired in settlement of loans under forward purchase agreements during the quarter ended March 31, 2015. Following is a summary of the activity in REO under forward purchase agreements:

|  | <b>Quarter ended<br/>March 31, 2014<br/>(in thousands)</b> |       |
|--|--|-------|
| Balance at beginning of period   | \$   | 9,138 |
| Purchases  |  | 38    |
| Transfers from mortgage loans under forward purchase agreements at fair value and advances |  | 6,828 |

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|   |    |         |
|---|----|---------|
| Transfers to REO                                  |    | (92)    |
| Results of REO under forward purchase agreements: |    |         |
| Valuation adjustments, net                        |    | (484)   |
| Gain on sale, net                                 |    | 84      |
|   |    | (400)   |
| Proceeds from sales                               |    | (1,622) |
| Balance at end of period                          | \$ | 13,890  |

**Table of Contents****Note 13 Mortgage Servicing Rights***Carried at Fair Value:*

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

|   | <b>Quarter ended<br/>March 31,</b> |             |
|---|------------------------------------|-------------|
|   | <b>2015</b>                        | <b>2014</b> |
|   | <b>(in thousands)</b>              |             |
| Balance at beginning of period  | \$ 57,358                          | \$ 26,452   |
| Addition resulting from mortgage loan sales                                   | 1,906                              | 11,757      |
| Change in fair value:   |                                    |             |
| Due to changes in valuation inputs or assumptions used in valuation model (1) | (8,194)                            | (1,232)     |
| Other changes in fair value (2)   | (1,622)                            | (796)       |
|   | (9,816)                            | (2,028)     |
| Balance at end of period  | \$ 49,448                          | \$ 36,181   |

(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.

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

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

|   | <b>Quarter ended<br/>March 31,</b> |             |
|---|------------------------------------|-------------|
|   | <b>2015</b>                        | <b>2014</b> |
|   | <b>(in thousands)</b>              |             |
| Amortized Cost:   |                                    |             |
| Balance at beginning of period  | \$ 308,137                         | \$ 266,697  |
| MSR's resulting from loan sales   | 25,554                             | 9,118       |
| Purchases   |                                    |             |
| Amortization  | (9,592)                            | (7,365)     |
| Application of valuation allowance to write down MSR's with other-than temporary impairment |                                    |             |
| Sales   | (293)                              |             |
| Balance at end of period  | 323,806                            | 268,450     |

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|   |            |            |
|---|------------|------------|
| Valuation Allowance:                        |            |            |
| Balance at beginning of period              | (7,715)    | (2,577)    |
| Additions                                   | (6,379)    | (627)      |
| Balance at end of period                    | (14,094)   | (3,204)    |
| MSRs, net                                   | \$ 309,712 | \$ 265,246 |
| Estimated fair value at beginning of period | \$ 322,230 | \$ 289,737 |
| Fair value at end of period                 | \$ 327,703 | \$ 289,934 |



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The following table summarizes the Company's estimate of future amortization of its existing MSR's carried at amortized cost. This projection was developed using the inputs used by the Manager in its March 31, 2015 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 the Manager.

| <b>Quarter ended March 31</b> | <b>Estimated MSR<br/>amortization<br/>(in thousands)</b> |
|-------------------------------|--|
| 2015                          | \$ 35,045  |
| 2016                          | 34,132   |
| 2017                          | 31,455   |
| 2018                          | 28,624   |
| 2019                          | 25,779   |
| Thereafter                    | 168,771  |
| <b>Total</b>                  | <b>\$ 323,806</b>  |

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

|  | <b>Quarter ended<br/>March 31,</b> |             |
|--|------------------------------------|-------------|
|  | <b>2015</b>                        | <b>2014</b> |
|  | <b>(in thousands)</b>              |             |
| Contractually-specified servicing fees | \$ 21,588                          | \$ 16,816   |

**Table of Contents****Note 14 Assets Sold Under Agreements to Repurchase**

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

|  | <b>Quarter ended<br/>March 31,</b> |              |
|--|------------------------------------|--------------|
|  | <b>2015</b>                        | <b>2014</b>  |
|  | <b>(dollars in thousands)</b>      |              |
| <b>During the period:</b>                                      |                                    |              |
| Weighted-average interest rate (1)                             | 2.33%                              | 2.21%        |
| Average balance  | \$ 2,847,915                       | \$ 1,795,702 |
| Total interest expense   | \$ 18,912                          | \$ 12,539    |
| Maximum daily amount outstanding                               | \$ 3,860,671                       | \$ 2,079,090 |
| <b>At period end:</b>  |                                    |              |
| Balance  | \$ 3,563,293                       | \$ 1,887,778 |
| Weighted-average interest rate                                 | 2.22%                              | 2.31%        |
| <b>Available borrowing capacity:</b>                           |                                    |              |
| Committed  | \$ 287,414                         | \$ 1,195,414 |
| Uncommitted  | 257,238                            | 865,223      |
|  | \$ 544,652                         | \$ 2,060,637 |
| Margin deposits placed with counterparties                     | \$ 13,450                          | \$ 3,780     |
| <b>Fair value of assets securing agreements to repurchase:</b> |                                    |              |
| Mortgage-backed securities                                     | \$ 316,292                         | \$ 198,110   |
| Mortgage loans acquired for sale at fair value                 | 1,272,132                          | 339,153      |
| Mortgage loans at fair value                                   | 2,684,584                          | 2,270,677    |
| Real estate acquired in settlement of loans                    | 200,504                            | 81,615       |
|  | \$ 4,473,512                       | \$ 2,889,555 |

(1) Excludes the effect of amortization of commitment fees and issuance costs of \$2.3 million and \$2.5 million for the quarters ended March 31, 2015 and 2014, respectively.

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

| <b>Remaining Maturity at March 31, 2015</b> | <b>Balance<br/>(in thousands)</b> |
|---|-----------------------------------|
| Within 30 days                              | \$ 290,335                        |
| Over 30 to 90 days                          | 245,373                           |
| Over 90 days to 180 days                    | 999,329                           |

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|                         |              |
|-------------------------|--------------|
| Over 180 days to 1 year | 1,615,509    |
| Over 1 year to 2 year   | 412,747      |
|                         | \$ 3,563,293 |

Weighted average maturity (in months) 7.7

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

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The amount at risk (the fair value of the assets pledged plus the related margin deposit, less the amount advanced by the counterparty and interest payable) and maturity information relating to the Company's assets sold under agreements to repurchase is summarized by counterparty below as of March 31, 2015:

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

| Counterparty                                       | Amount at risk<br>(in<br>thousands) | Mortgage loans acquired for sale<br>weighted-average<br>repurchase agreement |                   |
|--|-------------------------------------|--|-------------------|
|  |                                     | maturity   | Facility maturity |
| Credit Suisse First Boston<br>Mortgage Capital LLC | \$ 163,576                          | July 5, 2015   | October 30, 2015  |
| Bank of America, N.A.                              | \$ 60,643                           | June 20, 2015  | January 30, 2016  |
| Morgan Stanley                                     | \$ 13,914                           | May 22, 2015   | December 17, 2015 |
| Citibank, N.A.                                     | \$ 346,246                          | April 27, 2015   | September 7, 2015 |
| JPMorgan Chase & Co.                               | \$ 192,301                          |  | January 26, 2017  |

*Securities sold under agreements to repurchase*

| Counterparty          | Amount at risk<br>(in<br>thousands) | Maturity       |
|-----------------------|-------------------------------------|----------------|
|                       |                                     |                |
| JPMorgan Chase & Co.  | \$ 4,818                            | April 27, 2015 |
| Bank of America, N.A. | \$ 7,083                            | May 15, 2015   |
| Citibank, N.A.        | \$ 761                              | June 30, 2015  |

The following is a summary of the tangible net worth and minimum required amounts for the Company and certain of its subsidiaries at March 31, 2015 to comply with the debt covenants contained in the borrowing agreements:

| Entity                             | Tangible net worth at<br>March 31, 2015 |                     |
|------------------------------------|---|---------------------|
|                                    | Balance                                 | Minimum<br>required |
| PennyMac Mortgage Investment Trust | \$ 1,542,159                            | \$ 860,000          |
| Operating Partnership              | 1,593,483                               | 700,000             |
| PennyMac Holdings, LLC             | 822,450                                 | 250,000             |
| PennyMac Corp                      | 295,467                                 | 150,000             |

**Note 15 Mortgage Loan Participation and Sale Agreement**

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

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

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The mortgage loan participation and sale agreement is summarized below:

|   | <b>Quarter ended<br/>March 31, 2015<br/>(dollars in thousands)</b> |        |
|---|--|--------|
| <b>During the period:</b>   |  |        |
| Weighted-average interest rate (1)  |  | 1.42%  |
| Average balance   | \$   | 43,547 |
| Total interest expense  | \$   | 207    |
| Maximum daily amount outstanding  | \$   | 92,940 |
| <b>At period end:</b>   |  |        |
| Balance   | \$   | 71,829 |
| Weighted-average interest rate  |  | 1.43%  |
| Mortgage loans pledged to secure mortgage loan participation and sale agreement | \$   | 74,051 |

(1) Excludes the effect of amortization of commitment fees of \$52,000 for the three months ended March 31, 2015.

**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 VIE:

|  | <b>Quarter ended<br/>March 31,<br/>2015                  2014<br/>(dollars in thousands)</b> |            |
|--|--|------------|
| <b>During the period:</b>                |  |            |
| Weighted-average fair value              | \$ 165,522   | \$ 166,894 |
| Interest expense                         | \$ 1,583   | \$ 1,617   |
| Weighted-average effective interest rate | 3.83%  | 3.88%      |
| <b>At period end:</b>                    |  |            |
| Balance                                  | \$ 162,222   | \$ 166,514 |
| Interest rate                            | 3.50%  | 3.58%      |

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

**Note 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 33.7327 common shares per \$1,000 principal amount of the Notes as of March 31, 2015, 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 per share as provided in the related

indenture.

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Following is financial information relating to the Notes:

|                                | <b>Quarter ended<br/>March 31,<br/>2015          2014<br/>(dollars in thousands)</b> |            |
|--------------------------------|--|------------|
| <b>During the period:</b>      |  |            |
| Weighted-average balance       | \$ 250,000   | \$ 250,000 |
| Interest expense (1)           | \$ 3,597   | \$ 3,584   |
| <b>At period end:</b>          |  |            |
| Balance                        | \$ 250,000   | \$ 250,000 |
| Unamortized issuance costs (2) | \$ 5,683   | \$ 6,616   |

(1) Total interest expense includes amortization of debt issuance costs of \$239,000 and \$225,000 during the quarters ended March 31, 2015 and 2014, respectively.

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

**Note 18 Borrowings under Forward Purchase Agreements**

There were no borrowings under forward purchase agreements during the quarter ended March 31, 2015. Following is a summary of financial information relating to borrowings under forward purchase agreements:

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

**Note 19 Liability for Losses Under Representations and Warranties**

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

|  | <b>Quarter ended<br/>March 31,<br/>2015          2014<br/>(in thousands)</b> |  |
|--|--|--|
|--|--|--|



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|  |               |               |
|--|---------------|---------------|
| Balance, beginning of period   | \$ 14,242     | \$ 10,110     |
| Provision for losses   | 925           | 744           |
| Losses incurred  | (53)          |               |
| Recovery   | 265           |               |
| Balance, end of period   | \$ 15,379     | \$ 10,854     |
| Unpaid principal balance of mortgage loans subject to representations and warranties at period end | \$ 35,573,237 | \$ 27,188,848 |

**Note 20 Commitments and Contingencies**

*Litigation*

From time to time, the Company may be involved in various proceedings, claims and legal actions arising in the ordinary course of business. As of March 31, 2015, 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.

**Table of Contents****Mortgage Loan Commitments**

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

|  | <b>March 31, 2015</b><br><b>(in thousands)</b> |
|--|--|
| Commitments to purchase mortgage loans:        |  |
| Mortgage loans acquired for sale at fair value | \$ 996,752                                     |

**Note 21 Shareholders' Equity**

At March 31, 2015, the Company had approximately \$106.9 million of common shares available for issuance under its ATM Equity Offering Sales Agreement<sup>SM</sup>. During the quarter ended March 31, 2015, the Company did not sell any common shares under the agreement. During the quarter ended March 31, 2014, the Company sold a total of 3,387,022 of its common shares at a weighted average price of \$23.92 per share, providing net proceeds to the Company of approximately \$80.1 million, net of sales commissions of \$874,000.

**Note 22 Net Gain on Mortgage Loans Acquired for Sale**

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

|   | <b>Quarter ended</b><br><b>March 31,</b> |             |
|---|--|-------------|
|   | <b>2015</b>                              | <b>2014</b> |
|   | <b>(in thousands)</b>                    |             |
| Cash (loss) gain :  |  |             |
| Sales proceeds, net   | \$ (7,544)                               | \$ (2,894)  |
| Hedging activities  | (12,527)                                 | (3,547)     |
|   | (20,071)                                 | (6,441)     |
| Non cash gain:  |  |             |
| Receipt of MSRs in loan sale transactions   | 27,460                                   | 20,875      |
| Provision for losses relating to representations and warranties provided in loan sales    | (925)                                    | (744)       |
| Change in fair value of IRLCs, mortgage loans and hedging derivatives held at period end: |  |             |
| IRLCs   | 2,554                                    | 2,022       |
| Mortgage loans  | 3,726                                    | 1,411       |
| Hedging derivatives   | (2,584)                                  | (7,152)     |
|   | 3,696                                    | (3,719)     |
|   | \$ 10,160                                | \$ 9,971    |



**Table of Contents****Note 23 Net Interest Income**

Net interest income is summarized below:

|  | <b>Quarter ended<br/>March 31,</b> |                  |
|--|------------------------------------|------------------|
|  | <b>2015</b>                        | <b>2014</b>      |
|  | <b>(in thousands)</b>              |                  |
| <b>Interest income:</b>  |                                    |                  |
| Short-term investments   | \$ 220                             | \$ 152           |
| Mortgage-backed securities                                     | 2,633                              | 1,761            |
| Mortgage loans acquired for sale at fair value                 | 7,101                              | 3,625            |
| Mortgage loans at fair value                                   | 21,554                             | 23,286           |
| Mortgage loans at fair value held by VIE                       | 5,413                              | 5,495            |
| Mortgage loans under forward purchase agreements at fair value |                                    | 2,154            |
| Excess servicing spread purchased from PFSI, at fair value     | 3,752                              | 2,862            |
| Other  | 12                                 | 11               |
|  | 40,685                             | 39,346           |
| <b>Interest expense:</b>                                       |                                    |                  |
| Assets sold under agreements to repurchase                     | 18,912                             | 12,539           |
| Mortgage loans participation and sale agreement                | 207                                |                  |
| Borrowings under forward purchase agreements                   |                                    | 1,580            |
| Asset-backed secured financing                                 | 1,583                              | 1,617            |
| Exchangeable senior notes                                      | 3,597                              | 3,584            |
| Other  | 1,447                              | 455              |
|  | 25,746                             | 19,775           |
| <b>Net interest income</b>                                     | <b>\$ 14,939</b>                   | <b>\$ 19,571</b> |

**Note 24 Net Gain on Investments**

Net gain on investments is summarized below:

|  | <b>Quarter ended<br/>March 31,</b> |             |
|--|------------------------------------|-------------|
|  | <b>2015</b>                        | <b>2014</b> |
|  | <b>(in thousands)</b>              |             |
| <b>Net gain (loss) on investments:</b> |                                    |             |
| Mortgage-backed securities             | \$ 1,516                           | \$ 709      |

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|   |          |          |
|---|----------|----------|
| Mortgage loans  | 17,186   | 39,918   |
| Mortgage loans held in a VIE                              | 1,800    | 11,307   |
| Excess servicing spread purchased from PFSI at fair value | (6,248)  | (2,901)  |
| Asset-backed secured financing                            | (770)    | (2,780)  |
| Hedging derivatives                                       | (10,037) | (3,668)  |
|   | \$ 3,447 | \$42,585 |

**Table of Contents****Note 25 Net Loan Servicing Fees**

Net loan servicing fees are summarized below:

|  | <b>Quarter ended<br/>March 31,</b> |               |
|--|------------------------------------|---------------|
|  | <b>2015</b>                        | <b>2014</b>   |
|  | <b>(in thousands)</b>              |               |
| Servicing fees (1)                               | \$ 22,629                          | \$ 17,532     |
| MSR recapture fee receivable from PFSI           |                                    | 8             |
| Effect of MSR:                                   |                                    |               |
| Carried at lower of amortized cost or fair value |                                    |               |
| Amortization                                     | (9,592)                            | (7,365)       |
| Provision for impairment                         | (6,379)                            | (627)         |
| Gain on sale                                     | 83                                 |               |
| Carried at fair value - change in fair value     | (9,816)                            | (2,028)       |
| Gains (losses) on hedging derivatives            | 11,076                             | (99)          |
|  | (14,628)                           | (10,119)      |
| Net loan servicing fees                          | \$ 8,001                           | \$ 7,421      |
| Average servicing portfolio                      | \$ 34,599,043                      | \$ 26,492,742 |

(1) Includes contractually specified servicing and ancillary fees.

**Note 26 Share-Based Compensation Plans**

On March 31, 2015 and 2014, the Company had one share-based compensation plan. The Company recognized compensation expense of \$2.5 million and \$2.6 million for the quarters ended March 31, 2015 and 2014, respectively. The Company granted 294,684 restricted share units with a grant date fair value of \$6.3 million for the quarter ended March 31, 2015 compared to none in the same period in 2014, and 75,063 and 84,437 units vested during the quarters ended March 31, 2015 and 2014, respectively.

**Note 27 Other Expenses**

Other expenses are summarized below:

|                                      | <b>Quarter ended<br/>March 31,</b> |             |
|--------------------------------------|------------------------------------|-------------|
|                                      | <b>2015</b>                        | <b>2014</b> |
|                                      | <b>(in thousands)</b>              |             |
| Common overhead allocation from PFSI | \$ 2,392                           | \$ 2,578    |

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|                                |          |          |
|--------------------------------|----------|----------|
| Servicing and collection costs | 1,445    | 632      |
| Loan origination               | 953      | 37       |
| Insurance                      | 373      | 239      |
| Technology                     | 292      | 247      |
| Other expenses                 | 847      | 333      |
|                                | \$ 6,302 | \$ 4,066 |

**Note 28 Income Taxes**

The Company had a tax benefit of \$11.3 million and \$1.6 million for the quarters ended March 31, 2015 and 2014, respectively. The Company's effective tax rate is 296.6% and (4.4)% for the quarters ended March 31, 2015 and 2014, respectively. The increase in the Company's tax benefit is due primarily to an increased loss incurred at the Company's taxable REIT subsidiary for the quarter ended March 31, 2015 as compared to the same period in 2014. The primary difference between the Company's effective tax rate and the statutory tax rate is due to non-taxable REIT income resulting from the dividends paid deduction.

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.

**Table of Contents****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, MSR's 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.

Financial highlights by operating segment are summarized below:

| Quarter ended March 31, 2015   | Correspondent<br>production | Investment<br>activities | Intersegment<br>elimination<br>& other | Total     |
|--|-----------------------------|--------------------------|--|-----------|
|  | (in thousands)              |                          |  |           |
| Net investment income:   |                             |                          |  |           |
| Net gain on mortgage loans acquired for sale   | \$ 10,160                   | \$                       | \$                                     | \$ 10,160 |
| Net gain on investments  |                             | 3,447                    |  | 3,447     |
| Interest income  | 7,112                       | 33,573                   |  | 40,685    |
| Interest expense   | (3,820)                     | (21,926)                 |  | (25,746)  |
|  | 3,292                       | 11,647                   |  | 14,939    |
| Net loan servicing fees  |                             | 8,001                    |  | 8,001     |
| Other income (loss)  | 5,351                       | (4,241)                  |  | 1,110     |
|  | 18,803                      | 18,854                   |  | 37,657    |
| Expenses:  |                             |                          |  |           |
| Loan fulfillment, servicing and management fees payable to PennyMac Financial Services, Inc. | 13,170                      | 17,369                   |  | 30,539    |
| Other  | 1,214                       | 9,724                    |  | 10,938    |



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|                            |              |              |              |
|----------------------------|--------------|--------------|--------------|
|                            | 14,384       | 27,093       | 41,477       |
| Pre-tax income (loss)      | \$ 4,419     | \$ (8,239)   | \$ (3,820)   |
| Total assets at period end | \$ 1,392,680 | \$ 4,344,730 | \$ 5,737,410 |

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

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

|  | <b>Quarter ended</b>  |             |
|--|-----------------------|-------------|
|  | <b>March 31</b>       |             |
|  | <b>2015</b>           | <b>2014</b> |
|  | <b>(in thousands)</b> |             |
| Cash paid for interest   | \$ 21,188             | \$ 25,490   |
| Income tax paid  | \$ 186                | \$ 42       |
| <b>Non-cash investing activities:</b>  |                       |             |
| Transfer of mortgage loans and servicing advances to real estate acquired in settlement of loans                   | \$ 86,117             | \$ 68,902   |
| Purchase of mortgage loans financed through forward purchase agreements  | \$                    | \$ 920      |
| Transfer of mortgage loans under forward purchase agreements to mortgage loans at fair value                       | \$                    | \$ 4,460    |
| Transfer of mortgage loans under forward purchase agreements and advances to REO under forward purchase agreements | \$                    | \$ 6,828    |
| Receipt of MSR as proceeds from sales of loans   | \$ 27,460             | \$ 20,875   |
| Purchase of REO financed through forward purchase agreements   | \$                    | \$ 38       |
| Receipt of ESS pursuant to recapture agreement with PFSI   | \$ 1,246              | \$ 1,113    |
| Transfer of REO under forward purchase agreements to REO   | \$                    | \$ 92       |
| <b>Non-cash financing activities:</b>  |                       |             |
| Purchase of mortgage loans financed through forward purchase agreements  | \$                    | \$ 920      |
| Purchase of REO financed through forward purchase agreements   | \$                    | \$ 38       |
| Dividends payable  | \$ 46,073             | \$ 43,618   |

**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 \$92.5 million and \$36.2 million, respectively. Management believes that PMC complies with Fannie Mae's and Freddie Mac's net worth requirement as of March 31, 2015.

**Note 32 Recently Issued Accounting Pronouncements**

In April of 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. ASU 2015-03 should be applied on a retrospective basis and is effective for the Company for financial statements issued for fiscal years and interim periods within those fiscal years beginning after December 15, 2015. The adoption of ASU 2015-03 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 April 28, 2015, PLS entered into a letter of intent with a third party to purchase a \$9.3 billion unpaid principal balance portfolio of Agency MSR's. The Company intends to purchase from PLS approximately \$74 million of ESS from this MSR portfolio.

The MSR acquisition by PLS and the Company's purchase of ESS are subject to the negotiation and execution of definitive documentation, continuing due diligence and customary closing conditions, including required regulatory approvals. There can be no assurance that the committed amounts will ultimately be acquired or that the transactions will be completed at all.

On April 30, 2015, the Company, through PMH, entered into an Amended and Restated Master Spread Acquisition and MSR Servicing Agreement with PLS (the "Spread Acquisition Agreement"). The Spread Acquisition Agreement amends and restates that certain spread acquisition and MSR servicing agreement originally entered into by and between PMH and PLS on December 30, 2013. The primary purpose of the amendment and restatement was to evidence the ownership of the ESS under participation certificates and to otherwise incorporate the terms of previously executed amendments.

On April 30, 2015, the Company, through its wholly-owned subsidiary, PennyMac Holdings, LLC ( "PMH" ), entered into a loan and security agreement (the "Loan Agreement") with PLS, pursuant to which PMH may borrow up to \$150 million from PLS for the purpose of financing ESS. PLS then re-pledges such ESS to Credit Suisse First Boston Mortgage Capital LLC ( "CSFB" ) under a Third Amended and Restated Loan and Security Agreement, dated as of March 27, 2015, by and among CSFB, PLS and Private National Mortgage Acceptance Company, LLC, as guarantor (the "CSFB LSA"), and pursuant to which PLS finances certain of its MSR's and related participation interests and servicing advance receivables with CSFB. In connection with the execution of the Loan Agreement, the CSFB LSA was amended to increase the maximum loan amount thereunder from \$257 million to \$407 million. The \$150 million increase was implemented to allow for PLS's re-pledge to CSFB of ESS pledged by PMH under the Loan Agreement. The aggregate loan amount outstanding under the CSFB LSA and relating to re-pledged ESS by PLS is guaranteed in full by the Company (the "Guaranty").

On April 30, 2015, the Company, through PMH, entered into an Amended and Restated Security and Subordination Agreement (the "Security Agreement") with CSFB. The Security Agreement amends and restates that certain security agreement originally entered into by and between PMH and PLS on December 30, 2013. The primary purpose of the amendment and restatement was to provide CSFB with remedies under the Security Agreement relating to the Company's obligations under the Guaranty.

On May 1, 2015, the Company completed its purchase of \$136 million in ESS relating to PLS's acquisition of a \$15 billion unpaid principal balance portfolio of Agency MSR's.

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***Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations  
Cautionary Statement Regarding Forward-Looking Statements***

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

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

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

***Our Company***

We are a specialty finance company that invests primarily in residential mortgage loans and mortgage-related assets. Our objective is to provide attractive risk-adjusted returns to our investors over the long-term, primarily through dividends and secondarily through capital appreciation. We have achieved this objective largely by investing in distressed mortgage assets and acquiring, pooling and selling newly originated prime credit quality residential mortgage loans (correspondent production) and retaining the MSR's.

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

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

We seek to maximize the value of the distressed mortgage loans that we acquire using means that are appropriate for the particular loan, including both proprietary and nonproprietary loan modification programs, special servicing and other initiatives focused on avoiding foreclosure, when possible. When we are unable to effect a cure for a mortgage delinquency, our objective is to effect timely acquisition and/or liquidation of the property securing the loan through the use, in part, of short sales and deed-in-lieu of foreclosure programs. During the three months ended March 31, 2015 and 2014 we acquired distressed mortgage loans with fair values totaling \$242.0 million and \$257.2 million, respectively, and we received proceeds from liquidation, payoffs and sales from our portfolio of distressed mortgage loans and REO totaling \$111.9 million and \$285.6 million, respectively.

During the three months ended March 31, 2015 and 2014, we purchased newly originated prime credit quality loans with fair values totaling \$8.4 billion and \$5.0 billion, respectively, in furtherance of our correspondent production

business. To the extent that we purchase mortgage loans that are insured by the U.S. Department of Housing and Urban Development ( HUD ) through the FHA or insured or guaranteed by the VA or USDA, we and PLS have agreed that PLS will fulfill and purchase such mortgage 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 mortgage loans. We receive a sourcing fee from PLS of three basis points on the unpaid principal balance ( UPB ) of each mortgage loan that we sell to PLS under such arrangement, and earn interest income on the loan for the time period we hold the mortgage loan prior to the sale to PLS. We received sourcing fees totaling \$1.4 million relating to \$5.0 billion of mortgage loans at fair value that we sold to PLS for the quarter ended March 31, 2015, compared to \$892,000 relating to \$3.1 billion of loans at fair value that we sold to PLS for the quarter ended March 31, 2014.

We supplement these activities through participation in other mortgage-related activities, which are in various stages of analysis, planning or implementation, including:

Acquisition of excess servicing spread ( ESS ) from mortgage servicing rights ( MSRs ) acquired by PLS. We believe that ESS is an attractive long-term investment that allows us to leverage the mortgage loan servicing and origination capabilities of PLS. In addition, ESS can act as a hedge for us against the interest-rate sensitivity of other assets, such as MBS or the inventory of

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our correspondent production business. During the quarter ended March 31, 2015, we purchased ESS with fair values totaling \$46.4 million and received \$1.2 million pursuant to a recapture agreement with PFSI compared to \$20.5 million and \$1.1 million, respectively, during the quarter ended March 31, 2014.

We also intend to continue to retain the MSR's that we receive as a portion of the proceeds from our sale or securitization of mortgage loans through our correspondent production operation. During the quarter ended March 31, 2015, we received MSR's with fair values at initial recognition totaling \$27.5 million, compared to \$20.9 million during the quarter ended March 31, 2014.

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. We purchased MBS with fair values totaling \$25.1 million during the quarter ended March 31, 2015.

Acquisition of small balance (typically under \$10 million) commercial mortgage loans.

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.

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 our TRS, which is subject to corporate federal and state income taxes. Accordingly, we have made a provision for income taxes with respect to the operations of our TRS. We expect that the effective rate for the provision for income taxes may be volatile in future periods. Our goal is to manage the business to take full advantage of the tax benefits afforded to us as a REIT.

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**Table of Contents*****Observations on Current Market Conditions***

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. The U.S. economy continues to grow as reflected in recent economic data. During the first quarter of 2015, real U.S. gross domestic product expanded at an annual rate of 0.2% compared to a 2.1% decrease for the first quarter of 2014 and a 2.2% increase for the fourth quarter of 2014. The national unemployment rate was 5.5% at March 31, 2015 compared to 5.6% at December 31, 2014 and 6.6% at March 31, 2014. Delinquency rates on residential real estate loans remain elevated compared to historical rates, but have been steadily declining. As reported by the Federal Reserve Bank, during the fourth quarter of 2014, the delinquency rate on residential real estate loans held by commercial banks was 6.6%, a reduction from 8.2% during the fourth quarter of 2013.

Residential real estate activity appears to be improving. The seasonally adjusted annual rate of existing home sales for March 2015 was 10.4% higher than for March 2014, and the national median existing home price for all housing types was \$212,100, a 7.8% increase from March 2014. On a national level, foreclosure filings during the first quarter of 2015 increased by 4% as compared to the first quarter of 2014. Foreclosure activity across the country decreased in 2014; however, it is expected to remain above historical average levels through 2015 and beyond.

Changes in fixed-rate residential mortgage loan interest rates generally follow changes in long-term U.S. Treasury yields. Thirty-year fixed mortgage interest rates ranged from a low of 3.59% to a high of 3.86% during the first quarter of 2015 while during the first quarter of 2014, thirty-year fixed mortgage interest rates ranged from a low of 4.23% to a high of 4.53% (Source: the Federal Home Loan Mortgage Corporation's Weekly Primary Mortgage Market Survey).

Mortgage lenders originated an estimated \$370 billion of home loans during the first quarter of 2015, up 60% from the first quarter of 2014. Although the low interest rate environment in the first quarter of 2015 led to an increase in the volume of borrowers seeking to refinance, we expect purchase-money loans to constitute a greater proportion of mortgage originations in the future. Mortgage originations are forecast to remain relatively flat, with current industry estimates for 2015 totaling \$1.3 trillion (Source: average of Fannie Mae, Freddie Mac and Mortgage Bankers Association forecasts). We expect efforts to expand GSE product offerings (including 97% loan-to-value loans) and a recent reduction in FHA mortgage insurance premiums to make mortgage credit more affordable. In our correspondent production business we continue to see increased competition from new and existing market participants.

We believe there is significant long-term market opportunity in non-Agency jumbo mortgage loans, however current investor demand from institutional investors and large banks remains limited. The prime jumbo MBS securitization market was active during the first quarter of 2015, with issuances totaling \$4.2 billion in UPB as compared with \$960 million during the first quarter of 2014. During the first quarter of 2015, we produced approximately \$60 million in UPB of jumbo loans compared to \$13 million in UPB of jumbo loans produced during the first quarter of 2014.

Our Manager continues to see a robust market for distressed residential mortgage loans (sales of loan pools that consist of either non-performing loans, troubled but performing loans or a combination thereof) offered for sale. During 2014, the pool of sellers expanded to include new programmatic sellers, such as HUD and Freddie Mac. During the first quarter of 2015, our Manager reviewed 30 mortgage loan pools totaling approximately \$9.8 billion in UPB. This compares to our Manager's review of 25 mortgage loan pools totaling approximately \$7.8 billion in UPB during the first quarter of 2014. We acquired distressed loans with fair values totaling \$242 million and \$261 million during the quarters ended March 31, 2015 and 2014, respectively. 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 distressed portfolio investments.

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

The following is a summary of our key performance measures:

|   | <b>Quarter ended<br/>March 31,</b>             |              |
|---|--|--------------|
|   | <b>2015</b>                                    | <b>2014</b>  |
|   | <b>(in thousands except per share amounts)</b> |              |
| Net investment income                     | \$ 37,657                                      | \$ 76,595    |
| Pre-tax (loss) income by segment:         |  |              |
| Correspondent production                  | \$ 4,419                                       | \$ 3,148     |
| Investment activities                     | (8,239)  | 33,141       |
|   | \$ (3,820)                                     | \$ 36,289    |
| Net income                                | \$ 7,508                                       | \$ 37,873    |
| Earnings per share:                       |  |              |
| Basic                                     | \$ 0.09  | \$ 0.52      |
| Diluted                                   | \$ 0.09  | \$ 0.50      |
| Dividends per share:                      |  |              |
| Declared                                  | \$ 0.61  | \$ 0.59      |
| Paid                                      | \$ 0.61  | \$ 0.59      |
| Investment activities:                    |  |              |
| Distressed mortgage loans and REO:        |  |              |
| Purchases                                 | \$ 241,981                                     | \$ 260,287   |
| Cash proceeds from liquidation activities | \$ 111,858                                     | \$ 285,560   |
| MBS:                                      |  |              |
| Purchases                                 | \$ 25,129                                      | \$           |
| Cash proceeds from repayment and sales    | \$ 17,802                                      | \$ 1,978     |
| ESS:                                      |  |              |
| Purchases from PFSI                       | \$ 46,412                                      | \$ 20,526    |
| Cash proceeds from repayments             | \$ 12,731                                      | \$ 7,413     |
| Per share prices during the period:       |  |              |
| High                                      | \$ 22.99                                       | \$ 24.44     |
| Low                                       | \$ 20.57                                       | \$ 22.86     |
| At period end                             | \$ 21.29                                       | \$ 23.90     |
| At period end:                            |  |              |
| Total assets                              | \$ 5,737,410                                   | \$ 4,227,537 |
| Book value per share                      | \$ 20.68                                       | \$ 20.88     |

During the quarter ended March 31, 2015, we recorded net income of \$7.5 million, or \$0.09 per diluted share. Our net income for the quarter ended March 31, 2015 reflects net interest income of \$14.9 million, supplemented by net gains on our investments in financial instruments totaling \$13.6 million (comprised of net gain on investments and net gain on mortgage loans acquired for sale), including \$19.0 million of valuation gains on mortgage loans at fair value and mortgage loans at fair value held by variable interest entity ( VIE ). During the quarter ended March 31, 2015, we purchased \$8.4 billion in fair value of newly originated mortgage loans. We recognized gains on such loans totaling

approximately \$10.2 million, including \$27.5 million of MSR's retained upon securitization or sale of such loans. At March 31, 2015, we held mortgage loans acquired for sale with fair values totaling \$1.4 billion, including \$599.4 million that were pending sale to PLS.

During the quarter ended March 31, 2014, we recorded net income of \$37.9 million, or \$0.50 per diluted share. Our net income for the quarter ended March 31, 2014 reflects net gains on our investments in financial instruments totaling \$52.6 million (comprised of net gain on investments and net gain on mortgage loans acquired for sale), including \$51.2 million of valuation gains on mortgage loans at fair value, mortgage loans under forward purchase agreements at fair value and mortgage loans at fair value held by VIE. These gains were supplemented by \$19.6 million of net interest income. During the quarter ended March 31, 2014, we purchased \$5.0 billion in fair value of newly originated mortgage loans. We recognized gains on such loans totaling approximately \$10.0 million. At March 31, 2014, we held mortgage loans acquired for sale with fair values totaling \$344.7 million, including \$48.9 million that were pending sale to PLS.

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Our net income decreased during the quarter ended March 31, 2015 compared to the quarter ended March 31, 2014 primarily due to a decrease in pretax income in our investment activities segment. During the quarter ended March 31, 2015, we recognized net investment income totaling approximately \$18.9 million in our investment activities segment, a decrease of \$45.4 million, or 71%, from \$64.3 million during the quarter ended March 31, 2014. In our investment activities, our average investment portfolio was approximately \$3.2 billion during the quarter ended March 31, 2015, an increase of \$237.5 million, or 8%, over the quarter ended March 31, 2014.

In our correspondent production activities, we received proceeds of \$2.6 billion and \$2.0 billion during the quarters ended March 31, 2015 and March 31, 2014, respectively, from the sale of mortgage loans to non-affiliates. We issued \$3.5 billion of IRLCs relating to Agency and jumbo mortgage loans during the quarter ended March 31, 2015, an increase of \$1.3 billion, or 57% as compared to the quarter ended March 31, 2014. During the quarter ended March 31, 2015, thirty-year fixed mortgage interest rates declined to their lowest quarterly average levels since mid-2013. In addition to declining interest rates, the FHA's 50 basis point reduction in its annual insurance premiums paid by borrowers on new FHA loans increased the incentive for many FHA borrowers to refinance. As a result, we sold approximately 30% more loans to nonaffiliates during the three months ended March 31, 2015 as compared to the same period in 2014 but our net gain on mortgage loans acquired for sale increased by only \$189,000, or 2%. The increased demand for mortgage loans notwithstanding, continuing competition in the mortgage market has decreased margins in our net gain on mortgage loans acquired for sale.

**Net Investment Income**

During the quarter ended March 31, 2015, we recorded net investment income of \$37.7 million, comprised primarily of net interest income of \$14.9 million, \$10.2 million of net gain on mortgage loans acquired for sale, \$8.0 million of net loan servicing fees, \$5.3 million of loan origination fees, and \$3.4 million of net gain on investments, partially offset by \$5.8 million of losses from results of REO. During the quarter ended March 31, 2014, we recorded net investment income of \$76.6 million, comprised primarily of net gain on investments of \$42.6 million, supplemented by \$19.6 million of net interest income, \$10.0 million of net gain on mortgage loans acquired for sale, \$7.4 million of net loan servicing fees, and \$2.4 million of loan origination fees, partially offset by \$6.6 million of losses from results of REO.

Net investment income includes non-cash fair value adjustments. Because we have elected to record our financial assets (comprised of MBS, mortgage loans acquired for sale at fair value, mortgage loans at fair value and ESS) at fair value, a substantial portion of the income we record with respect to such assets results from non-cash changes in fair value. Net investment income also includes non-cash fair value adjustments related to IRLCs and the derivatives we use to hedge our financial assets and liabilities and MSR, non-cash interest income arising from capitalization of delinquent interest on mortgage loans upon completion of the modification of such loans, accrual of unearned discounts relating to mortgage loans held in a consolidated VIE and amortization of issuance costs and premiums relating to our asset-backed financings.

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

|  | <b>Quarter ended March 31,</b> |             |
|--|--------------------------------|-------------|
|  | <b>2015</b>                    | <b>2014</b> |
|  | <b>(in thousands)</b>          |             |
| Net gain on mortgage loans acquired for sale   |                                |             |
| Mortgage loans acquired for sale   | \$ 3,726                       | \$ 1,411    |
| IRLCs  | 2,554                          | 2,022       |
| Hedging derivatives  | (2,584)                        | (7,152)     |
|  | 3,696                          | (3,719)     |
| Net interest income  |                                |             |
| Capitalization of interest pursuant to mortgage loan modifications   | 10,209                         | 12,470      |
| Accrual of unearned discounts and amortization of premiums on MBS, mortgage loans and asset-backed financing | 402                            | 240         |
|  | 10,611                         | 12,710      |
| Net gain (loss) on investments   |                                |             |
| Mortgage-backed securities:  |                                |             |
| Agency   | 1,108                          | 2,652       |
| Non Agency   | 407                            |             |
| Mortgage loans:  |                                |             |
| at fair value  | 15,427                         | 34,552      |
| at fair value held by in a variable interest entity  | 1,801                          | 11,307      |
| at fair value under forward purchase agreements  |                                | (1,379)     |
| Excess servicing spread  | (6,247)                        | (2,901)     |
| Asset-backed secured financing   | (770)                          | (2,780)     |
|  | 12,496                         | 41,451      |
| Net loan servicing fees - MSR valuation adjustments  | (14,490)                       | (1,859)     |
|  | \$ 12,486                      | \$ 48,583   |

Cash is generated when mortgage loan investments are monetized through payoffs or sales, when payment of principal and interest occurs on such loans, generally after they are modified, or when the property securing a mortgage loan that has been settled through acquisition of the property securing the loan has been sold. We receive proceeds on the sale of mortgage loans acquired for sale that include both cash and our estimate of the fair value of 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. With respect to MSR and ESS, negative valuation adjustments generally arise from increased prepayment expectations. To the extent that such expectations result from decreasing interest rates, increased loan production and recapture of MSR and ESS may occur.

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The following table illustrates the net gain in value that we accumulated over the period during which we owned the liquidated mortgage loan investments and REO, as compared to the proceeds actually received and the additional net gain realized upon liquidation of such assets:

|                    | Quarter ended March 31, |                       |                         |            |                       |                         |
|--------------------|-------------------------|-----------------------|-------------------------|------------|-----------------------|-------------------------|
|                    | 2015                    |                       |                         | 2014       |                       |                         |
|                    | Proceeds                | Accumulated gains (2) | Gain on liquidation (3) | Proceeds   | Accumulated gains (2) | Gain on liquidation (3) |
|                    | (in thousands)          |                       |                         |            |                       |                         |
| Mortgage loans (1) | \$ 45,882               | \$ 5,621              | \$ 1,758                | \$ 252,168 | \$ 53,241             | \$ 6,746                |
| REO                | 65,976                  | 962                   | 5,568                   | 33,392     | 2,974                 | 2,267                   |
|                    | \$ 111,858              | \$ 6,583              | \$ 7,326                | \$ 285,560 | \$ 56,215             | \$ 9,013                |

- (1) For the quarters ended March 31, 2015 and 2014, the amounts include sales of reperforming loans with loan sale proceeds of \$939,000 and \$194.0 million, accumulated (losses) gains of \$(186,000) and \$44.2 million, and \$(284,000) and \$1.1 million (loss) gain on liquidation, respectively.

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(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 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, include 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 aggregate servicing and activity fees of \$5.7 million and \$5.0 million with respect to assets liquidated during the quarters ended March 31, 2015 and 2014, respectively.

The decrease in net investment income during the quarter ended March 31, 2015 as compared to the quarter ended March 31, 2014 primarily reflects the decrease in net fair value gains in our investments in mortgage loans at fair value, along with losses recognized on our investment in ESS and mortgage loans held by VIE. Decreases in gain on our investments in mortgage loans are due to moderation in both actual and projected real estate values relating to the properties securing our distressed loans and slower than expected transitions of loans toward resolution as compared to the quarter ended March 31, 2014. This decline was partially offset by increases in value of the reperforming loans in our portfolio resulting from an observed increase in demand for such investments. The losses recognized on our investments in ESS result from higher actual and projected prepayments for the underlying mortgage loans due to lower interest rates, and the reduction in FHA annual mortgage insurance premiums announced in January 2015.

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

Net interest income is summarized below:

|   | Quarter ended March 31, 2015 |  |           | Average<br>balance | Annualized<br>interest<br>yield/cost |
|---|------------------------------|--|-----------|--------------------|--------------------------------------|
|   | Coupon                       | Interest income/expense<br>Discount/<br>fees (1) | Total     |                    |                                      |
| <b>(dollars in thousands)</b>   |                              |  |           |                    |                                      |
| <b>Assets:</b>  |                              |  |           |                    |                                      |
| Correspondent production:   |                              |  |           |                    |                                      |
| Mortgage loans acquired for sale at fair value  | \$ 7,101                     | \$   | \$ 7,101  | \$ 751,172         | 3.78%                                |
| Investment activities:  |                              |  |           |                    |                                      |
| Short-term investments  | 220                          |  | 220       | 90,712             | 0.97%                                |
| Mortgage-backed securities:   |                              |  |           |                    |                                      |
| Agency  | 1,616                        | 62   | 1,678     | 184,180            | 3.64%                                |
| Non-Agency prime jumbo  | 931                          | 24   | 955       | 111,885            | 3.42%                                |
|   | 2,547                        | 86   | 2,633     | 296,065            | 3.56%                                |
| <b>Mortgage loans:</b>  |                              |  |           |                    |                                      |
| at fair value   | 21,554                       |  | 21,554    | 2,080,704          | 4.14%                                |
| at fair value held by variable interest entity  | 4,924                        | 489  | 5,413     | 502,899            | 4.31%                                |
|   | 26,478                       | 489  | 26,967    | 2,583,603          | 4.18%                                |
| Excess servicing spread   | 3,752                        |  | 3,752     | 199,417            | 7.53%                                |
| Total investment activities   | 32,997                       | 575  | 33,572    | 3,169,797          | 4.24%                                |
| Other   | 12                           |  | 12        |                    |                                      |
|   | \$ 40,110                    | \$ 575   | \$ 40,685 | \$ 3,920,969       | 4.15%                                |
| <b>Liabilities:</b>   |                              |  |           |                    |                                      |
| Assets sold under agreements to repurchase  | \$ 16,621                    | \$ 2,291   | \$ 18,912 | \$ 2,847,915       | 2.66%                                |
| Mortgage loans participation and sale agreement   | 155                          | 52   | 207       | 43,547             | 1.91%                                |
| Asset-backed secured financing  | 1,410                        | 173  | 1,583     | 165,522            | 3.83%                                |
| Exchangeable senior notes   | 3,359                        | 238  | 3,597     | 250,000            | 5.76%                                |
|   | 21,545                       | 2,754  | 24,299    | 3,306,984          | 2.94%                                |
| Interest shortfall on repayments of mortgage loans<br>serviced for Agency securitizations |                              |  |           |                    |                                      |
|   | 1,173                        |  | 1,173     |                    |                                      |
| Interest on mortgage loan impound deposits  |                              |  |           |                    |                                      |
|   | 274                          |  | 274       |                    |                                      |
|   | 22,992                       | 2,754  | 25,746    | 3,306,984          | 3.11%                                |



|                     |           |            |           |
|---------------------|-----------|------------|-----------|
| Net interest income | \$ 17,118 | \$ (2,179) | \$ 14,939 |
| Net interest margin |           |            | 1.52%     |
| Net interest spread |           |            | 1.04%     |

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

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|   | Quarter ended March 31, 2014 |  |                  | Average<br>balance | Annualized<br>interest<br>yield/cost |
|---|------------------------------|--|------------------|--------------------|--------------------------------------|
|   | Coupon                       | Interest income/expense<br>Discount/<br>fees (1) | Total            |                    |                                      |
| (dollars in thousands)  |                              |  |                  |                    |                                      |
| <b>Assets:</b>  |                              |  |                  |                    |                                      |
| Correspondent production:   |                              |  |                  |                    |                                      |
| Mortgage loans acquired for sale at fair value  | \$ 3,625                     | \$   | \$ 3,625         | \$ 334,442         | 4.34%                                |
| Investment activities:  |                              |  |                  |                    |                                      |
| Short-term investments  | 152                          |  | 152              | 96,583             | 0.63%                                |
| Agency mortgage-backed securities   | 1,728                        | 33   | 1,761            | 196,164            | 3.59%                                |
| Mortgage loans:   |                              |  |                  |                    |                                      |
| at fair value   | 23,286                       |  | 23,286           | 1,771,674          | 5.26%                                |
| at fair value held by variable interest entity  | 5,165                        | 330  | 5,495            | 527,266            | 4.17%                                |
| under forward purchase agreements at fair value   | 2,154                        |  | 2,154            | 204,492            | 4.21%                                |
|   | 30,605                       | 330  | 30,935           | 2,503,432          | 4.94%                                |
| Excess servicing spread   | 2,862                        |  | 2,862            | 136,160            | 8.41%                                |
| <b>Total investment activities</b>  | <b>35,347</b>                | <b>363</b>                                       | <b>35,710</b>    | <b>2,932,339</b>   | <b>4.87%</b>                         |
| <b>Other</b>  | <b>11</b>                    |  | <b>11</b>        |                    |                                      |
|   | \$ 38,983                    | \$ 363   | \$ 39,346        | \$ 3,266,781       | 4.82%                                |
| <b>Liabilities:</b>   |                              |  |                  |                    |                                      |
| Assets sold under agreements to repurchase  | \$ 9,915                     | \$ 2,624   | \$ 12,539        | \$ 1,795,702       | 2.79%                                |
| Borrowings under forward purchase agreements  | 1,580                        |  | 1,580            | 221,769            | 2.85%                                |
| Asset backed secured financing  | 1,493                        | 124  | 1,617            | 166,894            | 3.88%                                |
| Exchangeable senior notes   | 3,359                        | 225  | 3,584            | 250,000            | 5.73%                                |
|   | 16,347                       | 2,973  | 19,320           | 2,434,365          | 3.17%                                |
| Interest shortfall on repayments of mortgage loans<br>serviced for Agency securitizations | 239                          |  | 239              |                    |                                      |
| Interest on mortgage impound deposits   | 216                          |  | 216              |                    |                                      |
|   | 16,802                       | 2,973  | 19,775           | 2,434,365          | 3.25%                                |
| <b>Net interest income</b>  | <b>\$ 22,181</b>             | <b>\$ (2,610)</b>                                | <b>\$ 19,571</b> |                    |                                      |
| Net interest margin   |                              |  |                  |                    | 2.40%                                |
| Net interest spread   |                              |  |                  |                    | 1.57%                                |

(1)

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Amounts in this column represent accrual of unearned discounts for assets and amortization of facility commitment fees and issuance costs for liabilities.

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

|  | <b>Quarter ended March 31,<br/>2015</b>          |               |                         |
|--|--|---------------|-------------------------|
|  | <b>vs.</b>                                       |               |                         |
|  | <b>Quarter ended March 31,<br/>2014</b>          |               |                         |
|  | <b>Increase (decrease)<br/>due to changes in</b> |               |                         |
|  | <b>Rate</b>                                      | <b>Volume</b> | <b>Total<br/>change</b> |
|  | <b>(in thousands)</b>                            |               |                         |
| <b>Assets:</b>   |  |               |                         |
| <b>Correspondent production:</b>   |  |               |                         |
| Mortgage loans acquired for sale at fair value   | \$ (564)   | \$ 4,040      | \$ 3,476                |
| <b>Investment activities:</b>  |  |               |                         |
| Short-term investments   | 78   | (10)          | 68                      |
| <b>Mortgage-backed securities:</b>   |  |               |                         |
| Agency   | 26   | (109)         | (83)                    |
| Non Agency prime jumbo   |  | 955           | 955                     |
|  | 26   | 846           | 872                     |
| <b>Mortgage loans:</b>   |  |               |                         |
| at fair value  | (5,405)  | 3,673         | (1,732)                 |
| at fair value held by variable interest entity   | 177  | (259)         | (82)                    |
| under forward purchase agreements at fair value  |  | (2,154)       | (2,154)                 |
|  | (5,228)  | 1,260         | (3,968)                 |
| Excess servicing spread  | (326)  | 1,216         | 890                     |
| Total investment activities  | (5,450)  | 3,312         | (2,138)                 |
| Other  |  | 1             | 1                       |
|  | (6,014)  | 7,353         | 1,339                   |
| <b>Liabilities:</b>  |  |               |                         |
| Assets sold under agreements to repurchase   | (1,162)  | 7,535         | 6,373                   |
| Mortgage loan participation and sale agreement   |  | 207           | 207                     |
| Asset backed secured financing   | (21)   | (13)          | (34)                    |
| Borrowings under forward purchase agreement  |  | (1,580)       | (1,580)                 |
| Exchangeable senior notes  | 13   |               | 13                      |
|  | (1,170)  | 6,149         | 4,979                   |
| Interest shortfall on repayments of mortgage loans serviced for Agency securitizations |  | 934           | 934                     |
| Interest on mortgage impound deposits  |  | 58            | 58                      |

|                     |            |        |            |
|---------------------|------------|--------|------------|
|                     | (1,170)    | 7,141  | 5,971      |
| Net interest income | \$ (4,844) | \$ 212 | \$ (4,632) |

During the quarter ended March 31, 2015, we earned net interest income of \$14.9 million compared to \$19.6 million for the same period in 2014. The decrease in net interest income between the periods was primarily due to a reduction in the yield of our investment in mortgage loans at fair value and an increase in the average balance of our assets sold under agreements to repurchase for the quarter ended March 31, 2015 as compared to the same periods in 2014.

We earned interest income on our portfolio of MBS totaling \$2.6 million for the quarter ended March 31, 2015 and \$1.8 million for the quarter ended March 31, 2014. The increase in interest income was due to growth in our average investment in MBS in 2015 as compared to 2014 as we have made selective investments in MBS and increased our average investment in MBS from \$196.2 million during the quarter ended March 31, 2014 to \$296.1 million during the quarter ended March 31, 2015.

During the quarter ended March 31, 2015, we recognized interest income on mortgage loans at fair value and mortgage loans at fair value held by VIE totaling \$27.0 million, including \$10.2 million of interest capitalized pursuant to loan modifications, which compares to \$30.9 million, including \$12.5 million of interest capitalized pursuant to loan modifications, in the quarter ended

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March 31, 2014. Loans modifications decreased due to uncertainty regarding the extension of the FHA's Negative Equity Trial Modification Program, and a lower response rate to modification initiatives in 2015 compared to 2014. The Negative Equity Trial Modification Program was ultimately renewed and our Manager is implementing a new proprietary modification program. In addition, the weighted average note interest rate of our portfolio of performing mortgage loans declined from 3.92% during the quarter ended March 31, 2014 to 3.46% during the quarter ended March 31, 2015.

At March 31, 2015, approximately 69% of the fair value of our distressed mortgage loan portfolio was nonperforming, as compared to 76% at March 31, 2014. 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 performing 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 either through our modification programs or through the acquisition and liquidation of the property securing the mortgage loans. The value and returns we realize from these assets are determined by our ability to assist borrowers in curing defaults, or when curing of borrower defaults is not a viable solution, by our ability to effectively manage the liquidation process. As a participant in HAMP, we are required to comply with the process specified by the HAMP program before liquidating a loan, and this may extend the resolution process. At March 31, 2015, we held \$1.6 billion in fair value of nonperforming loans and \$317.5 million in carrying value of REO.

During the quarter ended March 31, 2015, we incurred interest expense totaling \$25.7 million, as compared to \$19.8 million during the quarter ended March 31, 2014. Our interest cost on interest bearing liabilities was 3.29% for the quarter ended March 31, 2015 as compared to 3.25% during the quarter ended March 31, 2014. The increase in interest expense for the quarter ended March 31, 2015 as compared to the same period in 2014 reflects our increased use of assets sold under agreements to repurchase in support of growth of our balance sheet.

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

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

|   | <b>Quarter ended<br/>March 31,</b> |              |
|---|------------------------------------|--------------|
|   | <b>2015</b>                        | <b>2014</b>  |
|   | <b>(in thousands)</b>              |              |
| <b>Cash (loss) gain :</b>   |                                    |              |
| Sales proceeds, net   | \$ (7,544)                         | \$ (2,894)   |
| Hedging activities  | (12,527)                           | (3,547)      |
|   | (20,071)                           | (6,441)      |
| <b>Non cash gain:</b>   |                                    |              |
| Receipt of MSR in loan sale transactions  | 27,460                             | 20,875       |
| Provision for losses relating to representations and warranties provided in loan sales    | (925)                              | (744)        |
| Change in fair value of IRLCs, mortgage loans and hedging derivatives held at period end: |                                    |              |
| IRLCs   | 2,554                              | 2,022        |
| Mortgage loans  | 3,726                              | 1,411        |
| Hedging derivatives   | (2,584)                            | (7,152)      |
|   | 3,696                              | (3,719)      |
|   | \$ 10,160                          | \$ 9,971     |
| <b>Purchases of mortgage loans acquired for sale to nonaffiliates:</b>                    |                                    |              |
| At fair value   | \$ 2,987,735                       | \$ 1,977,014 |
| Unpaid principal balance  | \$ 2,890,132                       | \$ 1,919,578 |
| Fair value of mortgage loans acquired for sale held at period end:                        |                                    |              |
| Conventional mortgage loans   | 767,574                            | 295,771      |
| Government-insured or guaranteed mortgage loans   | 599,390                            | 48,909       |
|   | \$ 1,366,964                       | \$ 344,680   |

Our net gain on mortgage loans acquired for sale includes both cash and non-cash elements. We receive proceeds on sale that include both cash and our estimate of the fair value of MSR. We also recognize a liability for potential losses relating to representations and warranties created in the loan sales transactions.

The slight increase in net gain on mortgage loans acquired for sale is due to an increase in volume partially offset by continuing margin pressures resulting from price competition.

*Provision for Losses on Representations and Warranties*

We 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 to the purchasers of the loans we sell. Our agreements with the Agencies include representations and warranties related to the loans we sell to the Agencies. The representations and warranties require adherence to Agency origination and underwriting guidelines, including but not limited to the validity of the lien securing the loan, property eligibility, borrower credit, income and asset requirements, and compliance with applicable federal, state and local law.

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

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 the repurchase activity and unpaid principal balance of mortgage loans subject to representations and warranties:

|  | <b>Quarter ended<br/>March 31,</b>                      |            |               |
|--|---|------------|---------------|
|  | <b>2015</b>   |            | <b>2014</b>   |
|  | <b>(in thousands)</b>                                   |            |               |
|  | <b>(unpaid principal balance of mortgage<br/>loans)</b> |            |               |
| <b>Indemnification activity</b>  |   |            |               |
| Mortgage loans indemnified by PMT at beginning of period   | \$  | 3,644      | \$            |
| New indemnifications   |   | 364        |               |
| Indemnified mortgage loans repurchased   |   |            |               |
| Less: Indemnified mortgage loans repaid or refinanced  |   |            |               |
| Mortgage loans indemnified by PMT at end of period   | \$  | 4,008      | \$            |
| Indemnified mortgage loans collateralized with deposits placed by correspondent lenders at end of period | \$  | 1,362      | \$            |
| <b>Repurchase activity</b>   |   |            |               |
| Total mortgage loans repurchased by PMT  | \$  | 7,831      | \$ 4,939      |
| Less: mortgage loans repurchased by correspondent lenders  |   | 5,099      | 1,333         |
| Less: Mortgage loans repaid by borrowers   |   |            |               |
| Mortgage loans repurchased by PMT with losses chargeable to liability for representations and warranties | \$  | 2,732      | \$ 3,606      |
| <b>Losses charged to liability for representations and warranties</b>                                    | <b>\$</b>   | <b>53</b>  | <b>\$</b>     |
| At end of period:  |   |            |               |
| Unpaid principal balance of mortgage loans subject to representations and warranties                     | \$  | 35,573,237 | \$ 27,188,848 |
| Liability for representations and warranties   | \$  | 15,379     | \$ 10,854     |

During the quarters ended March 31, 2015 and 2014, we repurchased mortgage loans with UPB totaling \$7.8 million and \$4.9 million, respectively, and charged losses for representations and warranties against the liability totaling \$53,000 and \$0, respectively. As a result of our ability to recover from the selling correspondent lenders most of the

losses inherent in the repurchased mortgage loans, the amount of losses that we recorded was moderated. 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 and corresponding losses to increase.

The level of the liability for representations and warranties 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.

As economic fundamentals change, as investor and Agency evaluations of their loss mitigation strategies (including claims under representations and warranties) change and as economic conditions affect our correspondent lenders ability or willingness to fulfill their recourse obligations to us, the level of repurchase activity and ensuing losses will change, and we may be required to record adjustments to our recorded liability for losses on representations and warranties which may be material to our financial condition and results of operations. We recorded no such adjustments for the quarters ended March 31, 2015 and 2014. Such adjustments would be included as a component of our *net gain on mortgage loans acquired for sale*.

**Table of Contents***Loan Origination Fees*

Loan origination fees represent fees we charge correspondent lenders relating to our purchase of loans from those lenders. The increase in fees during the quarter ended March 31, 2015 compared to the same period in 2014 is due to an increase in production of mortgage loans we sell to unaffiliated entities.

*Net Gain on Investments*

Net gain on investments is summarized below:

|   | <b>Quarter ended<br/>March 31,</b> |                  |
|---|------------------------------------|------------------|
|   | <b>2015</b>                        | <b>2014</b>      |
|   | <b>(in thousands)</b>              |                  |
| Net gain (loss) on investments:                           |                                    |                  |
| Mortgage-backed securities                                | \$ 1,516                           | \$ 709           |
| Excess servicing spread purchased from PFSI at fair value | (6,248)                            | (2,901)          |
| Mortgage loans  | 17,186                             | 39,918           |
| Mortgage loans held in a VIE                              | 1,800                              | 11,307           |
| Asset-backed secured financing                            | (770)                              | (2,780)          |
| Hedging derivatives                                       | (10,037)                           | (3,668)          |
|   | <b>\$ 3,447</b>                    | <b>\$ 42,585</b> |

During the quarter ended March 31, 2015, we recorded net gain on investments totaling \$3.4 million compared to net gain on investments totaling \$42.6 million during the quarter ended March 31, 2014. The decrease is largely due to decreased valuation gains in our portfolio of mortgage loans, primarily the result of moderation in both actual and projected real estate values relating to the properties securing our distressed loans as well as a slower than expected transition of loans toward resolution as compared to the quarter ended March 31, 2014. This decline was partially offset by an observed increase in demand for the reperforming loans in our portfolio. The average portfolio balance of distressed mortgage loan investments (mortgage loans at fair value excluding mortgage loans at fair value held in VIE) increased by \$104.5 million, or 5%, during the quarter ended March 31, 2015 as compared to the same period in 2014.

*Mortgage-Backed Securities*

During the quarter ended March 31, 2015, we recognized net valuation gain on MBS of \$1.5 million compared to a valuation gain of \$709,000 for the quarter ended March 31, 2014. The gain recognized during the quarter ended March 31, 2015, reflects the decrease in mortgage market interest rates from December 31, 2014.

*ESS Purchased from PFSI*

We recognized fair value losses relating to our investment in ESS totaling \$6.2 million for the quarter ended March 31, 2015 compared to fair value losses of \$2.9 million for the quarter ended March 31, 2014. Mortgage interest rates decreased throughout the first quarter of 2015 causing our realized prepayments and our estimate of future prepayments to increase as compared to 2014, resulting in a reduction in fair value. The effect of this decrease in fair

value was compounded by growth in our investment in ESS. Our average investment in ESS increased from \$136.2 million for the quarter ended March 31, 2014 to \$199.4 million for the quarter ended March 31, 2015.

**Table of Contents***Mortgage Loans at Fair Value*

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

|                           | <b>Quarter ended<br/>March 31,</b> |              |
|---------------------------|------------------------------------|--------------|
|                           | <b>2015</b>                        | <b>2014</b>  |
|                           | <b>(in thousands)</b>              |              |
| <b>Valuation changes:</b> |                                    |              |
| Performing loans          | \$ 15,232                          | \$ (3,286)   |
| Nonperforming loans       | 195                                | 36,459       |
|                           | 15,427                             | 33,173       |
| Gain on payoffs           | 2,043                              | 5,620        |
| (Loss) gain on sales      | (284)                              | 1,125        |
|                           | \$ 17,186                          | \$ 39,918    |
| <br>                      |                                    |              |
| Average portfolio balance | \$ 2,583,603                       | \$ 2,503,432 |

The decrease in our net gain on mortgage loans at fair value is primarily the result of moderation in both actual and projected real estate values relating to the properties securing our distressed loans as well as slower than expected transitions of loans toward resolution as compared to the quarter ended March 31, 2014. This decline was partially offset by an observed increase in demand for the reperforming loans in our portfolio.

The valuation changes on performing loans reflect the effects of capitalization of delinquent interest on loans we modify. When we capitalize interest in a loan modification, we increase the carrying value of the loan. However, the modification generally may not result in an immediate increase in the loan's fair value. Valuation gains on mortgage loans with capitalized interest generally accrue as the borrower demonstrates performance in the periods following the capitalization. During the quarter ended March 31, 2015, we capitalized interest totaling \$10.2 million compared to \$12.5 million for the quarter ended March 31, 2014.

During the quarters ended March 31, 2015 and 2014, we recognized gains on mortgage loan payoffs as summarized below:

|                          | <b>Quarter ended<br/>March 31,</b> |             |
|--------------------------|------------------------------------|-------------|
|                          | <b>2015</b>                        | <b>2014</b> |
|                          | <b>(dollars in<br/>thousands)</b>  |             |
| Number of loans          | 153                                | 328         |
| Unpaid principal balance | \$ 49,888                          | \$ 79,715   |

|                           |          |          |
|---------------------------|----------|----------|
| Gain recognized at payoff | \$ 2,042 | \$ 5,620 |
|---------------------------|----------|----------|

Gains on sales of distressed mortgage loans are summarized below:

|                                | Quarter ended |            |
|--------------------------------|---------------|------------|
|                                | March 31,     |            |
|                                | 2015          | 2014       |
| Number of loans                | 31            | 966        |
| Unpaid principal balance       | \$ 2,150      | \$ 232,127 |
| (Loss) gain recognized at sale | \$ (284)      | \$ 1,125   |

We recognized valuation gains to reflect the commitment price of the mortgage loans subject to the mortgage loan sale at the time we entered into the commitment to sell such loans. Therefore, the gain recognized on sale of mortgage loans reflects the difference between proceeds from sale of the mortgage loans and the commitment price of sale.

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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.

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 such loan. Our current expectation is that we will receive cash on modified mortgage loans through monthly borrower payments, incentive payments earned pursuant to HAMP, payoffs or acquisition of the property securing the loans and liquidation of the property in the event the borrower subsequently defaults.

Large-scale refinancing of modified mortgage loans is not expected to occur for an extended period. Borrowers who have recently modified their mortgage loans typically have credit profiles that do not qualify them for refinancing or have mortgage 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, before becoming eligible 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 value of the property securing the loan to refinance immediately following a modification. 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.

The following table presents a summary of loan modifications completed:

| Modification type (1)  | Quarter ended March 31, |   |                       |                            |
|--|-------------------------|---|-----------------------|----------------------------|
|  | 2015                    | 2014  |                       |                            |
|  | Number<br>of<br>loans   | Balance<br>of<br>loans<br>(2)<br>(dollars in thousands) | Number<br>of<br>loans | Balance<br>of<br>loans (2) |
| Rate reduction   | 149                     | \$ 33,677   | 354                   | \$ 79,890                  |
| Term extension   | 169                     | 40,684  | 388                   | 93,668                     |
| Capitalization of interest and fees  | 196                     | 46,253  | 501                   | 118,268                    |
| Principal forbearance  | 44                      | 13,145  | 151                   | 46,927                     |
| Principal reduction  | 98                      | 23,691  | 254                   | 63,817                     |
| Total  | 196                     | 46,253  | 501                   | 118,268                    |
| Defaults of mortgage loans modified in the prior year period                 |                         | \$ 5,526  |                       | \$ 1,679                   |
| As a percentage of balance of loans before modification                      |                         | 7%  |                       | 5%                         |
| Defaults during the period of mortgage loans modified since acquisitions (3) |                         | \$ 32,516   |                       | \$ 20,033                  |
| As a percentage of balance of loans before modification                      |                         | 6%  |                       | 7%                         |
|  |                         | \$ 1,362  |                       | \$ 459                     |

Repayments and sales of mortgage loans modified in  
the prior year period

|   |    |    |
|---|----|----|
| As a percentage of balance of loans before modification | 1% | 1% |
|---|----|----|

- (1) Modification type categories are not mutually exclusive and a modification of a single loan may be counted in multiple categories, if applicable. The total number of modifications noted in the table is therefore lower than the sum of all of the categories.
- (2) Before modification.
- (3) Represents defaults of mortgage loans during the period that have been modified by us at any point since acquisition.



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

| Category                       | Quarter ended March 31, |                       |                        |                       |
|--------------------------------|-------------------------|-----------------------|------------------------|-----------------------|
|                                | 2015                    |                       | 2014                   |                       |
|                                | Before<br>modification  | After<br>modification | Before<br>modification | After<br>modification |
|                                | (dollars in thousands)  |                       |                        |                       |
| Loan balance                   | \$ 236                  | \$ 245                | \$ 236                 | \$ 233                |
| Remaining term (months)        | 316                     | 426                   | 318                    | 418                   |
| Interest rate                  | 5.50%                   | 3.53%                 | 5.62%                  | 3.75%                 |
| Forbeared principal            | \$                      | \$ 8                  | \$                     | \$ 12                 |
| <i>Net Loan Servicing Fees</i> |                         |                       |                        |                       |

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<br>March 31, |               |
|--|----------------------------|---------------|
|  | 2015                       | 2014          |
|  | (in thousands)             |               |
| Servicing fees (1)                               | \$ 22,629                  | \$ 17,532     |
| MSR recapture fee receivable from PFSI           |                            | 8             |
| Effect of MSRs:                                  |                            |               |
| Carried at lower of amortized cost or fair value |                            |               |
| Amortization                                     | (9,592)                    | (7,365)       |
| Provision for impairment                         | (6,379)                    | (627)         |
| Gain on sale                                     | 83                         |               |
| Carried at fair value - change in fair value     | (9,816)                    | (2,028)       |
| Gains (losses) on hedging derivatives            | 11,076                     | (99)          |
|  | (14,628)                   | (10,119)      |
| Net loan servicing fees                          | \$ 8,001                   | \$ 7,421      |
| Average servicing portfolio                      | \$ 34,599,043              | \$ 26,492,742 |

(1) Includes contractually specified servicing and ancillary fees.

Net loan servicing fees increased \$580,000 during the quarter ended March 31, 2015 compared to the same period in 2014. The increase was primarily due to a \$5.1 million, or 29%, increase in servicing fees, offset by a \$4.5 million increase in the effect of MSR on net loan servicing fees. The increase in servicing fees is attributable to a 31% increase in our average servicing portfolio. The increase in provision for impairment and change in fair value net of hedging gains during 2015 as compared to 2014 is due to higher prepayment activity as a result of lower mortgage interest rates and the growth of the MSR portfolio during the quarter ended March 31, 2015 as compared to the quarter ended March 31, 2014, and drove a loss in the value of MSRs. Decreasing interest rates generally encourage increased refinancing activity which negatively affects the life and therefore fair value of MSRs, while increasing interest rates generally discourage refinancing activity which positively influences the fair value of MSRs.

We have entered into an MSR recapture agreement that requires PLS to transfer to us the MSRs with respect to new mortgage loans originated in refinancing transactions where PLS refinances a mortgage loan for which we previously held the MSRs. PLS is generally required to transfer MSRs 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 MSRs to be transferred for the applicable month is less than \$200,000, PLS may, at its option, settle in cash with us in an amount equal to such fair market value in lieu of transferring such MSRs. We did not recognize MSR recapture during the quarter ended March 31, 2015 and recognized approximately \$8,000 of such income during the same period in 2014.

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Amortization, impairment and changes in fair value of MSR's have a significant effect on net loan servicing fees, driven primarily by our monthly estimation of the fair value of MSR's. As our investment in MSR's grows, we expect that the effect of amortization, impairment and changes in fair value will have an increasing influence on our net income.

We account for MSR's at either the asset's fair value with changes in fair value recorded in current period earnings or using the amortization method with the MSR's carried at the lower of estimated amortized cost or fair value based on the class of MSR. We have identified two classes of MSR's: originated MSR's backed by mortgage loans with initial interest rates of less than or equal to 4.5%; and MSR's backed by mortgage loans with initial interest rates of more than 4.5%. The Company's subsequent accounting for MSR's is based on the class of MSR's. Originated MSR's backed by mortgage loans with initial interest rates of less than or equal to 4.5% are accounted for using the amortization method. Originated MSR's backed by loans with initial interest rates of more than 4.5% are accounted for at fair value with changes in fair value recorded in current period income. Our MSR's are summarized by the basis on which we account for the assets below:

|   | <b>March 31,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|---|---------------------------|------------------------------|
|   | <b>(in thousands)</b>     |                              |
| MSR's carried at fair value                                 | \$ 49,448                 | \$ 57,358                    |
| MSR carried at lower of amortized cost or fair value:       |                           |                              |
| Amortized cost  | \$ 323,806                | \$ 308,137                   |
| Valuation allowance   | (14,094)                  | (7,715)                      |
| Carrying value  | \$ 309,712                | \$ 300,422                   |
| Fair value  | \$ 327,703                | \$ 322,230                   |
| <b>Total MSR:</b>   |                           |                              |
| Carrying value  | \$ 359,160                | \$ 357,780                   |
| Fair value  | \$ 377,151                | \$ 379,588                   |
| Unpaid principal balance of mortgage loans underlying MSR's | \$ 35,156,437             | \$ 34,285,473                |
| <b>Average servicing fee rate (in basis points)</b>         |                           |                              |
| MSR's carried at lower of amortized cost or fair value      | 26                        | 26                           |
| MSR's carried at fair value                                 | 25                        | 25                           |
| <b>Average note interest rate</b>                           |                           |                              |
| MSR's carried at lower of amortized cost or fair value      | 3.81%                     | 3.80%                        |
| MSR's carried at fair value                                 | 4.78%                     | 4.78%                        |



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

Results of REO includes the gains or losses we record upon sale of the properties as well as valuation adjustments we record during the period we hold those properties. During the quarter ended March 31, 2015, we recorded a net loss of \$5.8 million in *Results of real estate acquired in settlement of loans* as compared to a net loss of \$6.6 million for the quarter ended March 31, 2014.

Results of REO are summarized below:

|  | <b>Quarter ended<br/>March 31</b> |             |
|--|-----------------------------------|-------------|
|  | <b>2015</b>                       | <b>2014</b> |
|  | <b>(dollars in thousands)</b>     |             |
| <b>During the period:</b>                                      |                                   |             |
| Proceeds from sales of REO                                     | \$ 65,976                         | \$ 33,394   |
| <b>Results of real estate acquired in settlement of loans:</b> |                                   |             |
| Valuation adjustments, net                                     | (11,400)                          | (8,892)     |
| Gain on sale, net  | 5,568                             | 2,266       |
|  | \$ (5,832)                        | \$ (6,626)  |
| <br>   |                                   |             |
| Number of properties sold                                      | 486                               | 324         |
| Average carrying value of REO                                  | \$ 312,415                        | \$ 165,586  |
| <b>Period end:</b>   |                                   |             |
| Carrying value   | \$ 317,536                        | \$ 186,877  |
| Number of properties in inventory                              | 1,728                             | 1,393       |

The decrease in losses from REOs during the quarter ended March 31, 2015 compared to the same period in 2014 was due to recognition of larger gain on sale realized on the sale of the properties offset by larger valuation adjustments from the growing inventory of properties. We recognize valuation losses on properties where decreases in fair value are indicated but are generally unable to record fair value increases until the date of sale of properties.

**Expenses**

Our expenses are summarized below:

|                                  | <b>Quarter ended<br/>March 31,</b> |             |
|----------------------------------|------------------------------------|-------------|
|                                  | <b>2015</b>                        | <b>2014</b> |
|                                  | <b>(in thousands)</b>              |             |
| <b>Expenses payable to PFSI:</b> |                                    |             |
| Loan fulfillment fees            | \$ 12,866                          | \$ 8,902    |
| Loan servicing fees              | 10,670                             | 14,591      |
| Management fees                  | 7,003                              | 8,074       |

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|                       |           |           |
|-----------------------|-----------|-----------|
| Compensation          | 2,808     | 2,942     |
| Professional services | 1,828     | 1,731     |
| Other                 | 6,302     | 4,066     |
|                       | \$ 41,477 | \$ 40,306 |

Expenses increased \$1.2 million, or 3%, during the quarter ended March 31, 2015, compared to the same period in 2014. This increase was primarily a result of fulfillment fees, reflecting increased correspondent production activities, partially offset by decreased servicing fees reflecting a decrease in activity-based fees.

**Table of Contents***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:

|  | <b>Quarter ended<br/>March 31,</b> |              |
|--|------------------------------------|--------------|
|  | <b>2015</b>                        | <b>2014</b>  |
|  | <b>(in thousands)</b>              |              |
| Fulfillment fee expense                        | \$ 12,866                          | \$ 8,902     |
| UPB of loans fulfilled by PLS                  | \$ 2,890,132                       | \$ 1,919,578 |
| Average fulfillment fee rate (in basis points) | 45                                 | 46           |

The increase in loan fulfillment fees of \$4.0 million during the quarter ended March 31, 2015 compared to the same period in 2014 is primarily due to the increase in the volume of Agency-eligible mortgage loans we purchased in our correspondent production activities.

*Loan Servicing Fees*

Loan servicing fees decreased by \$3.9 million, or 27%, during the quarter ended March 31, 2015, compared to the same period in 2014. Loan servicing fees decreased even though our investment in mortgage loans and MSRs increased primarily as result of reduced activity-based liquidation fees on distressed mortgage loans. We incur loan servicing fees primarily in support of our investment in mortgage loans at fair value and our loan servicing portfolio. During the quarter ended March 31, 2015, our average investment in mortgage loans increased by 3% to \$2.6 billion from \$2.5 billion during the quarter ended March 31, 2014. During the quarter ended March 31, 2015, our average servicing portfolio increased 31% to \$34.6 billion from \$26.5 billion during the quarter ended March 31, 2014.

Included in loan servicing fees are activity-based fees, which decreased by \$3.5 million during the quarter ended March 31, 2015, as compared to the quarter ended March 31, 2014 generally relating to the decrease in loan resolution activities. Included in the base servicing fee we pay PFSI is a supplemental servicing fee. 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. 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 quarters ended March 31, 2015 and March 31, 2014, we paid PFSI \$700,000 and \$695,000, respectively, in supplemental servicing fees relating to our MSR servicing portfolio.

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

|   | <b>Quarter ended<br/>March 31,</b> |             |
|---|------------------------------------|-------------|
|   | <b>2015</b>                        | <b>2014</b> |
|   | <b>(in thousands)</b>              |             |
| Mortgage loans acquired for sale at fair value: |                                    |             |
| Base  | \$ 26                              | \$ 17       |

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|  |               |               |
|--|---------------|---------------|
| Activity-based                                 | 31            | 26            |
|  | 57            | 43            |
| Distressed mortgage loans:                     |               |               |
| Base   | 4,032         | 4,966         |
| Activity-based                                 | 2,894         | 6,386         |
|  | 6,926         | 11,352        |
| MSRs:  |               |               |
| Base   | 3,656         | 3,148         |
| Activity-based                                 | 31            | 48            |
|  | 3,687         | 3,196         |
|  | \$ 10,670     | \$ 14,591     |
| Average investment in:                         |               |               |
| Mortgage loans acquired for sale at fair value | \$ 751,172    | \$ 334,442    |
| Distressed mortgage loans                      | \$ 2,080,704  | \$ 1,976,166  |
| Average mortgage loans servicing portfolio     | \$ 34,599,043 | \$ 26,492,742 |



**Table of Contents***Management Fees*

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

|  | <b>Quarter ended<br/>March 31,<br/>2015      2014<br/>(in thousands)</b> |                 |
|--|--|-----------------|
| Base   | \$ 5,730   | \$ 5,521        |
| Performance incentive                                  | 1,273  | 2,553           |
| <b>Total management fee incurred during the period</b> | <b>\$ 7,003</b>  | <b>\$ 8,074</b> |

Management fees decreased by \$1.1 million during the quarter ended March 31, 2015 compared to the same period in 2014, due to the decrease in our income which reduced our performance incentive fee. The reduction in our performance incentive fee was partially offset with a higher base management fee due to the growth in shareholders equity.

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.

*Compensation*

Compensation expense decreased by \$134,000 during the quarter ended March 31, 2015 as compared to the quarter ended March 31, 2014, primarily due to decreased allocations of compensation expenses from our Manager during the quarter ended March 31, 2015 as compared to the quarter ended March 31, 2014.

*Other Expenses*

Other expenses are summarized below:

|                                      | <b>Quarter ended<br/>March 31,<br/>2015      2014<br/>(in thousands)</b> |                 |
|--------------------------------------|--|-----------------|
| Common overhead allocation from PFSI | \$ 2,392   | \$ 2,578        |
| Servicing and collection costs       | 1,445  | 632             |
| Loan origination                     | 953  | 37              |
| Insurance                            | 373  | 239             |
| Technology                           | 292  | 247             |
| Other expenses                       | 847  | 333             |
|                                      | <b>\$ 6,302</b>  | <b>\$ 4,066</b> |

Other expenses increased during the quarter ended March 31, 2015 as compared to the quarter ended March 31, 2014 by \$2.2 million primarily due to higher servicing and collection costs associated with the administration and sale of seasoned distressed loans and higher loan origination expenses relating to higher mortgage loan production.

*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 Company had a tax benefit of \$11.3 million and \$1.6 million for the quarters ended March 31, 2015 and 2014, respectively. The Company's effective tax rate is 296.6% and (4.4)% for the quarters ended March 31, 2015 and 2014, respectively. The increase in the Company's tax benefit is due primarily to an increased loss incurred at the Company's taxable REIT subsidiary for the quarter ended March 31, 2015 as compared to the same period in 2014. The primary difference between the Company's effective tax rate and the statutory tax rate is due to non-taxable REIT income resulting from the dividends paid deduction.

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

**Balance Sheet Analysis**

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

|   | March 31,<br>2015   | December 31,<br>2014 |
|---|---------------------|----------------------|
|   | (in thousands)      |                      |
| <b>Assets</b>   |                     |                      |
| Cash  | \$ 65,668           | \$ 76,386            |
| <b>Investments:</b>   |                     |                      |
| Short-term investments  | 44,949              | 139,900              |
| Mortgage-backed securities  | 316,292             | 307,363              |
| Mortgage loans acquired for sale at fair value  | 1,366,964           | 637,722              |
| Mortgage loans at fair value  | 2,859,326           | 2,726,952            |
| Excess servicing spread   | 222,309             | 191,166              |
| Derivative assets   | 12,668              | 11,107               |
| Real estate acquired in settlement of loans   | 317,536             | 303,228              |
| Mortgage servicing rights   | 359,160             | 357,780              |
|   | 5,499,204           | 4,675,218            |
| Other assets  | 172,538             | 152,692              |
| <b>Total assets</b>   | <b>\$ 5,737,410</b> | <b>\$ 4,904,296</b>  |
| <b>Liabilities</b>  |                     |                      |
| <b>Borrowings:</b>  |                     |                      |
| Assets sold under agreements to repurchase and mortgage loan participation and sale agreement | \$ 3,635,122        | \$ 2,750,366         |
| Borrowings under forward purchase agreements  |                     |                      |
| Asset-backed secured financing of the variable interest entity                                | 162,222             | 165,920              |
| Exchangeable senior notes   | 250,000             | 250,000              |
|   | 4,047,344           | 3,166,286            |
| Other liabilities   | 147,907             | 159,838              |
| <b>Total liabilities</b>  | <b>4,195,251</b>    | <b>3,326,124</b>     |
| Shareholders equity   | 1,542,159           | 1,578,172            |
| <b>Total liabilities and shareholders equity</b>  | <b>\$ 5,737,410</b> | <b>\$ 4,904,296</b>  |

Total assets increased by approximately \$833.1 million, or 17%, during the period from December 31, 2014 through March 31, 2015, primarily due to a \$729.2 million increase in mortgage loans acquired for sale at fair value, a \$132.4

million increase in mortgage loans at fair value, a \$31.1 million increase in ESS and a \$14.3 million increase in REO, partly offset by a \$95.0 million decrease in short-term investments. Our asset acquisitions are summarized below.

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

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

|  | <b>Quarter ended<br/>March 31,</b> |                     |
|--|------------------------------------|---------------------|
|  | <b>2015</b>                        | <b>2014</b>         |
|  | <b>(in thousands)</b>              |                     |
| Correspondent loan purchases:                                |                                    |                     |
| Government-insured or guaranteed                             | \$ 5,378,834                       | \$ 3,066,210        |
| Agency-eligible  | 2,927,419                          | 1,964,354           |
| Jumbo  | 60,317                             | 12,659              |
|  | <b>\$ 8,366,570</b>                | <b>\$ 5,043,223</b> |
| Fair value of correspondent loans in inventory at period end | \$ 1,366,964                       | \$ 344,680          |
| Gain on mortgage loans acquired for sale                     | \$ 10,160                          | \$ 9,971            |

During the quarter ended March 31, 2015, we purchased for sale \$8.4 billion in fair value of correspondent production loans compared to \$5.0 billion in fair value of correspondent production loans during the quarter ended March 31, 2014. The increase in correspondent purchases is a result of the effects of lower interest rates that have prevailed during the quarter ended March 31, 2015 as compared to those that prevailed during the quarter ended March 31, 2014.

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 increasing mortgage loan purchase volume, increasing our borrowing capacity or in obtaining the additional 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:

|   | <b>Quarter ended<br/>March 31,</b> |             |
|---|------------------------------------|-------------|
|   | <b>2015</b>                        | <b>2014</b> |
|   | <b>(in thousands)</b>              |             |
| MBS   | \$ 25,129                          | \$          |
| Distressed mortgage loans Nonperforming (1) | 241,981                            | 256,280     |
| REO   |                                    | 3,087       |

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|  |            |            |
|--|------------|------------|
| MSRs received in mortgage loan sales                 | 27,460     | 20,875     |
| ESS purchased from PennyMac Financial Services, Inc. | 46,412     | 20,526     |
|  | \$ 340,982 | \$ 300,768 |

(1) Performance status as of the date of acquisition

Our acquisitions during the quarter ended March 31, 2015 and during the quarter ended March 31, 2014 were financed through the use of a combination of proceeds from liquidations of existing investments, 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.

**Table of Contents****Investment Portfolio Composition***Mortgage-Backed Securities*

Following is a summary of our MBS holdings:

|                               | March 31, 2015 |            |                 |                |              | December 31, 2014 |            |                 |                |              |
|-------------------------------|----------------|------------|-----------------|----------------|--------------|-------------------|------------|-----------------|----------------|--------------|
|                               | Fair value     | Principal  | Life (in years) | Average Coupon | Market yield | Fair value        | Principal  | Life (in years) | Average Coupon | Market yield |
| <b>(dollars in thousands)</b> |                |            |                 |                |              |                   |            |                 |                |              |
| <b>Agency:</b>                |                |            |                 |                |              |                   |            |                 |                |              |
| Freddie Mac                   | \$ 136,828     | \$ 130,364 | 5.84            | 3.50%          | 2.45%        | \$ 139,577        | \$ 133,964 | 6.46            | 3.50%          | 2.70%        |
| Fannie Mae                    | 54,886         | 52,184     | 6.57            | 3.50%          | 2.53%        | 55,941            | 53,559     | 7.13            | 3.50%          | 2.73%        |
|                               | 191,714        | 182,548    | 6.05            | 3.50%          | 2.47%        | 195,518           | 187,523    | 6.65            | 3.50%          | 2.71%        |
| <b>Non-Agency</b>             |                |            |                 |                |              |                   |            |                 |                |              |
| Prime Jumbo                   | 124,578        | 123,371    | 4.42            | 3.47%          | 3.14%        | 111,845           | 111,270    | 4.77            | 3.49%          | 3.31%        |
|                               | \$ 316,292     | \$ 305,919 | 5.39            | 3.49%          | 2.74%        | \$ 307,363        | \$ 298,793 | 5.97            | 3.50%          | 3.00%        |

*Mortgage Loans*

The relationship of the fair value 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) to the fair value of the real estate collateral underlying the loans is summarized below:

|                       | March 31, 2015 |              | December 31, 2014 |              |
|-----------------------|----------------|--------------|-------------------|--------------|
|                       | Loan           | Collateral   | Loan              | Collateral   |
| <b>(in thousands)</b> |                |              |                   |              |
| <b>Fair values:</b>   |                |              |                   |              |
| Performing loans      | \$ 723,448     | \$ 1,015,214 | \$ 664,266        | \$ 935,383   |
| Nonperforming loans   | 1,619,934      | 2,275,138    | 1,535,317         | 2,246,585    |
|                       | \$ 2,343,382   | \$ 3,290,352 | \$ 2,199,583      | \$ 3,181,970 |

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, our asset disposition strategies with respect to individual loans, the costs and expenses we incur in the disposition process, changes in borrower performance and 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     | March 31, 2015         |         |                   |                     |         |                   | December 31, 2014      |         |                   |                     |         |                   |
|---------------|------------------------|---------|-------------------|---------------------|---------|-------------------|------------------------|---------|-------------------|---------------------|---------|-------------------|
|               | 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         | \$ 350,758             | 48%     | 4.47%             | \$ 648,138          | 40%     | 5.77%             | \$ 322,704             | 49%     | 4.81%             | \$ 653,313          | 43%     | 5.88%             |
| ARM/Hybrid    | 143,104                | 20%     | 3.21%             | 932,664             | 58%     | 4.80%             | 127,405                | 19%     | 3.28%             | 846,282             | 55%     | 5.01%             |
| Interest rate |                        |         |                   |                     |         |                   |                        |         |                   |                     |         |                   |
| Step-up       | 229,425                | 32%     | 2.15%             | 37,740              | 2%      | 2.40%             | 213,999                | 32%     | 2.29%             | 34,854              | 2%      | 2.30%             |
| Balloon       | 161                    | 0%      | 1.97%             | 1,392               | 0%      | 3.51%             | 158                    | 0%      | 1.97%             | 868                 | 0%      | 5.16%             |
|               | \$ 723,448             | 100%    | 3.46%             | \$ 1,619,934        | 100%    | 5.12%             | \$ 664,266             | 100%    | 3.68%             | \$ 1,535,317        | 100%    | 5.31%             |

| Loan position | March 31, 2015         |         |                   |                     |         |                   | December 31, 2014      |         |                   |                     |         |                   |
|---------------|------------------------|---------|-------------------|---------------------|---------|-------------------|------------------------|---------|-------------------|---------------------|---------|-------------------|
|               | 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) |         |                   |                     |         |                   |
| 1st lien      | \$ 722,798             | 100%    | 3.45%             | \$ 1,619,794        | 100%    | 5.12%             | \$ 663,686             | 100%    | 3.67%             | \$ 1,535,139        | 100%    | 5.30%             |
| 2nd lien      | 650                    | 0%      | 4.47%             | 140                 | 0%      | 8.71%             | 580                    | 0%      | 4.53%             | 178                 | 0%      | 8.72%             |
| Unsecured     |                        | 0%      | 0.00%             |                     | 0%      | 0.00%             |                        | 0%      | 0.00%             |                     | 0%      | 0.00%             |
|               | \$ 723,448             | 100%    | 3.46%             | \$ 1,619,934        | 100%    | 5.12%             | \$ 664,266             | 100%    | 3.68%             | \$ 1,535,317        | 100%    | 5.31%             |

| Occupancy           | March 31, 2015         |         |                   |                     |         |                   | December 31, 2014      |         |                   |                     |         |                   |
|---------------------|------------------------|---------|-------------------|---------------------|---------|-------------------|------------------------|---------|-------------------|---------------------|---------|-------------------|
|                     | 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      | \$ 569,892             | 79%     | 3.54%             | \$ 892,663          | 55%     | 5.11%             | \$ 524,833             | 79%     | 3.78%             | \$ 926,637          | 60%     | 5.21%             |
| Investment property | 151,617                | 21%     | 3.13%             | 725,504             | 45%     | 5.13%             | 137,347                | 21%     | 3.27%             | 607,086             | 40%     | 5.45%             |
| Other               | 1,939                  | 0%      | 4.42%             | 1,767               | 0%      | 5.34%             | 2,086                  | 0%      | 4.22%             | 1,594               | 0%      | 5.44%             |
|                     | \$ 723,448             | 100%    | 3.46%             | \$ 1,619,934        | 100%    | 5.12%             | \$ 664,266             | 100%    | 3.68%             | \$ 1,535,317        | 100%    | 5.31%             |

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| Loan age            | March 31, 2015   |         |   |                     |         |                   | December 31, 2014 |         |   |                     |         |                   |
|---------------------|------------------|---------|---|---------------------|---------|-------------------|-------------------|---------|---|---------------------|---------|-------------------|
|                     | Performing loans |         |   | Nonperforming loans |         |                   | Performing loans  |         |   | Nonperforming loans |         |                   |
|                     | Fair value       | % total | Average note rate<br>(dollars in thousands) | Fair value          | % total | Average note rate | Fair value        | % total | Average note rate<br>(dollars in thousands) | Fair value          | % total | Average note rate |
| Less than 12 months | \$ 99            | 0%      | 3.94%                                       | \$                  | 0%      | 4.63%             | \$ 167            | 0%      | 4.51%                                       | \$                  | 0%      | 4.63%             |
| 13 - 35 months      | 1,422            | 0%      | 4.31%                                       | 27                  | 0%      | 3.81%             | 401               | 0%      | 4.01%                                       | 38                  | 0%      | 3.86%             |
| 36 - 59 months      | 15,055           | 2%      | 3.41%                                       | 16,174              | 1%      | 3.35%             | 18,061            | 3%      | 3.67%                                       | 22,136              | 1%      | 3.31%             |
| 60 months or more   | 706,872          | 98%     | 3.45%                                       | 1,603,733           | 99%     | 5.14%             | 645,637           | 97%     | 3.67%                                       | 1,513,143           | 99%     | 5.34%             |
|                     | \$ 723,448       | 100%    | 3.46%                                       | \$ 1,619,934        | 100.0%  | 5.12%             | \$ 664,266        | 100%    | 3.68%                                       | \$ 1,535,317        | 100%    | 5.31%             |

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| Credit score     | March 31, 2015   |         |                   |                     |         |                   | December 31, 2014 |         |                   |                     |         |                   |
|------------------|------------------|---------|-------------------|---------------------|---------|-------------------|-------------------|---------|-------------------|---------------------|---------|-------------------|
|                  | 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 |
| Greater than 600 | \$ 177,509       | 25%     | 3.85%             | \$ 269,411          | 17%     | 5.28%             | \$ 166,135        | 25%     | 4.14%             | \$ 249,049          | 16%     | 5.12%             |
| 599-600          | 143,930          | 20%     | 3.63%             | 300,815             | 19%     | 5.07%             | 133,681           | 20%     | 3.90%             | 263,560             | 17%     | 5.12%             |
| 590-599          | 179,864          | 25%     | 3.45%             | 489,124             | 29%     | 5.09%             | 167,970           | 25%     | 3.61%             | 455,709             | 30%     | 5.12%             |
| 580-589          | 163,113          | 23%     | 3.00%             | 402,347             | 25%     | 5.12%             | 143,759           | 22%     | 3.14%             | 408,162             | 27%     | 5.12%             |
| 570 or greater   | 59,032           | 7%      | 3.03%             | 158,237             | 10%     | 5.01%             | 52,721            | 8%      | 3.17%             | 158,837             | 10%     | 5.12%             |
|                  | \$ 723,448       | 100%    | 3.46%             | \$ 1,619,934        | 100%    | 5.12%             | \$ 664,266        | 100%    | 3.68%             | \$ 1,535,317        | 100%    | 5.12%             |

| Current loan-to-value (1) | March 31, 2015   |         |                   |                     |         |                   | December 31, 2014 |         |                   |                     |         |                   |
|---------------------------|------------------|---------|-------------------|---------------------|---------|-------------------|-------------------|---------|-------------------|---------------------|---------|-------------------|
|                           | 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 |
| Greater than 80%          | \$ 168,820       | 23%     | 4.22%             | \$ 357,259          | 22%     | 5.13%             | \$ 143,964        | 22%     | 4.37%             | \$ 297,061          | 19%     | 5.12%             |
| 79.99%                    | 187,051          | 26%     | 3.58%             | 418,398             | 26%     | 5.13%             | 168,140           | 25%     | 3.73%             | 389,938             | 25%     | 5.12%             |
| 71-79.99%                 | 216,098          | 30%     | 3.13%             | 380,548             | 24%     | 5.03%             | 204,820           | 31%     | 3.53%             | 382,264             | 26%     | 5.12%             |
| 70 or greater             | 151,479          | 21%     | 3.17%             | 463,729             | 28%     | 5.16%             | 147,342           | 22%     | 3.37%             | 466,054             | 30%     | 5.12%             |
|                           | \$ 723,448       | 100%    | 3.46%             | \$ 1,619,934        | 100%    | 5.12%             | \$ 664,266        | 100%    | 3.68%             | \$ 1,535,317        | 100%    | 5.12%             |

(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.

| Geographic distribution | March 31, 2015   |         |                   |                     |         |                   | December 31, 2014 |         |                   |                     |         |                   |
|-------------------------|------------------|---------|-------------------|---------------------|---------|-------------------|-------------------|---------|-------------------|---------------------|---------|-------------------|
|                         | 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 |
| California              | \$ 213,048       | 29%     | 3.01%             | \$ 317,618          | 20%     | 4.32%             | \$ 188,307        | 28%     | 3.06%             | \$ 293,219          | 19%     | 5.12%             |
| New York                | 67,972           | 9%      | 3.29%             | 342,696             | 21%     | 5.56%             | 61,785            | 9%      | 3.48%             | 321,176             | 21%     | 5.12%             |
| Florida                 | 48,835           | 7%      | 3.05%             | 176,464             | 11%     | 5.57%             | 47,890            | 7%      | 3.54%             | 167,722             | 11%     | 5.12%             |
| New Jersey              | 36,552           | 5%      | 2.71%             | 204,685             | 13%     | 5.39%             | 31,698            | 5%      | 3.03%             | 195,648             | 13%     | 5.12%             |
| Other                   | 357,041          | 50%     | 3.73%             | 578,471             | 35%     | 5.24%             | 334,586           | 51%     | 4.14%             | 557,552             | 36%     | 5.12%             |
|                         | \$ 723,448       | 100%    | 3.46%             | \$ 1,619,934        | 100%    | 5.12%             | \$ 664,266        | 100%    | 3.68%             | \$ 1,535,317        | 100%    | 5.12%             |

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

| Payment status                | March 31, 2015   |         |                   |                     |         |                        | December 31, 2014 |         |                   |                     |         |                   |
|-------------------------------|------------------|---------|-------------------|---------------------|---------|------------------------|-------------------|---------|-------------------|---------------------|---------|-------------------|
|                               | 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                       | \$ 549,580       | 76%     | 3.33%             | \$                  | 0%      | 0.00%                  | \$ 477,773        | 72%     | 3.53%             | \$                  | 0%      | 0.00%             |
| 1-30 days delinquent          | 114,634          | 16%     | 3.91%             |                     | 0%      | 0.00%                  | 114,179           | 17%     | 4.16%             |                     | 0%      | 0.00%             |
| 31-60 days delinquent         | 59,234           | 8%      | 3.73%             |                     | 0%      | 0.00%                  | 72,314            | 11%     | 3.88%             |                     | 0%      | 0.00%             |
| 61-90 days or more delinquent |                  | 0%      | 3.46%             |                     | 0%      | 0.00%                  |                   | 0%      | 0.00%             |                     | 0%      | 0.00%             |
| 91+ days or more delinquent   |                  | 0%      | 0.00%             | 573,209             | 35%     | 4.61%                  |                   | 0%      | 0.00%             | 608,144             | 40%     | 4.76%             |
| Foreclosure                   |                  | 0%      | 0.00%             | 1,046,725           | 65%     | 5.40%                  |                   | 0%      | 0.00%             | 927,173             | 60%     | 5.66%             |
|                               | \$ 723,448       | 100%    | 3.46%             | \$ 1,619,934        | 100%    | 5.12%                  | \$ 664,266        | 100%    | 3.68%             | \$ 1,535,317        | 100%    | 5.31%             |

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.

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

| <b>Key inputs</b>                                 | <b>March 31, 2015</b> |       | <b>December 31, 2014</b> |       |
|---|-----------------------|-------|--------------------------|-------|
| <i>Mortgage loans at fair value</i>               |                       |       |                          |       |
| Discount rate                                     |                       |       |                          |       |
| Range   | 2.4%                  | 15.0% | 2.3%                     | 15.0% |
| Weighted average                                  | 7.4%                  |       | 7.7%                     |       |
| Twelve-month projected housing price index change |                       |       |                          |       |
| Range   | 1.9%                  | 5.3%  | 4.0%                     | 5.3%  |
| Weighted average                                  | 4.0%                  |       | 4.8%                     |       |
| Prepayment speed (1)                              |                       |       |                          |       |
| Range   | 0.0%                  | 5.6%  | 0.0%                     | 6.5%  |
| Weighted average                                  | 3.5%                  |       | 3.1%                     |       |
| Total prepayment speed (2)                        |                       |       |                          |       |
| Range   | 0.0%                  | 29.8% | 0.0%                     | 27.9% |
| Weighted average                                  | 21.6%                 |       | 21.6%                    |       |

(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 7.7% at December 31, 2014 to 7.4% at March 31, 2015 because lower market returns for similar assets were observed during the period.

The weighted average twelve-month projected housing price index ( HPI ) change decreased from 4.8% at December 31, 2014 to 4.0% at March 31, 2015 due to revised forecasts of home price appreciation in various geographic areas.

The total prepayment speed of our portfolio of mortgage loans at fair value remained unchanged at 21.6% compared to December 31, 2014.

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

Following is a summary of our REO by attribute:

| <b>Property type</b>     | <b>March 31, 2015</b>         |                | <b>December 31, 2014</b> |                |
|--------------------------|-------------------------------|----------------|--------------------------|----------------|
|                          | <b>Fair value</b>             | <b>% total</b> | <b>Fair value</b>        | <b>% total</b> |
|                          | <b>(dollars in thousands)</b> |                |                          |                |
| 1 - 4 dwelling units     | \$ 225,295                    | 71%            | \$ 212,728               | 70%            |
| Planned unit development | 58,921                        | 19%            | 51,124                   | 17%            |
| Condominium/Co-op        | 29,484                        | 9%             | 31,948                   | 11%            |
| 5+ dwelling units        | 3,836                         | 1%             | 7,428                    | 2%             |
|                          | \$ 317,536                    | 100%           | \$ 303,228               | 100%           |

| <b>Geographic distribution</b> | <b>March 31, 2015</b>         |                | <b>December 31, 2014</b> |                |
|--------------------------------|-------------------------------|----------------|--------------------------|----------------|
|                                | <b>Fair value</b>             | <b>% total</b> | <b>Fair value</b>        | <b>% total</b> |
|                                | <b>(dollars in thousands)</b> |                |                          |                |
| California                     | \$ 85,309                     | 27%            | \$ 85,213                | 28%            |
| Florida                        | 52,970                        | 17%            | 47,421                   | 16%            |
| Maryland                       | 35,670                        | 11%            | 34,427                   | 11%            |
| New Jersey                     | 20,701                        | 7%             | *                        | *              |
| Illinois                       | 16,974                        | 5%             | 14,963                   | 5%             |
| New York                       | 16,546                        | 5%             | *                        | *              |
| Other                          | 89,366                        | 28%            | 121,204                  | 40%            |
|                                | \$ 317,536                    | 100%           | \$ 303,228               | 100%           |

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

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Following is a summary of the status of our portfolio of acquisitions by quarter acquired (excluding acquisitions for the quarter ended March 31, 2015 due to close proximity of current status to quarter-end):

|                          | Acquisitions for the quarter ended |                   |                       |                   |                |                   |                |                   |
|--------------------------|------------------------------------|-------------------|-----------------------|-------------------|----------------|-------------------|----------------|-------------------|
|                          | December 31,<br>2014               |                   | September 30,<br>2014 |                   | June 30, 2014  |                   | March 31, 2014 |                   |
|                          | At<br>purchase                     | March 31,<br>2015 | At<br>purchase        | March 31,<br>2015 | At<br>purchase | March 31,<br>2015 | At<br>purchase | March 31,<br>2015 |
|                          | (dollars in millions)              |                   |                       |                   |                |                   |                |                   |
| Unpaid principal balance | \$ 330.8                           | \$ 327.0          | \$ 0.0                | \$ 0.0            | \$ 37.9        | \$ 35.6           | \$ 439.0       | \$ 388.6          |
| Pool factor (1)          | 1.00                               | 0.99              |                       |                   | 1.00           | 0.94              | 1.00           | 0.89              |
| Collection status:       |                                    |                   |                       |                   |                |                   |                |                   |
| Delinquency              |                                    |                   |                       |                   |                |                   |                |                   |
| Current                  | 1.6%                               | 6.9%              | 0.0%                  | 0.0%              | 0.7%           | 13.5%             | 6.2%           | 13.7%             |
| 30 days                  | 1.6%                               | 3.1%              | 0.0%                  | 0.0%              | 0.6%           | 3.6%              | 0.7%           | 1.8%              |
| 60 days                  | 7.1%                               | 4.7%              | 0.0%                  | 0.0%              | 1.4%           | 6.1%              | 0.7%           | 1.5%              |
| over 90 days             | 52.7%                              | 38.8%             | 0.0%                  | 0.0%              | 59.0%          | 30.0%             | 37.5%          | 15.5%             |
| In foreclosure           | 36.9%                              | 45.9%             | 0.0%                  | 0.0%              | 38.2%          | 40.0%             | 53.8%          | 53.4%             |
| REO                      | 0.0%                               | 0.6%              | 0.0%                  | 0.0%              | 0.0%           | 6.7%              | 1.1%           | 14.1%             |

|                          | Acquisitions for the quarter ended |                      |                       |                      |                |                      |                |                      |
|--------------------------|------------------------------------|----------------------|-----------------------|----------------------|----------------|----------------------|----------------|----------------------|
|                          | December 31,<br>2013               |                      | September 30,<br>2013 |                      | June 30, 2013  |                      | March 31, 2013 |                      |
|                          | At<br>purchase                     | March<br>31,<br>2015 | At<br>purchase        | March<br>31,<br>2015 | At<br>purchase | March<br>31,<br>2015 | At<br>purchase | March<br>31,<br>2015 |
|                          | (dollars in millions)              |                      |                       |                      |                |                      |                |                      |
| Unpaid principal balance | \$ 507.3                           | \$ 441.6             | \$ 929.5              | \$ 717.8             | \$ 397.3       | \$ 295.9             | \$ 366.2       | \$ 216.2             |
| Pool factor (1)          | 1.00                               | 0.87                 | 1.00                  | 0.77                 | 1.00           | 0.74                 | 1.00           | 0.59                 |
| Collection status:       |                                    |                      |                       |                      |                |                      |                |                      |
| Delinquency              |                                    |                      |                       |                      |                |                      |                |                      |
| Current                  | 1.4%                               | 11.6%                | 0.8%                  | 18.3%                | 4.8%           | 25.3%                | 1.6%           | 41.7%                |
| 30 days                  | 0.2%                               | 1.6%                 | 0.3%                  | 2.0%                 | 7.4%           | 6.2%                 | 1.5%           | 8.2%                 |
| 60 days                  | 0.0%                               | 0.5%                 | 0.7%                  | 1.5%                 | 7.6%           | 4.2%                 | 3.5%           | 4.8%                 |
| over 90 days             | 38.3%                              | 17.1%                | 58.6%                 | 23.6%                | 45.3%          | 22.3%                | 82.2%          | 19.9%                |
| In foreclosure           | 60.0%                              | 52.4%                | 39.6%                 | 35.8%                | 34.9%          | 29.3%                | 11.2%          | 16.6%                |
| REO                      | 0.0%                               | 16.8%                | 0.0%                  | 18.8%                | 0.0%           | 12.7%                | 0.0%           | 8.8%                 |

|  | Acquisitions for the quarter ended |                      |                       |                      |                |                      |                |                      |
|--|------------------------------------|----------------------|-----------------------|----------------------|----------------|----------------------|----------------|----------------------|
|  | December 31,<br>2012               |                      | September 30,<br>2012 |                      | June 30, 2012  |                      | March 31, 2012 |                      |
|  | At<br>purchase                     | March<br>31,<br>2015 | At<br>purchase        | March<br>31,<br>2015 | At<br>purchase | March<br>31,<br>2015 | At<br>purchase | March<br>31,<br>2015 |

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(dollars in millions)

|                          |          |          |          |          |          |          |        |        |
|--------------------------|----------|----------|----------|----------|----------|----------|--------|--------|
| Unpaid principal balance | \$ 290.3 | \$ 163.0 | \$ 357.2 | \$ 180.8 | \$ 402.5 | \$ 143.9 | \$ 0.0 | \$ 0.0 |
| Pool factor (1)          | 1.00     | 0.56     | 1.00     | 0.51     | 1.00     | 0.36     |        |        |
| Collection status:       |          |          |          |          |          |          |        |        |
| Delinquency              |          |          |          |          |          |          |        |        |
| Current                  | 3.1%     | 31.6%    | 0.0%     | 23.2%    | 45.0%    | 38.4%    | 0.0%   | 0.0%   |
| 30 days                  | 1.3%     | 8.4%     | 0.0%     | 2.1%     | 4.0%     | 9.1%     | 0.0%   | 0.0%   |
| 60 days                  | 5.4%     | 3.5%     | 0.1%     | 1.7%     | 4.3%     | 4.9%     | 0.0%   | 0.0%   |
| over 90 days             | 57.8%    | 19.2%    | 49.1%    | 17.8%    | 31.3%    | 23.3%    | 0.0%   | 0.0%   |
| In foreclosure           | 32.4%    | 21.1%    | 50.8%    | 33.4%    | 15.3%    | 17.8%    | 0.0%   | 0.0%   |
| REO                      | 0.0%     | 16.2%    | 0.0%     | 21.7%    | 0.1%     | 6.4%     | 0.0%   | 0.0%   |

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



**Table of Contents****Cash Flows**

Our cash flows for the quarters ended March 31, 2015 and 2014 are summarized below:

|                              | <b>Quarter ended<br/>March 31,</b> |                    | <b>Change</b>   |
|------------------------------|------------------------------------|--------------------|-----------------|
|                              | <b>2015</b>                        | <b>2014</b>        |                 |
|                              | <b>(in thousands)</b>              |                    |                 |
| <b>Cash flow activities:</b> |                                    |                    |                 |
| Operating                    | \$ (753,129)                       | \$ 113,302         | \$ (866,431)    |
| Investing                    | (91,348)                           | (507)              | (90,841)        |
| Financing                    | 833,759                            | (128,335)          | 962,094         |
| <b>Net cash flows</b>        | <b>\$ (10,718)</b>                 | <b>\$ (15,540)</b> | <b>\$ 4,821</b> |

Our cash flows resulted in a net decrease in cash of \$10.7 million during the quarter ended March 31, 2015. The decrease was due to cash used by operating and investing activities exceeding cash provided by our financing activities.

*Operating activities*

Cash used by operating activities totaled \$753.1 million during the quarter ended March 31, 2015 compared to cash provided by operating activities of \$113.3 million during the quarter ended March 31, 2014. Cash used by operating activities in 2015 is primarily attributable to growth in our inventory of mortgage loans acquired for sale and the receipt of MSR as a portion of the proceeds on sale of mortgage loans acquired for sale.

*Investing activities*

Net cash used by our investing activities was \$91.3 million for the quarter ended March 31, 2015 and reflects new investment acquisitions in excess of liquidations. This compares with cash used in investing activities totaling \$507,000 for the quarter ended March 31, 2014 as a result of growth in our investment portfolio. We used cash to purchase MBS, mortgage loans at fair value and ESS of \$313.5 million and increased our margin deposits by \$15.8 million. We realized cash inflows from a decrease in short-term investments, repayments of MBS, sales and repayments of mortgage loans, repayment of ESS, and sales of REO totaling \$251.1 million.

Approximately 35% of our investments, comprised of short-term investments, MBS, non-correspondent production mortgage loans, ESS, REO and MSR, were nonperforming assets as of March 31, 2015. 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 quarter ended March 31, 2015, we transferred \$83.0 million of mortgage loans to REO and realized cash proceeds from the sales and repayments of Mortgage loans at fair value and REO totaling \$125.6 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.

*Financing activities*

Net cash provided by financing activities was \$833.8 million for the quarter ended March 31, 2015, which was primarily used to fund the increase in our inventory of mortgage loans acquired for sale and mortgage loans at fair value. This compares with cash provided by financing activities totaling \$128.3 million for the quarter ended March 31, 2014. The increase in cash flows from financing activities reflects increased financing needs to purchase inventory of mortgage loans acquired for sale at fair value and acquisitions of distressed mortgage assets during 2015 as compared to 2014. We do not raise equity or enter into borrowings for the purpose of financing the payment of dividend distributions. 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.

**Table of Contents****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 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 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, sales of assets under agreements to repurchase, and mortgage loan participation and sale agreement. 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.

We will continue to finance most of our assets on a short-term basis until long-term financing becomes more available. 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 consists 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 ended March 31, 2015, the average balance outstanding of assets sold under agreements to repurchase totaled \$3.0 billion, and the maximum daily amount outstanding under such agreements totaled \$3.7 billion. The difference between the maximum and average daily amounts outstanding was due to increasing volume and the timing of loan purchases and sales in our correspondent acquisition business and timing of distressed loan acquisitions. The total facility size of our borrowings was approximately \$4.3 billion at March 31, 2015.

As of March 31, 2015 and December 31, 2014, 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:

|                 | <b>March 31, 2015</b>         | <b>December 31, 2014</b> |
|-----------------|-------------------------------|--------------------------|
|                 | <b>(dollars in thousands)</b> |                          |
| Assets financed | \$ 4,710,111                  | \$ 3,797,580             |

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|  |              |              |
|--|--------------|--------------|
| Total assets in classes of assets financed | \$ 4,860,118 | \$ 3,975,265 |
| Borrowings                                 | \$ 3,797,344 | \$ 2,916,286 |
| Percentage of invested assets pledged      | 97%          | 96%          |
| Advance rate against pledged assets        | 81%          | 77%          |
| Leverage ratio (1)                         | 2.62x        | 2.01x        |

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

As discussed above, all of our repurchase agreements and forward purchase agreements and our mortgage loan participation and sale agreement have short-term maturities:

The transactions relating to mortgage loans and REO under agreements to repurchase generally provide for terms of approximately one year and, in one instance, two years.

The transactions relating to mortgage loans under forward purchase agreements settled in full during the second quarter of the year ended December 31, 2014.

The transactions relating to mortgage loans under mortgage loan participation and sale agreement provide for terms of approximately one year.

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As of March 31, 2015, we do not currently have secured financing for our investments in MSR's 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's and ESS remain senior to those of any lender extending credit. As we continue to aggregate MSR's and acquire ESS, the lack of available financing 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 the Company for at least one (1) of the previous two consecutive fiscal quarters, as of the end of each fiscal quarter, and for both the prior two (2) calendar quarters, and at the Company and our Operating Partnership for 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 PennyMac Holdings, LLC ( PMH ); and a minimum of \$10 million in unrestricted cash and cash equivalents at each of PMC and PMH;

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 PMH and 5:1 for the Company and our Operating Partnership; 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;

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.

**Table of Contents****Off-Balance Sheet Arrangements and Aggregate Contractual Obligations****Off-Balance Sheet Arrangements**

As of March 31, 2015, we have not entered into any off-balance sheet arrangements.

**Contractual Obligations**

As of March 31, 2015, we had on-balance sheet contractual obligations of \$3.6 billion for the financing of assets under agreements to repurchase. We also had contractual obligations of \$250.0 million in the Notes.

All agreements to repurchase assets that matured between December 31, 2014 and the date of this Report have been renewed, extended or repaid and are described in Note 14 *Assets Sold Under Agreements to Repurchase* in the accompanying consolidated financial statements.

Payment obligations under these agreements are summarized below:

| Contractual obligations   | Total               | Payments due by period                   |                |                |                         |
|---|---------------------|--|----------------|----------------|-------------------------|
|   |                     | Less than<br>1<br>year<br>(in thousands) | 1 - 3<br>years | 3 - 5<br>years | More<br>than 5<br>years |
| Commitments to purchase mortgage loans from correspondent lenders | \$ 996,752          | \$ 996,752                               | \$             | \$             | \$                      |
| Assets sold under agreements to repurchase                        | 3,563,293           | 3,563,293                                |                |                |                         |
| Mortgage loan participation and sale agreement                    | 71,829              | 71,829                                   |                |                |                         |
| Asset-backed secured financing                                    | 162,222             |  |                |                | 162,222                 |
| Exchangeable senior notes   | 250,000             |  |                |                | 250,000                 |
| <b>Total</b>  | <b>\$ 5,044,096</b> | <b>\$ 4,631,874</b>                      | <b>\$</b>      | <b>\$</b>      | <b>\$ 412,222</b>       |

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 is summarized by counterparty below as of March 31, 2015:

| Counterparty                                    | Amount at risk<br>(in thousands) |
|---|----------------------------------|
| Citibank, N.A.                                  | \$ 347,007                       |
| Credit Suisse First Boston Mortgage Capital LLC | 163,576                          |
| JPMorgan Chase & Co.                            | 197,118                          |
| Bank of America, N.A.                           | 67,726                           |
| Morgan Stanley Bank, N.A.                       | 13,915                           |

Daiwa Capital Markets America Inc.

6,649

|  |    |         |
|--|----|---------|
|  | \$ | 795,991 |
|--|----|---------|

*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



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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.

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.

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 in foreclosure.

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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.

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 our Servicer 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.

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 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

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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 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. To date, we have only used the 2/1/13 Spread Acquisition Agreement for the purpose of acquiring ESS relating to Fannie Mae MSRs. 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.

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 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 MSR's 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 MSR's, 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.

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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 MSR 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 MSR. 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.

On December 19, 2014, we entered into a third master spread acquisition and MSR servicing agreement with our Servicer (the 12/19/14 Spread Acquisition Agreement). The terms of the 12/19/14 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 Freddie Mac MSRs under the 12/19/14 Spread Acquisition Agreement.

To the extent our Servicer refinances any of the mortgage loans relating to the ESS we have acquired, the 12/19/14 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. 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.

*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 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.



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The following table summarizes the estimated change in fair value 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 March 31, 2015, given several hypothetical (instantaneous) changes in home values from those used in estimating fair value:

| <b>Property value shift in %</b> | <b>-15%</b>                   | <b>-10%</b>  | <b>-5%</b>   | <b>+5%</b>   | <b>+10%</b>  | <b>+15%</b>  |
|----------------------------------|-------------------------------|--------------|--------------|--------------|--------------|--------------|
|                                  | <b>(dollars in thousands)</b> |              |              |              |              |              |
| Fair value                       | \$ 2,114,177                  | \$ 2,196,029 | \$ 2,271,304 | \$ 2,403,166 | \$ 2,459,709 | \$ 2,510,334 |
| Change in fair value:            |                               |              |              |              |              |              |
| \$                               | \$ (226,239)                  | \$ (144,387) | \$ (69,112)  | \$ 62,749    | \$ 119,293   | \$ 169,917   |
| %                                | (9.67)%                       | (6.17)%      | (2.95)%      | 2.68%        | 5.10%        | 7.26%        |

The following table summarizes the estimated change in fair value of our mortgage loans at fair value held by VIE as of March 31, 2015, 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:

| <b>Interest rate shift in basis points</b> | <b>-200</b>                  | <b>-100</b> | <b>-50</b> | <b>50</b>  | <b>100</b>  | <b>200</b>  |
|--|------------------------------|-------------|------------|------------|-------------|-------------|
|  | <b>(dollar in thousands)</b> |             |            |            |             |             |
| Fair value                                 | \$ 364,694                   | \$ 362,846  | \$ 359,422 | \$ 344,985 | \$ 334,922  | \$ 314,208  |
| Change in fair value:                      |                              |             |            |            |             |             |
| \$   | \$ 10,976                    | \$ 9,128    | \$ 5,704   | \$ (8,733) | \$ (18,796) | \$ (39,510) |
| %  | 3.10%                        | 2.58%       | 1.61%      | (2.47)%    | (5.31)%     | (11.17)%    |

**Table of Contents***Mortgage Servicing Rights*

The following tables summarize the estimated change in fair value of MSR's accounted for using the amortization method as of March 31, 2015, given several shifts in pricing spreads, prepayment speed and annual per-loan cost of servicing:

| <b>Pricing spread shift in %</b> | <b>-20%</b>                   | <b>-10%</b> | <b>-5%</b> | <b>+5%</b> | <b>+10%</b> | <b>+20%</b> |
|----------------------------------|-------------------------------|-------------|------------|------------|-------------|-------------|
|                                  | <b>(dollars in thousands)</b> |             |            |            |             |             |
| Fair value                       | \$ 353,209                    | \$ 340,011  | \$ 333,751 | \$ 321,857 | \$ 316,203  | \$ 305,440  |
| Change in fair value:            |                               |             |            |            |             |             |
| \$                               | \$ 25,506                     | \$ 12,308   | \$ 6,048   | \$ (5,846) | \$ (11,499) | \$ (22,263) |
| %                                | 7.78%                         | 3.76%       | 1.85%      | (1.78)%    | (3.51)%     | (6.79)%     |

| <b>Prepayment speed shift in %</b> | <b>-20%</b>                   | <b>-10%</b> | <b>-5%</b> | <b>+5%</b> | <b>+10%</b> | <b>+20%</b> |
|------------------------------------|-------------------------------|-------------|------------|------------|-------------|-------------|
|                                    | <b>(dollars in thousands)</b> |             |            |            |             |             |
| Fair value                         | \$ 355,975                    | \$ 341,354  | \$ 334,413 | \$ 321,213 | \$ 314,943  | \$ 302,972  |
| Change in fair value:              |                               |             |            |            |             |             |
| \$                                 | \$ 28,272                     | \$ 13,652   | \$ 6,710   | \$ (6,490) | \$ (12,769) | \$ (24,731) |
| %                                  | 8.63%                         | 4.17%       | 2.05%      | (1.98)%    | (3.90)%     | (7.55)%     |

| <b>Per-loan servicing cost shift in %</b> | <b>-20%</b>                   | <b>-10%</b> | <b>-5%</b> | <b>+5%</b> | <b>+10%</b> | <b>+20%</b> |
|---|-------------------------------|-------------|------------|------------|-------------|-------------|
|   | <b>(dollars in thousands)</b> |             |            |            |             |             |
| Fair value                                | \$ 335,230                    | \$ 331,466  | \$ 329,585 | \$ 325,821 | \$ 323,939  | \$ 320,175  |
| Change in fair value:                     |                               |             |            |            |             |             |
| \$  | \$ 7,527                      | \$ 3,764    | \$ 1,882   | \$ (1,882) | \$ (3,764)  | \$ (7,527)  |
| %   | 2.30%                         | 1.15%       | 0.57%      | (0.57)%    | (1.15)%     | (2.30)%     |

The following tables summarize the estimated change in fair value of MSR's accounted for using the fair value option method as of March 31, 2015, given several shifts in pricing spreads, prepayment speed and annual per-loan cost of servicing:

| <b>Pricing spread shift in %</b> | <b>-20%</b>                   | <b>-10%</b> | <b>-5%</b> | <b>+5%</b> | <b>+10%</b> | <b>+20%</b> |
|----------------------------------|-------------------------------|-------------|------------|------------|-------------|-------------|
|                                  | <b>(dollars in thousands)</b> |             |            |            |             |             |
| Fair value                       | \$ 52,657                     | \$ 51,002   | \$ 50,213  | \$ 48,705  | \$ 47,985   | \$ 46,606   |
| Change in fair value:            |                               |             |            |            |             |             |
| \$                               | \$ 3,209                      | \$ 1,555    | \$ 765     | \$ (742)   | \$ (1,463)  | \$ (2,842)  |
| %                                | 6.49%                         | 3.14%       | 1.55%      | (1.50)%    | (2.96)%     | (5.75)%     |

| <b>Prepayment speed shift in %</b> | <b>-20%</b>                   | <b>-10%</b> | <b>-5%</b> | <b>+5%</b> | <b>+10%</b> | <b>+20%</b> |
|------------------------------------|-------------------------------|-------------|------------|------------|-------------|-------------|
|                                    | <b>(dollars in thousands)</b> |             |            |            |             |             |
| Fair value                         | \$ 55,456                     | \$ 52,310   | \$ 50,845  | \$ 48,112  | \$ 46,836   | \$ 44,446   |
| Change in fair value:              |                               |             |            |            |             |             |
| \$                                 | \$ 6,009                      | \$ 2,862    | \$ 1,398   | \$ (1,335) | \$ (2,612)  | \$ (5,002)  |
| %                                  | 12.15%                        | 5.79%       | 2.83%      | (2.70)%    | (5.28)%     | (10.12)%    |

| <b>Per-loan servicing cost shift in %</b> | <b>-20%</b> | <b>-10%</b> | <b>-5%</b>                    | <b>+5%</b> | <b>+10%</b> | <b>+20%</b> |
|---|-------------|-------------|-------------------------------|------------|-------------|-------------|
|   |             |             | <b>(dollars in thousands)</b> |            |             |             |
| Fair value                                | \$ 50,648   | \$ 50,048   | \$ 49,748                     | \$ 49,148  | \$ 48,848   | \$ 48,248   |
| Change in fair value:                     |             |             |                               |            |             |             |
| \$  | \$ 1,200    | \$ 600      | \$ 300                        | \$ (300)   | \$ (600)    | \$ (1,200)  |
| %   | 2.43%       | 1.21%       | 0.61%                         | (0.61)%    | (1.21)%     | (2.43)%     |

**Table of Contents***Excess servicing spread*

The following tables summarize the estimated change in fair value of our ESS as of March 31, 2015, given several shifts in pricing spreads and prepayment speed:

| <b>Pricing spread shift in %</b>   | <b>-20%</b>                   | <b>-10%</b> | <b>-5%</b> | <b>+5%</b> | <b>+10%</b> | <b>+20%</b> |
|------------------------------------|-------------------------------|-------------|------------|------------|-------------|-------------|
|                                    | <b>(dollars in thousands)</b> |             |            |            |             |             |
| Fair value                         | \$ 233,489                    | \$ 227,762  | \$ 225,003 | \$ 219,680 | \$ 217,113  | \$ 212,156  |
| Change in fair value:              |                               |             |            |            |             |             |
| \$                                 | \$ 11,180                     | \$ 5,453    | \$ 2,693   | \$ (2,629) | \$ (5,196)  | \$ (10,153) |
| %                                  | 5.03%                         | 2.45%       | 1.21%      | (1.18)%    | (2.34)%     | (4.57)%     |
| <b>Prepayment speed shift in %</b> | <b>-20%</b>                   | <b>-10%</b> | <b>-5%</b> | <b>+5%</b> | <b>+10%</b> | <b>+20%</b> |
|                                    | <b>(dollars in thousands)</b> |             |            |            |             |             |
| Fair value                         | \$ 246,010                    | \$ 233,630  | \$ 227,846 | \$ 217,006 | \$ 211,922  | \$ 202,363  |
| Change in fair value:              |                               |             |            |            |             |             |
| \$                                 | \$ 23,700                     | \$ 11,320   | \$ 5,536   | \$ (5,303) | \$ (10,387) | \$ (19,947) |
| %                                  | 10.66%                        | 5.09%       | 2.49%      | (2.39)%    | (4.67)%     | (8.97)%     |

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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 87 through 90 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 March 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**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 March 31, 2015, 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, 2014, filed with the SEC on March 2, 2015.

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

None

**Item 3. *Defaults Upon Senior Securities***

None

**Item 4. *Mine Safety Disclosures***

Not applicable

**Item 5. *Other Information***

None

**Table of Contents****Item 6. Exhibits**

| <b>Exhibit<br/>Number</b> | <b>Exhibit Description</b>   |
|---------------------------|--|
| 3.1                       | Declaration of Trust of PennyMac Mortgage Investment Trust, as amended and restated (incorporated by reference to Exhibit 3.1 of the Company's 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 the Company's 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 the Company's 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 the Company's 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 the Company's 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 the Company's 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 the Company's 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 the Company's 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 the Company's Current Report on Form 8-K filed on February 7, 2013).  |
| 10.5                      | 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 Exhibit 10.14 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).  |
| 10.6                      | 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   |

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(incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on November 20, 2013).

- 10.7 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 (incorporated by reference to Exhibit 10.8 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014).



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| <b>Exhibit<br/>Number</b> | <b>Exhibit Description</b>   |
|---------------------------|--|
| 10.8                      | Amendment No. 3 to Second Amended and Restated Flow Servicing Agreement, dated as of December 11, 2014, between PennyMac Operating Partnership, L.P. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2014).                         |
| 10.9                      | Amendment No. 4 to Second Amended and Restated Flow Servicing Agreement, dated as of March 31, 2015, between PennyMac Loan Services, LLC and PennyMac Operating Partnership, L.P.  |
| 10.10                     | PennyMac Mortgage Investment Trust 2009 Equity Incentive Plan (incorporated by reference to Exhibit 10.5 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).   |
| 10.11                     | 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).  |
| 10.12                     | 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 the Company's Current Report on Form 8-K filed June 5, 2013). |

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| <b>Exhibit Number</b> | <b>Exhibit Description</b>  |
|-----------------------|---|
| 10.13                 | 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 the Company's Current Report on Form 8-K filed September 5, 2013).                       |
| 10.14                 | 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2013).         |
| 10.15                 | 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 the Company's Current Report on Form 8-K filed January 3, 2014).                       |
| 10.16                 | 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2013).       |
| 10.17                 | 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 the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014).     |
| 10.18                 | 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 the Company's Current Report on Form 8-K filed on February 24, 2014).                  |
| 10.19                 | 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. (incorporated by reference to Exhibit 10.33 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014).          |
| 10.20                 | Amendment No. 8 to Amended and Restated Master Repurchase Agreement, dated as of October 31, 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 10.24 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014). |
| 10.21                 | Amendment No. 9 to Amended and Restated Master Repurchase Agreement, dated as of December 23, 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 10.20 of the Company's Annual Report on Form 10-K for the year ended December 31, 2014).       |
| 10.22                 | Amendment No. 10 to Amended and Restated Master Repurchase Agreement, dated as of April 30, 2015, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P.  |
| 10.23                 | 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   |

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reference to Exhibit 10.14 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010).

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| <b>Exhibit Number</b> | <b>Exhibit Description</b>   |
|-----------------------|--|
| 10.24                 | 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 the Company's Current Report on Form 8-K filed on December 15, 2010).  |
| 10.25                 | 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 the Company's Current Report on Form 8-K filed on March 3, 2011).                |
| 10.26                 | 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2011). |

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| <b>Exhibit Number</b> | <b>Exhibit Description</b>   |
|-----------------------|--|
| 10.27                 | 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 the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).             |
| 10.28                 | Amendment Number Four to the Company's 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 the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012). |
| 10.29                 | 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 the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012).                  |
| 10.30                 | 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 the Company's Current Report on Form 8-K filed on June 5, 2012).  |
| 10.31                 | 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2012).                |
| 10.32                 | 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2012).                |
| 10.33                 | 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 the Company's Current Report on Form 8-K filed on March 13, 2013).                                   |
| 10.34                 | 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 the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013).                   |
| 10.35                 | 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 the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013).                 |
| 10.36                 | 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 the Company's Current Report on Form 8-K filed on July 31, 2013).                                   |
| 10.37                 |  |

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

- 10.38 Amendment Number Fourteen to the Company's 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 the Company's Current Report on Form 8-K filed on February 6, 2014).

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| <b>Exhibit Number</b> | <b>Exhibit Description</b>  |
|-----------------------|---|
| 10.39                 | 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 (incorporated by reference to Exhibit 10.50 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014).  |
| 10.40                 | Amendment Number Sixteen to the Master Repurchase Agreement, dated as of July 24, 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 10.42 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014).                                    |
| 10.41                 | Amendment Number Seventeen to the Master Repurchase Agreement, dated as of August 7, 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 10.43 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014).                                 |
| 10.42                 | Amendment Number Eighteen to the Master Repurchase Agreement, dated as of September 8, 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 10.44 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014).                               |
| 10.43                 | 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 the Company's Current Report on Form 8-K filed on December 15, 2010).   |
| 10.44                 | 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 the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).               |
| 10.45                 | 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 the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012).    |
| 10.46                 | 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 the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013). |
| 10.47                 | 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 the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).    |
| 10.48                 | 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2013).   |

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- 10.49 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 the Company's Current Report on Form 8-K filed on January 3, 2014).
- 10.50 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2013).



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| <b>Exhibit<br/>Number</b> | <b>Exhibit Description</b>   |
|---------------------------|--|
| 10.51                     | Amendment No. 7 to Amended and Restated Master Repurchase Agreement, dated as of February 21, 2014, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Holdings, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.53 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014). |
| 10.52                     | Amendment No. 8 to Amended and Restated Master Repurchase Agreement, dated as of October 31, 2014, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Holdings, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.54 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014).  |
| 10.53                     | 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 the Company's Current Report on Form 8-K filed on November 14, 2011).   |

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| <b>Exhibit Number</b> | <b>Exhibit Description</b>  |
|-----------------------|---|
| 10.54                 | 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 the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012).   |
| 10.55                 | 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 the Company's Current Report on Form 8-K filed on January 7, 2013).  |
| 10.56                 | 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 the Company's Current Report on Form 8-K filed on April 3, 2013).   |
| 10.57                 | 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 the Company's Current Report on Form 8-K filed on February 6, 2014).   |
| 10.58                 | 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 the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014).  |
| 10.59                 | 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 the Company's Current Report on Form 8-K filed on July 14, 2014).  |
| 10.60                 | 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 the Company's Current Report on Form 8-K filed on April 4, 2012).                          |
| 10.61                 | 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 the Company's Current Report on Form 8-K filed on July 31, 2012).        |
| 10.62                 | 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 the Company's Current Report on Form 8-K filed on October 1, 2012). |
| 10.63                 | 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 the Company's Current Report on Form 8-K filed on October 31, 2012).  |
| 10.64                 |   |

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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 the Company's Current Report on Form 8-K filed on June 5, 2013).

- 10.65 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 the Company's Current Report on Form 8-K filed on September 5, 2013).

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| <b>Exhibit<br/>Number</b> | <b>Exhibit Description</b>   |
|---------------------------|--|
| 10.66                     | 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 the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013). |

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| <b>Exhibit Number</b> | <b>Exhibit Description</b>   |
|-----------------------|--|
| 10.67                 | 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2013). |
| 10.68                 | 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 the Company's Current Report on Form 8-K filed on January 3, 2014).  |
| 10.69                 | 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2013).                           |
| 10.70                 | 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 the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014).                        |
| 10.71                 | 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 the Company's Current Report on Form 8-K filed on February 24, 2014).                                     |
| 10.72                 | 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 (incorporated by reference to Exhibit 10.79 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014).                             |
| 10.73                 | Amendment No. 13 to Master Repurchase Agreement, dated as of October 31, 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 the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014).                    |
| 10.74                 | Amendment No. 14 to Master Repurchase Agreement, dated as of December 23, 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 10.1 of the Company's Current Report on Form 8-K filed on December 24, 2014).                                     |
| 10.75                 | 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 the Company's Current Report on Form 8-K filed on March 29, 2012).   |
| 10.76                 | 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 the Company's Current Report on Form 8-K filed on May 30, 2012).  |
| 10.77                 | 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 the Company's Current Report on Form 8-K filed on October 16, 2012).  |

- 10.78 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2012).

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| <b>Exhibit Number</b> | <b>Exhibit Description</b>   |
|-----------------------|--|
| 10.79                 | 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 the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).           |
| 10.80                 | Amendment Number Four to the Company's 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 the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013). |

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| <b>Exhibit Number</b> | <b>Exhibit Description</b>  |
|-----------------------|---|
| 10.81                 | 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 the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013).  |
| 10.82                 | 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 the Company's Current Report on Form 8-K filed on July 31, 2013).   |
| 10.83                 | 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 the Company's Current Report on Form 8-K filed on February 6, 2014).   |
| 10.84                 | Amendment Number Eight to Master Repurchase Agreement, dated as of July 24, 2014, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.86 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014).  |
| 10.85                 | Amendment Number Nine to Master Repurchase Agreement, dated as of August 7, 2014, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.87 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014).  |
| 10.86                 | Amendment Number Ten to Master Repurchase Agreement, dated as of September 8, 2014, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.88 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014).                                      |
| 10.87                 | 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 the Company's Current Report on Form 8-K filed on May 30, 2012).  |
| 10.88                 | 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 the Company's Current Report on Form 8-K filed on July 10, 2012).   |
| 10.89                 | 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 the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013). |
| 10.90                 | 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 the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013).    |
| 10.91                 | 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 the Company's Current Report on Form 8-K filed on October 3, 2012).                    |
| 10.92                 |   |



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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 the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).

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

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| <b>Exhibit<br/>Number</b> | <b>Exhibit Description</b>   |
|---------------------------|--|
| 10.94                     | 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 the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014).     |
| 10.95                     | Amendment No. 4 to Master Repurchase Agreement, dated as of October 31, 2014, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Operating Partnership, L.P. and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.97 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014). |
| 10.96                     | Amendment No. 5 to Master Repurchase Agreement, dated as of April 14, 2015, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Operating Partnership, L.P. and PennyMac Mortgage Investment Trust.  |
| 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 the Company's Current Report on Form 8-K filed on October 3, 2012).   |

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| <b>Exhibit Number</b> | <b>Exhibit Description</b>   |
|-----------------------|--|
| 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 the Company's 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 the Company's 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 the Company's 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2013).                  |
| 10.102                | Amendment Number Four to the Company's 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2013).  |
| 10.103                | Amendment Number Five to the Company's to Master Repurchase Agreement, dated as of December 18, 2014, among PennyMac Corp., Morgan Stanley Bank, N.A. and Morgan Stanley Mortgage Capital Holdings LLC (incorporated by reference to Exhibit 10.101 of the Company's Annual Report on Form 10-K for the year ended December 31, 2014). |
| 10.104                | 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 Exhibit 1.2 of the Company's Current Report on Form 8-K filed on November 26, 2012).   |
| 10.105                | 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 the Company's Current Report on Form 8-K filed on February 7, 2013).   |
| 10.106                | 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 the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).                                       |
| 10.107                | 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 the Company's Current Report on Form 8-K filed on August 19, 2013).  |
| 10.108                | 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 the Company's Current Report on Form 8-K filed on February 7, 2013).   |
| 10.109                | 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 the Company's  |

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Quarterly Report on Form 10-Q for the quarter ended September 30, 2013).

- 10.110 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 the Company's Current Report on Form 8-K filed on February 7, 2013).

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| <b>Exhibit Number</b> | <b>Exhibit Description</b>   |
|-----------------------|--|
| 10.111                | 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 the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013). |
| 10.112                | 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2013).         |
| 10.113                | 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 the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014).         |
| 10.114                | Amendment No. 4 to Master Spread Acquisition and MSR Servicing Agreement, dated as of March 3, 2015, by and between PennyMac Loan Services, LLC, PennyMac Operating Partnership, L.P., and PennyMac Holdings, LLC.   |
| 10.115                | 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 the Company's Current Report on Form 8-K filed on January 3, 2014).  |
| 10.116                | 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 (incorporated by reference to Exhibit 10.114 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014).                          |
| 10.117                | Amendment No. 2 to Master Spread Acquisition and MSR Servicing Agreement, dated as of March 3, 2015, by and between PennyMac Loan Services, LLC and PennyMac Holdings, LLC.  |
| 10.118                | Amended and Restated Master Spread Acquisition and MSR Servicing Agreement, dated as of April 30, 2015, between PennyMac Loan Services, LLC and PennyMac Holdings, LLC (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on May 6, 2015).   |
| 10.119                | 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 the Company's Current Report on Form 8-K filed on January 3, 2014).  |
| 10.120                | Amended and Restated Security and Subordination Agreement, dated as of April 30, 2015, between PennyMac Holdings, LLC and Credit Suisse First Boston Mortgage Capital LLC (incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K filed on May 6, 2015).  |
| 10.121                | Master Spread Acquisition and MSR Servicing Agreement, dated as of December 19, 2014, by and between PennyMac Loan Services, LLC, PennyMac Holdings, LLC and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on December 24, 2014).                |
| 10.122                | Amendment No. 1. to Master Spread Acquisition and MSR Servicing Agreement, dated as of March 3, 2015, by and between PennyMac Loan Services, LLC, PennyMac Operating Partnership, L.P., and PennyMac Holdings, LLC.  |

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- 10.123 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 the Company's Current Report on Form 8-K filed on February 24, 2014).
- 10.124 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 the Company's Current Report on Form 8-K filed on February 24, 2014).

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| <b>Exhibit Number</b> | <b>Exhibit Description</b>  |
|-----------------------|---|
| 10.125                | 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 the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).   |
| 10.126                | 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 the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013).*   |
| 10.127                | 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 the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013).*   |
| 10.128                | 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 the Company's Current Report on Form 8-K filed on February 6, 2014).                   |
| 10.129                | 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 the Company's Current Report on Form 8-K filed on February 6, 2014).  |
| 10.130                | 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 the Company's Current Report on Form 8-K filed on February 6, 2014). |
| 10.131                | 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 the Company's Current Report on Form 8-K filed on February 6, 2014). |
| 10.132                | 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 the Company's Current Report on Form 8-K filed on February 6, 2014).  |
| 10.133                | 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 the Company's Current Report on Form 8-K filed on February 6, 2014).   |
| 10.134                | 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 the Company's Current Report on Form 8-K filed on February 6, 2014).  |
| 10.135                | 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 the Company's  |

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Current Report on Form 8-K filed on February 6, 2014).

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| <b>Exhibit Number</b> | <b>Exhibit Description</b>   |
|-----------------------|--|
| 10.136                | 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 PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.130 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014).                           |
| 10.137                | Amendment No. 9 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of January 30, 2015, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.130 of the Company's Annual Report on Form 10-K for the year ended December 31, 2014).                           |
| 10.138                | 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 the Company's Current Report on Form 8-K filed on February 6, 2014).  |
| 10.139                | 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 the Company's Current Report on Form 8-K filed on July 14, 2014).  |
| 10.140                | Amendment No. 1 to 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 10.133 of the Company's Annual Report on Form 10-K for the year ended December 31, 2014).   |
| 10.141                | 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 the Company's Current Report on Form 8-K filed on July 14, 2014).  |
| 10.142                | Master Repurchase Agreement, dated as of January 27, 2015, among JPMorgan Chase Bank, National Association, PennyMac Corp., PennyMac Operating Partnership, L.P., PennyMac Holdings, LLC, PMC REO Trust 2015-1, TRS REO Trust 1-A, and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on February 2, 2015). |
| 10.143                | Amendment No. 1 to Master Repurchase Agreement, dated as of March 27, 2015, among JPMorgan Chase Bank, National Association, PennyMac Corp., PennyMac Operating Partnership, L.P., PennyMac Holdings, LLC, PMC REO Trust 2015-1, TRS REO Trust 1-A, and PennyMac Mortgage Investment Trust.  |
| 10.144                | Guaranty, dated as of January 27, 2015, by PennyMac Mortgage Investment Trust in favor of JPMorgan Chase Bank, National Association (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on February 2, 2015).   |
| 10.145                | Loan and Security Agreement, dated as of March 31, 2015, between PennyMac Corp. and Citibank, N.A. (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K as filed with the SEC on April 3, 2015).   |
| 10.146                | Guaranty, dated as of March 31, 2015, by PennyMac Mortgage Investment Trust in favor of Citibank, N.A. (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K as filed with the SEC on April 3, 2015).   |
| 10.147                | Loan and Security Agreement, dated as of April 30, 2015, among PennyMac Loan Services, LLC and PennyMac Holdings, LLC (incorporated by reference to Exhibit 10.2 of the Company's Current Report on  |

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Form 8-K as filed with the SEC on May 6, 2015).

- 10.148 Guaranty, dated as of April 30, 2015, by PennyMac Mortgage Investment Trust in favor of Credit Suisse First Boston Mortgage Capital LLC (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on May 6, 2015).
- 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.

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| <b>Exhibit<br/>Number</b> | <b>Exhibit Description</b>   |
|---------------------------|--|
| 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 March 31, 2015 and 2014, (ii) the Consolidated Statements of Income for the quarters ended March 31, 2015 and 2014, (iii) the Consolidated Statements of Changes in Shareholders' Equity for the quarters ended March 31, 2015 and 2014, (iv) the Consolidated Statements of Cash Flows for the quarters ended March 31, 2015 and 2014, 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.

\*\* The certifications attached hereto as Exhibits 32.1 and 32.2 are furnished to the SEC pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.  
Indicates management contract or compensatory plan or arrangement.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

PENNYMAC MORTGAGE INVESTMENT TRUST

(Registrant)

Dated: May 8, 2015

By: /s/ STANFORD L. KURLAND  
Stanford L. Kurland  
*Chairman of the Board and Chief Executive Officer*

Dated: May 8, 2015

By: /s/ ANNE D. McCALLION  
Anne D. McCallion  
*Chief Financial Officer*