AG Mortgage Investment Trust, Inc.
Form 10-Q
November 05, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 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 001-35151

AG MORTGAGE INVESTMENT TRUST, INC.

Maryland	**27-5254382**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
245 Park Avenue, 26th Floor **New York, New York**	**10167**
(Address of Principal Executive Offices)	(Zip Code)

(212) 692-2000

(Registrant’s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 and Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filed, 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 x Non-Accelerated filer ¨ Smaller reporting company ¨ (Do not check if a 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 x

As of October 31, 2015, there were 28,412,925 outstanding shares of common stock of AG Mortgage Investment Trust, Inc.

AG MORTGAGE INVESTMENT TRUST, INC.

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PART I

ITEM 1. FINANCIAL STATEMENTS

AG Mortgage Investment Trust, Inc. and Subsidiaries

Consolidated Balance Sheets

(Unaudited)

	September 30, 2015	December 31, 2014
Assets		
Real estate securities, at fair value:		
Agency - $1,386,686,075 and $1,691,194,581 pledged as collateral, respectively	$ 1,511,770,924	$ 1,808,314,746
Non-Agency - $1,088,370,200 and $1,088,398,641 pledged as collateral, respectively	1,141,674,101	1,140,077,928
ABS - $56,294,507 and $66,693,243 pledged as collateral, respectively	56,294,507	66,693,243
CMBS - $132,425,798 and $96,920,646 pledged as collateral, respectively	138,606,755	100,520,652
Residential mortgage loans, at fair value -$73,196,700 and $73,407,869 pledged as collateral, respectively	79,526,198	85,089,859
Commercial loans, at fair value - $62,800,000 pledged as collateral	72,800,000	72,800,000
U.S. Treasury securities, at fair value - $126,566,328 and $0 pledged as collateral, respectively	126,566,328	-
Investments in affiliates	41,834,369	20,345,131
Excess mortgage servicing rights, at fair value	455,743	628,367
Linked transactions, net, at fair value	-	26,695,091
Cash and cash equivalents	48,118,818	64,363,514
Restricted cash	39,975,602	34,477,975
Interest receivable	11,321,499	11,886,019
Receivable on unsettled trades - $49,463,611 and $0 pledged as collateral, respectively	51,364,775	-
Receivable under reverse repurchase agreements	25,687,500	-
Derivative assets, at fair value	53,007	11,382,622
Other assets	16,147,164	10,543,072
Due from broker	3,294,102	4,586,912
Total Assets	$ 3,365,491,392	$ 3,458,405,131
Liabilities		
Repurchase agreements	$ 2,213,921,641	$ 2,644,955,948
FHLBC advances	351,694,000	-
Securitized debt	32,804,051	39,777,914
	25,197,266	-

Obligation to return securities borrowed under reverse repurchase agreements, at fair value		
Payable on unsettled trades	9,540,502	-
Interest payable	2,833,873	2,461,494
Derivative liabilities, at fair value	18,184,072	8,608,209
Dividend payable	17,046,562	17,031,609
Due to affiliates	5,029,665	4,850,807
Accrued expenses	1,822,912	2,285,339
Taxes payable	1,339,716	1,743,516
Due to broker	139,702	4,015,152
Total Liabilities	2,679,553,962	2,725,729,988
Stockholders' Equity		
Preferred stock - $0.01 par value; 50,000,000 shares authorized:		
8.25% Series A Cumulative Redeemable Preferred Stock, 2,070,000 shares issued and outstanding ($51,750,000 aggregate liquidation preference)	49,920,772	49,920,772
8.00% Series B Cumulative Redeemable Preferred Stock, 4,600,000 shares issued and outstanding ($115,000,000 aggregate liquidation preference)	111,293,233	111,293,233
Common stock, par value $0.01 per share; 450,000,000 shares of common stock authorized and 28,410,937 and 28,386,015 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	284,110	283,861
Additional paid-in capital	586,222,271	586,051,751
Retained earnings/(deficit)	(61,782,956)	(14,874,474)
Total Stockholders' Equity	685,937,430	732,675,143
Total Liabilities & Stockholders' Equity	$ 3,365,491,392	$ 3,458,405,131

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

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AG Mortgage Investment Trust, Inc. and Subsidiaries

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Net Interest Income				
Interest income	$ 33,506,151	$ 36,197,633	$ 107,164,687	$ 106,419,808
Interest expense	8,506,994	6,819,731	23,595,601	19,750,086
	24,999,157	29,377,902	83,569,086	86,669,722
Other Income				
Net realized gain/(loss)	(4,710,086)	10,539,221	(16,513,340)	9,261,721
Income/(loss) from linked transactions, net	-	3,481,936	-	11,018,043
Realized loss on periodic interest settlements of derivative instruments, net	(3,340,497)	(5,260,449)	(10,030,453)	(17,341,950)
Unrealized gain/(loss) on real estate securities and loans, net	7,238,103	(19,457,277)	(3,758,180)	52,563,595
Unrealized gain/(loss) on derivative and other instruments, net	(19,523,287)	9,459,244	(22,645,097)	(33,639,291)
	(20,335,767)	(1,237,325)	(52,947,070)	21,862,118
Expenses				
Management fee to affiliate	2,481,816	2,548,601	7,490,997	7,556,613
Other operating expenses	3,390,191	3,140,272	9,754,131	8,523,178
Servicing fees	174,999	157,016	494,997	319,733
Equity based compensation to affiliate	51,069	67,562	164,487	222,221
Excise tax	375,000	533,539	1,125,000	1,408,539
	6,473,075	6,446,990	19,029,612	18,030,284
Income/(loss) before income tax benefit/(expense) and equity in earnings/(loss) from affiliates	(1,809,685)	21,693,587	11,592,404	90,501,556
Income tax benefit/(expense)	-	172,709	-	79,914
Equity in earnings/(loss) from affiliates	1,512,037	523,316	2,713,834	4,159,667
Net Income/(Loss)	(297,648)	22,389,612	14,306,238	94,741,137
Dividends on preferred stock	3,367,354	3,367,354	10,102,062	10,102,062

Net Income/(Loss) Available to Common Stockholders	$ (3,665,002)	$ 19,022,258	$ 4,204,176	$ 84,639,075
Earnings/(Loss) Per Share of Common Stock				
Basic	$ (0.13)	$ 0.67	$ 0.15	$ 2.98
Diluted	$ (0.13)	$ 0.67	$ 0.15	$ 2.98
Weighted Average Number of Shares of Common Stock Outstanding				
Basic	28,410,937	28,384,238	28,396,006	28,377,681
Diluted	28,410,937	28,405,069	28,405,900	28,396,797

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

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AG Mortgage Investment Trust, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity

(Unaudited)

	Common Stock		**8.25 % Series A Cumulative** Redeemable Preferred Stock	**8.00 % Series B Cumulative** Redeemable Preferred Stock	Additional Paid-in Capital	Retained Earnings/(Deficit)	Total
	Shares	Amount					
Balance at January 1, 2014	28,365,655	$283,657	$49,920,772	$111,293,233	$585,619,488	$(42,686,416)	$704,430,734
Grant of restricted stock and amortization of equity based compensation	18,692	187	-	-	324,147	-	324,334
Common dividends declared	-	-	-	-	-	(51,082,601)	(51,082,601)
Preferred Series A dividends declared	-	-	-	-	-	(3,202,062)	(3,202,062)
Preferred Series B dividends declared	-	-	-	-	-	(6,900,000)	(6,900,000)
Net Income/(Loss)	-	-	-	-	-	94,741,137	94,741,137
Balance at September 30, 2014	28,384,347	$283,844	$49,920,772	$111,293,233	$585,943,635	$(9,129,942)	$738,311,542
Balance at January 1, 2015	28,386,015	$283,861	$49,920,772	$111,293,233	$586,051,751	$(14,874,474)	$732,675,143
Offering costs	-	-	-	-	(83,651)	-	(83,651)
Grant of restricted stock and amortization of	24,922	249	-	-	254,171	-	254,420

equity based compensation							
Common dividends declared	-	-	-	-	-	(51,112,658)	(51,112,658)
Preferred Series A dividends declared	-	-	-	-	-	(3,202,062)	(3,202,062)
Preferred Series B dividends declared	-	-	-	-	-	(6,900,000)	(6,900,000)
Net Income/(Loss)	-	-	-	-	-	14,306,238	14,306,238
Balance at September 30, 2015	28,410,937	$284,110	$49,920,772	$111,293,233	$586,222,271	$(61,782,956)	$685,937,430

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

AG Mortgage Investment Trust, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Cash Flows from Operating Activities		
Net income/(loss)	$ 14,306,238	$ 94,741,137
Adjustments to reconcile net income/(loss) to net cash provided by (used in) operating activities:		
Net realized (gain)/loss	16,513,340	(9,261,721)
Net amortization of premium	11,797,776	13,736,544
Net realized and unrealized (gains)/losses on securities underlying linked transactions	-	(3,503,633)
Unrealized (gains)/losses on derivative and other instruments, net	22,645,097	(52,563,595)
Unrealized (gains)/losses on real estate securities and loans, net	3,758,180	33,639,291
Equity based compensation to affiliate	164,487	222,221
Equity based compensation expense	89,933	108,147
Income from investments in affiliates in excess of distributions received	(1,795,368)	(583,442)
Change in operating assets/liabilities:		
Interest receivable	944,438	352,904
Other assets	815,753	(3,342,267)
Due from broker	1,292,810	(2,091,374)
Interest payable	(823,532)	(1,079,037)
Due to affiliates	178,858	93,183
Accrued expenses	(462,427)	1,939,323
Taxes payable	(403,800)	(121,813)
Net cash provided by (used in) operating activities	69,021,783	72,285,868
Cash Flows from Investing Activities		
Purchase of real estate securities	(489,228,386)	(731,253,700)
Purchase of residential mortgage loans	-	(84,482,849)
Purchase of commercial loans	-	(72,084,833)
Purchase of U.S. treasury securities	(684,540,277)	-
Investments in affiliates	(19,250,900)	3,276,182
Purchase of excess mortgage servicing rights	-	(730,146)
Purchase of securities underlying linked transactions	-	(32,170,974)
Proceeds from sale of real estate securities	417,999,930	674,416,942
Proceeds from sale of securities underlying linked transactions	-	26,056,464
Proceeds from sales of U.S. treasury securities	555,424,853	-
Principal repayments on real estate securities	411,140,001	421,911,718
Principal repayments on residential mortgage loans	5,874,157	642,946
Principal repayments on securities underlying linked transactions	-	43,017,323
Receipt of premium for interest rate swaptions	-	433,750

Payment of premium for interest rate swaptions	-	(745,500)
Net proceeds from (payment made) on reverse repurchase agreements	(25,690,492)	(775,216)
Net proceeds from (payment made) on sales of securities borrowed under reverse repurchase agreements	20,846,574	(395,472)
Net settlement of interest rate swaps	(12,078,785)	109,276
Net settlement of TBAs	2,229,102	2,663,476
Net settlement of IO Indexes	-	(569,230)
Purchase of FHLBC Stock	(7,035,900)	-
Cash flows provided by (used in) other investing activities	2,404,319	(8,426,524)
Restricted cash provided by (used in) investing activities	9,287,368	(10,287,254)
Net cash provided by (used in) investing activities	187,381,564	230,606,379
Cash Flows from Financing Activities		
Offering costs	(83,651)	-
Borrowings under repurchase agreements	22,704,300,626	16,715,523,064
Borrowings under FHLBC advances	351,694,000	-
Borrowings under repurchase agreements underlying linked transactions	-	1,437,647,348
Repayments of repurchase agreements	(23,248,698,806)	(16,866,810,786)
Repayments of repurchase agreements underlying linked transactions	-	(1,529,386,730)
Net collateral received from (paid to) derivative counterparty	(20,304,766)	(15,671,180)
Net collateral received from (paid to) repurchase counterparty	1,894,321	(25,497,101)
Net collateral received from (paid to) FHLBC	(250,000)	-
Dividends paid on common stock	(51,097,705)	(51,072,886)
Dividends paid on preferred stock	(10,102,062)	(10,102,062)
Net cash provided by (used in) financing activities	(272,648,043)	(345,370,333)
Net change in cash and cash equivalents	(16,244,696)	(42,478,086)
Cash and cash equivalents, Beginning of Period	64,363,514	86,190,011
Cash and cash equivalents, End of Period	$ 48,118,818	$ 43,711,925
Supplemental disclosure of cash flow information:		
Cash paid for interest on repurchase agreements	$ 21,692,580	$ 21,017,503
Cash paid for income tax	$ 1,554,101	$ 1,579,928
Real estate securities recorded upon unlinking of Linked Transactions	$ 139,778,263	$ 87,154,830
Repurchase agreements recorded upon unlinking of Linked Transactions	$ 113,363,873	$ 73,501,051
Transfer from residential mortgage loans to other assets	$ 2,036,743	$ 1,022,903
Supplemental disclosure of non-cash financing and investing activities:		
Common stock dividends declared but not paid	$ 17,046,562	$ 17,030,608
Decrease of securitized debt	$ 7,513,512	$ -

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

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AG Mortgage Investment Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

September 30, 2015

1. Organization

AG Mortgage Investment Trust, Inc. (the “Company”) was incorporated in the state of Maryland on March 1, 2011. The Company is focused on investing in, acquiring and managing a diversified portfolio of residential mortgage-backed securities, or RMBS, issued or guaranteed by a government-sponsored enterprise such as Fannie Mae or Freddie Mac, or any agency of the U.S. Government such as Ginnie Mae, (collectively, “Agency RMBS”), and other real estate-related securities and financial assets, including Non-Agency RMBS, ABS, CMBS and loans (as defined below).

Non-Agency RMBS represent fixed-and floating-rate RMBS issued by entities or organizations other than a U.S. government-sponsored enterprise or agency of the U.S. government, including investment grade (AAA through BBB) and non investment grade classes (BB and below). The mortgage loan collateral for Non-Agency RMBS consists of residential mortgage loans that do not generally conform to underwriting guidelines issued by U.S. government agencies or U.S. government-sponsored entities.

Asset Backed Securities (“ABS”) are securitized investments similar to the aforementioned investments except the underlying assets are diverse, not only representing real estate related assets.

Commercial Mortgage Backed Securities (“CMBS”) represent investments of fixed- and floating-rate CMBS, including investment grade (AAA through BBB) and non investment grade classes (BB and below) secured by, or evidence an ownership interest in, a single commercial mortgage loan or a pool of commercial mortgage loans.

Collectively, the Company refers to Agency RMBS, Non-Agency RMBS, ABS and CMBS asset types as “real estate securities.”

Commercial loans are secured by an interest in commercial real estate and represent a contractual right to receive money on demand or on fixed or determinable dates. Residential mortgage loans refer to performing, re-performing and non-performing loans secured by a first lien mortgage on residential mortgaged property located in any of the 50 states of the United States or in the District of Columbia. The Company refers to its commercial and residential mortgage loans as “mortgage loans” or “loans.”

In July 2015, the Company’s wholly-owned captive insurance subsidiary, MITT Insurance Company LLC (“MITT Insurance”), was granted membership in the Federal Home Loan Bank (“FHLB”) system, specifically in the FHLB of Cincinnati (“FHLBC”). The 11 regional FHLBs provide short- and long-term secured loans, called “advances,” to their members. FHLB members may use a variety of real estate related assets, including the aforementioned real estate securities, as collateral for advances. Membership in the FHLBC obligates MITT Insurance to purchase FHLBC membership stock and activity stock, the latter being a percentage of the advances it obtains from the FHLBC. MITT Insurance may seek short- and long-term advances (together, “FHLBC Advances”) from the FHLBC.

The Company is externally managed by AG REIT Management, LLC, a Delaware limited liability company (the “Manager”), a wholly-owned subsidiary of Angelo, Gordon & Co., L.P. (“Angelo, Gordon”), a privately-held, SEC-registered investment adviser. The Manager, pursuant to a delegation agreement dated as of June 29, 2011, has delegated to Angelo, Gordon the overall responsibility with respect to the Manager’s day-to-day duties and obligations arising under the management agreement.

The Company conducts its operations to qualify and be taxed as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended (the “Code”).

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

The accompanying unaudited consolidated financial statements and related notes have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Certain prior period amounts have been reclassified to conform to the current period’s presentation. In the opinion of management, all adjustments considered necessary for a fair presentation for the interim period of the Company’s financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year.

AG Mortgage Investment Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

September 30, 2015

Previously the Company classified gains and losses related to linked transactions in the “Net realized gain/(loss)” line item, however the Company subsequently included such gains and losses in the “Income/(loss) from linked transactions, net” line item prior to the adoption of Accounting Standards Update (“ASU”) 2014-11 Transfers and Servicing (Topic 860), “Repurchase to Maturity Transactions, Repurchase Financings and Disclosures” as the Company believes this presentation is most consistent with the accounting for other components of net income on linked transactions captured within that line. Refer to Note 7 for further detail on the adoption of ASU 2014-11.

Cash and cash equivalents

Cash is comprised of cash on deposit with financial institutions. The Company classifies highly liquid investments with original maturities of three months or less from the date of purchase as cash equivalents. The Company held no cash equivalents at September 30, 2015 or December 31, 2014. The Company places its cash with high credit quality institutions to minimize credit risk exposure. Any cash held by the Company as collateral is included in the due to broker line item on the consolidated balance sheet and in cash flows from financing activities on the consolidated statement of cash flows.

Restricted cash

Restricted cash includes cash pledged as collateral for clearing and executing trades, derivatives and repurchase agreements. Restricted cash is carried at cost, which approximates fair value.

Offering costs

The Company incurred offering costs in connection with common stock offerings, issuances of preferred stock and registration statements. The offering costs were paid out of the proceeds of the respective offerings. Offering costs in connection with common stock offerings and costs in connection with registration statements have been accounted for as a reduction of additional paid-in-capital. Offering costs in connection with preferred stock offerings have been accounted for as a reduction of their respective gross proceeds.

Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from those estimates.

Earnings/(Loss) per share

In accordance with the provisions of Accounting Standards Codification ("ASC") 260, "Earnings per Share," the Company calculates basic income/(loss) per share by dividing net income/(loss) available to common stockholders for the period by weighted-average shares of the Company's common stock outstanding for that period. Diluted income per share takes into account the effect of dilutive instruments, such as stock options, warrants, unvested restricted stock, and unvested restricted stock units but uses the average share price for the period in determining the number of incremental shares that are to be added to the weighted-average number of shares outstanding.

Valuation of financial instruments

The fair value of the financial instruments that the Company records at fair value will be determined by the Manager, subject to oversight of the Company's board of directors, and in accordance with ASC 820, "Fair Value Measurements and Disclosures." When possible, the Company determines fair value using independent data sources. ASC 820 establishes a hierarchy that prioritizes the inputs to valuation techniques giving the highest priority to readily available unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements) when market prices are not readily available or reliable. The three levels of the hierarchy under ASC 820 are described below:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Prices determined using other significant observable inputs. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level 3 – Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Company's assumptions about the factors that market participants would use in pricing an asset or liability, and would be based on the best information available.

AG Mortgage Investment Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

September 30, 2015

Transfers between levels are assumed to occur at the beginning of the reporting period.

Accounting for real estate securities

Investments in real estate securities are recorded in accordance with ASC 320, ASC 325 or ASC 310-30. The Company has chosen to make a fair value election pursuant to ASC 825 for its real estate securities portfolio. Real estate securities are recorded at fair market value on the consolidated balance sheet and the periodic change in fair market value is recorded in current period earnings on the consolidated statement of operations as a component of "Unrealized gain/(loss) on real estate securities and loans, net." Real estate securities acquired through securitizations are shown in the line item "Purchase of real estate securities" on the consolidated statement of cash flows.

These investments meet the requirements to be classified as available for sale under ASC 320-10-25, "Debt and Equity Securities," which requires the securities to be carried at fair value on the consolidated balance sheet with changes in fair value recorded to other comprehensive income, a component of Stockholders' Equity. Electing the fair value option allows the Company to record changes in fair value in the consolidated statement of operations, which, in management's view, more appropriately reflects the results of operations for a particular reporting period as all securities activities will be recorded in a similar manner.

When the Company purchases securities with evidence of credit deterioration since origination, it will analyze to determine if the guidance found in ASC 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality" is applicable.

The Company accounts for its securities under ASC 310 and ASC 325, and evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis. The determination of whether a security is other-than-temporarily impaired involves judgments and assumptions based on subjective and objective factors. When the fair value of an investment security is less than its amortized cost at the balance sheet date, the security is considered impaired, and the impairment is designated as either "temporary" or "other-than-temporary."

When a real estate security is impaired, an OTTI is considered to have occurred if (i) the Company intends to sell the security (i.e., a decision has been made as of the reporting date) or (ii) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If the Company intends to sell the security or if it is more likely than not that the Company will be required to sell the real estate security before recovery of its amortized cost basis, the entire amount of the impairment loss, if any, is recognized in earnings as a realized loss and the cost basis of the security is adjusted to its fair value. Additionally for securities accounted for under ASC 325-40, “Beneficial Interests in Securitized Financial Assets,” an OTTI is deemed to have occurred when there is an adverse change in the expected cash flows to be received and the fair value of the security is less than its carrying amount. In determining whether an adverse change in cash flows occurred, the present value of the remaining cash flows, as estimated at the initial transaction date (or the last date previously revised), is compared to the present value of the expected cash flows at the current reporting date. The estimated cash flows reflect those a “market participant” would use and are discounted at a rate equal to the current yield used to accrete interest income. Any resulting OTTI adjustments are reflected in the “Net realized gain/(loss)” line item on the consolidated statement of operations.

The determination as to whether an OTTI exists is subjective, given that such determination is based on information available at the time of assessment as well as the Company’s estimate of the future performance and cash flow projections for the individual security. As a result, the timing and amount of an OTTI constitutes an accounting estimate that may change materially over time.

Increases in interest income may be recognized on a security which the Company previously recorded an OTTI charge if the performance of such security subsequently improves.

Securities in an unrealized loss position at September 30, 2015 are not considered other than temporarily impaired as the Company has the ability and intent to hold the securities to maturity or for a period of time sufficient for a forecasted market price recovery up to or above the amortized cost of the investment, and the Company is not required to sell the security for regulatory or other reasons. See Note 3 for a summary of OTTI charges recorded.

Sales of securities

Sales of securities are driven by the Manager’s portfolio management process. The Manager seeks to mitigate risks including those associated with prepayments, defaults, severities, amongst others, and will opportunistically rotate the portfolio into securities with more favorable attributes. Strategies may also be employed to manage net capital gains, which need to be distributed for tax purposes.

Realized gains or losses on sales of securities, loans and derivatives are included in the “Net realized gain/(loss)” line item on the consolidated statement of operations. The cost of positions sold is calculated using a first in, first out, or FIFO, basis. Realized gains and losses are recorded in earnings at the time of disposition.

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AG Mortgage Investment Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

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Accounting for mortgage loans

Investments in mortgage loans are recorded in accordance with ASC 310-10. The Company has chosen to make a fair value election pursuant to ASC 825 for its mortgage loan portfolio. Loans are recorded at fair market value on the consolidated balance sheet and any periodic change in fair market value will be recorded in current period earnings on the consolidated statement of operations as a component of "Unrealized gain/(loss) on real estate securities and loans, net."

The Company amortizes or accretes any premium or discount over the life of the related loan utilizing the effective interest method. On at least a quarterly basis, the Company evaluates the collectability of both interest and principal of each loan, if circumstances warrant, to determine whether they are impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the existing contractual terms. When a loan is impaired, the amount of the loss accrual is calculated and recorded accordingly. Income recognition is suspended for loans at the earlier of the date at which payments become 90-days past due or when, in the opinion of management, a full recovery of income and principal becomes doubtful. When the ultimate collectability of the principal of an impaired loan is in doubt, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the principal of an impaired loan is not in doubt, contractual interest is recorded as interest income when received, under the cash basis method until an accrual is resumed when the loan becomes contractually current and performance is demonstrated to be resumed. A loan is written off when it is no longer realizable and/or legally discharged.

When the Company purchases mortgage loans with evidence of credit deterioration since origination and it determines that it is probable it will not collect all contractual cash flows on those loans, it will apply the guidance found in ASC 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality." Mortgage loans that are delinquent 60 or more days are considered non-performing.

The Company updates its estimate of the cash flows expected to be collected on at least a quarterly basis for loans accounted for under ASC 310-30. In estimating these cash flows, there are a number of assumptions that will be subject to uncertainties and contingencies including both the rate and timing of principal and interest receipts, and assumptions of prepayments, repurchases, defaults and liquidations. If based on the most current information and events it is probable that there is a significant increase in cash flows previously expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, the Company will recognize these changes prospectively through an adjustment of the loan's yield over its remaining life. The Company will adjust the amount of accretable yield by reclassification from the nonaccretable difference. The adjustment is accounted for as a change in estimate in conformity with ASC 250 with the amount of periodic accretion adjusted over the remaining life of the loan. Decreases in cash flows expected to be collected from previously projected cash flows, which includes all cash flows originally expected to be collected by the investor plus any additional cash flows expected to be collected arising from changes in estimate after acquisition, are recognized as impairment.

Investments in affiliates

The Company's unconsolidated ownership interests in affiliates are accounted for using the equity method. The underlying entities have chosen to make a fair value election on its financial instruments pursuant to ASC 825; as such the Company will treat its investments in affiliates consistently with this election. The investments in affiliates is recorded at fair market value on the consolidated balance sheet and periodic changes in fair market value will be recorded in current period earnings on the consolidated statement of operation as a component of "Equity in earnings/(loss) from affiliates." Capital contributions, distributions and profits and losses of such entities are allocated in accordance with the terms of the applicable agreements.

Excess mortgage servicing rights

The Company has acquired the right to receive the excess servicing spread related to excess mortgage servicing rights ("MSRs"). The Company has chosen to make a fair value election pursuant to ASC 825 for MSRs. MSRs are recorded at fair market value on the consolidated balance sheet and any periodic change in fair market value is recorded in current period earnings on the consolidated statement of operations as a component of "Unrealized gain (loss) on derivative and other instruments, net."

Investment consolidation and transfers of financial assets

For each investment made, the Company evaluates the underlying entity that issued the securities acquired or to which the Company makes a loan to determine the appropriate accounting. A similar analysis will be performed for each entity with which the Company enters into an agreement for management, servicing or related services. In performing the analysis, the Company refers to guidance in ASC 810-10, "Consolidation." In situations where the Company is the transferor of financial assets, the Company refers to the guidance in ASC 860-10, "Transfers and Servicing."

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In variable interest entities ("VIEs"), an entity is subject to consolidation under ASC 810-10 if the equity investors either do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support, are unable to direct the entity's activities or are not exposed to the entity's losses or entitled to its residual returns. VIEs within the scope of ASC 810-10 are required to be consolidated by their primary beneficiary. The primary beneficiary of a VIE is determined to be the party that has both the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. This determination can sometimes involve complex and subjective analyses. Further, ASC 810-10 also requires ongoing assessments of whether an enterprise is the primary beneficiary of a VIE. In accordance with ASC 810-10, all transferees, including variable interest entities, must be evaluated for consolidation. Refer to Note 3 for more detail.

The Company has entered into resecuritization transactions which result in the Company consolidating the VIEs that were created to facilitate the transactions and to which the underlying assets in connection with the resecuritization were transferred. In determining the accounting treatment to be applied to these resecuritization transactions, the Company evaluated whether the entities used to facilitate these transactions were VIEs and, if so, whether they should be consolidated. Based on its evaluation, the Company concluded that the VIEs should be consolidated. If the Company had determined that consolidation was not required, it would have then assessed whether the transfer of the underlying assets would qualify as a sale or should be accounted for as secured financings under GAAP.

The Company may periodically enter into transactions in which it sells assets. Upon a transfer of financial assets, the Company will sometimes retain or acquire senior or subordinated interests in the related assets. Pursuant to ASC 860-10, a determination must be made as to whether a transferor has surrendered control over transferred financial assets. That determination must consider the transferor's continuing involvement in the transferred financial asset, including all arrangements or agreements made contemporaneously with, or in contemplation of, the transfer, even if they were not entered into at the time of the transfer. The financial components approach under ASC 860-10 limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the transferor has not transferred the entire original financial asset to an entity that is not consolidated with the transferor in the financial statements being presented and/or when the transferor has continuing involvement with the transferred financial asset. It defines the term "participating interest" to establish specific conditions for reporting a transfer of a portion of a financial asset as a sale.

Under ASC 860-10, after a transfer of financial assets that meets the criteria for treatment as a sale—legal isolation, ability of transferee to pledge or exchange the transferred assets without constraint and transferred control—an entity recognizes the financial and servicing assets it acquired or retained and the liabilities it has incurred, derecognizes financial assets it has sold and derecognizes liabilities when extinguished. The transferor would then determine the gain or loss on sale of financial assets by allocating the carrying value of the underlying mortgage between securities or loans sold and the interests retained based on their fair values. The gain or loss on sale is the difference between the cash proceeds from the sale and the amount allocated to the securities or loans sold. When a transfer of financial assets does not qualify for sale accounting, ASC 860-10 requires the transfer to be accounted for as a secured borrowing with a pledge of collateral.

From time to time, the Company may securitize mortgage loans it holds if such financing is available. These transactions will be recorded in accordance with ASC 860-10 and will be accounted for as either a “sale” and the loans will be removed from the consolidated balance sheet or as a “financing” and will be classified as “real estate securities” on the consolidated balance sheet, depending upon the structure of the securitization transaction. ASC 860-10 is a standard that may require the Company to exercise significant judgment in determining whether a transaction should be recorded as a “sale” or a “financing.”

Interest income recognition

Interest income on the Company’s real estate securities portfolio is accrued based on the actual coupon rate and the outstanding principal balance of such securities. The Company has elected to record interest in accordance with ASC 835-30-35-2 using the effective interest method for all securities accounted for under the fair value option (ASC 825). As such, premiums and discounts are amortized or accreted into interest income over the lives of the securities in accordance with ASC 310-20, “Nonrefundable Fees and Other Costs,” ASC 320-10, “Investments—Debt and Equity Securities” or ASC 325-40, “Beneficial Interests in Securitized Financial Assets,” as applicable. Total interest income is recorded in the “Interest income” line item on the consolidated statement of operations.

On at least a quarterly basis for securities accounted for under ASC 320-10 and ASC 310-20 (generally Agency RMBS), prepayments of the underlying collateral must be estimated, which directly affect the speed at which the Company amortizes premiums on its securities. If actual and anticipated cash flows differ from previous estimates, the Company recognizes a “catch-up” adjustment in the current period to the amortization of premiums for the impact of the cumulative change in the effective yield through the reporting date.

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Similarly, the Company also reassesses the cash flows on at least a quarterly basis for securities accounted for under ASC 325-40 (generally Non-Agency RMBS, ABS, CMBS and interest-only securities). In estimating these cash flows, there are a number of assumptions that will be subject to uncertainties and contingencies. These include the rate and timing of principal and interest receipts, (including assumptions of prepayments, repurchases, defaults and liquidations), the pass-through or coupon rate and interest rate fluctuations. In addition, interest payment shortfalls due to delinquencies on the underlying mortgage loans have to be judgmentally estimated. Differences between previously estimated cash flows and current actual and anticipated cash flows are recognized prospectively through an adjustment of the yield over the remaining life of the security based on the current amortized cost of the investment as adjusted for credit impairment, if any.

Interest income on the Company's loan portfolio is accrued based on the actual coupon rate and the outstanding principal balance of such loans. The Company has elected to record interest in accordance with ASC 835-30-35-2 using the effective interest method for all loans accounted for under the fair value option (ASC 825). Any amortization will be reflected as an adjustment to interest income in the consolidated statement of operations.

For security and loan investments purchased with evidence of deterioration of credit quality for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments receivable, the Company will apply the provisions of ASC 310-30. For purposes of income recognition, the Company aggregates loans that have common risk characteristics into pools and uses a composite interest rate and expectation of cash flows expected to be collected for the pool. ASC 310-30 addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality. ASC 310-30 limits the yield that may be accreted (accretable yield) to the excess of the investor's estimate of undiscounted expected principal, interest and other cash flows (cash flows expected at acquisition to be collected) over the investor's initial investment in the loan. ASC 310-30 requires that the excess of contractual cash flows over cash flows expected to be collected (nonaccretable difference) not be recognized as an adjustment of yield, loss accrual or valuation allowance. Subsequent increases in cash flows expected to be collected generally should be recognized prospectively through an adjustment of the loan's yield over its remaining life. Decreases in cash flows expected to be collected should be recognized as impairment.

The Company's accrual of interest, discount accretion and premium amortization for U.S. federal and other tax purposes differs from the financial accounting treatment of these items as described above.

Other investments

The Company's subsidiary, MITT Insurance, is a member of, and owns capital stock in, the FHLBC. The FHLBC provides MITT Insurance with credit capacity and authorizes advances based on the security of pledged investments, provided the Company meets certain creditworthiness standards. FHLBC Advances, included in the “FHLBC advances" line item on the Company's consolidated balance sheets, are a funding source for the Company. As a condition of its membership in the FHLBC, MITT Insurance is required to maintain a FHLBC stock investment, both for membership and for the level of advances from the FHLBC to MITT Insurance. At September 30, 2015, the Company had stock in the FHLBC totaling $7.0 million. The Company did not hold FHLBC stock at December 31, 2014. The Company has chosen to make a fair value election pursuant to ASC 825 for its stock investment in FHLBC which is recorded in the "Other assets" line item on the Company’s consolidated balance sheet. When evaluating FHLBC stock for impairment, the Company considers the ultimate recoverability of the par value rather than recognizing temporary declines in value. As of September 30, 2015, the Company had not recognized an impairment charge related to its FHLBC stock. The Company is entitled to a quarterly dividend on the weighted average shares of stock it holds during the period. As of September 30, 2015, the Company had dividend income on its FHLBC stock of $17.1 thousand that is included in “Interest income” on the Company’s consolidated statements of operations.

Repurchase agreements and FHLBC Advances

The Company finances the acquisition of certain assets within its portfolio through the use of repurchase agreements and FHLBC Advances. Repurchase agreements and FHLBC Advances are treated as collateralized financing transactions and are carried at primarily their contractual amounts, including accrued interest, as specified in the respective agreements. The carrying amount of the Company’s repurchase agreements and FHLBC Advances approximates fair value.

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The Company pledges certain securities or loans as collateral under repurchase agreements with financial institutions, and certain securities as collateral under FHLBC Advances with the FHLBC, the terms and conditions of which are negotiated on a transaction-by-transaction basis. The amounts available to be borrowed are dependent upon the fair value of the securities or loans pledged as collateral, which fluctuates with changes in interest rates, type of security and liquidity conditions within the banking, mortgage finance and real estate industries. In response to declines in fair value of pledged assets, lenders, including the FHLBC, may require the Company to post additional collateral or pay down borrowings to re-establish agreed upon collateral requirements, referred to as margin calls. As of September 30, 2015 and December 31, 2014, the Company has met all margin call requirements.

On June 12, 2014, the Financial Accounting Standards Board (the “FASB”) issued ASU No. 2014-11. This amendment requires separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty. If all derecognition criteria are met, the initial transferee will account for the initial transfer as a purchase and the related repurchase agreement component of the transaction will be accounted for as a secured borrowing. Public business entities are required to apply the accounting changes for the first interim or annual reporting period beginning after December 15, 2014. Entities must present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption.

Prior to the adoption of ASU 2014-11, in instances where the Company acquired assets through repurchase agreements with the same counterparty from whom the assets were purchased, ASC 860-10 required the initial transfer of a financial asset and repurchase financing that were entered into contemporaneously with, or in contemplation of, one another to be considered linked unless all of the criteria found in ASC 860-10 were met at the inception of the transaction. If the transaction met all of the conditions, the initial transfer was accounted for separately from the repurchase financing, and the Company recorded the assets and the related financing on a gross basis on its consolidated balance sheet with the corresponding interest income and interest expense recorded on a gross basis in the consolidated statement of operations. If the transaction was determined to be linked, the Company recorded the initial transfer and repurchase financing on a net basis and recorded a forward commitment to purchase assets as a derivative instrument with changes in market value being recorded on the consolidated statement of operations. Such forward commitments were recorded at fair value with subsequent changes in fair value recognized in income. The Company referred to these transactions as Linked Transactions. The Company recorded interest income, interest expense, and gains and losses related to linked transactions in the “Income/(loss) from linked transactions, net” line item on the consolidated statement of operations. When a transaction was no longer considered to be linked, the real estate asset and related repurchase financing was reported on a gross basis. The unlinking of a transaction caused a realized event in which the fair value of the real estate asset as of the date of unlinking became the cost basis of the real estate asset. The difference between the fair value on the unlinking date and the existing cost basis of the security was the realized gain or loss. Recognition of effective yield for such security was calculated prospectively using the new cost basis. ASU 2014-11 eliminated this guidance for repurchase financings and instead requires that entities consider the initial transfer and the related repurchase agreement separately when applying the derecognition requirements of ASC 860-10. This guidance effectively changes the accounting for linked financings to secured borrowing accounting. Refer to Note 7 for more detail.

Accounting for derivative financial instruments

The Company enters into derivative contracts as a means of mitigating interest rate risk rather than to enhance returns. The Company accounts for derivative financial instruments in accordance with ASC 815-10, “Derivatives and Hedging.” ASC 815-10 requires an entity to recognize all derivatives as either assets or liabilities on the balance sheet and to measure those instruments at fair value. Additionally, the fair value adjustments will affect either other comprehensive income in stockholders’ equity until the hedged item is recognized in earnings or net income depending on whether the derivative instrument is designated and qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity. As of September 30, 2015 and December 31, 2014, the Company did not have any derivatives designated as hedges. All derivatives have been recorded at fair value in accordance with ASC 820-10, with corresponding changes in value recognized in the consolidated statement of operations. The Company records derivative asset and liability positions on a gross basis.

To-be-announced securities

A to-be-announced security (“TBA”) is a forward contract for the purchase or sale of Agency RMBS at a predetermined price, face amount, issuer, coupon and stated maturity on an agreed-upon future date. The specific Agency RMBS delivered into or received from the contract upon the settlement date, published each month by the Securities Industry and Financial Markets Association, are not known at the time of the transaction. The Company may also choose, prior to settlement, to move the settlement of these securities out to a later date by entering into an offsetting short or long position (referred to as a pair off), net settling the paired off positions for cash, simultaneously purchasing or selling a similar TBA contract for a later settlement date. This transaction is commonly referred to as a dollar roll. The Agency RMBS purchased or sold for a forward settlement date are typically priced at a discount to Agency RMBS for settlement in the current month. This difference, or discount, is referred to as the price drop. The price drop is the economic equivalent of net interest carry income on the underlying Agency RMBS over the roll period (interest income less implied financing cost) and is commonly referred to as dollar roll income/(loss). Consequently, forward purchases of Agency RMBS and dollar roll transactions represent a form of off-balance sheet financing. Dollar roll income is recognized in the consolidated statement of operations in the line item “Unrealized gain/(loss) on derivative and other instruments, net.”

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TBAs are exempt from ASC 815 and are accounted for under ASC 320 if there is no other way to purchase or sell that security, if delivery or receipt of that security and settlement will occur within the shortest period possible for that type of security and if it is probable at inception and throughout the term of the individual contract that physical delivery or receipt of the security will occur (referred to as the "regular-way" exception). Unrealized gains and losses associated with TBA contracts not subject to the regular-way exception or not designated as hedging instruments are recognized in the consolidated statement of operations in the line item "Unrealized gain/(loss) on derivative and other instruments, net."

U.S. Treasury securities

The Company may purchase long or sell short U.S. Treasury securities to help mitigate the potential impact of changes in interest rates. The Company may finance its purchase of U.S. Treasury securities with overnight repurchase agreements. The Company may borrow securities to cover short sales of U.S. Treasury securities through overnight reverse repurchase agreements, which are accounted for as borrowing transactions, and the Company recognizes an obligation to return the borrowed securities at fair value on its consolidated balance sheet based on the value of the underlying borrowed securities as of the reporting date. Interest income and expense associated with purchases and short sales of U.S. Treasury securities are recognized in "Interest income" and "Interest expense", respectively, on the consolidated statement of operations. Realized and unrealized gains and losses associated with purchases and short sales of U.S. Treasury securities are recognized in "Net realized gain/(loss)" and "Unrealized gain/(loss) on derivative and other instruments, net," respectively, on the consolidated statement of operations.

Manager compensation

The management agreement provides for payment to the Manager of a management fee. The management fee is accrued and expensed during the period for which it is calculated and earned. For a more detailed discussion on the fees payable under the management agreement, see Note 10.

Income taxes

The Company conducts its operations to qualify and be taxed as a REIT. Accordingly, the Company will generally not be subject to federal or state corporate income tax to the extent that the Company makes qualifying distributions to its stockholders, and provided that it satisfies on a continuing basis, through actual investment and operating results, the REIT requirements including certain asset, income, distribution and stock ownership tests. If the Company fails to qualify as a REIT, and does not qualify for certain statutory relief provisions, it will be subject to U.S. federal, state and local income taxes and may be precluded from qualifying as a REIT for the four taxable years following the year in which the Company fails to qualify as a REIT.

The dividends paid deduction of a REIT for qualifying dividends to its stockholders is computed using the Company's taxable income/(loss) as opposed to net income/(loss) reported on the Company's GAAP financial statements. Taxable income/(loss), generally, will differ from net income/(loss) reported on the financial statements because the determination of taxable income/(loss) is based on tax provisions and not financial accounting principles.

The Company has elected to treat certain subsidiaries as taxable REIT subsidiaries ("TRSs") and may elect to treat other subsidiaries as TRSs. In general, a TRS may hold assets and engage in activities that the Company cannot hold or engage in directly and generally may engage in any real estate or non-real estate-related business.

While a domestic TRS will generate net income/(loss), a domestic TRS can declare dividends to the Company which will be included in the Company's taxable income/(loss) and necessitate a distribution to stockholders. Conversely, if the Company retains earnings at the domestic TRS level, no distribution is required and the Company can increase book equity of the consolidated entity. A domestic TRS is subject to U.S. federal, state and local corporate income taxes.

The Company elected to treat one of its consolidated subsidiaries as a foreign TRS and, accordingly, taxable income generated by this foreign TRS may not be subject to local income taxation, but generally will be included in the Company's income on a current basis as Subpart F income, whether or not distributed.

The Company's financial results are generally not expected to reflect provisions for current or deferred income taxes, except for any activities conducted through one or more TRSs that are subject to corporate income taxation. The Company believes that it will operate in a manner that will allow it to qualify for taxation as a REIT. As a result of the Company's expected REIT qualification, it does not generally expect to pay federal or state corporate income tax. Many of the REIT requirements, however, are highly technical and complex. If the Company were to fail to meet the REIT requirements, it would be subject to federal income taxes and applicable state and local taxes.

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As a REIT, if the Company fails to distribute in any calendar year (subject to specific timing rules for certain dividends paid in January) at least the sum of (i) 85% of its ordinary income for such year, (ii) 95% of its capital gain net income for such year, and (iii) any undistributed taxable income from the prior year, the Company would be subject to a non-deductible 4% excise tax on the excess of such required distribution over the sum of (i) the amounts actually distributed and (ii) the amounts of income retained and on which the Company has paid corporate income tax.

The Company evaluates uncertain income tax positions, if any, in accordance with ASC Topic 740, “Income Taxes.” The Company classifies interest and penalties, if any, related to unrecognized tax benefits as a component of provision for income taxes. See Note 9 for further details.

Stock-based compensation

The Company applies the provisions of ASC 718, “Compensation—Stock Compensation” with regard to its equity incentive plans. ASC 718 covers a wide range of share-based compensation arrangements including stock options, restricted stock plans, performance-based awards, stock appreciation rights and employee stock purchase plans. ASC 718 requires that compensation cost relating to stock-based payment transactions be recognized in financial statements. Compensation cost is measured based on the fair value of the equity or liability instruments issued.

Compensation cost related to restricted common shares issued to the Company’s directors is measured at its estimated fair value at the grant date, and is amortized and expensed over the vesting period on a straight-line basis. Compensation cost related to restricted common shares and restricted stock units issued to the Manager is initially measured at estimated fair value at the grant date, and is remeasured on subsequent dates to the extent the awards are unvested. Shares of restricted common stock held by the Manager and independent directors accrue dividends, but these dividends are not paid until vested and are therefore not considered to be participating shares. Restricted stock units granted to the Manager do not entitle the participant the rights of a shareholder of the Company’s common stock, such as dividend and voting rights, until shares are issued in settlement of the vested units. The restricted stock units are not considered to be participating shares. Restricted stock units are measured at fair value reduced by the present value of the dividends expected to be paid on the underlying shares during the requisite service period, discounted at an assumed risk free rate. The Company has elected to use the straight-line method to amortize compensation expense for the restricted common shares and restricted stock units granted to the Manager.

Recent accounting pronouncements

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. In adopting ASU 2014-09, companies may use either a full retrospective or a modified retrospective approach. Additionally, this guidance requires improved disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB deferred the effective date of the new revenue recognition standard by one year. The new standard is effective for the first interim period within annual reporting periods beginning after December 15, 2017 and early adoption is permitted. The Company is continuing to evaluate its method of adoption and the impact this ASU will have on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-13, “Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity” (“ASU 2014-13”). This guidance applies to a reporting entity that is required to consolidate a collateralized financing entity under the Variable Interest Entities Subsections of Subtopic 810-10 when (1) the reporting entity measures all of the financial assets and the financial liabilities of that consolidated collateralized financing entity at fair value in the consolidated financial statements based on other Topics and (2) the changes in the fair values of those financial assets and financial liabilities are reflected in earnings. The amendments in this Update clarify that when the measurement alternative is elected, a reporting entity’s consolidated net income (loss) should reflect the reporting entity’s own economic interests in the collateralized financing entity, including (1) changes in the fair value of the beneficial interests retained by the reporting entity and (2) beneficial interests that represent compensation for services. Beneficial interests retained by the reporting entity that represent compensation for services (for example, management fees or servicing fees) and nonfinancial assets that are held temporarily by a collateralized financing entity should be measured in accordance with other applicable Topics. The amendments in this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. The Company is currently assessing the impact of this guidance.

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In February 2015, the FASB issued ASU 2015-02, "Consolidation" ("ASU 2015-02"). The amendments in this update affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments, (1) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities, (2) eliminate the presumption that a general partner should consolidate a limited partnership, (3) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships partnership, and (4) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The amendments in this update are effective for annual periods, and interim periods within those annual periods beginning after December 15, 2015. The Company is currently assessing the impact of this guidance.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"), to simplify the presentation of debt issuance costs. Debt issuance costs are specific incremental third party costs—other than those paid to the lender—that are directly attributable to issuing a debt instrument. Under the new guidance, debt issuance costs will be presented as a direct deduction from the carrying value of the associated debt, consistent with the existing presentation of a debt discount. Before the FASB issued this simplification, debt issuance costs were capitalized as an asset (i.e., a deferred charge). For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company is currently assessing the impact of this guidance.

In August 2015, the FASB issued ASU 2015-15, "Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements" ("ASU 2015-15"), to simplify the presentation of debt issuance costs, specifically, line-of-credit arrangements. Debt issuance costs are specific incremental third party costs—other than those paid to the lender—that are directly attributable to issuing a debt instrument. The ASU states that the Securities and Exchange Commission ("SEC") would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are outstanding borrowings under that arrangement. For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company is currently assessing the impact of this guidance.

3. Real Estate Securities

The following tables present the current principal balance, premium or discount, amortized cost, gross unrealized gain, gross unrealized loss, fair market value, weighted average coupon rate and weighted average effective yield of the Company's real estate securities portfolio at September 30, 2015 and December 31, 2014. The Company's Agency RMBS are mortgage pass-through certificates or collateralized mortgage obligations ("CMOs") representing interests in or obligations backed by pools of residential mortgage loans issued or guaranteed by Fannie Mae or Freddie Mac. The Company's Non-Agency RMBS, ABS and CMBS portfolios are primarily not issued or guaranteed by Fannie Mae, Freddie Mac or any agency of the U.S. Government and are therefore subject to credit risk. The principal and interest payments on Agency RMBS securities have an explicit guarantee by either an agency of the U.S. government or a U.S government-sponsored enterprise. Real estate securities that are accounted for as a component of linked transactions are not reflected in the tables set forth in this note. See Note 7 for further details on linked transactions.

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The following table details the Company's real estate securities portfolio as of September 30, 2015:

	Current Face	Premium / (Discount)	Amortized Cost	Gross Unrealized (1) Gains	Losses	Fair Value	Weight Averag Coupo (2)
Agency RMBS:							
20 Year Fixed Rate	$47,764,013	$2,283,431	$50,047,444	$1,150,800	$-	$51,198,244	3.84%
30 Year Fixed Rate	865,589,633	40,032,928	905,622,561	14,891,135	(1,271,170)	919,242,526	3.79%
Fixed Rate CMO	78,888,496	701,214	79,589,710	2,999,839	-	82,589,549	3.00%
ARM	372,451,993	(22,326)	372,429,667	8,313,590	(156,979)	380,586,278	2.41%
Interest Only	662,110,539	(585,468,365)	76,642,174	3,135,362	(1,623,209)	78,154,327	3.34%
Credit Investments:							
Non-Agency RMBS	1,787,704,133	(664,934,585)	1,122,769,548	26,102,684	(7,198,131)	1,141,674,101	3.11%
ABS	57,007,070	(404,636)	56,602,434	582,060	(889,987)	56,294,507	5.26%
CMBS	235,256,553	(103,336,586)	131,919,967	1,763,198	(721,741)	132,961,424	5.08%
CMBS Interest Only	52,357,700	(46,918,596)	5,439,104	206,227	-	5,645,331	1.92%
Total	$4,159,130,130	$(1,358,067,521)	$2,801,062,609	$59,144,895	$(11,861,217)	$2,848,346,287	3.32%

(1) The Company has chosen to make a fair value election pursuant to ASC 825 for its real estate securities portfolio. Unrealized gains and losses are recognized in current period earnings in the unrealized gain/(loss) on real estate securities and loans, net line item. The gross unrealized stated above represents inception to date unrealized gains/(losses).

(2) Equity residual investments and principal only securities with a zero coupon rate are excluded from this calculation.

The following table details the Company’s real estate securities portfolio as of December 31, 2014:

	Current Face	Premium / (Discount)	Amortized Cost	Gross Unrealized (1) Gains	Losses	Fair Value	Weighted Average Coupon (2)
Agency RMBS:							
20 Year Fixed Rate	$125,538,084	$6,009,532	$131,547,616	$2,267,721	$(72,467)	$133,742,870	3.72%
30 Year Fixed Rate	973,102,647	46,665,955	1,019,768,602	17,222,909	(967,492)	1,036,024,019	3.90%
Fixed Rate CMO	88,345,864	880,994	89,226,858	1,548,517	-	90,775,375	3.00%
ARM	421,043,957	(888,105)	420,155,852	7,570,945	(189,430)	427,537,367	2.42%
Interest Only	754,905,240	(638,264,371)	116,640,869	5,941,701	(2,347,455)	120,235,115	4.51%
Credit Investments:							
Non-Agency RMBS	1,303,432,523	(181,488,454)	1,121,944,069	24,415,728	(6,281,869)	1,140,077,928	4.26%
ABS	67,696,117	(379,648)	67,316,469	322,074	(945,300)	66,693,243	5.15%
CMBS	220,026,552	(127,623,416)	92,403,136	2,138,358	(146,791)	94,394,703	5.13%
CMBS Interest Only	52,357,700	(46,424,765)	5,932,935	193,014	-	6,125,949	1.85%
Total	$4,006,448,684	$(941,512,278)	$3,064,936,406	$61,620,967	$(10,950,804)	$3,115,606,569	3.97%

(1) The Company has chosen to make a fair value election pursuant to ASC 825 for its real estate securities portfolio. Unrealized gains and losses are recognized in current period earnings in the unrealized gain/(loss) on real estate securities and loans, net line item. The gross unrealized stated above represents inception to date unrealized gains/(losses).

(2) Equity residual investments and principal only securities with a zero coupon rate are excluded from this calculation.

The following table presents the gross unrealized losses and fair value of the Company’s real estate securities by length of time that such securities have been in a continuous unrealized loss position at September 30, 2015 and December 31, 2014:

	Less than 12 months		Greater than 12 months	
As of	Fair Value	**Unrealized Losses**	Fair Value	**Unrealized Losses**
September 30, 2015	$635,617,488	$(8,116,431)	$127,987,863	$(3,744,786)

December 31, 2014	551,097,657	(6,921,385)	224,261,493	(4,029,419)

As described in Note 2, the Company evaluates securities for OTTI on at least a quarterly basis. The determination of whether a security is other-than-temporarily impaired involves judgments and assumptions based on subjective and objective factors. When the fair value of a real estate security is less than its amortized cost at the balance sheet date, the security is considered impaired, and the impairment is designated as either “temporary” or “other-than-temporary.”

For the three months ended September 30, 2015 the Company recognized $3.2 million of OTTI on certain securities, which is included in the “Net realized gain/(loss)” line item on the consolidated statement of operations. The Company recorded the $3.2 million of OTTI due to an adverse change in cash flows on certain securities, where the fair values of the securities were less than their carrying amounts. Of the $3.2 million of OTTI recorded, $0.4 million related to securities where OTTI was not previously recognized. For the nine months ended September 30, 2015 the Company recognized $7.1 million of OTTI on certain securities, which is included in the “Net realized gain/(loss)” line item on the consolidated statement of operations. The Company recorded the $7.1 million of OTTI due to an adverse change in cash flows, where the fair values of the securities were less than their carrying amounts. Of the $7.1 million of OTTI recorded, $2.2 million related to securities where OTTI was not previously recognized.

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For the three months ended September 30, 2014 the Company recognized $0.4 million of OTTI on certain securities, which is included in the “Net realized gain/(loss)” line item on the consolidated statement of operations. The Company recorded the $0.4 million of OTTI due to an adverse change in cash flows on certain securities, where the fair values of the securities were less than their carrying amounts. Of the $0.4 million of OTTI recorded, $0.4 million related to securities where OTTI was not previously recognized. For the nine months ended September 30, 2014 the Company recognized $1.7 million of OTTI on certain securities, which is included in the “Net realized gain/(loss)” line item on the consolidated statement of operations. The Company recorded the $1.7 million of OTTI due to an adverse change in cash flows, where the fair values of the securities were less than their carrying amounts. Of the $1.7 million of OTTI recorded, $0.6 million related to securities where OTTI was not previously recognized.

The decline in value of the remaining real estate securities is solely due to market conditions and not the quality of the assets. The investments in unrealized loss positions are not considered other than temporarily impaired because the Company currently has the ability and intent to hold the investments to maturity or for a period of time sufficient for a forecasted market price recovery up to or beyond the cost of the investments and the Company is not required to sell for regulatory or other reasons.

All of the principal and interest payments on the Agency RMBS have an explicit guarantee by either an agency of the U.S. government or a U.S. government-sponsored enterprise.

The following table details weighted average life by Agency RMBS, Agency Interest-Only (“IO”) and Credit Investments as of September 30, 2015:

	Agency RMBS (1)			Agency IO			Credit Investme
Weighted Average Life (3)	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value
Less than or equal to 1 year	$-	$-		$-	$-	-	$78,170,400
Greater than one year and less than or equal to five years	106,045,472	104,480,774	2.59%	63,045,851	62,591,791	3.11%	512,464,212
	1,320,328,936	1,296,088,071	3.43%	15,108,476	14,050,383	5.26%	628,310,245

Greater than five years and less than or equal to ten years							
Greater than ten years	7,242,189	7,120,537	4.25%	-	-	-	117,630,506
Total	$1,433,616,597	$1,407,689,382	3.37%	$78,154,327	$76,642,174	3.34%	$1,336,575,363

(1) For purposes of this table, Agency RMBS represent securities backed by Fixed Rate 20 Year and Fixed Rate 30 Year mortgages, ARMs and Fixed Rate CMOs.

(2) For purposes of this table, Credit Investments represent Non-Agency RMBS, ABS, CMBS and CMBS Interest Only securities.

(3) Actual maturities of mortgage-backed securities are generally shorter than stated contractual maturities. Maturities are affected by the contractual lives of the underlying mortgages, periodic payments of principal and prepayments of principal.

(4) Equity residual investments and principal only securities with a zero coupon rate are excluded from this calculation.

The following table details weighted average life by Agency RMBS, Agency IO and Credit Investments as of December 31, 2014:

	Agency RMBS (1)			Agency IO			Credit Investr
Weighted Average Life (3)	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value
Less than or equal to 1 year	$-	$-	-	$-	$-	-	$39,522,038
Greater than one year and less than or equal to five years	72,253,477	71,713,942	2.57%	67,356,372	67,199,203	4.16%	621,179,587
Greater than five years and less than or equal to ten years	1,486,360,763	1,461,439,648	3.49%	52,878,743	49,441,666	5.13%	562,808,169
Greater than ten years	129,465,391	127,545,338	3.54%	-	-	-	83,782,029
Total	$1,688,079,631	$1,660,698,928	3.45%	$120,235,115	$116,640,869	4.51%	$1,307,291,8

(1) For purposes of this table, Agency RMBS represent securities backed by Fixed Rate 20 Year and Fixed Rate 30 Year mortgages, ARMs and Fixed Rate CMOs.

(2) For purposes of this table, Credit Investments represent Non-Agency RMBS, ABS, CMBS and CMBS Interest Only securities.

(3) Actual maturities of mortgage-backed securities are generally shorter than stated contractual maturities. Maturities are affected by the contractual lives of the underlying mortgages, periodic payments of principal and prepayments of

principal.

(4) Equity residual investments and principal only securities with a zero coupon rate are excluded from this calculation.

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For the three months ended September 30, 2015, the Company sold 3 securities for total proceeds of $30.1 million, with an additional $51.3 million of proceeds on 3 unsettled security sales as of quarter end, recording realized gains of $1.4 million and realized losses of $0.2 million, respectively. For the nine months ended September 30, 2015, the Company sold 38 securities for total proceeds of $418.0 million, recording realized gains of $9.3 million and realized losses of $2.0 million, respectively.

For the three months ended September 30, 2014, the Company sold 15 securities for total proceeds of $324.5 million, with an additional $151.9 million of proceeds on 10 unsettled security sales as of quarter end, recording realized gains of $11.7 million and realized losses of $0.8 million, respectively. For the nine months ended September 30, 2014, the Company sold 44 securities for total proceeds of $674.4 million, with additional proceeds on the aforementioned unsettled security sale as of September 30, 2014, recording realized gains of $13.7 million and realized losses of $4.8 million, inclusive of related tax provisions.

For the three and nine months ended September 30, 2015, the Company sold 1 security held within affiliated entities for total gross proceeds of $0.5 million, recording realized gains of $0.1 million. For the three and nine months ended September 30, 2014, the Company sold 12 securities held within affiliated entities for total gross proceeds of $31.0 million, recording realized gains of $3.6 million.

See Notes 4 and 7 for amounts realized on sales of loans and the settlement of certain derivatives, respectively.

The Company invests in credit sensitive commercial and residential real estate assets through affiliated entities, and has applied the equity method of accounting for such investments. As of September 30, 2015, the investments had a fair market value of $62.3 million and a weighted average yield of 10.67%. The underlying entities financed the acquisition of certain investments with repurchase agreements. As of September 30, 2015, the repurchase agreement balance, collateral pledged, and rate were $20.2 million, $27.2 million and 3.00%, respectively. As of December 31, 2014, the investments accounted for at fair value were $42.0 million with a weighted average yield of 12.13%. As of December 31, 2014, the repurchase agreement balance, collateral pledged, and rate were $21.3 million, $28.4 million and 3.00%, respectively. The Company has presented these investments and any related repurchase financing net on the consolidated balance sheet in the “Investments in affiliates” line item, and all income statement components on the consolidated statement of operations within “Equity in earnings/(loss) from affiliates.”

The underlying affiliated entities evaluate their investments for OTTI on at least a quarterly basis. The determination of whether these investments are other-than-temporarily impaired involves judgments and assumptions based on subjective and objective factors. When the fair value of an investment is less than its amortized cost at the balance sheet date, the investment is considered impaired, and the impairment is designated as either "temporary" or "other-than-temporary."

For the nine months ended September 30, 2015, the underlying affiliated entities recognized $1.7 million of OTTI on certain investments held, which is included in the "Equity in earnings/(loss) from affiliates" line item on the consolidated statement of operations. The underlying affiliated entities recorded the $1.7 million of OTTI due to an adverse change in cash flows on certain investments, where the fair values of the investments were less than their carrying amounts. The $1.7 million related to investments where OTTI was not previously recognized. No OTTI was recorded on investments held through affiliated entities for the three months ended September 30, 2015 or September 30, 2014 or nine months ended September 30, 2014.

A Special Purpose Entity ("SPE") is an entity designed to fulfill a specific limited need of the company that organized it. SPEs are often used to facilitate transactions that involve securitizing financial assets or resecuritizing previously securitized financial assets. The objective of such transactions may include obtaining non-recourse financing, obtaining liquidity or refinancing the underlying securitized financial assets on improved terms. Securitization involves transferring assets to a SPE to convert all or a portion of those assets into cash before they would have been realized in the normal course of business through the SPE's issuance of debt or equity instruments. Investors in a SPE usually have recourse only to the assets in the SPE and depending on the overall structure of the transaction, may benefit from various forms of credit enhancement, such as over-collateralization in the form of excess assets in the SPE, priority with respect to receipt of cash flows relative to holders of other debt or equity instruments issued by the SPE, or a line of credit or other form of liquidity agreement that is designed with the objective of ensuring that investors receive principal and/or interest cash flow on the investment in accordance with the terms of their investment agreement. Refer to Note 2 for more detail.

In 2014, the Company entered into a resecuritization transaction that resulted in the Company consolidating the VIE created with the SPE which was used to facilitate the transaction. The Company concluded that the entity created to facilitate this transaction was a VIE. The Company also determined the VIE created to facilitate the resecuritization transaction should be consolidated by the Company and treated as a secured borrowing, based on consideration of its involvement in the VIE, including the design and purpose of the SPE, and whether its involvement reflected a controlling financial interest that resulted in the Company being deemed the primary beneficiary of the VIE. As of September 30, 2015 and December 31, 2014, the resecuritized asset had an aggregate fair value of $40.1 million and $47.6 million, respectively. As of September 30, 2015 and December 31, 2014, the fair market value of the consolidated tranche was $32.8 million and $39.8 million, respectively, which is included in the Company's consolidated balance sheet as "Non-Agency RMBS." As of September 30, 2015 and December 31, 2014, the aggregate security has a weighted average coupon of 5.53% and 5.50%, respectively, and a weighted average yield of 6.05% and 5.14%, respectively. As of September 30, 2015, and December 31, 2014, the Company has recorded secured financing of $32.8 million and $39.8 million, respectively, on the consolidated balance sheet in the "Securitized debt" line item. The Company recorded the proceeds from the issuance of the secured financing in the "Cash Flows from Financing Activities" section of the consolidated statement of cash flows for the year ended December 31, 2014. As of September 30, 2015 and December 31, 2014, the consolidated tranche had a weighted average life of 4.19 years and 3.40 years, respectively and a weighted average yield of 3.70% and 3.75%, respectively. The holders of the consolidated tranche have no recourse to the general credit of the Company. The Company has no obligation to provide any other explicit or implicit support to any VIE.

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4. Loans

Residential Mortgage Loans

On February 28, 2014, the Company acquired a residential mortgage loan portfolio with an aggregate unpaid principal balance and acquisition fair value of $59.0 million and $34.9 million, respectively. On February 18, 2014, the Company entered into a Master Repurchase Agreement and Securities Contract (“Repurchase facility”) to finance acquisitions of residential mortgage loans. See Note 6 for further detail on the Company’s loan repurchase facility.

On July 31, 2014, the Company acquired a residential mortgage loan portfolio with an aggregate unpaid principal balance and acquisition fair value of $13.7 million and $5.7 million, respectively.

On September 30, 2014, the Company acquired a residential mortgage loan portfolio with an aggregate unpaid principal balance and acquisition fair value of $50.5 million and $44.0 million, respectively.

The table below details certain information regarding the Company’s residential mortgage loan portfolio as of September 30, 2015:

				Gross Unrealized (1)			Weighted Average		
	Unpaid Principal Balance	Premium (Discount)	Amortized Cost	Gains	Losses	Fair Value	Coupon	Yield	Life (Years) (2)
Residential mortgage loans	$107,528,058	$(30,888,971)	$76,639,087	$2,887,111	$ -	$79,526,198	5.48%	8.13%	6.15

(1) The Company has chosen to make a fair value election pursuant to ASC 825 for its loan portfolio. Unrealized gains and losses are recognized in current period earnings in the unrealized gain/(loss) on real estate securities and

loans, net line item. The gross unrealized stated above represents inception to date unrealized gains (losses).

(2) Actual maturities of residential mortgage loans are generally shorter than stated contractual maturities. Maturities are affected by the lives of the underlying mortgages, periodic payments of principal and prepayments of principal.

The table below details certain information regarding the Company's residential mortgage loan portfolio as of December 31, 2014:

				Gross Unrealized (1)			Weighted Average		
	Unpaid Principal Balance	Premium (Discount)	Amortized Cost	Gains	Losses	Fair Value	Coupon	Yield	Life (Years) (2)
Residential mortgage loans	$119,882,836	$(35,534,525)	$84,348,311	$1,101,473	$(359,925)	$85,089,859	5.53%	8.90%	5.65

(1) The Company has chosen to make a fair value election pursuant to ASC 825 for its loan portfolio. Unrealized gains and losses are recognized in current period earnings in the unrealized gain/(loss) on real estate securities and loans, net line item. The gross unrealized stated above represents inception to date unrealized gains (losses).

(2) Actual maturities of residential mortgage loans are generally shorter than stated contractual maturities. Maturities are affected by the lives of the underlying mortgages, periodic payments of principal and prepayments of principal.

The table below summarizes the distribution of the Company's residential mortgage loans at fair value:

	September 30, 2015		December 31, 2014	
Loan Type	Fair Value	**Unpaid Principal Balance**	Fair Value	**Unpaid Principal Balance**
Re-Performing	$66,586,540	$ 84,980,145	$68,581,824	$ 89,493,175
Non-Performing	12,939,658	22,547,913	16,508,035	30,389,661
	$79,526,198	$ 107,528,058	$85,089,859	$ 119,882,836

As described in Note 2, the Company evaluates loans for OTTI on at least a quarterly basis. The determination of whether a loan is other-than-temporarily impaired involves judgments and assumptions based on subjective and objective factors. When the fair value of a loan is less than its amortized cost at the balance sheet date, the loan is considered impaired, and the impairment is designated as either "temporary" or "other-than-temporary."

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For the three months ended September 30, 2015 the Company recognized $0.2 million of OTTI on certain loan pools, which is included in the “Net realized gain/(loss)” line item on the consolidated statement of operations. The Company recorded the $0.2 million of OTTI due to an adverse change in cash flows, where the fair values of the loan pools were less than their carrying amounts. The $0.2 million related to non-performing loan pools with an unpaid principal balance of $18.8 million and an average fair market value of $11.7 million where OTTI was previously recognized. For the nine months ended September 30, 2015 the Company recognized $0.6 million of OTTI on certain loan pools, which is included in the “Net realized gain/(loss)” line item on the consolidated statement of operations. The Company recorded the $0.6 million of OTTI due to an adverse change in cash flows, where the fair values of the loan pools were less than their carrying amounts. The $0.6 million related to non-performing and re-performing loan pools with unpaid principal balances of $18.8 million and $46.9 million, respectively, and an average fair market value of $12.3 million and $41.6 million, respectively, where OTTI was not previously recognized. No OTTI was recorded on loans for the three or nine months ended September 30, 2014.

The Company’s mortgage loan portfolio consisted of mortgage loans on residential real estate located throughout the U.S. The following is a summary of certain concentrations of credit risk within the Company’s mortgage loan portfolio:

Concentration of Credit Risk	September 30, 2015		December 31, 2014	
Percentage of fair value of mortgage loans with unpaid principal balance to current property value in excess of 100%	96	%	98	%
Percentage of fair value of mortgage loans secured by properties in the following states:				
Representing 5% or more of fair value:				
New York	17	%	16	%
California	11	%	11	%
Florida	7	%	8	%
Maryland	6	%	5	%

The Company records interest income on a level-yield basis. The accretable discount is determined by the excess of the Company’s estimate of undiscounted principal, interest, and other cash flows expected to be collected over its initial investment in the mortgage loan. The following is a summary of the changes in the accretable portion of discounts for the three and nine months ended September 30, 2015 and September 30, 2014, respectively:

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Beginning Balance	$33,530,324	$ 16,456,567	$38,008,263	$ -
Additions	-	21,135,814	-	38,295,030
Accretion	(1,446,159)	(694,427)	(4,736,246)	(982,312)
Reclassifications from/(to) non-accretable difference	5,504,905	(431,066)	5,292,345	(431,066)
Disposals	(126,739)	(294,910)	(1,102,031)	(709,674)
Ending Balance	$37,462,331	$ 36,171,978	$37,462,331	$ 36,171,978

As of September 30, 2015, the Company’s residential mortgage loan portfolio is comprised of 533 conventional loans with original loan balances between $9,000 and $1.1 million.

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Commercial Loans

The following tables present the current principal balance, premium or discount, amortized cost, gross unrealized gain, gross unrealized loss, fair market value, weighted average coupon rate and weighted average effective yield of the Company's commercial loan portfolio at September 30, 2015.

				Gross Unrealized (1)			Weighted Average			
	Current Face	Premium (Discount)	Amortized Cost	Gains	Losses	Fair Value	Coupon (5)	Yield	Life (Years) (6)	Stated Maturity Date (7)
Loan A (2)	$30,000,000	$(139,529)	$29,860,471	$139,529	$-	$30,000,000	6.50 %	7.87 %	1.71	June 5, 2017
Loan B (3)	32,800,000	(66,332)	32,733,668	66,332	-	32,800,000	5.00 %	5.66 %	0.78	July 1, 2016
Loan C (4)	10,000,000	(39,771)	9,960,229	39,771	-	10,000,000	13.50%	16.41%	0.85	February 1, 2017
	$72,800,000	$(245,632)	$72,554,368	$245,632	$-	$72,800,000	6.79 %	8.05 %	1.17	

(1) The Company has chosen to make a fair value election pursuant to ASC 825 for our loan portfolio. Unrealized gains and losses are recognized in current period earnings in the unrealized gain/(loss) on real estate securities and loans, net line item. The gross unrealized stated above represents inception to date unrealized gains (losses).

(2) Loan A is comprised of a first mortgage and mezzanine loan of $20.0 million and $10.0 million, respectively.

(3) Loan B is comprised of a first mortgage and mezzanine loan of $31.8 million and $1.0 million, respectively.

(4) Loan C is mezzanine loan.

(5) Each commercial loan investment has a variable coupon rate.

(6) Actual maturities of commercial mortgage loans may be shorter than stated contractual maturities. Maturities are affected by prepayments of principal.

(7) The Company has the contractual right to receive a balloon payment.

The following tables present the current principal balance, premium or discount, amortized cost, gross unrealized gain, gross unrealized loss, fair market value, coupon rate and effective yield of the Company's commercial loan portfolio at December 31, 2014.

				Gross Unrealized (1)			Weighted Average			
	Current Face	Premium (Discount)	Amortized Cost	Gains	Losses	Fair Value	Coupon (5)	Yield	Life (Years) (6)	Stated Maturity Date (7)
Loan A (2)	$30,000,000	$(240,326)	$29,759,674	$240,326	$-	$30,000,000	6.50 %	8.76 %	2.77	June 5, 2017
Loan B (3)	32,800,000	(189,506)	32,610,494	189,506	-	32,800,000	5.00 %	6.15 %	1.45	July 1, 2016
Loan C (4)	10,000,000	(66,187)	9,933,813	66,187	-	10,000,000	13.50%	15.77%	1.61	February 1, 2017
	$72,800,000	$(496,019)	$72,303,981	$496,019	$-	$72,800,000	6.79 %	8.55 %	2.02	

(1) The Company has chosen to make a fair value election pursuant to ASC 825 for our loan portfolio. Unrealized gains and losses are recognized in current period earnings in the unrealized gain/(loss) on real estate securities and loans, net line item. The gross unrealized stated above represents inception to date unrealized gains (losses).

(2) Loan A is comprised of a first mortgage and mezzanine loan of up to $24.0 million and $12.0 million, respectively, of which $20.0 million and $10.0 million has been advanced.

(3) Loan B is comprised of a first mortgage and mezzanine loan of $31.8 million and $1.0 million, respectively.

(4) Loan C is mezzanine loan.

(5) Each commercial loan investment has a variable coupon rate.

(6) Actual maturities of commercial mortgage loans may be shorter than stated contractual maturities. Maturities are affected by prepayments of principal.

(7) The Company has the contractual right to receive a balloon payment.

During the three and nine months ended September 30, 2015 the Company recorded $0.1 million and $0.3 million of discount accretion, respectively. During the three and nine months ended September 30, 2014 the Company recorded $0.1 million and $0.2 million of discount accretion, respectively.

5. Fair Value Measurements

As described in Note 2, the fair value of financial instruments that are recorded at fair value will be determined by the Manager, subject to oversight of the Company's board of directors, and in accordance with ASC 820, "Fair Value Measurements and Disclosures." When possible, the Company determines fair value using independent data sources. ASC 820 establishes a hierarchy that prioritizes the inputs to valuation techniques giving the highest priority to readily available unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements) when market prices are not readily available or reliable. The three levels of the hierarchy under ASC 820 are described below:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Prices determined using other significant observable inputs. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level 3 – Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Company's assumptions about the factors that market participants would use in pricing an asset or liability, and would be based on the best information available.

Values for the Company's securities, securitized debt, derivatives and loan portfolios are based upon prices obtained from third party pricing services, which are indicative of market activity. The evaluation methodology of the Company's third-party pricing services incorporates commonly used market pricing methods, including a spread measurement to various indices such as the one-year constant maturity treasury and LIBOR, which are observable inputs. The evaluation also considers the underlying characteristics of each investment, which are also observable inputs, including: coupon; maturity date; loan age; reset date; collateral type; periodic and life cap; geography; and prepayment speeds. The Company collects and considers current market intelligence on all major markets, including benchmark security evaluations and bid-lists from various sources, when available. As part of the Company's risk management process, the Company reviews and analyzes all prices obtained by comparing prices to recently completed transactions involving the same or similar investments on or near the reporting date. If, in the opinion of the Manager, one or more prices reported to the Company are not reliable or unavailable, the Manager reviews the fair value based on characteristics of the investment it receives from the issuer and available market information.

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In valuing its derivatives, the Company considers the creditworthiness of both the Company and its counterparties, along with collateral provisions contained in each derivative agreement, from the perspective of both the Company and its counterparties. All of the Company’s derivatives are either subject to bilateral collateral arrangements or clearing in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd Frank Act”). For swaps cleared under the Dodd Frank Act, a Central Counterparty Clearing House (“CCP”) now stands between the Company and the over-the-counter derivative counterparties. In order to access clearing, the Company has entered into clearing agreements with Futures Commissions Merchants (“FCMs”). The Company records its derivative asset and liability positions on a gross basis.

The fair value of the Company's mortgage loans considers data such as loan origination information, additional updated borrower information, loan servicing data, as available, forward interest rates, general economic conditions, home price index forecasts and valuations of the underlying properties. The variables considered most significant to the determination of the fair value of the Company's mortgage loans include market-implied discount rates, projections of default rates, delinquency rates, reperformance rates, loss severity (considering mortgage insurance) and prepayment rates. The Company uses loan level data and macro-economic inputs to generate loss adjusted cash flows and other information in determining the fair value of its mortgage loans. Because of the inherent uncertainty of such valuation, the fair values established for mortgage loans held by the Company may differ from the fair values that would have been established if a ready market existed for these mortgage loans. Accordingly, mortgage loans are classified as Level 3 in the fair value hierarchy.

The Manager may also engage specialized third party valuation service providers to assess and corroborate the valuation of a selection of investments in the Company’s loan portfolio on a periodic basis. These specialized third party valuation service providers conduct independent valuation analyses based on a review of source documents, available market data, and comparable investments. The analyses provided by valuation service providers are reviewed and considered by the Manager.

The securities underlying the Company’s linked transactions were valued using similar techniques to those used for the Company’s securities portfolio. The value of the underlying security was then netted against the carrying amount (which approximates fair value) of the repurchase agreement at the valuation date. Additionally, TBA instruments are similar in form to the Company’s Agency RMBS portfolio, and the Company therefore estimates fair value based on similar methods.

U.S. Treasury securities are valued using quoted prices for identical instruments in active markets. The fair value of the Company's obligation to return securities borrowed under reverse repurchase agreements is based upon the value of the underlying borrowed U.S. Treasury securities as of the reporting date.

As a condition to membership in the FHLBC, the Company is required to purchase and hold a certain amount of FHLBC stock, which is considered a non-marketable, long-term investment. Because this stock can only be transacted at its par value, and only to the FHLBC, cost approximates fair value. The Company categorizes the fair value measurement of these assets as Level 3.

AG Mortgage Investment Trust Inc. and Subsidiaries

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The following table presents the Company's financial instruments measured at fair value as of September 30, 2015:

	Level 1	Level 2	Level 3	Total
Assets:				
Agency RMBS:				
20 Year Fixed Rate	$-	$51,198,244	$-	$51,198,244
30 Year Fixed Rate	-	919,242,526	-	919,242,526
Fixed Rate CMO	-	82,589,549	-	82,589,549
ARM	-	380,586,278	-	380,586,278
Interest Only	-	78,154,327	-	78,154,327
Credit Investments:				
Non-Agency RMBS	-	684,423,159	457,250,942	1,141,674,101
ABS	-	-	56,294,507	56,294,507
CMBS	-	45,128,345	87,833,079	132,961,424
CMBS Interest Only	-	-	5,645,331	5,645,331
Residential mortgage loans	-	-	79,526,198	79,526,198
Commercial loans	-	-	72,800,000	72,800,000
U.S. Treasury securities	126,566,328	-	-	126,566,328
Excess mortgage servicing rights	-	-	455,743	455,743
Derivative assets	-	53,007	-	53,007
FHLBC stock			7,035,900	7,035,900
Total Assets Carried at Fair Value	$126,566,328	$2,241,375,435	$766,841,700	$3,134,783,463
Liabilities:				
Securitized debt	$-	$(32,804,051)	$-	$(32,804,051)
Securities borrowed under reverse repurchase agreements	(25,197,266)	-	-	(25,197,266)
Derivative liabilities	-	(18,184,072)	-	(18,184,072)
Total Liabilities Carried at Fair Value	$(25,197,266)	$(50,988,123)	$-	$(76,185,389)

The following table presents the Company's financial instruments measured at fair value as of December 31, 2014.

	Level 1	Level 2	Level 3	Total

Assets:				
Agency RMBS:				
20 Year Fixed Rate	$ -	$133,742,870	$-	$133,742,870
30 Year Fixed Rate	-	1,036,024,019	-	1,036,024,019
Fixed Rate CMO	-	90,775,375	-	90,775,375
ARM	-	427,537,367	-	427,537,367
Interest Only	-	120,235,115	-	120,235,115
Credit Investments:				
Non-Agency RMBS	-	684,841,649	455,236,279	1,140,077,928
ABS	-	-	66,693,243	66,693,243
CMBS	-	55,051,429	39,343,274	94,394,703
CMBS Interest Only	-	-	6,125,949	6,125,949
Residential mortgage loans	-	-	85,089,859	85,089,859
Commercial loans	-	-	72,800,000	72,800,000
Excess mortgage servicing rights	-	-	628,367	628,367
Linked transactions	-	21,612,360	5,082,731	26,695,091
Derivative assets	-	11,382,622	-	11,382,622
Total Assets Carried at Fair Value	$ -	$2,581,202,806	$730,999,702	$3,312,202,508
Liabilities:				
Securitized debt	$ -	$(39,777,914)	$-	$(39,777,914)
Derivative liabilities	-	(8,608,209)	-	(8,608,209)
Total Liabilities Carried at Fair Value	$ -	$(48,386,123)	$-	$(48,386,123)

The Company did not have any transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy during the three and nine months ended September 30, 2015 and September 30, 2014.

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The following tables present additional information about the Company's investments which are measured at fair value on a recurring basis for which the Company has utilized Level 3 inputs to determine fair value:

Three Months Ended

September 30, 2015

	Non-Agency RMBS	ABS	CMBS	**CMBS Interest Only**	**Residential Mortgage Loans**	**Commercial Loans**	**Excess Mortgag Servicin Rights**
Beginning balance	$473,132,679	$61,094,356	$57,496,354	$5,766,991	$80,725,305	$72,800,000	$529,946
Transfers (1):							
Transfers into level 3	-	-	-	-	-	-	-
Transfers out of level 3	-	-	-	-	-	-	-
Purchases	53,167,192	874,687	31,612,824	-	-	-	-
Reclassification of security type (2)	-	-	-	-	-	-	-
Proceeds from sales	-	(4,531,720)	-	-	-	-	-
Proceeds from settlement	(73,510,966)	(409,759)	(630,232)	-	(1,312,484)	-	(45,680
Total net gains/(losses) (3)							
Included in net income	4,462,037	(733,057)	(645,867)	(121,660)	113,377	-	(28,523
Included in other comprehensive income (loss)	-	-	-	-	-	-	-
Ending Balance	$457,250,942	$56,294,507	$87,833,079	$5,645,331	$79,526,198	$72,800,000	$455,743
Change in unrealized appreciation/(depreciation) for level 3 assets still held as of September 30, 2015 (4)	$4,282,182	$(807,769)	$(377,641)	$(121,660)	$304,127	$-	$7,984

(1) Transfers are assumed to occur at the beginning of the period.

(2) Primarily represents an accounting reclassification between a linked transaction and a real estate security.

(3) Gains/(losses) are recorded in the following line items in the consolidated statement of operations:

Unrealized gain/(loss) on real estate securities and loans, net	$3,656,566
Net realized gain/(loss)	(610,259)
Total	$3,046,307

(4) Unrealized gains/(losses) are recorded in the following line items in the consolidated statement of operations:

Unrealized gain/(loss) on real estate securities and loans, net	$3,287,223

Three Months Ended

September 30, 2014

	Non-Agency RMBS	ABS	CMBS	**CMBS Interest Only**	**Residential Mortgage Loans**	**Commercial Loans**	**Excess Mortga Servici Rights**
Beginning balance	$548,337,038	$43,095,198	$19,289,905	$6,629,380	$34,841,048	$72,800,000	$730,14
Transfers (1):							
Transfers into level 3	-	-	-	-	-	-	-
Transfers out of level 3	-	-	-	-	-	-	-
Purchases	126,990,580	56,736,048	8,468,211	-	49,407,678	-	-
Reclassification of security type (2)	-	-	-	-	-	-	-
Proceeds from sales	(75,994,907)	(21,617,858)	88,283	-	-	-	-
Proceeds from settlement	(134,372,644)	(2,008,936)	(354,761)	-	(154,506)	-	(50,39
Total net gains/ (losses) (3)							
Included in net income	(1,496,864)	(169,331)	(225,330)	(274,955)	(383,236)	-	-
Included in other comprehensive income (loss)	-	-	-	-	-	-	-
Ending Balance	$463,463,203	$76,035,121	$27,266,308	$6,354,425	$83,710,984	$72,800,000	$679,75
Change in unrealized appreciation/(depreciation) for level 3 assets still held as of September 30, 2014 (4)	$(3,417,387)	$(240,323)	$(225,331)	$(274,954)	$(444,083)	$27,579	$-

(1) Transfers are assumed to occur at the beginning of the period.