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PennyMac Mortgage Investment Trust  
Form 10-Q  
August 05, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

Or

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

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

Commission file number: 001-34416

PennyMac Mortgage Investment Trust

(Exact name of registrant as specified in its charter)

Maryland  
(State or other jurisdiction of

27-0186273  
(IRS Employer

incorporation or organization)

Identification No.)

3043 Townsgate Road, Westlake Village, California  
(Address of principal executive offices)

91361  
(Zip Code)

(818) 224-7442

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

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

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

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

| Class  | Outstanding at August 4, 2016 |
|--|-------------------------------|
| Common Shares of Beneficial Interest, \$0.01 par value | 67,655,441                    |

PENNYMAC MORTGAGE INVESTMENT TRUST

FORM 10-Q

June 30, 2016

TABLE OF CONTENTS

|  | Page |
|--|------|
| <u>Special Note Regarding Forward-Looking Statements</u>   | 1    |
| <u>PART I. FINANCIAL INFORMATION</u>   | 4    |
| Item 1. <u>Financial Statements (Unaudited):</u>   | 4    |
| <u>Consolidated Balance Sheets</u>   | 4    |
| <u>Consolidated Statements of Income</u>   | 6    |
| <u>Consolidated Statements of Changes in Shareholders' Equity</u>                                    | 7    |
| <u>Consolidated Statements of Cash Flows</u>   | 8    |
| <u>Notes to Consolidated Financial Statements</u>  | 10   |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 56   |
| <u>Observations on Current Market Conditions</u>   | 57   |
| <u>Results of Operations</u>   | 59   |
| <u>Net Investment Income</u>   | 60   |
| <u>Expenses</u>  | 76   |
| <u>Balance Sheet Analysis</u>  | 79   |
| <u>Asset Acquisitions</u>  | 80   |
| <u>Investment Portfolio Composition</u>  | 81   |
| <u>Cash Flows</u>  | 87   |
| <u>Liquidity and Capital Resources</u>   | 87   |
| <u>Off-Balance Sheet Arrangements and Aggregate Contractual Obligations</u>                          | 90   |
| <u>Quantitative and Qualitative Disclosures About Market Risk</u>                                    | 96   |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>                            | 98   |
| Item 4. <u>Controls and Procedures</u>   | 98   |
| <u>PART II. OTHER INFORMATION</u>  | 99   |
| Item 1. <u>Legal Proceedings</u>   | 99   |
| Item 1A. <u>Risk Factors</u>   | 99   |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | 99   |
| Item 3. <u>Defaults Upon Senior Securities</u>   | 99   |
| Item 4. <u>Mine Safety Disclosures</u>   | 99   |
| Item 5. <u>Other Information</u>   | 99   |
| Item 6. <u>Exhibits</u>  | 100  |

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

- projections of our revenues, income, earnings per share, capital structure or other financial items;
- descriptions of our plans or objectives for future operations, products or services;
- forecasts of our future economic performance, interest rates, profit margins and our share of future markets; and
- descriptions of assumptions underlying or relating to any of the foregoing expectations regarding the timing of generating any revenues.

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

You should not place undue reliance on any forward-looking statement and should consider the following uncertainties and risks, as well as the risks and uncertainties discussed elsewhere in this Report and the section entitled “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the Securities and Exchange Commission (“SEC”) on February 29, 2016.

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

- changes in our investment objectives or investment or operational strategies, including any new lines of business or new products and services that may subject us to additional risks;
- volatility in our industry, the debt or equity markets, the general economy or the real estate finance and real estate markets specifically, whether the result of market events or otherwise;
- events or circumstances which undermine confidence in the financial markets or otherwise have a broad impact on financial markets, such as the sudden instability or collapse of large depository institutions or other significant corporations, terrorist attacks, natural or man-made disasters, or threatened or actual armed conflicts;
- changes in general business, economic, market, employment and political conditions, or in consumer confidence and spending habits from those expected;
  - declines in real estate or significant changes in U.S. housing prices or activity in the U.S. housing market;
- the availability of, and level of competition for, attractive risk-adjusted investment opportunities in mortgage loans and mortgage-related assets that satisfy our investment objectives;
- the inherent difficulty in winning bids to acquire mortgage loans, and our success in doing so;
- the concentration of credit risks to which we are exposed;
- the degree and nature of our competition;
- our dependence on our manager and servicer, potential conflicts of interest with such entities and their affiliates, and the performance of such entities;
- changes in personnel and lack of availability of qualified personnel at our manager, servicer or their affiliates;
- the availability, terms and deployment of short-term and long-term capital;
- the adequacy of our cash reserves and working capital;



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- our ability to maintain the desired relationship between our financing and the interest rates and maturities of our assets;
- the timing and amount of cash flows, if any, from our investments;
- unanticipated increases or volatility in financing and other costs, including a rise in interest rates;
- the performance, financial condition and liquidity of borrowers;
- the ability of our servicer, which also provides us with fulfillment services, to approve and monitor correspondent sellers and underwrite loans to investor standards;
- incomplete or inaccurate information or documentation provided by customers or counterparties, or adverse changes in the financial condition of our customers and counterparties;
- our indemnification and repurchase obligations in connection with mortgage loans we purchase and later sell or securitize;
- the quality and enforceability of the collateral documentation evidencing our ownership and rights in the assets in which we invest;
- increased rates of delinquency, default and/or decreased recovery rates on our investments;
- our ability to foreclose on our investments in a timely manner or at all;
- increased prepayments of the mortgages and other loans underlying our mortgage-backed securities (“MBS”) or relating to our mortgage servicing rights (“MSRs”), excess servicing spread (“ESS”) and other investments;
- the degree to which our hedging strategies may or may not protect us from interest rate volatility;
- the effect of the accuracy of or changes in the estimates we make about uncertainties, contingencies and asset and liability valuations when measuring and reporting upon our financial condition and results of operations;
- our failure to maintain appropriate internal controls over financial reporting;
- technologies for loans and our ability to mitigate security risks and cyber intrusions;
- our ability to obtain and/or maintain licenses and other approvals in those jurisdictions where required to conduct our business;
  - our ability to detect misconduct and fraud;
- our ability to comply with various federal, state and local laws and regulations that govern our business;
- developments in the secondary markets for our mortgage loan products;
- legislative and regulatory changes that impact the mortgage loan industry or housing market;
- changes in regulations or the occurrence of other events that impact the business, operations or prospects of government agencies such as the Government National Mortgage Association (“Ginnie Mae”), the Federal Housing Administration (the “FHA”) or the Veterans Administration (the “VA”), the U.S. Department of Agriculture (“USDA”), or government-sponsored entities such as the Federal National Mortgage Association (“Fannie Mae”) or the Federal Home Loan Mortgage Corporation (“Freddie Mac”) (Fannie Mae, Freddie Mac and Ginnie Mae are each referred to as an “Agency” and, collectively, as the “Agencies”), or such changes that increase the cost of doing business with such entities;
  - the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) and its implementing regulations and regulatory agencies, and any other legislative and regulatory changes that impact the business, operations or governance of mortgage lenders and/or publicly-traded companies;
- the Consumer Financial Protection Bureau (“CFPB”) and its issued and future rules and the enforcement thereof;
- changes in government support of homeownership;
- changes in government or government-sponsored home affordability programs;
- limitations imposed on our business and our ability to satisfy complex rules for us to qualify as a real estate investment trust (“REIT”) for U.S. federal income tax purposes and qualify for an exclusion from the Investment Company Act of 1940 (the “Investment Company Act”) and the ability of certain of our subsidiaries to qualify as REITs or as taxable REIT subsidiaries (“TRSs”) for U.S. federal income tax purposes, as applicable, and our ability and the ability of our subsidiaries to operate effectively within the limitations imposed by these rules;
- changes in governmental regulations, accounting treatment, tax rates and similar matters (including changes to laws governing the taxation of REITs, or the exclusions from registration as an investment company);

- our ability to make distributions to our shareholders in the future;
- the effect of public opinion on our reputation;
- the occurrence of natural disasters or other events or circumstances that could impact our operations; and
- our organizational structure and certain requirements in our charter documents.

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

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

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

|   | June 30,<br>2016                        | December 31,<br>2015 |
|---|---|----------------------|
|   | (in thousands, except share<br>amounts) |                      |
| <b>ASSETS</b>   |   |                      |
| Cash  | \$95,705                                | \$ 58,108            |
| Short-term investments  | 16,877                                  | 41,865               |
| Mortgage-backed securities at fair value pledged to creditors   | 531,612                                 | 322,473              |
| Mortgage loans acquired for sale at fair value (includes \$1,441,956 and \$1,268,455<br>pledged to creditors, respectively)                                   | 1,461,029                               | 1,283,795            |
| Mortgage loans at fair value (includes \$2,016,889 and \$2,201,513 pledged to creditors,<br>respectively)   | 2,035,997                               | 2,555,788            |
| Excess servicing spread purchased from PennyMac Financial Services, Inc. at fair value<br>pledged to secure note payable to PennyMac Financial Services, Inc. | 294,551                                 | 412,425              |
| Derivative assets   | 35,007                                  | 10,085               |
| Real estate acquired in settlement of loans (includes \$216,143 and \$283,343 pledged to<br>creditors, respectively)  | 299,458                                 | 341,846              |
| Real estate held for investment   | 20,662                                  | 8,796                |
| Mortgage servicing rights pledged to creditors (includes \$57,977 and \$66,584 carried at<br>fair value, respectively)  | 471,458                                 | 459,741              |
| Servicing advances  | 74,090                                  | 88,010               |
| Deposits securing credit risk transfer agreements (includes \$292,632 pledged to creditors<br>at June 30, 2016)   | 338,812                                 | 147,000              |
| Due from PennyMac Financial Services, Inc.  | 12,375                                  | 8,806                |
| Other   | 79,929                                  | 88,186               |
| <b>Total assets</b>   | <b>\$5,767,562</b>                      | <b>\$ 5,826,924</b>  |
| <b>LIABILITIES</b>  |   |                      |
| Assets sold under agreements to repurchase  | \$3,275,691                             | \$ 3,128,780         |
| Mortgage loan participation and sale agreements   | 96,335                                  | —                    |
| Federal Home Loan Bank advances   | —                                       | 183,000              |
| Notes payable   | 163,976                                 | 236,015              |
| Asset-backed financing of a variable interest entity at fair value  | 325,939                                 | 247,690              |
| Exchangeable senior notes   | 245,564                                 | 245,054              |
| Note payable to PennyMac Financial Services, Inc.   | 150,000                                 | 150,000              |
| Interest-only security payable at fair value  | 1,663                                   | —                    |



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|  |             |              |
|--|-------------|--------------|
| Derivative liabilities   | 3,894       | 3,157        |
| Accounts payable and accrued liabilities   | 75,587      | 64,474       |
| Due to PennyMac Financial Services, Inc.   | 22,054      | 18,965       |
| Income taxes payable   | 26,774      | 33,505       |
| Liability for losses under representations and warranties                            | 19,258      | 20,171       |
| Total liabilities  | 4,406,735   | 4,330,811    |
| <b>SHAREHOLDERS' EQUITY</b>  |             |              |
| Common shares of beneficial interest—authorized, 500,000,000 common shares of \$0.01 |             |              |
| par value; issued and outstanding, 67,723,293 and 73,767,435 common shares           | 677         | 738          |
| Additional paid-in capital   | 1,389,962   | 1,469,722    |
| (Accumulated deficit) retained earnings  | (29,812 )   | 25,653       |
| Total shareholders' equity   | 1,360,827   | 1,496,113    |
| Total liabilities and shareholders' equity   | \$5,767,562 | \$ 5,826,924 |

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

## PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

Assets and liabilities of consolidated variable interest entities (“VIEs”) included in total assets and liabilities (the assets of each VIE can only be used to settle liabilities of that VIE):

|   | June 30,<br>2016 | December 31,<br>2015 |
|---|------------------|----------------------|
|   | (in thousands)   |                      |
| <b>ASSETS</b>   |                  |                      |
| Mortgage loans at fair value                              | \$427,091        | \$ 455,394           |
| Derivative assets   | —                | 593                  |
| Deposits securing credit risk transfer agreements         | 338,812          | 147,000              |
| Other assets - interest receivable                        | 1,322            | 1,447                |
|   | \$767,225        | \$ 604,434           |
| <b>LIABILITIES</b>  |                  |                      |
| Asset-backed financing at fair value                      | \$325,939        | \$ 247,690           |
| Interest-only security payable at fair value              | 1,663            | —                    |
| Derivative liabilities                                    | 199              | —                    |
| Accounts payable and accrued liabilities—interest payable | 925              | 724                  |
|   | \$328,726        | \$ 248,414           |

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

## PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

|  | Quarter ended                            |          | Six months ended |          |
|--|--|----------|------------------|----------|
|  | June 30,                                 |          | June 30,         |          |
|  | 2016                                     | 2015     | 2016             | 2015     |
|  | (in thousands, except per share amounts) |          |                  |          |
| <b>Net investment income</b>                           |  |          |                  |          |
| <b>Interest income:</b>                                |  |          |                  |          |
| From nonaffiliates                                     | \$46,053                                 | \$39,515 | \$93,404         | \$76,448 |
| From PennyMac Financial Services, Inc.                 | 5,713                                    | 5,818    | 12,728           | 9,570    |
|  | 51,766                                   | 45,333   | 106,132          | 86,018   |
| <b>Interest expense:</b>                               |  |          |                  |          |
| To nonaffiliates                                       | 34,371                                   | 29,206   | 64,773           | 54,952   |
| To PennyMac Financial Services, Inc.                   | 2,222                                    | 533      | 3,824            | 533      |
|  | 36,593                                   | 29,739   | 68,597           | 55,485   |
| Net interest income                                    | 15,173                                   | 15,594   | 37,535           | 30,533   |
| Net gain on mortgage loans acquired for sale           | 24,226                                   | 11,175   | 39,275           | 21,335   |
| Mortgage loan origination fees                         | 8,519                                    | 7,279    | 15,420           | 12,566   |
| <b>Net (loss) gain on investments:</b>                 |  |          |                  |          |
| From nonaffiliates                                     | 337                                      | 14,025   | 14,066           | 23,719   |
| From PennyMac Financial Services, Inc.                 | (15,824)                                 | 8,589    | (33,451)         | 2,342    |
|  | (15,487)                                 | 22,614   | (19,385)         | 26,061   |
| Net mortgage loan servicing fees                       | 15,691                                   | 13,017   | 31,245           | 21,019   |
| Results of real estate acquired in settlement of loans | (2,565)                                  | (1,806)  | (8,601)          | (7,638)  |
| Other  | 2,061                                    | 1,892    | 4,345            | 3,546    |
| Net investment income                                  | 47,618                                   | 69,765   | 99,834           | 107,422  |
| <b>Expenses</b>  |  |          |                  |          |
| <b>Earned by PennyMac Financial Services, Inc.:</b>    |  |          |                  |          |
| Mortgage loan fulfillment fees                         | 19,111                                   | 15,333   | 32,046           | 28,199   |
| Mortgage loan servicing fees                           | 16,427                                   | 12,136   | 27,880           | 22,806   |
| Management fees  | 5,199                                    | 5,779    | 10,551           | 12,782   |
| Mortgage loan collection and liquidation               | 4,290                                    | 3,182    | 6,504            | 4,627    |
| Professional services                                  | 2,011                                    | 1,662    | 4,304            | 3,490    |
| Compensation   | 2,224                                    | 1,389    | 3,513            | 4,198    |
| Other  | 6,515                                    | 5,196    | 12,151           | 10,052   |
| Total expenses   | 55,777                                   | 44,677   | 96,949           | 86,154   |
| (Loss) income before benefit from income taxes         | (8,159)                                  | 25,088   | 2,885            | 21,268   |
| Benefit from income taxes                              | (2,892)                                  | (2,983)  | (6,344)          | (14,311) |
| Net (loss) income                                      | \$(5,267)                                | \$28,071 | \$9,229          | \$35,579 |
| <b>(Loss) earnings per share</b>                       |  |          |                  |          |
| Basic  | \$(0.08)                                 | \$0.37   | \$0.12           | \$0.46   |
| Diluted  | \$(0.08)                                 | \$0.36   | \$0.12           | \$0.46   |
| <b>Weighted-average shares outstanding</b>             |  |          |                  |          |
| Basic  | 68,446                                   | 74,683   | 70,165           | 74,618   |
| Diluted  | 68,446                                   | 83,480   | 70,165           | 74,997   |
| Dividends declared per share                           | \$0.47                                   | \$0.61   | \$0.94           | \$1.22   |

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

## PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

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

|  | Common shares<br>Number<br>of<br>shares<br>(in thousands, except per share amounts) | Par<br>value | Additional<br>paid-in<br>capital | (Accumulated<br>deficit)<br>Retained<br>earnings | Total        |
|--|---|--------------|----------------------------------|--|--------------|
| Balance at December 31, 2014             | 74,510  | \$ 745       | \$ 1,479,699                     | \$ 97,728  | \$ 1,578,172 |
| Net income                               | —   | —            | —                                | 35,579   | 35,579       |
| Share-based compensation                 | 302   | 3            | 3,682                            | —  | 3,685        |
| Common share dividends, \$1.22 per share | —   | —            | —                                | (92,147 )  | (92,147 )    |
| Issuance of common shares                | —   | —            | 8                                | —  | 8            |
| Balance at June 30, 2015                 | 74,812  | \$ 748       | \$ 1,483,389                     | \$ 41,160  | \$ 1,525,297 |
| Balance at December 31, 2015             | 73,767  | \$ 738       | \$ 1,469,722                     | \$ 25,653  | \$ 1,496,113 |
| Net income                               | —   | —            | —                                | 9,229  | 9,229        |
| Share-based compensation                 | 298   | 3            | 3,010                            | —  | 3,013        |
| Common share dividends, \$0.94 per share | —   | —            | —                                | (64,694 )  | (64,694 )    |
| Repurchase of common shares              | (6,342 )  | (64 )        | (82,770 )                        | —  | (82,834 )    |
| Balance at June 30, 2016                 | 67,723  | \$ 677       | \$ 1,389,962                     | \$ (29,812 )                                     | \$ 1,360,827 |

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

## PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

|  | Six months ended June 30, |              |
|--|---------------------------|--------------|
|  | 2016                      | 2015         |
|  | (in thousands)            |              |
| <b>Cash flows from operating activities</b>  |                           |              |
| Net income   | \$9,229                   | \$35,579     |
| Adjustments to reconcile net income to net cash used by operating activities:  |                           |              |
| Accrual of unearned discounts and amortization of premiums on mortgage-backed securities, mortgage loans at fair value, and asset-backed financing of a variable interest entity | (1,086 )                  | (119 )       |
| Capitalization of interest on mortgage loans at fair value   | (39,715 )                 | (20,130 )    |
| Capitalization of interest on excess servicing spread  | (12,728 )                 | (9,570 )     |
| Amortization of debt issuance costs  | 6,472                     | 5,401        |
| Net gain on mortgage loans acquired for sale   | (39,275 )                 | (21,335 )    |
| Net loss (gain) on investments   | 19,385                    | (26,061 )    |
| Change in fair value, amortization and impairment of mortgage servicing rights   | 29,656                    | 27,497       |
| Results of real estate acquired in settlement of loans   | 8,601                     | 7,638        |
| Share-based compensation expense   | 3,013                     | 3,685        |
| Purchase of mortgage loans acquired for sale at fair value from nonaffiliates  | (25,461,808)              | (20,820,811) |
| Purchase of mortgage loans acquired for sale at fair value from PennyMac Financial Services, Inc.  | (8,139 )                  | (10,828 )    |
| Repurchase of mortgage loans subject to representation and warranties  | (6,654 )                  | (12,972 )    |
| Sale and repayment of mortgage loans acquired for sale at fair value to nonaffiliates  | 8,465,753                 | 5,707,641    |
| Sale of mortgage loans acquired for sale to PennyMac Financial Services, Inc.  | 16,790,189                | 13,523,345   |
| Decrease (increase) in servicing advances  | 12,277                    | (8,870 )     |
| Increase in due from PennyMac Financial Services, Inc.   | (2,688 )                  | (2,541 )     |
| Decrease (increase) in other assets  | 39,774                    | (24,223 )    |
| Increase in accounts payable and accrued liabilities   | 14,084                    | 8,440        |
| Increase (decrease) in due to PennyMac Financial Services, Inc.  | 2,032                     | (7,469 )     |
| Decrease in income taxes payable   | (6,731 )                  | (14,710 )    |
| Net cash used in operating activities  | (178,359 )                | (1,660,413 ) |
| <b>Cash flows from investing activities</b>  |                           |              |
| Net decrease in short-term investments   | 24,988                    | 107,483      |
| Purchase of mortgage-backed securities at fair value   | (249,925 )                | (25,129 )    |
| Sale and repayment of mortgage-backed securities at fair value   | 49,141                    | 39,744       |
| Purchase of mortgage loans at fair value   | —                         | (241,981 )   |
| Sale and repayment of mortgage loans at fair value   | 458,466                   | 147,465      |
| Purchase of excess servicing spread from PennyMac Financial Services, Inc.   | —                         | (187,287 )   |
| Repayment of excess servicing spread by PennyMac Financial Services, Inc.  | 38,281                    | 31,083       |
| Sale of excess servicing spread to PennyMac Financial Services, Inc.   | 59,045                    | —            |
| Net settlement of derivative financial instruments   | (2,793 )                  | (10,554 )    |
| Sale of real estate acquired in settlement of loans  | 135,573                   | 128,097      |
| Purchase of mortgage servicing rights  | (2,602 )                  | —            |

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|  |            |           |
|--|------------|-----------|
| Sale of mortgage servicing rights                        | 106        | 376       |
| Deposit of cash securing credit risk transfer agreements | (192,737 ) | —         |
| Distribution from credit risk transfer agreements        | 7,320      | —         |
| Increase in margin deposits and restricted cash          | (16,769 )  | (36,003 ) |
| Purchase of Federal Home Loan Bank capital stock         | (225 )     | —         |
| Redemption of Federal Home Loan Bank capital stock       | 7,320      | —         |
| Net cash provided by (used in) investing activities      | 315,189    | (46,706 ) |

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

## PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

|   | Six months ended June 30, |              |
|---|---------------------------|--------------|
|   | 2016                      | 2015         |
|   | (in thousands)            |              |
| <b>Cash flows from financing activities</b>                                     |                           |              |
| Sale of assets under agreements to repurchase                                   | 27,426,511                | 22,834,050   |
| Repurchase of assets sold under agreements to repurchase                        | (27,279,985)              | (22,062,255) |
| Sale of mortgage loan participation certificates                                | 3,166,373                 | 2,440,045    |
| Repayment of mortgage loan participation certificates                           | (3,070,038 )              | (2,389,653 ) |
| Issuance of credit risk transfer financing                                      | —                         | 649,120      |
| Federal Home Loan Bank advances   | 28,000                    | 138,400      |
| Repayment of Federal Home Loan Bank advances                                    | (211,000 )                | —            |
| Advance under notes payable   | 69,282                    | 192,352      |
| Repayment under notes payable   | (141,386 )                | —            |
| Advance under notes payable to PennyMac Financial Services, Inc.                | —                         | 71,072       |
| Repayment under notes payable to PennyMac Financial Services, Inc.              | —                         | (18,546 )    |
| Issuance of asset-backed financing of a variable interest entity at fair value  | 99,499                    | —            |
| Repayment of asset-backed financing of a variable interest entity at fair value | (30,479 )                 | (11,331 )    |
| Payment of debt issuance costs  | (5,512 )                  | (5,176 )     |
| Issuance of common shares   | —                         | 8            |
| Repurchase of common shares   | (82,834 )                 | —            |
| Payment of contingent underwriting fees payable                                 | —                         | (688 )       |
| Payment of dividends  | (67,664 )                 | (91,967 )    |
| Net cash (used in) provided by financing activities                             | (99,233 )                 | 1,745,431    |
| Net increase in cash  | 37,597                    | 38,312       |
| Cash at beginning of period   | 58,108                    | 76,386       |
| Cash at end of period   | \$95,705                  | \$114,698    |

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



PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1—Organization and Basis of Presentation

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

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

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

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

- The investment activities segment represents the Company’s investments in mortgage-related assets, which include MBS, distressed mortgage loans, excess servicing spread (“ESS”), credit risk transfer agreements (“CRT Agreements”), real estate acquired in settlement of loans (“REO”), real estate held for investment, mortgage servicing rights (“MSRs”), and small balance commercial real estate loans.

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

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

The accompanying consolidated financial statements have been prepared in compliance with accounting principles generally accepted in the United States (“GAAP”) as codified in the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”) for interim financial information and with the Securities and Exchange Commission’s instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, these financial statements and notes do not include all of the information required by GAAP for complete financial statements. The interim consolidated information should be read together with the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

The accompanying unaudited consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, and cash flows for the interim periods, but are not necessarily indicative of the results of operations that may be anticipated for the full year. Intercompany accounts and

transactions have been eliminated.

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

#### Note 2—Concentration of Risks

As discussed in Note 1— Organization and Basis of Presentation above, PMT’s operations and investing activities are centered in residential mortgage-related assets, a substantial portion of which are distressed at acquisition. The mortgage loans at fair value not acquired for sale or held in a variable interest entity (“VIE”) are generally purchased at discounts reflecting their distressed state or perceived higher risk of default, as well as a greater likelihood of collateral documentation deficiencies.

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

- changes in the overall economy, unemployment rates and residential real estate values in the markets where the properties securing the Company's mortgage loans are located;
- PCM's ability to identify and PLS' ability to execute optimal resolutions of certain mortgage loans;
- the accuracy of valuation information obtained during the Company's due diligence activities;
- PCM's ability to effectively model, and to develop appropriate model inputs that properly anticipate, future outcomes;
- the level of government support for resolution of certain mortgage loans and the effect of current and future proposed and enacted legislative and regulatory changes on the Company's ability to effect cures or resolutions to distressed mortgage loans; and
- regulatory, judicial and legislative support of the foreclosure process, and the resulting effect on the Company's ability to acquire and liquidate the real estate securing its portfolio of distressed mortgage loans in a timely manner or at all.

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

A substantial portion of the distressed mortgage loans and REO purchased by the Company in prior years has been acquired from or through one or more subsidiaries of Citigroup Inc., as presented in the following summary:

|  | June 30,<br>2016 | December 31, 2015 |
|--|------------------|-------------------|
|  | (in thousands)   |                   |
| Mortgage loans at fair value                             | \$616,018        | \$ 855,691        |
| REO  | 60,009           | 88,088            |
|  | \$676,027        | \$ 943,779        |
| Total carrying value of mortgage loans at fair value and |                  |                   |
| REO  | \$2,335,455      | \$ 2,897,634      |

### Note 3—Transactions with Related Parties

#### Operating Activities

#### Correspondent Production Activities

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

|  | Quarter ended June 30,<br>2016 | 2015 | Six months ended June 30,<br>2016 | 2015 |
|--|--------------------------------|------|-----------------------------------|------|
|  | (in thousands)                 |      |                                   |      |

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|   |             |             |              |              |
|---|-------------|-------------|--------------|--------------|
| Fulfillment fees earned by PLS                        | \$19,111    | \$15,333    | \$32,046     | \$28,199     |
| Unpaid principal balance (“UPB”) of mortgage loans    |             |             |              |              |
| fulfilled by PLS                                      | \$5,174,020 | \$3,579,078 | \$8,433,383  | \$6,469,210  |
| Sourcing fees received from PLS included in           |             |             |              |              |
| Net gain on mortgage loans acquired for sale          | \$2,824     | \$2,427     | \$4,773      | \$3,848      |
| UPB of mortgage loans sold to PLS                     | \$9,409,399 | \$8,082,764 | \$15,905,121 | \$12,818,138 |
| Purchases of mortgage loans acquired for sale at      |             |             |              |              |
| fair value from PLS                                   | \$3,424     | \$2,423     | \$8,139      | \$10,828     |
| Tax service fee paid to PLS included in Other expense | \$1,464     | \$1,113     | \$2,471      | \$2,002      |
| Mortgage banking and warehouse services fees          |             |             |              |              |
| paid to PLS included in Mortgage loan servicing fees  | \$1         | \$—         | \$2          | \$—          |

June 30,  
2016      December 31, 2015  
(in thousands)

Mortgage loans included in Mortgage loans acquired for

    sale at fair value pending sale to PLS      \$619,008    \$ 669,288

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Mortgage Loan Servicing Activities

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

|  | Quarter ended June 30, |              | Six months ended June 30, |              |
|--|------------------------|--------------|---------------------------|--------------|
|  | 2016                   | 2015         | 2016                      | 2015         |
|  | (in thousands)         |              |                           |              |
| <b>Mortgage loan servicing fees:</b>                   |                        |              |                           |              |
| <b>Mortgage loans acquired for sale at fair value:</b> |                        |              |                           |              |
| Base   | \$79                   | \$42         | \$135                     | \$68         |
| Activity-based   | 172                    | 59           | 287                       | 90           |
|  | 251                    | 101          | 422                       | 158          |
| <b>Mortgage loans at fair value:</b>                   |                        |              |                           |              |
| <b>Distressed mortgage loans</b>                       |                        |              |                           |              |
| Base   | 2,908                  | 4,183        | 6,267                     | 8,215        |
| Activity-based   | 8,518                  | 3,093        | 11,967                    | 5,987        |
|  | 11,426                 | 7,276        | 18,234                    | 14,202       |
| <b>Mortgage loans held in VIE:</b>                     |                        |              |                           |              |
| Base   | 51                     | 27           | 92                        | 57           |
| Activity-based   | —                      | —            | —                         | —            |
|  | 51                     | 27           | 92                        | 57           |
| <b>MSRs:</b>   |                        |              |                           |              |
| Base   | 4,583                  | 4,627        | 8,927                     | 8,253        |
| Activity-based   | 116                    | 105          | 205                       | 136          |
|  | 4,699                  | 4,732        | 9,132                     | 8,389        |
|  | \$16,427               | \$12,136     | \$27,880                  | \$22,806     |
| <b>MSR recapture income recognized included in Net</b> |                        |              |                           |              |
| mortgage loan servicing fees                           | \$311                  | \$—          | \$440                     | \$—          |
| <b>Average investment in:</b>                          |                        |              |                           |              |
| Mortgage loans acquired for sale at fair value         | \$1,422,945            | \$1,014,883  | \$1,170,720               | \$887,660    |
| <b>Mortgage loans at fair value:</b>                   |                        |              |                           |              |
| Distressed mortgage loans                              | \$1,791,429            | \$2,295,807  | \$1,925,605               | \$2,303,080  |
| Mortgage loans held in a VIE                           | \$437,542              | \$504,309    | \$446,013                 | \$514,879    |
| Average mortgage loan servicing portfolio              | \$45,647,524           | \$35,742,835 | \$44,531,795              | \$35,215,677 |

Management Fees

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

|                 | Quarter ended  |          | Six months ended |          |
|-----------------|----------------|----------|------------------|----------|
|                 | June 30,       | June 30, | June 30,         | June 30, |
|                 | 2016           | 2015     | 2016             | 2015     |
|                 | (in thousands) |          |                  |          |
| Base management | \$5,199        | \$5,709  | \$10,551         | \$11,439 |

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|                       |         |         |          |          |
|-----------------------|---------|---------|----------|----------|
| Performance incentive | —       | 70      | —        | 1,343    |
|                       | \$5,199 | \$5,779 | \$10,551 | \$12,782 |

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Expense Reimbursement and Amounts Payable to and Receivable from PFSI

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

|  | Quarter ended<br>June 30, |          | Six months ended<br>June 30, |          |
|--|---------------------------|----------|------------------------------|----------|
|  | 2016                      | 2015     | 2016                         | 2015     |
|  | (in thousands)            |          |                              |          |
| Reimbursement of:                                      |                           |          |                              |          |
| Common overhead incurred by PCM and its affiliates (1) | \$2,435                   | \$2,702  | \$4,996                      | \$5,431  |
| Expenses (reimbursements) incurred on the Company's    |                           |          |                              |          |
| behalf   | (169 )                    | 83       | (114 )                       | 462      |
|  | \$2,266                   | \$2,785  | \$4,882                      | \$5,893  |
| Payments and settlements during the year (2)           | \$28,952                  | \$24,114 | \$56,613                     | \$46,866 |

(1) For the quarter ended June 30, 2015, in accordance with the terms of the Company's management agreement, PCM provided the Company a discretionary waiver of \$700,000 of overhead expenses that otherwise would have been allocable to the Company. On December 15, 2015, the Operating Partnership amended its management agreement to provide that the overhead costs and expenses incurred by PFSI in any quarter and reimbursable by the Operating Partnership is capped at an amount equal to the product of (A) 70 basis points (0.0070), multiplied by (B) PMT's shareholders' equity (as defined in the management agreement) as of the last day of the month preceding quarter end, divided by four.

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

Amounts receivable and payable to PFSI are summarized below:

|                                       | June 30,       | December 31, |
|---------------------------------------|----------------|--------------|
|                                       | 2016           | 2015         |
|                                       | (in thousands) |              |
| Receivable from PFSI:                 |                |              |
| MSR recapture receivable              | \$605          | \$ 781       |
| Other                                 | 11,770         | 8,025        |
|                                       | \$12,375       | \$ 8,806     |
| Payable to PFSI:                      |                |              |
| Servicing fees                        | \$9,154        | \$ 3,682     |
| Management fees                       | 5,200          | 5,670        |
| Correspondent production fees         | 2,567          | 2,729        |
| Interest on Note payable to PFSI      | 1,042          | 412          |
| Conditional Reimbursement             | 900            | 900          |
| Allocated expenses                    | 847            | 390          |
| Fulfillment fees                      | 1,890          | 1,082        |
| Expenses paid by PFSI on PMT's behalf | 454            | 4,100        |
|                                       | \$22,054       | \$ 18,965    |

### Investing Activities

On February 29, 2016, the Company and PLS terminated that certain master spread acquisition and MSR servicing agreement that the parties entered into effective February 1, 2013 (the “2/1/13 Spread Acquisition Agreement”) and all amendments thereto. In connection with the termination of the 2/1/13 Spread Acquisition Agreement, PLS reacquired from the Company all of its right, title and interest in and to all of the Fannie Mae ESS previously sold by PLS to the Company under the 2/1/13 Spread Acquisition Agreement and then subject to such 2/1/13 Spread Acquisition Agreement. On February 29, 2016, PLS also reacquired from the Company all of its right, title and interest in and to all of the Freddie Mac ESS previously sold to the Company by PLS. During the six months ended June 30, 2016, the amount of ESS sold by the Company to PLS under these reacquisitions was \$59.0 million.



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

|   | Quarter ended    |           | Six months ended |           |
|---|------------------|-----------|------------------|-----------|
|   | June 30,<br>2016 | 2015      | June 30,<br>2016 | 2015      |
|   | (in thousands)   |           |                  |           |
| <b>ESS:</b>   |                  |           |                  |           |
| Purchases   | \$—              | \$140,875 | \$—              | \$187,287 |
| Received pursuant to a recapture agreement            | \$1,690          | \$1,319   | \$3,601          | \$2,565   |
| Repayments and sales                                  | \$17,400         | \$18,352  | \$97,326         | \$31,083  |
| Interest income                                       | \$5,713          | \$5,818   | \$12,728         | \$9,570   |
| Net loss included in Net (loss) gain on investments : |                  |           |                  |           |
| Valuation changes                                     | \$(17,428)       | \$7,133   | \$(36,877)       | \$(403 )  |
| Recapture income                                      | 1,604            | 1,456     | 3,426            | 2,745     |
|   | \$(15,824)       | \$8,589   | \$(33,451)       | \$2,342   |

#### Financing Activities

PFSI held 75,000 of the Company's common shares at both June 30, 2016 and December 31, 2015.

#### Note Payable to PLS

PLS is a party to a repurchase agreement between it and Credit Suisse First Boston Mortgage Capital LLC ("CSFB") (the "MSR Repo"), pursuant to which PLS finances Ginnie Mae MSR's and servicing advance receivables and pledges to CSFB all of its rights and interests in any Ginnie Mae MSR's it owns or acquires, and a separate acknowledgement agreement with respect thereto, by and among Ginnie Mae, CSFB and PLS.

In connection with the MSR Repo described above, the Company, through a wholly-owned subsidiary, entered into an underlying loan and security agreement with PLS, dated as of April 30, 2015, pursuant to which the Company may borrow up to \$150 million from PLS for the purpose of financing its investment in ESS (the "Underlying LSA"). The principal amount of the borrowings under the Underlying LSA is based upon a percentage of the market value of the ESS pledged to PLS, subject to the \$150 million sublimit described above. Pursuant to the Underlying LSA, the Company granted to PLS a security interest in all of its right, title and interest in, to and under the ESS pledged to secure the borrowings, and PLS, in turn, re-pledged such ESS to CSFB under the MSR Repo.

The Company agreed with PLS in connection with the Underlying LSA that the Company is required to repay PLS the principal amount of borrowings plus accrued interest to the date of such repayment, and PLS, in turn, is required to repay CSFB the corresponding amount under the MSR Repo. Interest accrues on the Company's note relating to the Underlying LSA at a rate based on CSFB's cost of funds under the MSR Repo. The Company was also required to pay PLS a fee for the structuring of the Underlying LSA in an amount equal to the portion of the corresponding fee paid by PLS to CSFB under the MSR Repo and allocable to the \$150 million relating to the ESS financing. As of June 30, 2016 and December 31, 2015, the outstanding borrowings on the Underlying LSA totaled \$150 million.

#### Conditional Reimbursement and Contingent Underwriting Fees

In connection with its initial public offering of common shares on August 4, 2009 ("IPO"), the Company conditionally agreed to reimburse PCM up to \$2.9 million for underwriting fees paid to the IPO underwriters by PCM on the Company's behalf (the "Conditional Reimbursement"). Also in connection with its IPO, the Company agreed to pay the

IPO underwriters up to \$5.9 million in contingent underwriting fees.

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

|  | Quarter ended  |       | Six months |       |
|--|----------------|-------|------------|-------|
|  | June 30,       |       | June 30,   |       |
|  | 2016           | 2015  | 2016       | 2015  |
|  | (in thousands) |       |            |       |
| Note payable—Interest expense          | \$2,222        | \$533 | \$3,824    | \$533 |
| Conditional Reimbursements paid to PCM | \$—            | \$73  | \$—        | \$230 |

## Note 4—Earnings Per Share

The Company grants restricted share units which entitle the recipients to receive dividend equivalents during the vesting period on a basis equivalent to the dividends paid to holders of common shares. Unvested share-based compensation awards containing non-forfeitable rights to receive dividends or dividend equivalents (collectively, “dividends”) are classified as “participating securities” and are included in the basic earnings per share calculation using the two-class method.

Under the two-class method, all earnings (distributed and undistributed) are allocated to common shares and participating securities, based on their respective rights to receive dividends. Basic earnings per share is determined by dividing net income, reduced by income attributable to the participating securities, by the weighted-average common shares outstanding during the period.

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

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

|  | Quarter ended                           |          | Six months ended |          |
|--|---|----------|------------------|----------|
|  | June 30,                                |          | June 30,         |          |
|  | 2016                                    | 2015     | 2016             | 2015     |
|  | (in thousands except per share amounts) |          |                  |          |
| <b>Basic (loss) earnings per share:</b>        |   |          |                  |          |
| Net (loss) income                              | \$(5,267 )                              | \$28,071 | \$9,229          | \$35,579 |
| Effect of participating securities—share-based |   |          |                  |          |
| compensation awards                            | (307 )                                  | (438 )   | (718 )           | (1,015 ) |
| Net (loss) income attributable to common       |   |          |                  |          |
| shareholders                                   | \$(5,574 )                              | \$27,633 | \$8,511          | \$34,564 |
| <b>Diluted (loss) earnings per share:</b>      |   |          |                  |          |
| Net (loss) income attributable to common       |   |          |                  |          |
| shareholders                                   | \$(5,574 )                              | \$27,633 | \$8,511          | \$34,564 |
| Effect of participating securities—share-based |   |          |                  |          |
| compensation awards                            | —                                       | —        | —                | —        |
| Interest on Exchangeable Notes, net of income  |   |          |                  |          |
| taxes  | —                                       | 2,121    | —                | —        |
| Net (loss) income attributable to diluted      |   |          |                  |          |
| shareholders                                   | \$(5,574 )                              | \$29,754 | \$8,511          | \$34,564 |
| Weighted-average basic shares outstanding      | 68,446                                  | 74,683   | 70,165           | 74,618   |
| Potentially dilutive securities:               |   |          |                  |          |

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Shares issuable under share-based

|   |           |        |        |        |
|---|-----------|--------|--------|--------|
| compensation plan                           | —         | 330    | —      | —      |
| Shares issuable pursuant to exchange of the |           |        |        |        |
| Exchangeable Notes                          | —         | 8,467  | —      | 379    |
| Diluted weighted-average number of          |           |        |        |        |
| shares outstanding                          | 68,446    | 83,480 | 70,165 | 74,997 |
| Basic (loss) earnings per share             | \$(0.08 ) | \$0.37 | \$0.12 | \$0.46 |
| Diluted (loss) earnings per share           | \$(0.08 ) | \$0.36 | \$0.12 | \$0.46 |

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Dividends and undistributed earnings allocated to participating securities under the basic and diluted earnings per share calculations require specific shares to be included or excluded that may differ in certain circumstances. The following table summarizes the common shares excluded from the diluted earnings per share calculation for the periods as inclusion of such shares would have been antidilutive:

|  | Quarter ended June 30, |      | Six months ended June 30, |       |
|--|------------------------|------|---------------------------|-------|
|  | 2016                   | 2015 | 2016                      | 2015  |
|  | (in thousands)         |      |                           |       |
| Shares issuable under share-based compensation |                        |      |                           |       |
| awards   | 766                    | —    | 766                       | —     |
| Shares issuable pursuant to exchange of the    |                        |      |                           |       |
| Exchangeable Notes                             | 8,467                  | —    | 8,467                     | 8,467 |

Note 5—Loan Sales and Variable Interest Entities

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

Unconsolidated VIEs with Continuing Involvement

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

|   | Quarter ended June 30, |             | Six months ended June 30, |             |
|---|------------------------|-------------|---------------------------|-------------|
|   | 2016                   | 2015        | 2016                      | 2015        |
|   | (in thousands)         |             |                           |             |
| Cash flows:                               |                        |             |                           |             |
| Proceeds from sales                       | \$5,231,974            | \$3,063,397 | \$8,465,753               | \$5,707,641 |
| Mortgage loan servicing fees received (1) | \$29,179               | \$22,738    | \$56,755                  | \$44,641    |

|                                   | June 30,       | December 31, |
|-----------------------------------|----------------|--------------|
|                                   | 2016           | 2015         |
|                                   | (in thousands) |              |
| UPB of mortgage loans outstanding | \$47,087,431   | \$42,300,338 |
| Delinquent mortgage loans:        |                |              |

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|                                  |            |            |
|----------------------------------|------------|------------|
| 30-89 days delinquent            | \$ 192,175 | \$ 175,599 |
| 90 or more days delinquent:      |            |            |
| Not in foreclosure or bankruptcy | 39,377     | 38,669     |
| In foreclosure or bankruptcy     | 44,267     | 31,386     |
|                                  | 83,644     | 70,055     |
|                                  | \$ 275,819 | \$ 245,654 |

(1) Net of guarantee fees.  
Consolidated VIEs

#### Credit Risk Transfer Agreements

The Company, through its wholly-owned subsidiary, PennyMac Corp. (“PMC”), entered into CRT Agreements with Fannie Mae, pursuant to which PMC, through subsidiary trust entities, sells pools of mortgage loans into Fannie Mae-guaranteed securitizations while retaining a portion of the credit risk underlying such mortgage loans in exchange for a portion of the contractual guarantee fee normally charged by Fannie Mae. The mortgage loans subject to the CRT Agreements are transferred by PMC to subsidiary trust entities which sell the mortgage loans into Fannie Mae mortgage loan securitizations and issue the credit guarantees to Fannie Mae. Transfers of mortgage loans subject to CRT Agreements receive sale accounting treatment upon fulfillment of the criteria for sale recognition contained in the Transfers and Servicing topic of the FASB’s ASC.

The Manager has concluded that the Company’s subsidiary trust entities are VIEs and the Company is the primary beneficiary of the VIEs as it is the holder of the primary beneficial interests which absorb the variability of the trusts’ results of operations.

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Consolidation of the VIEs results in the inclusion on the Company's consolidated balance sheet of the cash pledged to fulfill the guarantee obligation and a credit derivative comprised of the fair values of the credit guarantees and the Company's right to the related guarantee fees. The pledged cash represents the Company's maximum contractual exposure to claims under its credit guarantee, is the sole source of settlement of losses under the CRT Agreements and is included in Deposits securing credit risk transfer agreements on the consolidated balance sheet. Gains and losses on net derivatives related to CRT Agreements, including realized gains received, are included in Net (loss) gain on investments in the consolidated statements of operations.

Following is a summary of the CRT Agreements:

|   | Quarter<br>Ended | Six Months<br>Ended  |
|---|------------------|----------------------|
|   | June 30,<br>2016 | June 30,<br>2016     |
|   | (in thousands)   |                      |
| <b>During the period:</b>                         |                  |                      |
| UPB of mortgage loans transferred and sold under  |                  |                      |
| CRT Agreements                                    | \$3,162,746      | \$5,084,744          |
| Deposits of cash securing CRT Agreements          | \$126,031        | \$192,737            |
| Gains (losses) recognized on CRT Agreements       |                  |                      |
| included in Net (loss) gain on investments        |                  |                      |
| Realized  | \$3,859          | \$6,395              |
| Resulting from valuation changes                  | 3,905            | (2,774 )             |
|   | \$7,764          | \$3,621              |
| Payments made to settle losses                    | \$—              | \$—                  |
|   | June 30,<br>2016 | December 31,<br>2015 |
|   | (in thousands)   |                      |
| UPB of mortgage loans subject to credit guarantee |                  |                      |
| obligation  | \$8,976,961      | \$4,546,265          |
| Delinquency status (in UPB):                      |                  |                      |
| Current—89 days delinquent                        | \$8,976,093      | \$4,546,265          |
| 90 or more days delinquent                        | \$868            | \$—                  |
| Carrying value of CRT Agreements:                 |                  |                      |
| Net derivative included in Derivative assets      | \$—              | \$593                |
| Deposits securing credit risk transfer agreements | \$338,812        | \$147,000            |
| Interest-only security payable at fair value      | \$1,663          | \$—                  |
| Net derivative included in Derivative liabilities | \$199            | \$—                  |

Jumbo Mortgage Loan Financing

On September 30, 2013, the Company completed a securitization transaction in which PMT Loan Trust 2013-J1, a VIE, issued \$537.0 million in UPB of certificates backed by fixed-rate prime jumbo mortgage loans, at a 3.9% weighted yield. The Company retained \$366.8 million in fair value of such certificates. During the year ended December 31, 2015 and six months ended June 30, 2016, the Company sold an additional \$111.0 million and \$100.6 million in UPB of those certificates, respectively, which reduced the fair value of the certificates retained by the Company to \$101.2 million as of June 30, 2016.

The VIE is consolidated by the Company as the Manager determined that PMT is the primary beneficiary of the VIE as it had the power, through PLS, in its role as servicer of the mortgage loans, to direct the activities of the VIE that most significantly impact its economic performance and the retained subordinated and residual interest trust certificates expose the Company to losses that could potentially be significant to the VIE.

#### Note 6—Netting of Financial Instruments

The Company uses derivative financial instruments to manage exposure to interest rate risk created by its MBS, interest rate lock commitments (“IRLCs”), mortgage loans acquired for sale at fair value, mortgage loans at fair value held in VIE, ESS and MSRs. All derivative financial instruments are recorded on the consolidated balance sheets at fair value. The Company has elected to net derivative asset and liability positions, and cash collateral obtained (or posted) from (or to) its counterparties when subject to a legally enforceable master netting arrangement. The derivative financial instruments that are not subject to master netting arrangements are IRLCs and the net derivatives related to CRT Agreements. As of June 30, 2016 and December 31, 2015, the Company did not enter into reverse repurchase agreements or securities lending transactions that are required to be disclosed in the following tables.



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Offsetting of Derivative Assets

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

|   | June 30, 2016  |  |   | December 31, 2015 |  |   |
|---|----------------|--|---|-------------------|--|---|
|   | Gross amounts  | offset in the consolidated balance sheet | Net amounts of assets presented in the consolidated balance sheet | Gross amounts     | offset in the consolidated balance sheet | Net amounts of assets presented in the consolidated balance sheet |
|   | (in thousands) |  |   | (in thousands)    |  |   |
| <b>Derivative assets</b>                    |                |  |   |                   |  |   |
| Not subject to master netting arrangements: |                |  |   |                   |  |   |
| Interest rate lock commitments              | \$ 16,803      | \$ —                                     | \$ 16,803   | \$ 4,983          | \$ —                                     | \$ 4,983  |
| CRT Agreements                              | —              | —  | —   | 593               | —  | 593   |
|   | 16,803         | —  | 16,803  | 5,576             | —  | 5,576   |
| Subject to master netting arrangements:     |                |  |   |                   |  |   |
| MBS put options                             | 593            | —  | 593   | 93                | —  | 93  |
| Forward purchase contracts                  | 35,768         | —  | 35,768  | 2,444             | —  | 2,444   |
| Forward sale contracts                      | 43             | —  | 43  | 2,604             | —  | 2,604   |
| Put options on interest rate futures        | 453            | —  | 453   | 1,512             | —  | 1,512   |
| Call options on interest rate futures       | 3,379          | —  | 3,379   | 1,156             | —  | 1,156   |
| Netting                                     | —              | (22,032 )                                | (22,032 )   | —                 | (3,300 )                                 | (3,300 )  |
|   | 40,236         | (22,032 )                                | 18,204  | 7,809             | (3,300 )                                 | 4,509   |
|   | \$ 57,039      | \$ (22,032 )                             | \$ 35,007   | \$ 13,385         | \$ (3,300 )                              | \$ 10,085   |

Derivative Assets and Collateral Held by Counterparty

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

June 30, 2016

December 31, 2015

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|                                       | Gross amounts<br>not offset in the<br>consolidated<br>balance sheet                                  |      |                                      | Gross amounts<br>not offset in the<br>consolidated<br>balance sheet |  |      |                                      |               |
|---------------------------------------|--|------|--------------------------------------|---|--|------|--------------------------------------|---------------|
|                                       | Net<br>amount<br>of assets<br>presented<br>in the<br>consolidated<br>balance sheet<br>(in thousands) | Cash | Financial<br>instruments<br>received | Net<br>amount   | Net<br>amount<br>of assets<br>presented<br>in the<br>consolidated<br>balance sheet<br>(in thousands) | Cash | Financial<br>instruments<br>received | Net<br>amount |
| Interest rate lock commitments        | \$16,803   | \$ — | \$ —                                 | \$16,803  | \$4,983  | \$ — | \$ —                                 | \$4,983       |
| Fannie Mae Capital Markets            | 12,439   | —    | —                                    | 12,439  | —  | —    | —                                    | —             |
| Jefferies Group LLC                   | 3,015  | —    | —                                    | 3,015   | 541  | —    | —                                    | 541           |
| RJ O'Brien & Associates, LLC          | 867  | —    | —                                    | 867   | 1,672  | —    | —                                    | 1,672         |
| Morgan Stanley Bank, N.A.             | 863  | —    | —                                    | 863   | 464  | —    | —                                    | 464           |
| Royal Bank of Canada                  | 397  | —    | —                                    | 397   | 400  | —    | —                                    | 400           |
| Nomura Securities International, Inc. | 274  | —    | —                                    | 274   | 119  | —    | —                                    | 119           |
| Barclays Capital                      | —  | —    | —                                    | —   | 796  | —    | —                                    | 796           |
| Ally Financial                        | —  | —    | —                                    | —   | 209  | —    | —                                    | 209           |
| Other                                 | 349  | —    | —                                    | 349   | 901  | —    | —                                    | 901           |
|                                       | \$35,007   | \$ — | \$ —                                 | \$35,007  | \$10,085   | \$ — | \$ —                                 | \$10,085      |

## Offsetting of Derivative Liabilities and Financial Liabilities

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

|  | June 30, 2016  |                |                | December 31, 2015 |                |                |
|--|----------------|----------------|----------------|-------------------|----------------|----------------|
|  | Gross          | Net            | Gross          | Net               | Gross          | Net            |
|  | amounts        | amounts        | amounts        | amounts           | amounts        | amounts        |
|  | of             | of             | of             | of                | of             | of             |
|  | liabilities    | liabilities    | liabilities    | liabilities       | liabilities    | liabilities    |
|  | recognized     | recognized     | recognized     | recognized        | recognized     | recognized     |
|  | in the         | in the         | in the         | in the            | in the         | in the         |
|  | consolidated   | consolidated   | consolidated   | consolidated      | consolidated   | consolidated   |
|  | balance        | balance        | balance        | balance           | balance        | balance        |
|  | sheet          | sheet          | sheet          | sheet             | sheet          | sheet          |
|  | (in thousands) | (in thousands) | (in thousands) | (in thousands)    | (in thousands) | (in thousands) |
| <b>Derivative liabilities</b>                      |                |                |                |                   |                |                |
| <b>Not subject to master netting</b>               |                |                |                |                   |                |                |
| arrangements:                                      |                |                |                |                   |                |                |
| Interest rate lock commitments                     | \$45           | \$ —           | \$45           | \$337             | \$ —           | \$337          |
| CRT Agreements                                     | 199            | —              | 199            | —                 | —              | —              |
|  | 244            | —              | 244            | 337               | —              | 337            |
| <b>Subject to master netting</b>                   |                |                |                |                   |                |                |
| arrangements:                                      |                |                |                |                   |                |                |
| Forward purchase contracts                         | 19             | —              | 19             | 3,774             | —              | 3,774          |
| Forward sales contracts                            | 35,466         | —              | 35,466         | 2,680             | —              | 2,680          |
| Put options on interest rate futures               | 79             | —              | 79             | 39                | —              | 39             |
| Call options on interest rate futures              | —              | —              | —              | 305               | —              | 305            |
| Netting  | —              | (31,914 )      | (31,914 )      | —                 | (3,978 )       | (3,978 )       |
|  | 35,564         | (31,914 )      | 3,650          | 6,798             | (3,978 )       | 2,820          |
|  | 35,808         | (31,914 )      | 3,894          | 7,135             | (3,978 )       | 3,157          |
| <b>Assets sold under agreements to repurchase:</b> |                |                |                |                   |                |                |
| UPB  | 3,276,854      | —              | 3,276,854      | 3,130,328         | —              | 3,130,328      |
| Unamortized debt issuance costs                    | (1,163 )       | —              | (1,163 )       | (1,548 )          | —              | (1,548 )       |
|  | 3,275,691      | —              | 3,275,691      | 3,128,780         | —              | 3,128,780      |
|  | \$3,311,499    | \$ (31,914 )   | \$3,279,585    | \$3,135,915       | \$ (3,978 )    | \$3,131,937    |

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Derivative Liabilities, Financial Liabilities and Collateral Pledged by Counterparty

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

|  | June 30, 2016  |                       |            | December 31, 2015  |                       |            |      |
|--|--|-----------------------|------------|--|-----------------------|------------|------|
|  | Gross amounts not offset in the consolidated balance sheet |                       |            | Gross amounts not offset in the consolidated balance sheet |                       |            |      |
| Net amount of liabilities presented in the consolidated balance sheet (in thousands) | Cash collateral pledged                                    | Financial instruments | Net amount | Cash collateral pledged                                    | Financial instruments | Net amount |      |
| Interest rate lock commitments   | \$45   | \$—                   | \$ —       | \$45   | \$337                 | \$—        | \$ — |
| CRT Agreements   | 199  | —                     | —          | 199  | —                     | —          | —    |
| Credit Suisse First Boston Mortgage  |  |                       |            |  |                       |            |      |
| Capital LLC  | 972,451  | (972,003 )            | —          | 448  | 893,947               | (893,854 ) | —    |
| Bank of America, N.A.  | 677,186  | (676,971 )            | —          | 215  | 538,755               | (538,515 ) | —    |
| Citibank   | 559,029  | (558,346 )            | —          | 683  | 817,089               | (816,699 ) | —    |
| JPMorgan Chase & Co.   | 488,624  | (488,624 )            | —          | —  | 467,427               | (467,145 ) | —    |
| Morgan Stanley Bank, N.A.  | 208,488  | (208,488 )            | —          | —  | 214,086               | (214,086 ) | —    |
| Daiwa Capital Markets  | 207,908  | (207,908 )            | —          | —  | 165,480               | (165,480 ) | —    |
| Wells Fargo, N.A.  | 66,458   | (66,384 )             | —          | 74   |                       |            |      |
| Barclays Capital   | 50,528   | (50,528 )             | —          | —  | 24,346                | (24,346 )  | —    |
| BNP Paribas  | 47,602   | (47,602 )             | —          | —  | 10,203                | (10,203 )  | —    |
| Bank of Oklahoma   | 646  | —                     | —          | 646  | —                     | —          | —    |
|  | 340  | —                     | —          | 340  | —                     | —          | —    |

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|                                 |             |               |    |          |             |               |    |           |
|---------------------------------|-------------|---------------|----|----------|-------------|---------------|----|-----------|
| Raymond James and Associates    |             |               |    |          |             |               |    |           |
| Deutsche Bank                   | 263         | —             | —  | 263      | —           | —             | —  | —         |
| Goldman Sachs                   | 197         | —             | —  | 197      | 819         | —             | —  | 819       |
| Fannie Mae Capital Markets      | —           | —             | —  | —        | 924         | —             | —  | 924       |
| Other                           | 784         | —             | —  | 784      | 72          | —             | —  | 72        |
| Unamortized debt issuance costs | (1,163 )    | 1,163         | —  | —        | (1,548 )    | 1,548         | —  | —         |
|                                 | \$3,279,585 | \$(3,275,691) | \$ | —\$3,894 | \$3,131,937 | \$(3,128,780) | \$ | — \$3,157 |

Note 7—Fair Value

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

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

- Level 1—Quoted prices in active markets for identical financial statement items.
- Level 2—Prices determined or determinable using other significant observable inputs. Observable inputs are inputs that other market participants would use in pricing a financial statement item and are developed based on market data obtained from sources independent of the Company. These may include quoted prices for similar financial statement items, interest rates, prepayment speeds, credit risk and other inputs.

·Level 3—Prices determined using significant unobservable inputs. In situations where significant observable inputs are unavailable (for example, when there is little or no market activity for a financial statement item at the end of the period) unobservable inputs may be used. Unobservable inputs reflect the Company’s own judgments about the factors that market participants use in pricing a financial statement item, and are based on the best information available in the circumstances.

As a result of the difficulty in observing certain significant valuation inputs affecting “Level 3” fair value financial statement items, the Manager is required to make judgments regarding these items’ fair values. Different persons in possession of the same facts may reasonably arrive at different conclusions as to the inputs to be applied in valuing these financial statement items and their fair values. Likewise, due to the general illiquidity of some of these financial statement items, subsequent transactions may be at values significantly different from those reported.

#### Fair Value Accounting Elections

The Manager identified all of the Company’s non-cash financial assets and MSRs relating to loans with initial interest rates of more than 4.5%, to be accounted for at fair value. The Manager has elected to account for these financial statement items at fair value so such changes in fair value will be reflected in income as they occur and more timely reflect the results of the Company’s performance.

The Manager has also identified the Company’s CRT financing and asset-backed financing of a VIE to be accounted for at fair value to reflect the generally offsetting changes in fair value of these borrowings to changes in fair value of mortgage loans at fair value collateralizing these financings.

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

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Financial Statement Items Measured at Fair Value on a Recurring Basis

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

|  | June 30, 2016  |             |             |             |
|--|----------------|-------------|-------------|-------------|
|  | Level 1        | Level 2     | Level 3     | Total       |
|  | (in thousands) |             |             |             |
| <b>Assets:</b>                                 |                |             |             |             |
| Short-term investments                         | \$16,877       | \$—         | \$—         | \$16,877    |
| Mortgage-backed securities at fair value       | —              | 531,612     | —           | 531,612     |
| Mortgage loans acquired for sale at fair value | —              | 1,461,029   | —           | 1,461,029   |
| Mortgage loans at fair value                   | —              | 427,091     | 1,608,906   | 2,035,997   |
| Excess servicing spread purchased from PFSI    | —              | —           | 294,551     | 294,551     |
| <b>Derivative assets:</b>                      |                |             |             |             |
| Interest rate lock commitments                 | —              | —           | 16,803      | 16,803      |
| MBS put options                                | —              | 593         | —           | 593         |
| Forward purchase contracts                     | —              | 35,768      | —           | 35,768      |
| Forward sales contracts                        | —              | 43          | —           | 43          |
| Put options on interest rate futures           | 453            | —           | —           | 453         |
| Call options on interest rate futures          | 3,379          | —           | —           | 3,379       |
| Total derivative assets before netting         | 3,832          | 36,404      | 16,803      | 57,039      |
| Netting  | —              | —           | —           | (22,032 )   |
| Total derivative assets after netting          | 3,832          | 36,404      | 16,803      | 35,007      |
| Mortgage servicing rights at fair value        | —              | —           | 57,977      | 57,977      |
|  | \$20,709       | \$2,456,136 | \$1,978,237 | \$4,433,050 |
| <b>Liabilities:</b>                            |                |             |             |             |
| Asset-backed financing of a VIE at fair value  | \$—            | \$325,939   | \$—         | \$325,939   |
| Interest-only security payable at fair value   | —              | —           | 1,663       | 1,663       |
| <b>Derivative liabilities:</b>                 |                |             |             |             |
| Interest rate lock commitments                 | —              | —           | 45          | 45          |
| CRT Agreements                                 | —              | —           | 199         | 199         |
| Put options on interest rate futures           | 79             | —           | —           | 79          |
| Forward purchase contracts                     | —              | 19          | —           | 19          |
| Forward sales contracts                        | —              | 35,466      | —           | 35,466      |
| Total derivative liabilities before netting    | 79             | 35,485      | 244         | 35,808      |
| Netting  | —              | —           | —           | (31,914 )   |
| Total derivative liabilities after netting     | 79             | 35,485      | 244         | 3,894       |
|  | \$79           | \$361,424   | \$1,907     | \$331,496   |

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|   | December 31, 2015 |             |             | Total       |
|---|-------------------|-------------|-------------|-------------|
|   | Level 1           | Level 2     | Level 3     |             |
|   | (in thousands)    |             |             |             |
| <b>Assets:</b>                                  |                   |             |             |             |
| Short-term investments                          | \$41,865          | \$—         | \$—         | \$41,865    |
| Mortgage-backed securities at fair value        | —                 | 322,473     | —           | 322,473     |
| Mortgage loans acquired for sale at fair value  | —                 | 1,283,795   | —           | 1,283,795   |
| Mortgage loans at fair value                    | —                 | 455,394     | 2,100,394   | 2,555,788   |
| Excess servicing spread purchased from PFSI     | —                 | —           | 412,425     | 412,425     |
| <b>Derivative assets:</b>                       |                   |             |             |             |
| Interest rate lock commitments                  | —                 | —           | 4,983       | 4,983       |
| CRT Agreements                                  | —                 | —           | 593         | 593         |
| MBS put options                                 | —                 | 93          | —           | 93          |
| Forward purchase contracts                      | —                 | 2,444       | —           | 2,444       |
| Forward sales contracts                         | —                 | 2,604       | —           | 2,604       |
| Put options on interest rate futures            | 1,512             | —           | —           | 1,512       |
| Call options on interest rate futures           | 1,156             | —           | —           | 1,156       |
| Total derivative assets                         | 2,668             | 5,141       | 5,576       | 13,385      |
| Netting   | —                 | —           | —           | (3,300 )    |
| Total derivative assets after netting           | 2,668             | 5,141       | 5,576       | 10,085      |
| Mortgage servicing rights at fair value         | —                 | —           | 66,584      | 66,584      |
|   | \$44,533          | \$2,066,803 | \$2,584,979 | \$4,693,015 |
| <b>Liabilities:</b>                             |                   |             |             |             |
| Asset-backed financing of the VIE at fair value | \$—               | \$247,690   | \$—         | \$247,690   |
| <b>Derivative liabilities:</b>                  |                   |             |             |             |
| Interest rate lock commitments                  | —                 | —           | 337         | 337         |
| Put options on interest rate futures            | 39                | —           | —           | 39          |
| Call options on interest rate futures           | 305               | —           | —           | 305         |
| Forward purchase contracts                      | —                 | 3,774       | —           | 3,774       |
| Forward sales contracts                         | —                 | 2,680       | —           | 2,680       |
| Total derivative liabilities                    | 344               | 6,454       | 337         | 7,135       |
| Netting   | —                 | —           | —           | (3,978 )    |
| Total derivative liabilities after netting      | 344               | 6,454       | 337         | 3,157       |
|   | \$344             | \$254,144   | \$337       | \$250,847   |



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

|  | Quarter ended June 30, 2016                 |                         |                                    |                    |                           |                                |             |
|--|---|-------------------------|------------------------------------|--------------------|---------------------------|--------------------------------|-------------|
|  | Mortgage loans at fair value (in thousands) | Excess servicing spread | Interest rate lock commitments (1) | CRT Agreements (1) | Mortgage servicing rights | Interest-only security payable | Total       |
| Balance, March 31, 2016  | \$2,047,563                                 | \$321,976               | \$ 9,335                           | \$ (4,218 )        | \$ 61,071                 | \$ 675                         | \$2,436,402 |
| Purchases and issuances  | —   | —                       | —                                  | —                  | —                         | 1,454                          | 1,454       |
| Repayments and sales   | (387,661 )                                  | (17,400 )               | —                                  | —                  | —                         | —                              | (405,061 )  |
| Capitalization of interest   | 16,421                                      | 5,713                   | —                                  | —                  | —                         | —                              | 22,134      |
| ESS received pursuant to a recapture agreement with PFSI               | —   | 1,690                   | —                                  | —                  | —                         | —                              | 1,690       |
| Interest rate lock commitments issued, net                             | —   | —                       | 17,036                             | —                  | —                         | —                              | 17,036      |
| Servicing received as proceeds from sales of mortgage loans            | —   | —                       | —                                  | —                  | 1,847                     | —                              | 1,847       |
| Proceeds from CRT Agreements   | —   | —                       | —                                  | (3,859 )           | —                         | —                              | (3,859 )    |
| Changes in fair value included in income arising from:                 |   |                         |                                    |                    |                           |                                |             |
| Changes in instrument-specific credit risk                             | (22,287 )                                   | —                       | —                                  | —                  | —                         | —                              | (22,287 )   |
| Other factors  | 8,824                                       | (17,428 )               | 27,076                             | 7,878              | (4,941 )                  | (466 )                         | 20,943      |
|  | (13,463 )                                   | (17,428 )               | 27,076                             | 7,878              | (4,941 )                  | (466 )                         | (1,344 )    |
| Transfers of mortgage loans to REO and real estate held for investment | (53,954 )                                   | —                       | —                                  | —                  | —                         | —                              | (53,954 )   |
| Transfers of interest rate lock  | —   | —                       | (36,690 )                          | —                  | —                         | —                              | (36,690 )   |

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commitments to  
mortgage

|                         |              |            |           |         |             |          |              |  |
|-------------------------|--------------|------------|-----------|---------|-------------|----------|--------------|--|
| loans acquired for sale |              |            |           |         |             |          |              |  |
| Balance, June 30, 2016  | \$ 1,608,906 | \$ 294,551 | \$ 16,757 | \$ (199 | ) \$ 57,977 | \$ 1,663 | \$ 1,979,655 |  |
| Changes in fair value   |              |            |           |         |             |          |              |  |

recognized during the  
period

relating to assets still  
held

|                  |           |              |             |          |           |        |             |   |
|------------------|-----------|--------------|-------------|----------|-----------|--------|-------------|---|
| at June 30, 2016 | \$ (5,335 | ) \$ (17,428 | ) \$ 16,757 | \$ 7,878 | \$ (4,941 | ) (466 | ) \$ (3,535 | ) |
|------------------|-----------|--------------|-------------|----------|-----------|--------|-------------|---|

(1) For the purpose of this table, the IRLC and CRT Agreement asset and liability positions are shown net.

24

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|  | Quarter ended June 30, 2015                             |                               |  |                                 |             |
|--|---|-------------------------------|--|---------------------------------|-------------|
|  | Mortgage<br>loans<br>at fair<br>value<br>(in thousands) | Excess<br>servicing<br>spread | Interest<br>rate lock<br>commitments (1) | Mortgage<br>servicing<br>rights | Total       |
| Balance, March 31, 2015                        | \$2,343,382   | \$222,309                     | \$ 8,214                                 | \$ 49,448                       | \$2,623,353 |
| Purchases                                      | —   | 140,874                       | —  | —                               | 140,874     |
| Repayments and sales                           | (68,190 )   | (18,352 )                     | —  | —                               | (86,542 )   |
| Capitalization of interest                     | 9,922   | —                             | —  | —                               | 9,922       |
| Accrual of interest                            | —   | 5,819                         | —  | —                               | 5,819       |
| ESS received pursuant to a recapture agreement |   |                               |  |                                 |             |
| with PFSI                                      | —   | 1,319                         | —  | —                               | 1,319       |
| Interest rate lock commitments issued, net     | —   | —                             | 11,683                                   | —                               | 11,683      |
| Servicing received as proceeds from sales of   |   |                               |  |                                 |             |
| mortgage loans                                 | —   | —                             | —  | 1,588                           | 1,588       |
| Changes in fair value included in income       |   |                               |  |                                 |             |
| arising from:                                  |   |                               |  |                                 |             |
| Changes in instrument-specific credit risk     | 7,489   | —                             | —  | —                               | 7,489       |
| Other factors                                  | 22,579  | 7,133                         | (23,411 )                                | 6,307                           | 12,608      |
|  | 30,068  | 7,133                         | (23,411 )                                | 6,307                           | 20,097      |
| Transfers of mortgage loans to REO             | (68,238 )   | —                             | —  | —                               | (68,238 )   |
| Transfers of interest rate lock commitments to |   |                               |  |                                 |             |
| mortgage loans acquired for sale               | —   | —                             | 3,247                                    | —                               | 3,247       |
| Balance, June 31, 2015                         | \$2,246,944   | \$359,102                     | \$ (267 )                                | \$ 57,343                       | \$2,663,122 |
| Changes in fair value recognized during the    |   |                               |  |                                 |             |
| period relating to assets still held at        |   |                               |  |                                 |             |
| June 30, 2015                                  | \$32,807  | \$7,133                       | \$ (267 )                                | \$ 6,307                        | \$45,980    |

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

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Six months ended June 30, 2016

|  | Mortgage<br>loans<br>at fair<br>value<br>(in thousands) | Excess<br>servicing<br>spread | Interest<br>rate lock<br>commitments (1) | CRT<br>Agreements (1) | Mortgage<br>servicing<br>rights | Interest-<br>only<br>security<br>payable | Total       |
|--|---|-------------------------------|--|-----------------------|---------------------------------|--|-------------|
| Balance, December 31, 2015   | \$2,100,394   | \$412,425                     | \$ 4,646                                 | \$ 593                | \$66,584                        | \$—                                      | \$2,584,642 |
| Purchases and issuances  | —   | —                             | —  | 682                   | 2,602                           | 2,136                                    | 5,420       |
| Repayments and sales   | (419,726 )  | (97,326 )                     | —  | —                     | —                               | —  | (517,052 )  |
| Capitalization of interest   | 39,715  | 12,728                        | —  | —                     | —                               | —  | 52,443      |
| ESS received pursuant to a<br>recapture agreement<br>with<br>PFSI  | —   | 3,601                         | —  | —                     | —                               | —  | 3,601       |
| Interest rate lock<br>commitments<br>issued, net   | —   | —                             | 27,733                                   | —                     | —                               | —  | 27,733      |
| Servicing received as<br>proceeds<br>from sales of mortgage<br>loans   | —   | —                             | —  | —                     | 5,147                           | —  | 5,147       |
| Proceeds from CRT<br>Agreements  | —   | —                             | —  | (6,395 )              | —                               | —  | (6,395 )    |
| Changes in fair value<br>included<br>in income arising from:<br>Changes in instrument-<br>specific credit risk | (19,004 )   | —                             | —  | —                     | —                               | —  | (19,004 )   |
| Other factors  | 19,936  | (36,877 )                     | 47,742                                   | 4,921                 | (16,356 )                       | (473 )                                   | 18,893      |
|  | 932   | (36,877 )                     | 47,742                                   | 4,921                 | (16,356 )                       | (473 )                                   | (111 )      |
| Transfers of mortgage<br>loans to<br>REO and real estate held<br>for<br>investment                             | (112,409 )  | —                             | —  | —                     | —                               | —  | (112,409 )  |
| Transfers of interest rate<br>lock   | —   | —                             | (63,364 )                                | —                     | —                               | —  | (63,364 )   |

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commitments to  
mortgage

|                         |              |            |           |         |             |          |              |  |
|-------------------------|--------------|------------|-----------|---------|-------------|----------|--------------|--|
| loans acquired for sale |              |            |           |         |             |          |              |  |
| Balance, June 30, 2016  | \$ 1,608,906 | \$ 294,551 | \$ 16,757 | \$ (199 | ) \$ 57,977 | \$ 1,663 | \$ 1,979,655 |  |
| Changes in fair value   |              |            |           |         |             |          |              |  |

recognized during the  
period

relating to assets still  
held

|                  |        |             |           |          |            |        |             |  |
|------------------|--------|-------------|-----------|----------|------------|--------|-------------|--|
| at June 30, 2016 | \$ 654 | \$(29,667 ) | \$ 16,757 | \$ 4,921 | \$(16,356) | (473 ) | \$(24,164 ) |  |
|------------------|--------|-------------|-----------|----------|------------|--------|-------------|--|

(1) For the purpose of this table, the IRLC and CRT Agreement asset and liability positions are shown net.  
26

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|   | Six months ended June 30, 2015                          |                               |  |                                 |             |
|---|---|-------------------------------|--|---------------------------------|-------------|
|   | Mortgage<br>loans<br>at fair<br>value<br>(in thousands) | Excess<br>servicing<br>spread | Interest<br>rate lock<br>commitments (1) | Mortgage<br>servicing<br>rights | Total       |
| Balance, December 31, 2014  | \$2,199,583   | \$191,166                     | \$ 5,661                                 | \$ 57,358                       | \$2,453,768 |
| Purchases   | 241,981   | 187,287                       | —  | —                               | 429,268     |
| Repayments and sales  | (114,070 )  | (31,083 )                     | —  | —                               | (145,153 )  |
| Capitalization of interest  | 20,130  | —                             | —  | —                               | 20,130      |
| Accrual of interest   | —   | 9,570                         | —  | —                               | 9,570       |
| ESS received pursuant to a recapture<br>agreement with PFSI   | —   | 2,565                         | —  | —                               | 2,565       |
| Interest rate lock commitments issued, net  | —   | —                             | 31,083                                   | —                               | 31,083      |
| Servicing received as proceeds from<br>sales of mortgage loans  | —   | —                             | —  | 3,495                           | 3,495       |
| Changes in fair value included in income<br>arising from:   |   |                               |  |                                 |             |
| Changes in instrument-specific credit risk  | 19,057  | —                             | —  | —                               | 19,057      |
| Other factors   | 28,196  | (403 )                        | (23,399 )                                | (3,510 )                        | 884         |
|   | 47,253  | (403 )                        | (23,399 )                                | (3,510 )                        | 19,941      |
| Transfers of mortgage loans to REO  | (147,933 )  | —                             | —  | —                               | (147,933 )  |
| Transfers of interest rate lock commitments to<br>mortgage loans acquired for sale                      | —   | —                             | (13,612 )                                | —                               | (13,612 )   |
| Balance, June 31, 2015  | \$2,246,944   | \$359,102                     | \$ (267 )                                | \$ 57,343                       | \$2,663,122 |
| Changes in fair value recognized during the<br>period relating to assets still held at<br>June 30, 2015 | \$54,574  | \$(403 )                      | \$ (267 )                                | \$(3,510 )                      | \$50,394    |

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

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

|   | June 30, 2016  |               |              | December 31, 2015 |               |              |
|---|----------------|---------------|--------------|-------------------|---------------|--------------|
|   | Principal      |               |              | Principal         |               |              |
|   | amount due     |               |              | amount due        |               |              |
|   | Fair value     | upon maturity | Difference   | Fair value        | upon maturity | Difference   |
|   | (in thousands) |               |              |                   |               |              |
| Mortgage loans acquired for sale at fair value: |                |               |              |                   |               |              |
| Current through 89 days delinquent              | \$1,460,326    | \$1,388,201   | \$72,125     | \$1,283,275       | \$1,235,433   | \$47,842     |
| 90 or more days delinquent                      |                |               |              |                   |               |              |
| Not in foreclosure                              | 415            | 461           | (46 )        | 304               | 333           | (29 )        |
| In foreclosure                                  | 288            | 338           | (50 )        | 216               | 253           | (37 )        |
|   | 703            | 799           | (96 )        | 520               | 586           | (66 )        |
|   | \$1,461,029    | \$1,389,000   | \$72,029     | \$1,283,795       | \$1,236,019   | \$47,776     |
| Mortgage loans at fair value:                   |                |               |              |                   |               |              |
| Mortgage loans held in a consolidated VIE       |                |               |              |                   |               |              |
| Current through 89 days delinquent              | \$427,091      | \$416,195     | \$10,896     | \$455,394         | \$454,935     | \$459        |
| 90 or more days delinquent                      |                |               |              |                   |               |              |
| Not in foreclosure                              | —              | —             | —            | —                 | —             | —            |
| In foreclosure                                  | —              | —             | —            | —                 | —             | —            |
|   | 427,091        | 416,195       | 10,896       | 455,394           | 454,935       | 459          |
| Other mortgage loans at fair value:             |                |               |              |                   |               |              |
| Current through 89 days delinquent              | 656,762        | 873,422       | (216,660 )   | 877,438           | 1,134,560     | (257,122 )   |
| 90 or more days delinquent                      |                |               |              |                   |               |              |
| Not in foreclosure                              | 363,328        | 510,475       | (147,147 )   | 459,060           | 640,343       | (181,283 )   |
| In foreclosure                                  | 588,816        | 803,754       | (214,938 )   | 763,896           | 1,062,205     | (298,309 )   |
|   | 952,144        | 1,314,229     | (362,085 )   | 1,222,956         | 1,702,548     | (479,592 )   |
|   | 1,608,906      | 2,187,651     | (578,745 )   | 2,100,394         | 2,837,108     | (736,714 )   |
|   | \$2,035,997    | \$2,603,846   | \$(567,849 ) | \$2,555,788       | \$3,292,043   | \$(736,255 ) |

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

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|  | Quarter ended June 30, 2016                                 |           |                     |                         |                                  |           |
|--|---|-----------|---------------------|-------------------------|----------------------------------|-----------|
|  | Net gain on mortgage loans acquired for sale (in thousands) |           | Net interest income | Net gain on investments | Net mortgage loan servicing fees | Total     |
| <b>Assets:</b>                                 |   |           |                     |                         |                                  |           |
| Short-term investments                         | \$—   | \$—       | \$—                 | \$—                     | \$—                              | \$—       |
| Mortgage-backed securities at fair value       | —   | (750 )    | 4,332               | —                       | —                                | 3,582     |
| Mortgage loans acquired for sale at fair value | 47,003  | —         | —                   | —                       | —                                | 47,003    |
| Mortgage loans at fair value                   | —   | 865       | (13,511 )           | —                       | —                                | (12,646)  |
| ESS at fair value                              | —   | —         | (17,428 )           | —                       | —                                | (17,428)  |
| MSRs at fair value                             | —   | —         | —                   | (4,941 )                | (4,941 )                         | (4,941 )  |
|  | \$47,003  | \$ 115    | \$ (26,607 )        | \$ (4,941 )             | \$ (4,941 )                      | \$ 15,570 |
| <b>Liabilities:</b>                            |   |           |                     |                         |                                  |           |
| Asset-backed financing of a VIE at fair value  | \$—   | \$ (781 ) | \$ 890              | \$—                     | \$—                              | \$ 109    |
|  | \$—   | \$ (781 ) | \$ 890              | \$—                     | \$—                              | \$ 109    |

28



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|  | Quarter ended June 30, 2015                  |                     |                         |                                  |           |
|--|--|---------------------|-------------------------|----------------------------------|-----------|
|  | Net gain on mortgage loans acquired for sale | Net interest income | Net gain on investments | Net mortgage loan servicing fees | Total     |
|  | (in thousands)                               |                     |                         |                                  |           |
| <b>Assets:</b>                                 |  |                     |                         |                                  |           |
| Short-term investments                         | \$—  | \$—                 | \$—                     | \$—                              | \$—       |
| Mortgage-backed securities at fair value       | —  | (23 )               | (6,702 )                | —                                | (6,725 )  |
| Mortgage loans acquired for sale at fair value | (5,017)                                      | —                   | —                       | —                                | (5,017 )  |
| Mortgage loans at fair value                   | —  | (310 )              | 17,991                  | —                                | 17,681    |
| ESS at fair value                              | —  | —                   | 8,589                   | —                                | 8,589     |
| MSRs at fair value                             | —  | —                   | —                       | 6,306                            | 6,306     |
|  | \$ (5,017)                                   | \$ (333 )           | \$ 19,878               | \$ 6,306                         | \$ 20,834 |
| <b>Liabilities:</b>                            |  |                     |                         |                                  |           |
| Asset-backed financing of a VIE at fair value  | \$—  | \$ 51               | \$ 3,991                | \$—                              | \$ 4,042  |
|  | \$—  | \$ 51               | \$ 3,991                | \$—                              | \$ 4,042  |

|  | Six months ended June 30, 2016               |                     |                         |                                  |             |
|--|--|---------------------|-------------------------|----------------------------------|-------------|
|  | Net gain on mortgage loans acquired for sale | Net interest income | Net gain on investments | Net mortgage loan servicing fees | Total       |
|  | (in thousands)                               |                     |                         |                                  |             |
| <b>Assets:</b>                                 |  |                     |                         |                                  |             |
| Short-term investments                         | \$—  | \$—                 | \$—                     | \$—                              | \$—         |
| Mortgage-backed securities at fair value       | —  | (738 )              | 9,431                   | —                                | 8,693       |
| Mortgage loans acquired for sale at fair value | 89,008                                       | —                   | —                       | —                                | 89,008      |
| Mortgage loans at fair value                   | —  | 2,094               | 9,279                   | —                                | 11,373      |
| ESS at fair value                              | —  | —                   | (36,877 )               | —                                | (36,877)    |
| MSRs at fair value                             | —  | —                   | —                       | (16,356)                         | (16,356)    |
|  | \$ 89,008                                    | \$ 1,356            | \$ (18,167 )            | \$ (16,356)                      | \$ 55,841   |
| <b>Liabilities:</b>                            |  |                     |                         |                                  |             |
| Asset-backed financing of a VIE at fair value  | \$—  | \$ 536              | \$ (8,963 )             | \$—                              | \$ (8,427 ) |
|  | \$—  | \$ 536              | \$ (8,963 )             | \$—                              | \$ (8,427 ) |

|  | Six months ended June 30, 2015               |                     |                         |                                  |       |
|--|--|---------------------|-------------------------|----------------------------------|-------|
|  | Net gain on mortgage loans acquired for sale | Net interest income | Net gain on investments | Net mortgage loan servicing fees | Total |

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(in thousands)

| Assets:  |          |           |           |             |          |
|--|----------|-----------|-----------|-------------|----------|
| Short-term investments                         | \$—      | \$—       | \$—       | \$—         | \$—      |
| Mortgage-backed securities at fair value       | —        | 63        | (5,186 )  | —           | (5,123 ) |
| Mortgage loans acquired for sale at fair value | 18,064   | —         | —         | —           | 18,064   |
| Mortgage loans at fair value                   | —        | 179       | 36,977    | —           | 37,156   |
| ESS at fair value                              | —        | —         | 2,342     | —           | 2,342    |
| MSRs at fair value                             | —        | —         | —         | (3,510 )    | (3,510 ) |
|  | \$18,064 | \$ 242    | \$ 34,133 | \$ (3,510 ) | \$48,929 |
| Liabilities:                                   |          |           |           |             |          |
| Asset-backed financing of a VIE at fair value  | \$—      | \$ (122 ) | \$ 3,222  | \$—         | \$3,100  |
|  | \$—      | \$ (122 ) | \$ 3,222  | \$—         | \$3,100  |

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Financial Statement Items Measured at Fair Value on a Nonrecurring Basis

Following is a summary of financial statement items that were re-measured at fair value on a nonrecurring basis during the periods presented:

|   | June 30, 2016  |     |           |           |       |
|---|----------------|-----|-----------|-----------|-------|
|   | Level 1        |     | Level 2   | Level 3   | Total |
|   | 1              | 2   | Level 3   |           |       |
|   | (in thousands) |     |           |           |       |
| Real estate acquired in settlement of loans   | \$—            | \$— | \$136,062 | \$136,062 |       |
| MSRs at lower of amortized cost or fair value | —              | —   | 332,354   | 332,354   |       |
|   | \$—            | \$— | \$468,416 | \$468,416 |       |

|   | December 31, 2015 |     |           |           |       |
|---|-------------------|-----|-----------|-----------|-------|
|   | Level 1           |     | Level 2   | Level 3   | Total |
|   | 1                 | 2   | Level 3   |           |       |
|   | (in thousands)    |     |           |           |       |
| Real estate acquired in settlement of loans   | \$—               | \$— | \$173,662 | \$173,662 |       |
| MSRs at lower of amortized cost or fair value | —                 | —   | 145,187   | 145,187   |       |
|   | \$—               | \$— | \$318,849 | \$318,849 |       |

The following table summarizes the fair value changes recognized during the period on assets held at period end that were measured at fair value on a nonrecurring basis:

|   | Quarter ended  |           | Six months ended |            |
|---|----------------|-----------|------------------|------------|
|   | June 30,       |           | June 30,         |            |
|   | 2016           | 2015      | 2016             | 2015       |
|   | (in thousands) |           |                  |            |
| Real estate asset acquired in settlement of loans | \$(5,836)      | \$(6,491) | \$(11,106)       | \$(13,800) |
| MSRs at lower of amortized cost or fair value     | (23,170)       | 7,082     | (40,876)         | 703        |
|   | \$(29,006)     | \$591     | \$(51,982)       | \$(13,097) |

Real Estate Acquired in Settlement of Loans

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

Mortgage Servicing Rights at Lower of Amortized Cost or Fair Value

The Company evaluates its MSR at lower of amortized cost or fair value for impairment with reference to the asset's fair value. For purposes of performing its MSR impairment evaluation, the Company stratifies its MSR at lower of amortized cost or fair value based on the interest rates borne by the mortgage loans underlying the MSR. Mortgage loans are grouped into pools with 50 basis point interest rate ranges for fixed-rate mortgage loans with interest rates between 3.0% and 4.5% and a single pool for mortgage loans with interest rates below 3.0%. MSR relating to adjustable rate mortgage loans with initial interest rates of 4.5% or less are evaluated in a single pool. If the fair value of MSR in any of the interest rate pools is below the amortized cost of the MSR, those MSR are impaired.

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

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

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

The Company's Cash as well as certain of its borrowings are carried at amortized cost. Cash is measured using a "Level 1" fair value input. The Company's assets sold under agreements to repurchase and mortgage loan participation and sale agreement are classified as "Level 3" fair value financial statement items due to the Company's reliance on unobservable inputs to estimate these instruments' fair values.

The Manager has concluded that the fair values of Cash, Assets sold under agreements to repurchase, Mortgage loan participation and sale agreements, Federal Home Loan Bank advances and Notes payable approximate the agreements' carrying values due to the immediate realizability of Cash at its carrying amount and to the borrowing agreements' short terms and variable interest rates.

The Exchangeable Notes are carried at amortized cost. The fair value of the Exchangeable Notes at June 30, 2016 and December 31, 2015 was \$236.1 million and \$230.0 million, respectively. The fair value of the Exchangeable Notes is estimated using a broker indication of value. The Company has classified the Exchangeable Notes as "Level 3" fair value financial statement items as of June 30, 2016 due to the lack of current market activity.

### Valuation Techniques and Inputs

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

Due to the difficulty in estimating the fair values of "Level 3" fair value financial statement items, the Manager has assigned responsibility for estimating fair value of these items to specialized staff and subjects the valuation process to significant executive management oversight. The Manager's Financial Analysis and Valuation group (the "FAV group") is responsible for estimating the fair values of "Level 3" fair value financial statement items other than IRLCs and maintaining its valuation policies and procedures.

With respect to the Company's "Level 3" fair value financial statement items, the FAV group reports to PCM's valuation committee, which oversees and approves the valuations. The FAV group monitors the models used for valuation of the Company's non-IRLC "Level 3" fair value financial statement items, including the models' performance versus actual results, and reports those results to PCM's valuation committee. PCM's valuation committee includes PFSI's chief executive, financial, operating, risk, business development and asset/liability management officers.

The FAV group is responsible for reporting to PCM's valuation committee on a monthly basis on the changes in the valuation of the financial statement items, including major factors affecting the valuation and any changes in model methods and inputs. To assess the reasonableness of its valuations, the FAV group presents an analysis of the effect on the valuation of changes to the significant inputs to the models.

The fair value of the Company's IRLCs is developed by the Manager's Capital Markets Risk Management staff and is reviewed by the Manager's Capital Markets Operations group.

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

### Mortgage-Backed Securities

The Company's MBS include Agency and senior non-agency MBS. The Company categorizes its current holdings of MBS as "Level 2" fair value financial statement items. Fair value of these MBS is established based on quoted market prices for the Company's MBS or similar securities. Changes in the fair value of MBS are included in Net (loss) gain on investments in the consolidated statements of operations.

#### Mortgage Loans

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

- Mortgage loans that are saleable into active markets, comprised of the Company's mortgage loans acquired for sale at fair value and mortgage loans at fair value held in a VIE, are categorized as "Level 2" fair value financial statement items. The

31

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fair values of mortgage loans acquired for sale at fair value are established using their quoted market or contracted price or market price equivalent. For the mortgage loans at fair value held in a VIE, the fair values of all of the individual securities issued by the securitization trust are used to derive a fair value for the mortgage loans. The Company obtains indications of fair value from nonaffiliated brokers based on comparable securities and validates the brokers' indications of fair value using pricing models and inputs the Manager believes are similar to the models and inputs used by other market participants.

·Mortgage loans that are not saleable into active markets, comprised of mortgage loans at fair value held outside the VIE are categorized as "Level 3" fair value financial statement items and their fair values are estimated using a discounted cash flow approach. Inputs to the discounted cash flow model include current interest rates, loan amount, payment status, property type, discount rates and forecasts of future interest rates, home prices, prepayment speeds, default speeds, loss severities and contracted selling price where applicable.

The valuation process includes the computation by stratum of the mortgage loans' fair values and a review for reasonableness of various measures such as weighted average life, projected prepayment and default speeds, and projected default and loss percentages. The FAV group computes the effect on the valuation of changes in inputs such as interest rates, home prices, and delinquency status to assess the reasonableness of changes in the mortgage loan valuation.

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

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

Following is a quantitative summary of key inputs used in the valuation of mortgage loans at fair value:

| Key inputs                                 | June 30,<br>2016 | December 31,<br>2015 |
|--|------------------|----------------------|
| Discount rate                              |                  |                      |
| Range                                      | 2.5% – 15.0%     | 2.5% – 15.0%         |
| Weighted average                           | 6.7%             | 7.1%                 |
| Twelve-month projected housing price index |                  |                      |
| change                                     |                  |                      |
| Range                                      | 2.7% – 5.2%      | 1.5% – 5.1%          |
| Weighted average                           | 4.0%             | 3.6%                 |
| Prepayment speed (1)                       |                  |                      |
| Range                                      | 0.1% – 13.7%     | 0.1% – 9.6%          |
| Weighted average                           | 3.9%             | 3.7%                 |
| Total prepayment speed (2)                 |                  |                      |
| Range                                      | 0.7% – 25.4%     | 0.5% – 27.2%         |
| Weighted average                           | 19.0%            | 19.6%                |

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

(2) Total prepayment speed is measured using Life Total CPR.  
Excess Servicing Spread Purchased from PFSI

The Company categorizes ESS as a “Level 3” fair value financial statement item. The Company uses a discounted cash flow approach to estimate the fair value of ESS. The key inputs used in the estimation of the fair value of ESS include prepayment speed and discount rate. Significant changes to those inputs in isolation may result in a significant change in the ESS fair value measurement. Changes in these key inputs are not necessarily directly related.

ESS is generally subject to loss in fair value when interest rates decrease. Decreasing mortgage rates normally encourage increased mortgage refinancing activity. Increased refinancing activity reduces the life of the mortgage loans underlying the ESS, thereby reducing the cash flows expected to accrue to ESS. Reductions in the fair value of ESS affect results of operations primarily through change in fair value. Changes in the fair value of ESS are included in Net (loss) gain on investments in the consolidated statements of operations.

32

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

| Key inputs                                      | June 30,<br>2016 | December 31,<br>2015 |
|---|------------------|----------------------|
| UPB of underlying mortgage loans (in thousands) | \$36,151,940     | \$51,966,405         |
| Average servicing fee rate (in basis points)    | 34               | 32                   |
| Average ESS rate (in basis points)              | 19               | 17                   |
| Pricing spread (1)                              |                  |                      |
| Range   | 4.7% – 5.9%      | 4.8% - 6.5%          |
| Weighted average                                | 5.5%             | 5.7%                 |
| Life (in years)                                 |                  |                      |
| Range   | 1.6 - 8.9        | 1.4 - 9.0            |
| Weighted average                                | 6.2              | 6.9                  |
| Annual total prepayment speed (2)               |                  |                      |
| Range   | 6.8% – 37.3%     | 5.2% - 52.4%         |
| Weighted average                                | 12.5%            | 9.6%                 |

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

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

#### Derivative Financial Instruments

#### Interest Rate Lock Commitments

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

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

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

| Key inputs        | June 30, 2016  | December 31,<br>2015 |
|-------------------|----------------|----------------------|
| Pull-through rate |                |                      |
| Range             | 74.9% – 100.0% | 60.2% - 100.0%       |

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|                         |             |             |
|-------------------------|-------------|-------------|
| Weighted average        | 88.0%       | 92.4%       |
| MSR value expressed as: |             |             |
| Servicing fee multiple  |             |             |
| Range                   | 1.8 - 5.7   | 2.1 - 6.2   |
| Weighted average        | 4.5         | 4.9         |
| Percentage of UPB       |             |             |
| Range                   | 0.0% – 1.4% | 0.5% - 3.8% |
| Weighted average        | 1.1%        | 1.2%        |

Hedging Derivatives

The Company estimates the fair value of commitments to sell mortgage loans based on quoted MBS prices. These derivative financial instruments are categorized by the Company as “Level 1” fair value financial statement items for those based on exchange traded market prices or as “Level 2” fair value financial statement items for those based on observable interest rate volatilities in the

33

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MBS market. Changes in the fair value of hedging derivatives are included in Net gains on mortgage loans acquired for sale at fair value, Net (loss) gain on investments, or Net mortgage loan servicing fees, as applicable, in the consolidated statements of operations.

### Real Estate Acquired in Settlement of Loans

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

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

### Mortgage Servicing Rights

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

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

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

|                                   | Quarter ended June 30,  |            |             |           |
|-----------------------------------|---|------------|-------------|-----------|
|                                   | 2016  |            | 2015        |           |
|                                   | Amortized   | Fair       | Amortized   | Fair      |
|                                   | cost  | value      | cost        | value     |
|                                   | (MSR recognized and UPB of underlying mortgage loan amounts in thousands) |            |             |           |
| MSR recognized                    | \$58,262  | \$ 1,847   | \$30,587    | \$1,589   |
| Key inputs                        |   |            |             |           |
| UPB of underlying mortgage loans  | \$4,846,994   | \$ 200,495 | \$3,346,010 | \$176,404 |
| Weighted-average annual servicing |   |            |             |           |
| fee rate (in basis points)        | 25  | 25         | 25          | 25        |

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|  |              |              |             |             |
|--|--------------|--------------|-------------|-------------|
| <b>Pricing spread (1)</b>                |              |              |             |             |
| Range                                    |              |              | 6.5%        | 9.0% –      |
|  | 7.2% – 12.6% | 7.2% – 7.6%  | –13.0%      | 16.3%       |
| Weighted average                         | 7.4%         | 7.3          | 8.1%        | 10.1%       |
| <b>Life (in years)</b>                   |              |              |             |             |
| Range                                    | 1.5 - 12.2   | 2.0 - 9.3    | 2.6 – 7.3   | 2.3 – 7.3   |
| Weighted average                         | 7.6          | 6.0          | 6.7         | 6.8         |
| <b>Annual total prepayment speed (2)</b> |              |              |             |             |
| Range                                    |              |              | 7.6% –      | 8.3% –      |
|  | 3.4% – 47.4% | 7.3% – 38.0% | 28.6%       | 34.2%       |
| Weighted average                         | 9.4%         | 14.2%        | 8.3%        | 10.6%       |
| <b>Annual per-loan cost of servicing</b> |              |              |             |             |
| Range                                    | \$68 – \$79  | \$68 – \$79  | \$62 – \$62 | \$62 – \$62 |
| Weighted average                         | \$76         | \$74         | \$62        | \$62        |

(1) The Company applies a pricing spread to the United States Dollar LIBOR curve for purposes of discounting cash flows relating to MSRs acquired as proceeds from the sale of mortgage loans.

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

34

|                                   | Six months ended June 30,   |              |              |             |
|-----------------------------------|---|--------------|--------------|-------------|
|                                   | 2016  |              | 2015         |             |
|                                   | Amortized   | Fair         | Amortized    | Fair        |
|                                   | cost  | value        | cost         | value       |
|                                   | (MSR recognized and UPB of underlying mortgage loan amounts in thousands) |              |              |             |
| MSR recognized                    | \$91,124  | \$ 5,147     | \$56,141     | \$3,495     |
| Key inputs                        |   |              |              |             |
| UPB of underlying mortgage loans  | \$7,606,539   | \$ 527,519   | \$5,628,766  | \$400,057   |
| Weighted-average annual servicing |   |              |              |             |
| fee rate (in basis points)        | 25  | 26           | 26           | 26          |
| Pricing spread (1)                |   |              |              |             |
| Range                             |   |              | 6.5%         | 9.0% –      |
|                                   | 7.2% – 12.6%  | 7.2% – 7.6%  | –17.5%       | 16.3%       |
| Weighted average                  | 7.3%  | 7.3%         | 8.3%         | 10.6%       |
| Life (in years)                   |   |              |              |             |
| Range                             | 1.4 - 12.3  | 2.0 - 9.4    | 1.3 – 7.7    | 2.3 – 7.3   |
| Weighted average                  | 7.4   | 5.7          | 6.6          | 6.3         |
| Annual total prepayment speed (2) |   |              |              |             |
| Range                             |   |              | 7.6% –       | 8.3% –      |
|                                   | 3.4% – 49.2%  | 7.2% – 38.0% | 51.0%        | 34.2%       |
| Weighted average                  | 9.8%  | 15.1%        | 8.7%         | 12.3%       |
| Annual per-loan cost of servicing |   |              |              |             |
| Range                             | \$68 – \$79   | \$68 – \$79  | \$62 – \$134 | \$62 – \$62 |
| Weighted average                  | \$73  | \$71         | \$63         | \$62        |

(1) The Company applies a pricing spread to the United States Dollar LIBOR curve for purposes of discounting cash flows relating to MSRs acquired as proceeds from the sale of mortgage loans.

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

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

|  | June 30, 2016   |              | December 31, 2015 |              |
|--|---|--------------|-------------------|--------------|
|  | Amortized cost  | Fair value   | Amortized cost    | Fair value   |
|  | (Carrying value, UPB of underlying mortgage loans and effect on fair value) |              |                   |              |
|  | amounts in thousands)   |              |                   |              |
| Carrying value   | \$413,481   | \$57,977     | \$393,157         | \$66,584     |
| Key inputs:  |   |              |                   |              |
| UPB of underlying mortgage loans                             | \$40,590,719  | \$6,496,712  | \$35,841,654      | \$6,458,684  |
| Weighted-average annual servicing fee rate (in basis points) | 25  | 25           | 26                | 25           |
| Weighted-average note interest rate                          | 3.9%  | 4.7%         | 3.9%              | 4.7%         |
| Pricing spread (1)   |   |              |                   |              |
| Range  | 7.6% – 13.1%  | 7.6% – 12.6% | 7.2% – 10.7%      | 7.2% – 10.2% |
| Weighted average   | 7.6%  | 7.6          | 7.3%              | 7.2%         |
| Effect on fair value of (2):                                 |   |              |                   |              |
| 5% adverse change  | \$(6,312)   | \$(854)      | \$(6,411)         | \$(944)      |
| 10% adverse change   | \$(12,441)  | \$(1,683)    | \$(12,635)        | \$(1,862)    |
| 20% adverse change   | \$(24,175)  | \$(3,271)    | \$(24,553)        | \$(3,621)    |
| Weighted average life (in years)                             |   |              |                   |              |
| Range  | 3.0 - 6.8   | 3.2 - 5.7    | 1.3 - 7.7         | 2.5 - 6.1    |
| Weighted average   | 6.5   | 5.7          | 7.2               | 6.1          |
| Prepayment speed (3)   |   |              |                   |              |
| Range  | 8.7% – 26.8%  | 8.3% – 21.9% | 8.1% – 51.5%      | 9.2% – 32.5% |
| Weighted average   | 10.8%   | 14.3%        | 9.6%              | 13.2%        |
| Effect on fair value of (2):                                 |   |              |                   |              |
| 5% adverse change  | \$(9,341)   | \$(1,739)    | \$(8,159)         | \$(1,793)    |
| 10% adverse change   | \$(18,315)  | \$(3,395)    | \$(16,024)        | \$(3,502)    |
| 20% adverse change   | \$(35,243)  | \$(6,475)    | \$(30,938)        | \$(6,692)    |
| Annual per-loan cost of servicing                            |   |              |                   |              |
| Range  | \$77 – \$78   | \$77 – \$78  | \$68 – \$68       | \$68 – \$68  |
| Weighted average   | \$78  | \$78         | \$68              | \$68         |
| Effect on fair value of (2):                                 |   |              |                   |              |
| 5% adverse change  | \$(3,334)   | \$(519)      | \$(2,742)         | \$(470)      |
| 10% adverse change   | \$(6,669)   | \$(1,038)    | \$(5,484)         | \$(940)      |
| 20% adverse change   | \$(13,337)  | \$(2,076)    | \$(10,968)        | \$(1,880)    |

(1)The Company applies a pricing spread to the United States Dollar LIBOR curve for purposes of discounting cash flows relating to MSRs.

(2)

For MSR's carried at fair value, an adverse change in one of the above-mentioned key inputs is expected to result in a reduction in fair value which will be recognized in results of operations. For MSR's carried at lower of amortized cost or fair value, an adverse change in one of the above-mentioned key inputs may result in recognition of MSR impairment. The extent of the recognized MSR impairment will depend on the relationship of fair value to the carrying value of such MSR's.

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

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

#### Securities Sold Under Agreements to Repurchase

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

## Note 8—Mortgage Loans Acquired for Sale at Fair Value

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

| Loan type  | June 30, 2016  |                          | December 31, 2015 |                          |
|--|----------------|--------------------------|-------------------|--------------------------|
|  | Fair value     | Unpaid principal balance | Fair value        | Unpaid principal balance |
|  | (in thousands) |                          |                   |                          |
| <b>Conventional:</b>                                   |                |                          |                   |                          |
| Agency-eligible  | \$816,248      | \$776,828                | \$540,947         | \$525,192                |
| Jumbo  | 8,088          | 8,009                    | 54,613            | 54,096                   |
| Held for sale to PLS — Government insured or           |                |                          |                   |                          |
| guaranteed   | 619,008        | 585,919                  | 669,288           | 637,666                  |
| Commercial real estate                                 | 12,132         | 12,263                   | 14,590            | 14,461                   |
| Mortgage loans repurchased pursuant to representations |                |                          |                   |                          |
| and warranties   | 5,553          | 5,980                    | 4,357             | 4,604                    |
|  | \$1,461,029    | \$1,388,999              | \$1,283,795       | \$1,236,019              |
| <b>Mortgage loans pledged to secure:</b>               |                |                          |                   |                          |
| Assets sold under agreements to repurchase             | \$1,341,459    |                          | \$1,204,462       |                          |
| Mortgage loan participation and sale agreements        | \$100,497      |                          | \$—               |                          |
| Federal Home Loan Bank (“FHLB”) advances               | \$—            |                          | \$63,993          |                          |

The Company is not approved by Ginnie Mae as an issuer of Ginnie Mae-guaranteed securities which are backed by government-insured or guaranteed mortgage loans. The Company transfers government-insured or guaranteed mortgage loans that it purchases from correspondent lenders to PLS, which is a Ginnie Mae-approved issuer, and earns a sourcing fee of three basis points on the UPB plus interest earned during the period it holds each such mortgage loan.

## Note 9—Derivative Financial Instruments

The Company enters into CRT Agreements whereby it retains a portion of the credit risk relating to mortgage loans it sells into Fannie Mae guaranteed securitizations in exchange for a portion of the contractual guarantee fee related to such securitizations. The fair values of the credit guarantees and the Company's right to the related guarantee fee are accounted for as a derivative financial instrument. IRLCs are generated in the normal course of business when the



Company commits to purchase mortgage loans acquired for sale. The Company's remaining derivative financial instrument transactions are in support of its interest rate risk management activities.

The Company engages in interest rate risk management activities in an effort to reduce the variability of earnings caused by changes in interest rates. To manage the price risk resulting from interest rate risk, the Company uses derivative financial instruments acquired with the intention of moderating the risk that changes in market interest rates will result in unfavorable changes in the fair value of the Company's MBS, inventory of mortgage loans acquired for sale, mortgage loans held by VIE, ESS, IRLCs and MSRs. The Company records all derivative financial instruments at fair value and records changes in fair value in current period results of operations.

The Company is exposed to price risk relative to the IRLCs it issues to correspondent lenders and to the mortgage loans it purchases as a result of issuing the IRLCs. The Company bears price risk from the time an IRLC is issued to a correspondent lender to the time the purchased mortgage loan is sold. The Company is exposed to loss if mortgage interest rates increase, because interest rate increases generally cause the fair value of the purchase commitment or mortgage loan acquired for sale to decrease.

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

| Instrument   | June 30, 2016                     |                                 |                        | December 31, 2015 |                                 |                        |
|--|-----------------------------------|---------------------------------|------------------------|-------------------|---------------------------------|------------------------|
|  | Notional amount<br>(in thousands) | Fair value<br>Derivative assets | Derivative liabilities | Notional amount   | Fair value<br>Derivative assets | Derivative liabilities |
| Derivatives not designated as hedging instruments: |                                   |                                 |                        |                   |                                 |                        |
| Free-standing derivatives:                         |                                   |                                 |                        |                   |                                 |                        |
| Interest rate lock commitments                     | 1,658,813                         | \$ 16,803                       | \$ 45                  | 970,067           | \$ 4,983                        | \$ 337                 |
| Used for hedging purposes:                         |                                   |                                 |                        |                   |                                 |                        |
| Forward sale contracts                             | 4,347,526                         | 43                              | 35,466                 | 2,450,642         | 2,604                           | 2,680                  |
| Forward purchase contracts                         | 4,190,349                         | 35,768                          | 19                     | 2,469,550         | 2,444                           | 3,774                  |
| MBS call options                                   | 1,525,000                         | 593                             | —                      | 375,000           | 93                              | —                      |
| Swap futures                                       | 12,500                            | —                               | —                      | —                 | —                               | —                      |
| Eurodollar future sales contracts                  | 1,543,000                         | —                               | —                      | 1,755,000         | —                               | —                      |
| Call options on interest rate futures              | 525,000                           | 3,379                           | —                      | 50,000            | 1,156                           | 305                    |
| Put options on interest rate futures               | 425,000                           | 453                             | 79                     | 1,600,000         | 1,512                           | 39                     |
| CRT Agreements                                     | 8,976,961                         | —                               | 199                    | 4,546,265         | 593                             | —                      |
| Total derivative instruments before netting        |                                   | 57,039                          | 35,808                 |                   | 13,385                          | 7,135                  |
| Netting  |                                   | (22,032)                        | (31,914 )              |                   | (3,300 )                        | (3,978 )               |
|  |                                   | \$ 35,007                       | \$ 3,894               |                   | \$ 10,085                       | \$ 3,157               |
| Margin deposits with derivatives counterparties    |                                   |                                 |                        |                   |                                 |                        |
|  |                                   | \$ 9,882                        |                        |                   | \$ 678                          |                        |

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

| Instrument                            | Quarter ended June 30, 2016  |            |                           | Balance, end of period |
|---------------------------------------|------------------------------|------------|---------------------------|------------------------|
|                                       | Balance, beginning of period | Additions  | Dispositions/ expirations |                        |
| Forward sales contracts               | 3,466,697                    | 21,138,542 | (20,257,713 )             | 4,347,526              |
| Forward purchase contracts            | 2,981,134                    | 15,361,702 | (14,152,487 )             | 4,190,349              |
| MBS call options                      | 425,000                      | 1,975,000  | (875,000 )                | 1,525,000              |
| Swap futures                          | 12,500                       | 12,500     | (12,500 )                 | 12,500                 |
| Eurodollar future sale contracts      | 1,734,000                    | —          | (191,000 )                | 1,543,000              |
| Call options on interest rate futures | 1,250,000                    | 275,000    | (1,000,000 )              | 525,000                |
| Put options on interest rate futures  | 1,525,000                    | 550,000    | (1,650,000 )              | 425,000                |
| CRT Agreements                        | 5,931,409                    | 3,162,746  | (117,194 )                | 8,976,961              |

| Instrument                            | Quarter ended June 30, 2015                          |            |                              | Balance,<br>end<br>of period |
|---------------------------------------|--|------------|------------------------------|------------------------------|
|                                       | Balance,<br>beginning<br>of period<br>(in thousands) | Additions  | Dispositions/<br>expirations |                              |
| Forward sales contracts               | 2,958,492  | 14,047,534 | (13,753,740)                 | 3,252,286                    |
| Forward purchase contracts            | 2,132,616  | 9,885,504  | (9,754,498)                  | 2,263,622                    |
| MBS put option                        | 190,000  | 587,500    | (410,000)                    | 367,500                      |
| MBS call option                       | —  | 140,000    | (100,000)                    | 40,000                       |
| Eurodollar future sale contracts      | 6,355,000  | 185,000    | (556,000)                    | 5,984,000                    |
| Treasury future sale contracts        | 85,000   | 65,000     | (110,000)                    | 40,000                       |
| Call options on interest rate futures | 1,165,000  | 1,635,000  | (1,665,000)                  | 1,135,000                    |
| Put options on interest rate futures  | 1,020,000  | 1,548,000  | (1,295,000)                  | 1,273,000                    |
| CRT Agreements                        | —  | 740,153    | —                            | 740,153                      |

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| Instrument                            | Six months ended June 30, 2016                       |            |                              | Balance,<br>end<br>of period |
|---------------------------------------|--|------------|------------------------------|------------------------------|
|                                       | Balance,<br>beginning<br>of period<br>(in thousands) | Additions  | Dispositions/<br>expirations |                              |
| Forward sales contracts               | 2,450,642  | 35,292,415 | (33,395,531 )                | 4,347,526                    |
| Forward purchase contracts            | 2,469,550  | 25,430,142 | (23,709,343 )                | 4,190,349                    |
| MBS call options                      | 375,000  | 2,725,000  | (1,575,000 )                 | 1,525,000                    |
| Swap futures                          | —  | 25,000     | (12,500 )                    | 12,500                       |
| Eurodollar future sale contracts      | 1,755,000  | 80,000     | (292,000 )                   | 1,543,000                    |
| Call options on interest rate futures | 50,000   | 1,575,000  | (1,100,000 )                 | 525,000                      |
| Put options on interest rate futures  | 1,600,000  | 2,600,000  | (3,775,000 )                 | 425,000                      |
| CRT Agreements                        | 4,546,265  | 5,084,744  | (654,048 )                   | 8,976,961                    |

| Instrument                            | Six months ended June 30, 2015                       |            |                              | Balance,<br>end<br>of period |
|---------------------------------------|--|------------|------------------------------|------------------------------|
|                                       | Balance,<br>beginning<br>of period<br>(in thousands) | Additions  | Dispositions/<br>expirations |                              |
| Forward sales contracts               | 1,601,283  | 23,877,061 | (22,226,058 )                | 3,252,286                    |
| Forward purchase contracts            | 1,100,700  | 16,933,180 | (15,770,258 )                | 2,263,622                    |
| MBS put option                        | 340,000  | 992,500    | (965,000 )                   | 367,500                      |
| MBS call option                       | —  | 140,000    | (100,000 )                   | 40,000                       |
| Eurodollar future sale contracts      | 7,426,000  | 285,000    | (1,727,000 )                 | 5,984,000                    |
| Eurodollar future purchase contracts  | 800,000  | —          | (800,000 )                   | —                            |
| Treasury future sale contracts        | 85,000   | 161,500    | (206,500 )                   | 40,000                       |
| Call options on interest rate futures | 1,030,000  | 2,275,000  | (2,170,000 )                 | 1,135,000                    |
| Put options on interest rate futures  | 275,000  | 2,668,000  | (1,670,000 )                 | 1,273,000                    |
| CRT Agreements                        | —  | 740,153    | —                            | 740,153                      |

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

| Income statement line   | Quarter ended<br>June 30, |            | Six months ended<br>June 30, |          |
|---|---------------------------|------------|------------------------------|----------|
|   | 2016                      | 2015       | 2016                         | 2015     |
| Interest rate lock commitments                                      | (in thousands)            |            |                              |          |
| Net gain on mortgage loans<br>acquired for sale                     | \$44,112                  | \$(11,728) | \$75,475                     | \$7,684  |
| Hedged item:  |                           |            |                              |          |
| Interest rate lock commitments<br>and mortgage<br>acquired for sale | \$(29,210)                | \$25,566   | \$(59,882)                   | \$10,455 |

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|                           |                         |          |            |          |            |
|---------------------------|-------------------------|----------|------------|----------|------------|
| loans acquired for sale   |                         |          |            |          |            |
| Mortgage servicing rights | Net loan servicing fees | \$27,433 | \$(16,270) | \$57,394 | \$(5,193 ) |
| Fixed-rate assets and     |                         |          |            |          |            |
| LIBOR- indexed repurchase |                         |          |            |          |            |
| agreements                | Net gain on investments | \$862    | \$(1,255 ) | \$698    | \$(11,294) |
| CRT agreements            | Net gain on investments | \$7,764  | \$—        | \$3,621  | \$—        |

Note 10—Mortgage Loans at Fair Value

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

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

| Loan type   | June 30, 2016                |                          | December 31, 2015 |                          |
|---|------------------------------|--------------------------|-------------------|--------------------------|
|   | Fair value<br>(in thousands) | Unpaid principal balance | Fair value        | Unpaid principal balance |
| <b>Distressed mortgage loans</b>                          |                              |                          |                   |                          |
| Nonperforming mortgage loans                              | \$952,144                    | \$1,314,229              | \$1,222,956       | \$1,702,548              |
| <b>Performing mortgage loans:</b>                         |                              |                          |                   |                          |
| Fixed interest rate                                       | 313,064                      | 413,063                  | 417,658           | 535,610                  |
| Interest rate step-up                                     | 233,925                      | 333,517                  | 299,569           | 412,749                  |
| Adjustable-rate/hybrid                                    | 109,773                      | 126,842                  | 160,051           | 185,997                  |
| Balloon   | —                            | —                        | 160               | 204                      |
|   | 656,762                      | 873,422                  | 877,438           | 1,134,560                |
| <b>Fixed interest rate jumbo mortgage loans held in a</b> |                              |                          |                   |                          |
| VIE   | 427,091                      | 416,195                  | 455,394           | 454,935                  |
|   | \$2,035,997                  | \$2,603,846              | \$2,555,788       | \$3,292,043              |
| <b>Mortgage loans at fair value pledged to secure:</b>    |                              |                          |                   |                          |
| Assets sold under agreements to repurchase                | \$1,589,798                  |                          | \$2,067,341       |                          |
| <b>Asset-backed financing of a VIE at fair value and</b>  |                              |                          |                   |                          |
| FHLB advances   | \$427,091                    |                          | \$455,394         |                          |

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

| Concentration  | June 30, 2016 | December 31, 2015                                  |
|--|---------------|--|
| Portion of mortgage loans originated between 2005 and 2007   | 71%           | 72%  |
| Percentage of fair value of mortgage loans with unpaid-principal balance-to-current-property-value in excess of 100% | 42%           | 48%  |
| States contributing 5% or more of mortgage loans   | New York      | California<br>New York<br>California<br>New Jersey |

|  |               |         |
|--|---------------|---------|
|  | New Jersey    | Florida |
|  | Florida       |         |
|  | Massachusetts |         |

Note 11—Real Estate Acquired in Settlement of Loans

Following is a summary of financial information relating to REO:

|  | Quarter ended<br>June 30, |           | Six months ended<br>June 30, |            |
|--|---------------------------|-----------|------------------------------|------------|
|  | 2016                      | 2015      | 2016                         | 2015       |
|  | (in thousands)            |           |                              |            |
| Balance at beginning of period                             | \$327,212                 | \$317,536 | \$341,846                    | \$303,228  |
| Transfers from mortgage loans at fair value and advances   | 53,558                    | 71,961    | 114,052                      | 158,078    |
| Transfer of real estate acquired in settlement of mortgage |                           |           |                              |            |
| loans to real estate held for investment                   | (8,082 )                  | (1,292 )  | (12,266 )                    | (1,293 )   |
| Results of REO:  |                           |           |                              |            |
| Valuation adjustments, net                                 | (7,283 )                  | (6,606 )  | (17,928 )                    | (18,006 )  |
| Gain on sale, net  | 4,718                     | 4,800     | 9,327                        | 10,368     |
|  | (2,565 )                  | (1,806 )  | (8,601 )                     | (7,638 )   |
| Proceeds from sales  | (70,665 )                 | (62,121 ) | (135,573 )                   | (128,097 ) |
| Balance at end of period                                   | \$299,458                 | \$324,278 | \$299,458                    | \$324,278  |
| REO pledged to secure assets sold under agreements to      |                           |           |                              |            |
| repurchase   | \$50,126                  | \$55,420  |                              |            |
| REO held in a consolidated subsidiary whose stock is       |                           |           |                              |            |
| pledged to secure financings of such properties            | \$166,017                 | \$147,631 |                              |            |

## Note 12—Mortgage Servicing Rights

Carried at Fair Value:

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

|  | Quarter ended    |          | Six months ended |          |
|--|------------------|----------|------------------|----------|
|  | June 30,<br>2016 | 2015     | June 30,<br>2016 | 2015     |
|  | (in thousands)   |          |                  |          |
| Balance at beginning of period                       | \$61,071         | \$49,448 | \$66,584         | \$57,358 |
| Purchases  | —                | —        | 2,602            | —        |
| MSR's resulting from mortgage loan sales             | 1,847            | 1,589    | 5,147            | 3,495    |
| Changes in fair value:                               |                  |          |                  |          |
| Due to changes in valuation inputs used in valuation |                  |          |                  |          |
| model (1)  | (2,508 )         | 8,088    | (11,460 )        | (107 )   |
| Other changes in fair value (2)                      | (2,433 )         | (1,782 ) | (4,896 )         | (3,403 ) |
|  | (4,941 )         | 6,306    | (16,356 )        | (3,510 ) |
| Balance at period end                                | \$57,977         | \$57,343 | \$57,977         | \$57,343 |
| MSR's pledged to secure notes payable at period end  | \$57,977         | \$57,343 |                  |          |

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

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

Carried at Lower of Amortized Cost or Fair Value:

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

|  | Quarter ended    |           | Six months ended |           |
|--|------------------|-----------|------------------|-----------|
|  | June 30,<br>2016 | 2015      | June 30,<br>2016 | 2015      |
|  | (in thousands)   |           |                  |           |
| <b>Amortized Cost:</b>                   |                  |           |                  |           |
| Balance at beginning of period           | \$422,676        | \$323,806 | \$404,101        | \$308,137 |
| MSR's resulting from mortgage loan sales | 58,262           | 30,587    | 91,124           | 56,141    |
| Amortization                             | (15,531 )        | (9,988 )  | (29,818 )        | (19,580 ) |
| Sales                                    | (106 )           | —         | (106 )           | (293 )    |
| Balance at end of period                 | 465,301          | 344,405   | 465,301          | 344,405   |
| <b>Valuation Allowance:</b>              |                  |           |                  |           |
| Balance at beginning of period           | (28,650 )        | (14,093 ) | (10,944 )        | (7,714 )  |
| Additions                                | (23,170 )        | 7,082     | (40,876 )        | 703       |



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|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Balance at end of period                           | (51,820 ) | (7,011 )  | (51,820 ) | (7,011 )  |
| MSRs, net  | \$413,481 | \$337,394 | \$413,481 | \$337,394 |
| Fair value at beginning of period                  | \$405,635 | \$327,703 | \$424,154 | \$322,230 |
| Fair value at period end                           | \$417,094 | \$362,908 |           |           |
| MSRs pledged to secure notes payable at period end | \$413,481 | \$337,394 |           |           |

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The following table summarizes the Company's estimate of future amortization of its existing MSR's carried at amortized cost. This estimate was developed with the inputs used in the June 30, 2016 valuation of MSR's. The inputs underlying the following estimate will change as market conditions and portfolio composition and behavior change, causing both actual and projected amortization levels to change over time.

| 12 months ended June 30, | Estimated<br>MSR<br>amortization<br>(in<br>thousands) |
|--------------------------|---|
| 2017                     | \$ 63,951   |
| 2018                     | 54,865  |
| 2019                     | 48,042  |
| 2020                     | 42,175  |
| 2021                     | 37,231  |
| Thereafter               | 219,037   |
| <b>Total</b>             | <b>\$ 465,301</b>                                     |

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

|  | Quarter ended<br>June 30, |          | Six months ended<br>June 30, |          |
|--|---------------------------|----------|------------------------------|----------|
|  | 2016                      | 2015     | 2016                         | 2015     |
| Contractually-specified servicing fees | \$29,991                  | \$24,490 | \$57,770                     | \$46,077 |

(in thousands)

Note 13—Assets Sold Under Agreements to Repurchase

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

|                                    | Quarter ended June 30, |             | Six months ended<br>June 30, |             |
|------------------------------------|------------------------|-------------|------------------------------|-------------|
|                                    | 2016                   | 2015        | 2016                         | 2015        |
|                                    | (dollars in thousands) |             |                              |             |
| <b>During the period:</b>          |                        |             |                              |             |
| Weighted-average interest rate (1) | 2.17                   | % 2.25      | % 2.19                       | % 2.25      |
| Average balance                    | \$3,268,774            | \$3,172,806 | \$3,033,038                  | \$3,061,923 |
| Total interest expense             | \$22,056               | \$20,208    | \$42,468                     | \$39,120    |
| Maximum daily amount outstanding   | \$4,331,706            | \$3,511,918 | \$4,402,724                  | \$3,842,167 |

(1) Excludes the effect of amortization of debt issuance costs of \$2.2 million and \$4.3 million for the quarter and six months ended June 30, 2016, respectively, and \$2.2 million and \$4.9 million for the quarter and six months ended June 30, 2015, respectively.

42

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|  | June 30,<br>2016       | December 31,<br>2015 |
|--|------------------------|----------------------|
|  | (dollars in thousands) |                      |
| <b>Carrying value:</b>   |                        |                      |
| Amount outstanding   | \$3,276,854            | \$ 3,130,328         |
| Unamortized debt issuance costs                                | (1,163 )               | (1,548 )             |
|  | \$3,275,691            | \$ 3,128,780         |
| Weighted-average interest rate                                 | 2.26 %                 | 2.33 %               |
| <b>Available borrowing capacity:</b>                           |                        |                      |
| Committed  | \$488,906              | \$ 231,913           |
| Uncommitted  | 895,213                | 661,756              |
|  | \$1,384,119            | \$ 893,669           |
| <b>Margin deposits placed with counterparties included</b>     |                        |                      |
| in Other assets  | \$8,320                | \$ 7,268             |
| <b>Fair value of assets securing agreements to repurchase:</b> |                        |                      |
| Mortgage-backed securities                                     | \$531,612              | \$ 313,753           |
| Mortgage loans acquired for sale at fair value                 | 1,341,459              | 1,204,462            |
| Mortgage loans at fair value                                   | 1,589,798              | 2,067,341            |
| Real estate acquired in settlement of loans                    | 216,143                | 283,343              |
| Restricted cash on credit risk transfer agreements             | 292,632                | —                    |
|  | \$3,971,644            | \$ 3,868,899         |

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

| Remaining Maturity at June 30, 2016   | Contractual<br>balance<br>(in<br>thousands) |
|---------------------------------------|---|
| Within 30 days                        | \$340,352                                   |
| Over 30 to 90 days                    | 438,615                                     |
| Over 90 days to 180 days              | 809,278                                     |
| Over 180 days to 1 year               | 1,436,236                                   |
| Over 1 year to 2 years                | 252,373                                     |
|                                       | \$3,276,854                                 |
| Weighted average maturity (in months) | 7   |

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

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The amount at risk (the fair value of the assets pledged plus the related margin deposit, less the amount advanced by the counterparty and interest payable) and maturity information relating to the Company's assets sold under agreements to repurchase is summarized by counterparty below as of June 30, 2016:

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

| Counterparty                                       | Amount at risk<br>(in thousands) | Weighted-average<br>repurchase<br>agreement<br>maturity | Facility maturity  |
|--|----------------------------------|---|--------------------|
| Citibank, N.A.                                     | \$ 327,363                       | August 6, 2016  | October 20, 2016   |
| Credit Suisse First Boston Mortgage<br>Capital LLC | \$ 158,462                       | September 21, 2016                                      | March 30, 2017     |
| JPMorgan Chase & Co.                               | \$ 131,702                       | -   | January 26, 2017   |
| Bank of America, N.A.                              | \$ 37,040                        | September 22, 2016                                      | March 28, 2017     |
| Morgan Stanley                                     | \$ 14,924                        | August 22, 2016   | December 16, 2016  |
| Barclays Capital                                   | \$ 3,879                         | September 13, 2016                                      | September 13, 2016 |

43

Securities sold under agreements to repurchase

| Counterparty                       | Amount at risk<br>(in thousands) | Weighted average maturity |
|------------------------------------|----------------------------------|---------------------------|
| Bank of America, N.A.              | \$ 10,415                        | August 10, 2016           |
| Daiwa Capital Markets America Inc. | \$ 10,582                        | August 9, 2016            |
| JPMorgan Chase & Co.               | \$ 3,449                         | July 28, 2016             |
| Wells Fargo, N.A.                  | \$ 3,070                         | July 17, 2016             |

CRT Agreements

| Counterparty                                  | Amount at risk<br>(in thousands) | Weighted average maturity |
|---|----------------------------------|---------------------------|
| JPMorgan Chase & Co.                          | \$ 38,630                        | July 22, 2016             |
| Bank of America, N.A.                         | \$ 30,102                        | July 15, 2016             |
| BNP Paribas Corporate & Institutional Banking | \$ 18,103                        | July 14, 2016             |

The following is a summary of the tangible net worth, as defined in the respective borrowing agreements, and minimum required amounts for the Company and certain of its subsidiaries at June 30, 2016 to comply with the debt covenants contained in the borrowing agreements:

| Entity                             | Tangible net worth as of  |                  |
|------------------------------------|---------------------------|------------------|
|                                    | June 30, 2016             | Minimum required |
|                                    | Balance<br>(in thousands) |                  |
| PennyMac Mortgage Investment Trust | \$ 1,360,827              | \$ 860,000       |
| Operating Partnership              | \$ 1,401,552              | \$ 700,000       |
| PennyMac Holdings, LLC             | \$ 784,290                | \$ 250,000       |
| PennyMac Corp.                     | \$ 401,634                | \$ 150,000       |

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

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

Mortgage loan participation and sale agreements are summarized below:

|                                    | Quarter ended |           | Six months ended |           |
|------------------------------------|---------------|-----------|------------------|-----------|
|                                    | June 30,      |           | June 30,         |           |
|                                    | 2016          | 2015      | 2016             | 2015      |
| (dollars in thousands)             |               |           |                  |           |
| During the period:                 |               |           |                  |           |
| Weighted-average interest rate (1) | 1.69 %        | 1.43 %    | 1.68 %           | 1.43 %    |
| Average balance                    | \$70,701      | \$60,363  | \$69,649         | \$52,001  |
| Total interest expense             | \$333         | \$266     | \$661            | \$473     |
| Maximum daily amount outstanding   | \$96,335      | \$148,032 | \$97,672         | \$148,032 |

(1) Excludes the effect of amortization of debt issuance costs of \$31,000 and \$68,000 for the quarter and six months ended June 30, 2016, respectively, and \$47,000 and \$99,000 for the quarter and six months ended June 30, 2015, respectively.

|  | June 30, 2016 |
|--|---------------|
| (dollars in thousands)                             |               |
| Carrying value:                                    |               |
| Amount outstanding                                 | \$ 96,335     |
| Unamortized debt issuance costs                    | —             |
|  | \$ 96,335     |
| Weighted-average interest rate                     | 1.72 %        |
| Mortgage loans acquired for sale pledged to secure |               |
| mortgage loan participation and sale agreements    | \$ 100,497    |

#### Note 15—Federal Home Loan Bank Advances

In June 2015, the Company entered into a collateral, pledge, and security agreement with the Federal Home Loan Bank of Des Moines with no specified termination date. The Company was able to request advances up to a maximum of \$400.0 million.

On January 12, 2016, the Federal Housing Finance Agency (“FHFA”) issued a final rule establishing new requirements for membership in the Federal Home Loan Banks. The final rule excludes captive insurance companies such as the Company’s insurance subsidiary, Copper Insurance, LLC, from membership.

For captive insurance companies that became members since the rule was proposed in 2014, including Copper Insurance, LLC, membership must be terminated within one year, and no additional advances may be made. Accordingly, the Company has repaid all of the advances outstanding as of June 30, 2016.

The FHLB advances are summarized below:



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Six Months Ended

June 30, 2016

(dollars in thousands)

During the period:

|                                  |            |   |
|----------------------------------|------------|---|
| Weighted-average interest rate   | 0.49       | % |
| Average balance                  | \$ 49,019  |   |
| Total interest expense           | \$ 122     |   |
| Maximum daily amount outstanding | \$ 201,130 |   |

December 31, 2015

(dollars in thousands)

|  |            |   |
|--|------------|---|
| Carrying value                                 | \$ 183,000 |   |
| Weighted-average interest rate                 | 0.30       | % |
| Fair value of assets securing FHLB advances:   |            |   |
| Mortgage-backed securities                     | \$ 8,720   |   |
| Mortgage loans acquired for sale at fair value | 63,993     |   |
| Mortgage loans at fair value                   | 134,172    |   |
|  | \$ 206,885 |   |

Note 16—Notes Payable

On March 31, 2015, the Company, through PMC, entered into a Loan and Security Agreement with Citibank, N.A., pursuant to which PMC may finance certain of its MSR's relating to mortgage loans pooled into Freddie Mac MBS in an aggregate loan amount not to exceed \$125 million. The note matures on October 20, 2016.

On September 14, 2015, the Company, through PMC, entered into a Loan and Security Agreement with Barclays Bank PLC ("Barclays"), pursuant to which PMC may finance certain of its MSR's relating to mortgage loans pooled into Fannie Mae MBS in an aggregate loan amount not to exceed \$200 million. The note matures on September 13, 2016, subject to a wind down period of up to one year following such maturity date.

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

|                                    | Quarter ended<br>June 30,<br>2016 |   | 2015      |   | Six months ended<br>June 30,<br>2016 |   | 2015      |   |
|------------------------------------|-----------------------------------|---|-----------|---|--------------------------------------|---|-----------|---|
|                                    | (dollars in thousands)            |   |           |   |                                      |   |           |   |
| During the period:                 |                                   |   |           |   |                                      |   |           |   |
| Weighted-average interest rate (1) | 4.63                              | % | 4.18      | % | 4.65                                 | % | 4.18      | % |
| Average balance                    | \$188,330                         |   | \$104,797 |   | \$200,973                            |   | \$52,981  |   |
| Total interest expense             | \$2,991                           |   | \$994     |   | \$6,334                              |   | \$994     |   |
| Maximum daily amount outstanding   | \$211,103                         |   | \$192,352 |   | \$234,476                            |   | \$192,352 |   |

(1) Excludes the effect of amortization of debt issuance costs of \$788,000 and \$1.6 million for the quarter and six months ended June 30, 2016, respectively, and \$354,000 for the quarter and six months ended June 30, 2015, respectively.

|                                       | June 30,<br>2016       | December 31,<br>2015 |
|---------------------------------------|------------------------|----------------------|
|                                       | (dollars in thousands) |                      |
| Carrying value:                       |                        |                      |
| Amount outstanding                    | \$164,003              | \$236,107            |
| Unamortized debt issuance costs       | (27)                   | (92)                 |
|                                       | \$163,976              | \$236,015            |
| Weighted-average interest rate        | 4.32                   | % 4.53               |
| MSR's pledged to secure notes payable | \$471,458              | \$459,741            |

Note 17—Asset-Backed Financing of a Variable Interest Entity at Fair Value

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

Quarter ended June 30,

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|  | 2016                   |   | 2015              |  | Six months ended<br>June 30, |      |            |        |
|--|------------------------|---|-------------------|--|------------------------------|------|------------|--------|
|  |                        |   |                   |  | 2016                         |      | 2015       |        |
|  | (dollars in thousands) |   |                   |  |                              |      |            |        |
| <b>During the period:</b>                |                        |   |                   |  |                              |      |            |        |
| Weighted-average fair value              | \$ 334,233             |   | \$ 159,236        |  | \$ 325,112                   |      | \$ 162,361 |        |
| Interest expense                         | \$ 3,606               |   | \$ 1,301          |  | \$ 4,958                     |      | \$ 2,885   |        |
| Weighted-average effective interest rate | 3.34                   | % | 3.23              |  | %                            | 3.34 | %          | 3.53 % |
|  | June 30,               |   | December 31, 2015 |  |                              |      |            |        |
|  | 2016                   |   |                   |  |                              |      |            |        |
|  | (dollars in thousands) |   |                   |  |                              |      |            |        |
| Carrying value                           | \$ 325,939             |   | \$ 247,690        |  |                              |      |            |        |
| UPB                                      | \$ 317,305             |   | \$ 248,284        |  |                              |      |            |        |
| Weighted-average interest rate           | 3.50                   | % | 3.50              |  | %                            |      |            |        |

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

Note 18—Exchangeable Senior Notes

PMC issued in a private offering \$250 million aggregate principal amount of the Exchangeable Notes due May 1, 2020. The Exchangeable Notes bear interest at a rate of 5.375% per year, payable semiannually. The Exchangeable Notes are exchangeable into common shares of the Company at a rate of 33.8667 common shares per \$1,000 principal amount of the Exchangeable Notes as of

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June 30, 2016, which is an increase over the initial exchange rate of 33.5149. The increase in the calculated exchange rate was the result of quarterly cash dividends exceeding the quarterly dividend threshold amount of \$0.57 per share in prior reporting periods, as provided in the related indenture.

Following is financial information relating to the Exchangeable Notes:

|                      | Quarter ended<br>June 30,<br>2016 |           | Six months ended<br>June 30,<br>2015 |           |
|----------------------|-----------------------------------|-----------|--------------------------------------|-----------|
|                      | 2015                              | 2016      | 2015                                 | 2016      |
|                      | (in thousands)                    |           |                                      |           |
| During the period:   |                                   |           |                                      |           |
| Weighted-average UPB | \$250,000                         | \$250,000 | \$250,000                            | \$250,000 |
| Interest expense (1) | \$3,616                           | \$3,601   | \$7,228                              | \$7,198   |

- (1) Total interest expense includes amortization of debt issuance costs of \$257,000 and \$509,000 for the quarter and six months ended June 30, 2016, respectively, and \$242,000 and \$481,000 for the quarter and six months ended June 30, 2015, respectively.

|                                 | June 30,<br>2016 | December 31,<br>2015 |
|---------------------------------|------------------|----------------------|
|                                 | (in thousands)   |                      |
| Carrying value:                 |                  |                      |
| UPB                             | \$250,000        | \$250,000            |
| Unamortized debt issuance costs | (4,436 )         | (4,946 )             |
|                                 | \$245,564        | \$245,054            |

Note 19—Liability for Losses Under Representations and Warranties

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

|  | Quarter ended June 30, |          | Six months ended<br>June 30, |          |
|--|------------------------|----------|------------------------------|----------|
|  | 2016                   | 2015     | 2016                         | 2015     |
|  | (in thousands)         |          |                              |          |
| Balance, beginning of period                 | \$18,712               | \$15,379 | \$20,171                     | \$14,242 |
| Provision for losses                         |                        |          |                              |          |
| Pursuant to mortgage loan sales              | 650                    | 1,419    | 1,221                        | 2,344    |
| Adjustment to previously recorded amount due |                        |          |                              |          |
| to change in estimate                        | —                      | —        | (1,724 )                     | —        |
| Losses incurred                              | (104 )                 | (84 )    | (410 )                       | (102 )   |
| Recoveries                                   | —                      | —        | —                            | 230      |

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|   |              |              |          |          |
|---|--------------|--------------|----------|----------|
| Balance, end of period  | \$19,258     | \$16,714     | \$19,258 | \$16,714 |
| UPB of mortgage loans subject to representations and warranties at period end | \$46,339,653 | \$37,431,575 |          |          |

Note 20—Commitments and Contingencies

Litigation

From time to time, the Company may be involved in various proceedings, claims and legal actions arising in the ordinary course of business. As of June 30, 2016, the Company was not involved in any such proceedings, claims or legal actions that in management’s view would reasonably be likely to have a material adverse effect on the Company.

Mortgage Loan Commitments

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

|  |                                       |
|--|---------------------------------------|
|  | June 30,<br>2016<br>(in<br>thousands) |
| Commitments to purchase mortgage loans acquired for sale | \$1,658,813                           |

## Note 21—Shareholders' Equity

## Common Share Repurchases

During August 2015, the Company's board of trustees authorized a common share repurchase program under which the Company may repurchase up to \$150 million of its outstanding common shares. During February 2016, the Company's board of trustees approved an increase to its share repurchase program pursuant to which the Company is now authorized to repurchase up to \$200 million of its common shares. During the quarter and six months ended June 30, 2016, the Company repurchased 1.2 million and 6.3 million common shares at a cost of \$18.4 million and \$82.8 million, respectively, for a cumulative total of 7.4 million common shares repurchased at a cost of \$99.2 million under the program. The repurchased common shares were canceled upon settlement of the repurchase transactions and returned to the authorized but unissued share pool.

## Common Share Issuances

The Company has entered into an ATM Equity Offering Sales Agreement<sup>SM</sup>. During the six months ended June 30, 2016 and 2015, the Company did not sell any common shares under the agreement.

At June 30, 2016, the Company had approximately \$106.9 million of common shares available for issuance under its ATM Equity Offering Sales Agreement<sup>SM</sup>.

## Note 22—Net Interest Income

Net interest income is summarized below:

|   | Quarter ended<br>June 30, |        | Six months ended<br>June 30, |        |
|---|---------------------------|--------|------------------------------|--------|
|   | 2016                      | 2015   | 2016                         | 2015   |
|   | (in thousands)            |        |                              |        |
| <b>Interest income:</b>                         |                           |        |                              |        |
| From nonaffiliates:                             |                           |        |                              |        |
| Short-term investments                          | \$—                       | \$82   | \$377                        | \$302  |
| Mortgage-backed securities                      | 2,756                     | 2,505  | 5,468                        | 5,139  |
| Mortgage loans acquired for sale at fair value  | 13,596                    | 10,315 | 22,860                       | 17,416 |
| Mortgage loans at fair value                    | 23,042                    | 22,171 | 52,228                       | 43,725 |
| Mortgage loans at fair value held by a VIE      | 4,951                     | 4,429  | 10,480                       | 9,842  |
| Other   | 1,708                     | 13     | 1,991                        | 24     |
|   | 46,053                    | 39,515 | 93,404                       | 76,448 |
| From PFSI:                                      |                           |        |                              |        |
| ESS purchased from PFSI, at fair value          | 5,713                     | 5,818  | 12,728                       | 9,570  |
|   | 51,766                    | 45,333 | 106,132                      | 86,018 |
| <b>Interest expense:</b>                        |                           |        |                              |        |
| To nonaffiliates:                               |                           |        |                              |        |
| Assets sold under agreements to repurchase      | 22,056                    | 20,208 | 42,468                       | 39,120 |
| Mortgage loan participation and sale agreements | 333                       | 266    | 661                          | 473    |

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|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| FHLB advances                                      | —         | 2         | 122       | 2         |
| Notes payable                                      | 2,991     | 994       | 6,334     | 994       |
| Asset-backed financings of VIEs at fair value (1)  | 3,606     | 2,414     | 4,958     | 3,997     |
| Exchangeable Notes                                 | 3,616     | 3,601     | 7,228     | 7,198     |
| Interest shortfall on repayments of mortgage loans |           |           |           |           |
| serviced for Agency securitizations                | 1,589     | 1,291     | 2,561     | 2,464     |
| Placement fees on mortgage loan impound deposits   | 180       | 430       | 441       | 704       |
|  | 34,371    | 29,206    | 64,773    | 54,952    |
| To PFSI—Note payable                               | 2,222     | 533       | 3,824     | 533       |
|  | 36,593    | 29,739    | 68,597    | 55,485    |
| Net interest income                                | \$ 15,173 | \$ 15,594 | \$ 37,535 | \$ 30,533 |

(1) The results for the quarter and six months ended June 30, 2015 include interest expense from Asset-backed financing of a VIE at fair value and CRT Agreements financing at fair value.

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Note 23—Net Gain on Mortgage Loans Acquired for Sale

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

|  | Quarter ended<br>June 30, |            | Six months ended<br>June 30, |            |
|--|---------------------------|------------|------------------------------|------------|
|  | 2016                      | 2015       | 2016                         | 2015       |
|  | (in thousands)            |            |                              |            |
| <b>Cash loss:</b>  |                           |            |                              |            |
| Mortgage loans   | \$(18,461)                | \$(51,218) | \$(21,480)                   | \$(58,762) |
| Hedging activities   | (29,118)                  | 18,713     | (61,694)                     | 6,186      |
|  | (47,579)                  | (32,505)   | (83,174)                     | (52,576)   |
| <b>Non cash gain:</b>  |                           |            |                              |            |
| Receipt of MSRs in mortgage loan sale transactions   | 60,109                    | 32,176     | 96,271                       | 59,636     |
| Provision for losses relating to representations and<br>warranties provided in mortgage loan sales |                           |            |                              |            |
| Pursuant to mortgage loans sales   | (650 )                    | (1,419 )   | (1,221 )                     | (2,344 )   |
| Adjustment to previously recorded amount due to<br>change in estimate                              | —                         | —          | 1,724                        | —          |
| Change in fair value during the period of financial<br>instruments held at period end:             |                           |            |                              |            |
| IRLCs  | 7,423                     | (8,481 )   | 12,111                       | (5,927 )   |
| Mortgage loans   | 5,015                     | 14,551     | 11,752                       | 18,277     |
| Hedging derivatives  | (92 )                     | 6,853      | 1,812                        | 4,269      |
|  | 12,346                    | 12,923     | 25,675                       | 16,619     |
|  | \$24,226                  | \$11,175   | \$39,275                     | \$21,335   |

Note 24—Net (Loss) Gain on Investments

Net (loss) gain on investments is summarized below:

|  | Quarter ended<br>June 30, |            | Six months ended<br>June 30, |            |
|--|---------------------------|------------|------------------------------|------------|
|  | 2016                      | 2015       | 2016                         | 2015       |
|  | (in thousands)            |            |                              |            |
| <b>Net (loss) gain on investments:</b> |                           |            |                              |            |
| <b>From non-affiliates:</b>            |                           |            |                              |            |
| Mortgage-backed securities             | \$4,332                   | \$(6,702 ) | \$9,431                      | \$(5,186 ) |
| Mortgage loans at fair value           | (13,463)                  | 30,068     | 932                          | 47,254     |
| Mortgage loans held in a VIE           | (48 )                     | (12,077)   | 8,347                        | (10,277)   |
| CRT Agreements                         | 7,764                     | —          | 3,621                        | —          |



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|   |            |          |            |          |
|---|------------|----------|------------|----------|
| Asset-backed financing of a VIE at fair value | 890        | 3,991    | (8,963 )   | 3,222    |
| Hedging derivatives                           | 862        | (1,255 ) | 698        | (11,294) |
|   | 337        | 14,025   | 14,066     | 23,719   |
| From PFSI—ESS                                 | (15,824)   | 8,589    | (33,451)   | 2,342    |
|   | \$(15,487) | \$22,614 | \$(19,385) | \$26,061 |

## Note 25—Net Mortgage Loan Servicing Fees

Net mortgage loan servicing fees are summarized below:

|   | Quarter ended June 30, |              | Six months ended June 30, |              |
|---|------------------------|--------------|---------------------------|--------------|
|   | 2016                   | 2015         | 2016                      | 2015         |
|   | (in thousands)         |              |                           |              |
| Servicing fees (1)                                | \$31,578               | \$25,887     | \$60,450                  | \$48,516     |
| MSR recapture fee from PFSI                       | 311                    | —            | 440                       | —            |
| Effect of MSR's:                                  |                        |              |                           |              |
| Carried at lower of amortized cost or fair value: |                        |              |                           |              |
| Amortization                                      | (15,531 )              | (9,988 )     | (29,818 )                 | (19,580 )    |
| Provision for impairment                          | (23,170 )              | 7,082        | (40,876 )                 | 703          |
| Gain on sale                                      | 11                     | —            | 11                        | 83           |
| Carried at fair value—change in fair value        | (4,941 )               | 6,306        | (16,356 )                 | (3,510 )     |
| Gains on hedging derivatives                      | 27,433                 | (16,270 )    | 57,394                    | (5,193 )     |
|   | (16,198 )              | (12,870 )    | (29,645 )                 | (27,497 )    |
| Net mortgage loan servicing fees                  | \$15,691               | \$13,017     | \$31,245                  | \$21,019     |
| Average servicing portfolio                       | \$45,647,524           | \$35,742,835 | \$44,531,795              | \$35,215,677 |

(1) Includes contractually specified servicing and ancillary fees.

## Note 26—Share-Based Compensation Plans

As of June 30, 2016 and 2015, the Company had one share-based compensation plan. The Company recognized compensation expense of \$2.0 million and \$3.0 million for the quarter and six months ended June 30, 2016, respectively, and \$1.1 million and \$3.7 million for the quarter and six months ended June 30, 2015, respectively. The Company granted 330,076 restricted share units with a grant date fair value of \$6.3 million during the quarter and six months ended June 30, 2016 and 294,684 restricted share units with a grant date fair value of \$6.3 million during the quarter and six months ended June 30, 2015. The 2016 grant includes 112,079 performance-based awards. The Company had vestings of 222,533 and 298,581 restricted share units during the quarter and six months ended June 30, 2016, respectively, and 226,700 and 301,763 restricted share units during the quarter and six months ended June 30, 2015, respectively.

## Note 27—Other Expenses

Other expenses are summarized below:

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|  | Quarter ended    |         | Six months ended |          |
|--|------------------|---------|------------------|----------|
|  | June 30,<br>2016 | 2015    | June 30,<br>2016 | 2015     |
|  | (in thousands)   |         |                  |          |
| Common overhead allocation from PFSI (1) | \$2,434          | \$2,546 | \$4,996          | \$4,937  |
| Mortgage loan origination                | 1,557            | 1,176   | 2,678            | 2,129    |
| Real estate held for investment          | 930              | —       | 1,487            | —        |
| Technology                               | 332              | 311     | 766              | 603      |
| Insurance                                | 316              | 302     | 634              | 675      |
| Other                                    | 946              | 861     | 1,590            | 1,708    |
|  | \$6,515          | \$5,196 | \$12,151         | \$10,052 |

(1) For the quarter ended June 30, 2015, in accordance with the terms of the Company's management agreement, PCM provided the Company a discretionary waiver of \$700,000 of overhead expenses that otherwise would have been allocable to the Company. On December 15, 2015, the Operating Partnership amended its management agreement to provide that the overhead costs and expenses incurred by PFSI in any quarter and reimbursable by the Operating Partnership is capped at an amount equal to the product of (A) 70 basis points (0.0070), multiplied by (B) PMT's shareholders' equity (as defined in the management agreement) as of the last day of the month preceding quarter end, divided by four.

Note 28—Income Taxes

The Company's effective tax rate was 35.4% and (219.8)% for the quarter and six months ended June 30, 2016 and (11.9)% and (67.3)% for the quarter and six months ended June 30, 2015, respectively. The Company's taxable REIT subsidiary recognized tax

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benefits of \$3.7 million and \$6.1 million on losses of \$9.3 million and \$15.3 million while the Company reported a consolidated pretax loss of \$8.2 million and pretax income of \$2.9 million for the quarter and six months ended June 30, 2016, respectively. For the same periods in 2015, the taxable REIT subsidiary recognized tax benefits of \$1.1 million and \$12.9 million on losses of \$2.6 million and \$31.3 million while the Company reported a consolidated pretax income of \$25.1 million and \$21.3 million, respectively. The relative values between the tax benefit at the taxable REIT subsidiary and the Company's consolidated pretax income drive the fluctuation in the effective tax rate. The primary difference between the Company's effective tax rate and the statutory tax rate is due to non-taxable REIT income resulting from the dividends paid deduction.

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

Note 29—Segments and Related Information

Financial highlights by operating segment are summarized below:

| Quarter ended June 30, 2016                                | Correspondent<br>production | Investment<br>activities | Total       |
|--|-----------------------------|--------------------------|-------------|
|  | (in thousands)              |                          |             |
| <b>Net investment income:</b>                              |                             |                          |             |
| Interest income  | \$13,415                    | \$38,351                 | \$51,766    |
| Interest expense   | (7,951 )                    | (28,642 )                | (36,593 )   |
|  | 5,464                       | 9,709                    | 15,173      |
| Net gain on mortgage loans acquired for sale               | 24,226                      | —                        | 24,226      |
| Net loss on investments                                    | —                           | (15,487 )                | (15,487 )   |
| Net mortgage loan servicing fees                           | —                           | 15,691                   | 15,691      |
| Other income (loss)  | 8,535                       | (520 )                   | 8,015       |
|  | 38,225                      | 9,393                    | 47,618      |
| <b>Expenses:</b>   |                             |                          |             |
| <b>Mortgage loan fulfillment, servicing and management</b> |                             |                          |             |
| fees payable to PFSI                                       | 19,710                      | 21,027                   | 40,737      |
| Other  | 2,082                       | 12,958                   | 15,040      |
|  | 21,792                      | 33,985                   | 55,777      |
| Pre-tax income (loss)                                      | \$16,433                    | \$(24,592 )              | \$(8,159 )  |
| Total assets at period end                                 | \$1,492,171                 | \$4,275,391              | \$5,767,562 |

| Quarter ended June 30, 2015   | Correspondent<br>production | Investment<br>activities | Total     |
|-------------------------------|-----------------------------|--------------------------|-----------|
|                               | (in thousands)              |                          |           |
| <b>Net investment income:</b> |                             |                          |           |
| Interest income               | \$8,997                     | \$36,336                 | \$45,333  |
| Interest expense              | (4,763 )                    | (24,976 )                | (29,739 ) |
|                               | 4,234                       | 11,360                   | 15,594    |

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|   |             |             |             |
|---|-------------|-------------|-------------|
| Net gain on mortgage loans acquired for sale        | 11,175      | —           | 11,175      |
| Net gain on investments                             | —           | 22,614      | 22,614      |
| Net mortgage loan servicing fees                    | —           | 13,017      | 13,017      |
| Other income  | 7,352       | 13          | 7,365       |
|   | 22,761      | 47,004      | 69,765      |
| Expenses:   |             |             |             |
| Mortgage loan fulfillment, servicing and management |             |             |             |
| fees payable to PFSI                                | 15,785      | 17,463      | 33,248      |
| Other   | 1,754       | 9,675       | 11,429      |
|   | 17,539      | 27,138      | 44,677      |
| Pre-tax income                                      | \$5,222     | \$19,866    | \$25,088    |
| Total assets at period end                          | \$2,243,570 | \$4,433,804 | \$6,677,374 |

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| Six months ended June 30, 2016                             | Correspondent<br>production | Investment<br>activities | Total       |
|--|-----------------------------|--------------------------|-------------|
|  | (in thousands)              |                          |             |
| <b>Net investment income:</b>                              |                             |                          |             |
| Interest income  | \$22,439                    | \$83,693                 | \$106,132   |
| Interest expense   | (13,070 )                   | (55,527 )                | (68,597 )   |
|  | 9,369                       | 28,166                   | 37,535      |
| Net gain on mortgage loans acquired for sale               | 39,275                      | —                        | 39,275      |
| Net loss on investments                                    | —                           | (19,385 )                | (19,385 )   |
| Net mortgage loan servicing fees                           | —                           | 31,245                   | 31,245      |
| Other income (loss)  | 15,373                      | (4,209 )                 | 11,164      |
|  | 64,017                      | 35,817                   | 99,834      |
| <b>Expenses:</b>   |                             |                          |             |
| <b>Mortgage loan fulfillment, servicing and management</b> |                             |                          |             |
| fees payable to PFSI                                       | 33,064                      | 37,413                   | 70,477      |
| Other  | 3,609                       | 22,863                   | 26,472      |
|  | 36,673                      | 60,276                   | 96,949      |
| Pre-tax income (loss)                                      | \$27,344                    | \$(24,459 )              | \$2,885     |
| Total assets at period end                                 | \$1,492,171                 | \$4,275,391              | \$5,767,562 |

| Six months ended June 30, 2015                             | Correspondent<br>production | Investment<br>activities | Total       |
|--|-----------------------------|--------------------------|-------------|
|  | (in thousands)              |                          |             |
| <b>Net investment income:</b>                              |                             |                          |             |
| Interest income  | \$16,109                    | \$69,909                 | \$86,018    |
| Interest expense   | (8,583 )                    | (46,902 )                | (55,485 )   |
|  | 7,526                       | 23,007                   | 30,533      |
| Net gain on mortgage loans acquired for sale               | 21,335                      | —                        | 21,335      |
| Net gain on investments                                    | —                           | 26,061                   | 26,061      |
| Net mortgage loan servicing fees                           | —                           | 21,019                   | 21,019      |
| Other income (loss)  | 12,703                      | (4,229 )                 | 8,474       |
|  | 41,564                      | 65,858                   | 107,422     |
| <b>Expenses:</b>   |                             |                          |             |
| <b>Mortgage loan fulfillment, servicing and management</b> |                             |                          |             |
| fees payable to PFSI                                       | 28,956                      | 34,831                   | 63,787      |
| Other  | 2,938                       | 19,429                   | 22,367      |
|  | 31,894                      | 54,260                   | 86,154      |
| Pre-tax income   | \$9,670                     | \$11,598                 | \$21,268    |
| Total assets at period end                                 | \$2,243,570                 | \$4,433,804              | \$6,677,374 |

## Note 30—Supplemental Cash Flow Information

|  | Six months ended<br>June 30, |           |
|--|------------------------------|-----------|
|  | 2016                         | 2015      |
|  | (in thousands)               |           |
| Cash paid for interest                                     | \$76,198                     | \$53,449  |
| Income taxes paid, net                                     | \$388                        | \$401     |
| Non-cash investing activities:                             |                              |           |
| Receipt of MSR as proceeds from sales of mortgage loans    | \$96,271                     | \$59,636  |
| Transfer of mortgage loans and advances to real estate     |                              |           |
| acquired in settlement of loans                            | \$114,052                    | \$158,078 |
| Transfer of real estate acquired in settlement of mortgage |                              |           |
| loans to real estate held for investment                   | \$12,266                     | \$1,548   |
| Receipt of ESS pursuant to recapture agreement with PFSI   | \$3,601                      | \$2,565   |
| Non-cash financing activities:                             |                              |           |
| Transfer of mortgage loans at fair value financed under    |                              |           |
| agreements to repurchase to REO financed under             |                              |           |
| agreements to repurchase                                   | \$15,191                     | \$24,972  |
| Dividends payable  | \$32,082                     | \$46,074  |

## Note 31—Regulatory Capital and Liquidity Requirements

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

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

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

| June 30, 2016 |              |               |
|---------------|--------------|---------------|
| Net Worth (1) | Tangible Net | Liquidity (1) |
|               | Worth /      |               |

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| Agency      | Actual<br>(in thousands) | Required  | Total Assets<br>Ratio (1) |                            | Actual<br>(in thousands) | Required |
|-------------|--------------------------|-----------|---------------------------|----------------------------|--------------------------|----------|
|             |                          |           | Actual<br>(in thousands)  | Required<br>(in thousands) |                          |          |
| Fannie Mae  | \$402,793                | \$120,219 | 13 %                      | 6 %                        | \$67,636                 | \$16,481 |
| Freddie Mac | \$402,793                | \$120,219 | 13 %                      | 6 %                        | \$67,636                 | \$16,481 |

(1) Calculated in compliance with the respective Agency's requirements.

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

Note 32—Recently Issued Accounting Pronouncements

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis ("ASU 2015-02"). ASU 2015-02 affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. ASU 2015-02 modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities, eliminates the presumption that a general partner should consolidate a limited partnership and affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. ASU 2015-02 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. The Company adopted ASU 2015-02 effective January 1, 2016. The adoption of ASU 2015-02 had no effect on the Company's consolidated financial statements.



On January 5, 2016, the FASB issued ASU 2016-01, Financial Instruments—Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”). ASU 2016-01 affects the accounting for equity investments, financial liabilities under the fair value option, the presentation and disclosure requirements for financial instruments, and the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities.

ASU 2016-01 requires that:

- All equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) with readily determinable fair values will generally be measured at fair value through earnings.
- When the fair value option has been elected for financial liabilities, changes in fair value due to instrument-specific credit risk will be recognized separately in other comprehensive income. The accumulated gains and losses due to these changes will be reclassified from accumulated other comprehensive income to earnings if the financial liability is settled before maturity.
- For financial instruments measured at amortized cost, public business entities will be required to use the exit price when measuring the fair value of financial instruments for disclosure purposes.
- Financial assets and financial liabilities shall be presented separately in the notes to the financial statements, grouped by measurement category (e.g., fair value, amortized cost, lower of cost or fair value) and form of financial asset (e.g., loans, securities).
- Public business entities will no longer be required to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost.
- Entities will have to assess the realizability of a deferred tax asset related to a debt security classified as available for sale in combination with the entity’s other deferred tax assets.

The classification and measurement guidance will be effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption of the provision to record fair value changes for financial liabilities under the fair value option resulting from instrument-specific credit risk in other comprehensive income is permitted and can be elected for all financial statements of fiscal years and interim periods that have not yet been issued or that have not yet been made available for issuance. The Company is currently assessing the potential effect that the adoption of ASU 2016-01 will have on its consolidated financial statements.

In March of 2016, The FASB issued ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”). ASU 2016-09 simplifies several aspects of the accounting for share-based payment award transactions, including:

- Modifies the accounting for income taxes relating to share-based payments. All excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) will be recognized as income tax expense or benefit in the consolidated statement of operations. The tax effects of exercised or vested awards will be treated as discrete items in the reporting period in which they occur. An entity will recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period. Under current GAAP, excess tax benefits are recognized in additional paid-in capital; tax deficiencies are recognized either as an offset to accumulated excess tax benefits, if any, or in the consolidated statement of operations in the period they reduce income taxes payable.
  - Changes the classification of excess tax benefits on the consolidated statement of cash flows. In the consolidated statement of cash flows, excess tax benefits will be classified along with other income tax cash flows as an operating activity. Under current GAAP, excess tax benefits are separated from other income tax cash flows and classified as a financing activity.
- Changes the requirement to estimate the number of awards that are expected to vest. Under ASC 2016-09, an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest as presently required or account for forfeitures when they occur. Under current GAAP, accruals of compensation cost are based on the number of awards that are expected to vest.



- Changes the tax withholding requirements for share-based payment awards to qualify for equity accounting. The threshold to qualify for equity classification permits withholding up to the maximum statutory tax rates in the applicable jurisdictions. Under current GAAP, for an award to qualify for equity classification is that an entity cannot partially settle the award in cash in excess of the employer's minimum statutory withholding requirements.
- Establishes GAAP for the classification of employee taxes paid when an employer withholds shares for tax withholding purposes. Cash paid by an employer when directly withholding shares for tax- withholding purposes should be classified as a financing activity. This guidance establishes GAAP related to the classification of withholding taxes in the statement of cash flows as there is no such guidance under current GAAP.

ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any organization in any interim or annual period. The Company is currently assessing the potential effect that the adoption of ASU 2016-09 will have on its consolidated financial statements.

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

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

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

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

### Our Company

We are a specialty finance company that invests primarily in residential mortgage loans and mortgage-related assets. Our objective is to provide attractive risk-adjusted returns to our investors over the long-term, primarily through dividends and secondarily through capital appreciation. We have pursued this objective largely by investing in distressed mortgage assets and acquiring, pooling and selling newly originated prime credit quality residential mortgage loans ("correspondent production") and retaining the mortgage servicing rights ("MSRs"). We have also invested in excess servicing spread ("ESS") on MSRs acquired by PennyMac Loan Services, LLC ("PLS"). In 2015, we began investing in credit risk transfer agreements ("CRT Agreements") on certain of the mortgage loans acquired through our correspondent production activity.

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

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

We seek to maximize the value of the distressed mortgage loans that we acquired using means that are appropriate for the particular loan, including both proprietary and nonproprietary loan modification programs, special servicing and other initiatives focused on avoiding foreclosure, when possible. When we are unable to effect a cure for a mortgage loan delinquency, our objective is timely acquisition and/or liquidation of the property securing the mortgage loan through the use, in part, of short sales and deed-in-lieu of foreclosure programs. During the quarter and six months ended June 30, 2016, we did not acquire distressed mortgage loans and we received proceeds from liquidation, payoffs, paydowns and sales from our portfolio of mortgage loans and real estate acquired in settlement of loans ("REO") totaling \$481.3 million and \$594.0 million, respectively. During the quarter and six months ended June 30, 2015, we acquired distressed mortgage loans with fair values totaling zero and \$242.0 million and we received proceeds from liquidation, payoffs, paydowns and sales from our portfolio of mortgage loans and REO totaling \$150.0

million and \$275.6 million, respectively.

During the quarter and six months ended June 30, 2016, we purchased newly originated prime credit quality loans with fair values totaling \$15.3 billion and \$25.5 billion, respectively, as compared to \$12.5 billion and \$20.8 billion for the same periods in 2015, in furtherance of our correspondent production business. To the extent that we purchase mortgage loans that are insured by the U.S. Department of Housing and Urban Development (“HUD”) through the Federal Housing Administration (the “FHA”), or insured or guaranteed by the Veterans Administration (the “VA”) or U.S. Department of Agriculture (“USDA”), we and PLS have agreed that PLS will fulfill and purchase such mortgage loans, as PLS is a Ginnie Mae-approved issuer and we are not. This arrangement has enabled us to compete with other correspondent lenders that purchase both government and conventional mortgage loans. We receive a sourcing fee from PLS of three basis points on the unpaid principal balance (“UPB”) of each mortgage loan that we sell to PLS under such arrangement, and earn interest income on the mortgage loan for the period we hold the mortgage loan prior to the sale to PLS. During the quarter and six months ended June 30, 2016, we received sourcing fees totaling \$2.8 million and \$4.8 million,

respectively, relating to \$9.4 billion and \$15.9 billion in UPB of mortgage loans at fair value that we sold to PLS, as compared to \$2.4 million and \$3.8 million relating to \$8.1 billion and \$12.8 billion in UPB of loans that we sold to PLS for the same periods in 2015.

During the quarter and six months ended June 30, 2016, we received MSRs with fair values at initial recognition totaling \$60.1 million and \$96.3 million, respectively, compared to \$32.2 million and \$59.6 million for the same periods in 2015.

We believe that Ginnie Mae ESS is an attractive long-term investment that allows us to leverage the mortgage loan servicing and origination capabilities of PLS and ESS can act as a hedge for us against the interest-rate sensitivity of other assets, such as MBS or the inventory of our correspondent production business. During the quarter and six months ended June 30, 2016, we did not purchase any ESS from PFSI. We received \$1.7 million and \$3.6 million, respectively, pursuant to a recapture agreement with PFSI, compared to purchases of \$140.9 million and \$187.3 million and receipt of \$1.3 million and \$2.6 million of ESS pursuant to such recapture agreement for the same periods in 2015.

We believe that CRT Agreements are an attractive long-term investment that can produce attractive risk-adjusted returns through our own mortgage production while aligning with Fannie Mae's strategic goal to attract private capital investment in GSE credit risk. We believe there is significant potential for deploying additional capital into front-end credit risk transfer and MSRs that result from our correspondent production activities as we redeploy capital from the liquidation of distressed whole loans. During the quarter and six months ended June 30, 2016, we made investments in CRT Agreements totaling \$126.0 million and \$192.7 million, respectively.

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

- Acquisition of REIT-eligible mortgage-backed or mortgage-related securities. We purchased MBS and Agency debt securities with fair values totaling \$199.2 million and \$249.9 million during the quarter and six months ended June 30, 2016, respectively, as compared to zero and \$25.1 million for the same periods in 2015.
- Acquisition of small balance (typically under \$10 million) commercial real estate loans. During the quarter and six months ended June 30, 2016, we acquired \$1.3 million and \$6.1 million in fair value of small balance commercial real estate loans.
- To the extent that we transfer correspondent production loans into private label securitizations, retention of a portion of the securities created in the securitization transaction. Our private label securitization is accounted for as a financing arrangement. Sales of securities included in the securitization are treated as issuances of debt. During the six months ended June 30, 2016, we issued \$99.5 million in fair value of such securities.

Our board of trustees has authorized a repurchase program under which we may repurchase up to \$200 million of our outstanding common shares. During the quarter and six months ended June 30, 2016, we repurchased 1.2 million and 6.3 million common shares at a cost of \$18.4 million and \$82.8 million, respectively, for a cumulative total of 7.4 million common shares repurchased at a cost of \$99.2 million under the program. The repurchased common shares were canceled upon settlement of the repurchase transactions and returned to the authorized but unissued share pool.

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

Observations on Current Market Conditions

Our business is affected by macroeconomic conditions in the United States, including economic growth, unemployment rates, the residential housing market and interest rate levels and expectations. The U.S. economy continues to grow, as reflected in recent economic data. During the second quarter of 2016, U.S. real gross domestic product expanded at an annual rate of 1.2%, compared to 2.6% for the second quarter of 2015 and 0.8% for the first quarter of 2016. The national seasonally adjusted unemployment rate was 4.9% at June 30, 2016, 5.0% at March 31, 2016 and 5.3% at June 30, 2015. Delinquency rates on residential real estate loans remain elevated compared to historical rates, but have been steadily declining. As reported by the Federal Reserve Bank, during the first quarter of 2016, the delinquency rate on residential real estate loans held by commercial banks was 4.8%, a reduction from 6.2% during the first quarter of 2015.

Residential real estate activity appears to be expanding. The seasonally adjusted annual rate of existing home sales for June 2016 was 3.0% higher than for June 2015, and the national median existing home price for all housing types was \$247,700, a 4.8% increase from June 2015 (Source: National Association of Realtors®). On a national level, foreclosure filings during the quarter ended June 30, 2016 decreased by 14% as compared to the quarter ended June 30, 2015. However, foreclosure activity is expected to remain above historical average levels through 2016 and beyond.

Changes in fixed-rate residential mortgage loan interest rates generally follow changes in long-term U.S. Treasury yields. Thirty-year fixed mortgage interest rates ranged from a low of 3.48% to a high of 3.66% during the second quarter of 2016 while during the second quarter of 2015, thirty-year fixed mortgage interest rates ranged from a low of 3.65% to a high of 4.04% (Source: Freddie Mac's Weekly Primary Mortgage Market Survey). Interest rates generally declined in the second quarter of 2016 and generally increased in the second quarter of 2015. This impacted MSR and other interest rate sensitive asset valuations and production activity.

Mortgage lenders originated an estimated \$510 billion of home loans during the second quarter of 2016, up 4.1% from the second quarter of 2015. Total mortgage originations are forecast to be somewhat higher in 2016 versus 2015, with current industry estimates for 2016 averaging \$1.8 trillion (Source: average of Fannie Mae, Freddie Mac and Mortgage Bankers Association forecasts).

We believe that there is significant long-term market opportunity to invest in GSE CRT Agreements on certain of the loans acquired through our correspondent production activity. CRT Agreements align with the Federal Housing Finance Agency's ("FHFA") desire to reduce taxpayer risk by transferring some of the credit risk from Fannie Mae and Freddie Mac to private sector participants. FHFA, in its capacity as conservator of Fannie Mae and Freddie Mac, has included in its 2016 scorecard for both GSEs a target to transfer credit risk on at least 90% of the UPB of newly acquired single-family mortgages in certain loan categories. Those loan categories include non-Home Affordable Refinance Program, fixed-rate terms greater than 20 years, and loan-to-value ratios above 60%. This continues the trend of increasing the volume of loans subject to CRT Agreements. For example, FHFA required each GSE to share the risk on at least \$30 billion in UPB in 2013, \$90 billion in 2014, and \$120 billion for Freddie Mac and \$150 million for Fannie Mae in 2015. In addition, under the 2016 scorecard, the GSEs have been directed to work with FHFA to conduct an analysis and assessment of front-end CRT Agreements, such as our CRT Agreements, and to take appropriate steps to continue them. In front-end CRT Agreements, a lender or aggregator retains a portion of the credit risk associated with the loans they sell to Fannie Mae or Freddie Mac through an arrangement entered into prior to the delivery of the loans to the GSE.

We believe there is long-term market opportunity for the production of non-Agency jumbo mortgage loans. However, most new jumbo mortgage loans are either being originated or purchased by banks, and the current market for jumbo mortgage loan securitizations is limited, as evidenced by weak demand and inconsistent pricing observed throughout 2015 and the first half of 2016. Prime jumbo securitizations totaled \$0.9 billion in UPB in the second quarter of 2016, a decrease from \$2.8 billion in the second quarter of 2015. During the six months ended June 30, 2016, we produced approximately \$13 million in UPB of jumbo loans compared to \$91 million in UPB of jumbo loans produced during the six months ended June 30, 2015.

Our Manager expects to see a continued supply of distressed whole loans; however, we believe the pricing for recent transactions has been less attractive for buyers. We are transitioning away from distressed whole loans to correspondent-related investments such as CRT and MSRs, and we continue to monitor the market to assess best execution opportunities for our existing distressed portfolio investments.



## Results of Operations

The following is a summary of our key performance measures:

|   | Quarter ended                            |           | Six months ended |           |
|---|--|-----------|------------------|-----------|
|   | June 30,<br>2016                         | 2015      | June 30,<br>2016 | 2015      |
|   | (in thousands, except per share amounts) |           |                  |           |
| Net investment income                     | \$47,618                                 | \$69,765  | \$99,834         | \$107,422 |
| Expenses                                  | (55,777 )                                | (44,677 ) | (96,949 )        | (86,154 ) |
| Benefit from income taxes                 | 2,892                                    | 2,983     | 6,344            | 14,311    |
| Net (loss) income                         | \$(5,267 )                               | \$28,071  | \$9,229          | \$35,579  |
| Pre-tax income (loss) by segment:         |  |           |                  |           |
| Correspondent production                  | \$16,433                                 | \$5,222   | \$27,344         | \$9,670   |
| Investment activities                     | (24,592 )                                | \$19,866  | (24,459 )        | 11,598    |
|   | \$(8,159 )                               | \$25,088  | \$2,885          | \$21,268  |
| (Loss) earnings per share:                |  |           |                  |           |
| Basic                                     | \$(0.08 )                                | \$0.37    | \$0.12           | \$0.46    |
| Diluted                                   | \$(0.08 )                                | \$0.36    | \$0.12           | \$0.46    |
| Dividends per share:                      |  |           |                  |           |
| Declared and paid                         | \$0.47                                   | \$0.61    | \$0.94           | \$1.22    |
| Investment activities:                    |  |           |                  |           |
| Mortgage loans and REO:                   |  |           |                  |           |
| Purchases                                 | \$—                                      | \$—       | \$—              | \$241,981 |
| Cash proceeds from liquidation activities | \$481,266                                | \$149,990 | \$594,039        | \$275,562 |
| MBS:                                      |  |           |                  |           |
| Purchases                                 | \$199,223                                | \$—       | \$249,925        | \$25,129  |
| Cash proceeds from repayment and sales    | \$35,293                                 | \$21,942  | \$49,141         | \$39,744  |
| ESS:                                      |  |           |                  |           |
| Purchases from PFSI                       | \$—                                      | \$140,875 | \$—              | \$187,287 |
| Cash proceeds from repayment and sales    | \$17,400                                 | \$18,352  | \$97,326         | \$31,083  |
| CRT Agreements:                           |  |           |                  |           |
| Cash deposited                            | \$126,031                                | \$—       | \$192,737        | \$—       |
| Distributions received                    | \$4,614                                  | \$—       | \$7,320          | \$—       |
| Per share closing prices:                 |  |           |                  |           |
| During the period:                        |  |           |                  |           |
| High                                      | \$16.23                                  | \$21.76   | \$16.23          | \$22.99   |
| Low                                       | \$13.07                                  | \$17.43   | \$11.21          | \$17.43   |
| At period end                             | \$16.23                                  | \$17.43   | \$16.23          | \$17.43   |

|                             | June 30,<br>2016 | December 31,<br>2015 |
|-----------------------------|------------------|----------------------|
| Total assets (in thousands) | \$5,767,562      | \$5,826,924          |
| Book value per share        | \$20.09          | \$20.28              |

During the quarter and six months ended June 30, 2016, we recorded a net loss of \$5.3 million, or \$(0.08) per diluted share, and net income of \$9.2 million, or \$0.12 per diluted share, respectively. Our net income for the quarter and six

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months ended June 30, 2016 reflects net interest income of \$15.2 million and \$37.5 million, supplemented by \$15.7 million and \$31.2 million of net mortgage loan servicing fees, respectively. During the quarter and six months ended June 30, 2016, we purchased \$15.3 billion and \$25.5 billion, respectively, in fair value of newly originated mortgage loans. We recognized net gains on such loans totaling approximately \$24.2 million and \$39.3 million, respectively, including \$60.1 million and \$96.3 million of MSRs retained upon sale of such loans, respectively. At June 30, 2016, we held mortgage loans acquired for sale with fair values totaling \$1.5 billion, \$619.0 million of which were pending sale to PLS.

During the quarter and six months ended June 30, 2015, we recorded net income of \$28.1 million, or \$0.36 per diluted share, and \$35.6 million, or \$0.46 per diluted share, respectively. Our net income for the quarter and six months ended June 30, 2015 reflects net interest income of \$15.6 million and \$30.5 million, respectively, supplemented by net gains on our investments in financial instruments totaling \$22.6 million and \$26.1 million and net mortgage loan servicing fees of \$13.0 million and \$21.0 million, respectively. During the quarter and six months ended June 30, 2015, we purchased \$12.5 billion and \$20.8 billion, respectively, in fair value of newly originated

mortgage loans. We recognized gains on such loans totaling approximately \$11.2 million and \$21.3 million, respectively, including \$32.2 million and \$59.6 million of MSRs retained upon securitization or sale of such loans, respectively.

Our net income decreased during the quarter and six months ended June 30, 2016, as compared to the same periods in 2015, primarily due to a decrease in pretax income in our investment activities segment of \$44.5 million and \$36.1 million from pretax income of \$19.9 million and \$11.6 million to a pretax loss of \$24.6 million and \$24.5 million, respectively. During the quarter and six months ended June 30, 2016, our investment activities segment recognized net investment income totaling \$9.4 million and \$35.8 million, respectively, a decrease of \$37.6 million and \$30.0 million from \$47.0 million and \$65.9 million during the same periods in 2015, primarily due to losses from our investments in ESS and mortgage loans at fair value which reflects the effects of increased prepayment expectations in the portfolios of MSRs underlying our investments in ESS and of the effect of our expectations of longer liquidation periods and lower home price appreciation for certain of our nonperforming loans. Longer liquidation periods increase our expectations of liquidation costs, which reduce our cash flow expectations from the mortgage loans, and decrease the present value of the expected cash flows.

In our correspondent production activities, our net investment income increased during the quarter and six months ended June 30, 2016, as compared to the same periods in 2015, by \$15.5 million and \$22.5 million from \$22.8 million and \$41.6 million to \$38.2 million and \$64.0 million, respectively. We received proceeds of \$5.2 billion and \$8.5 billion from the sale of mortgage loans to nonaffiliates and issued \$6.0 billion and \$9.8 billion of IRLCs relating to Agency and jumbo mortgage loans in the quarter and six months ended June 30, 2016, respectively, an increase of \$1.5 billion and \$1.9 billion from the same periods in 2015. Our net gain on mortgage loans acquired for sale increased due to both the increase in mortgage loan volume and higher margins, both of which were driven by an increased market size and larger customer base.

#### Net Investment Income

During the quarter and six months ended June 30, 2016, we recorded net investment income of \$47.6 million and \$99.8 million, respectively, comprised primarily of \$24.2 million and \$39.3 million of net gain on mortgage loans acquired for sale, \$15.2 million and \$37.5 million of net interest income, \$15.7 million and \$31.2 million of net loan servicing fees, and \$8.5 million and \$15.4 million of loan origination fees, partially offset by \$2.6 million and \$8.6 million of losses from results of REO and \$15.5 million and \$19.4 million of net loss on investments. During the quarter and six months ended June 30, 2015, we recorded net investment income of \$69.8 million and \$107.4 million, respectively, comprised primarily of \$11.2 million and \$21.3 million of net gain on mortgage loans acquired for sale, net interest income of \$15.6 million and \$30.5 million, \$13.0 million and \$21.0 million of net loan servicing fees, \$7.3 million and \$12.6 million of loan origination fees, and \$22.6 million and \$26.1 million of net gain on investments, partially offset by \$1.8 million and \$7.6 million of losses from results of REO.

Net investment income includes non-cash fair value adjustments and the fair value of assets created and liabilities incurred in mortgage loan sale transactions. Because we have elected to record our financial assets (comprised of MBS, mortgage loans acquired for sale at fair value, mortgage loans at fair value, and ESS), a portion of our MSRs and our asset-backed financing at fair value, a substantial portion of the income or loss we record with respect to such assets and liabilities results from non-cash changes in fair value. Net investment income also includes non-cash fair value adjustments related to IRLCs, CRT Agreements and the related derivatives we use to hedge certain of our investments and liabilities and non-cash interest income arising from capitalization of delinquent interest on mortgage loans upon completion of the modification of such loans and accrual of unearned discounts relating to mortgage loans held in a VIE.

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

|  | Quarter ended    |           | Six months ended |            |
|--|------------------|-----------|------------------|------------|
|  | June 30,<br>2016 | 2015      | June 30,<br>2016 | 2015       |
|  | (in thousands)   |           |                  |            |
| Net interest income                                  |                  |           |                  |            |
| Capitalization of interest pursuant to mortgage loan |                  |           |                  |            |
| modifications  | \$ 16,421        | \$ 9,921  | \$ 39,715        | \$ 20,130  |
| Accrual of unearned discounts and amortization of    |                  |           |                  |            |
| premiums on MBS, mortgage loans and                  |                  |           |                  |            |
| asset-backed financing                               | (4,974 )         | (283 )    | 1,086            | 119        |
|  | 11,447           | 9,638     | 40,801           | 20,249     |
| Net gain on mortgage loans acquired for sale         |                  |           |                  |            |
| Receipt of MSR in mortgage loan sale transactions    | 60,109           | 32,176    | 96,271           | 59,636     |
| Provision for losses relating to representations and |                  |           |                  |            |
| warranties provided in mortgage loan sales           |                  |           |                  |            |
| Pursuant to mortgage loans sales                     | (650 )           | (1,419 )  | (1,221 )         | (2,344 )   |
| Adjustment to previously recorded amount due to      |                  |           |                  |            |
| change in estimate                                   | —                | —         | 1,724            | —          |
| Change in fair value during the period of financial  |                  |           |                  |            |
| instruments held at period end:                      |                  |           |                  |            |
| IRLCs  | 7,423            | (8,481 )  | 12,111           | (5,927 )   |
| Mortgage loans acquired for sale                     | 5,015            | 14,551    | 11,752           | 18,277     |
| Hedging derivatives                                  | (92 )            | 6,853     | 1,812            | 4,269      |
|  | 71,805           | 43,680    | 122,449          | 73,911     |
| Net gain (loss) on investments                       |                  |           |                  |            |
| Mortgage-backed securities:                          |                  |           |                  |            |
| Agency   | 3,713            | (4,288 )  | 7,433            | (3,179 )   |
| Non Agency   | 619              | (2,414 )  | 1,998            | (2,007 )   |
| Mortgage loans:                                      |                  |           |                  |            |
| at fair value  | (14,275)         | 27,175    | (1,427 )         | 42,602     |
| at fair value held in a variable interest entity     | (48 )            | (12,077)  | 8,347            | (10,277 )  |
| ESS  | (15,824)         | 8,589     | (33,451 )        | 2,342      |
| CRT Agreements                                       | 3,905            | —         | (2,774 )         | —          |
| Asset-backed financing of a VIE                      | 890              | 3,991     | (8,963 )         | 3,222      |
|  | (21,020)         | 20,976    | (28,837 )        | 32,703     |
| Net loan servicing fees—MSR valuation adjustments    | (25,678)         | 15,170    | (52,336)         | 596        |
|  | \$ 36,554        | \$ 89,464 | \$ 82,077        | \$ 127,459 |
| Net investment income                                | \$ 47,618        | \$ 69,765 | \$ 99,834        | \$ 107,422 |
| Non-cash items as a percentage of net                |                  |           |                  |            |
| investment income                                    | 77               | % 128     | % 82             | % 119      |

Cash is generated when mortgage loan investments are monetized through payoffs, paydowns or sales, when payments of principal and interest occur on such mortgage loans, generally after they are modified, or when the property securing a mortgage loan that has been settled through acquisition of the property securing the mortgage loan has been sold. We receive proceeds on the sale of mortgage loans acquired for sale that include both cash and our estimate of the fair value of MSR's and we recognize a liability for potential losses relating to representations and warranties created in the mortgage loan sales transactions. We receive cash related to MSR's in the form of mortgage loan servicing fees and we pay cash relating to our provision for representations and warranties when we repurchase mortgage loans from investors. Cash flows relating to hedging instruments are generally produced when the instruments mature or when we effectively cancel the transactions through an offsetting trade.

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The following table illustrates the proceeds received during the period from dispositions and paydowns of distressed mortgage loan investments and REO, net gain in fair value that we accumulated over the period during which we owned mortgage loan investments and REO liquidated during the period, and additional net gain realized upon liquidation of such assets:

|                               | Quarter ended June 30,<br>2016 |                                      |                            | 2015      |                          |                            |
|-------------------------------|--------------------------------|--------------------------------------|----------------------------|-----------|--------------------------|----------------------------|
|                               | Proceeds<br>(in thousands)     | Accumulated<br>gains (losses)<br>(1) | Gain on<br>liquidation (2) | Proceeds  | Accumulated<br>gains (1) | Gain on<br>liquidation (2) |
| Mortgage loans                | \$43,360                       | \$ 4,813                             | \$ 1,208                   | \$66,535  | \$ 7,108                 | \$ 2,893                   |
| REO                           | 70,666                         | (348 )                               | 4,718                      | 62,122    | 2,089                    | 4,800                      |
|                               | 114,026                        | 4,465                                | 5,926                      | 128,657   | 9,197                    | 7,693                      |
| Performing mortgage loan sale | 344,302                        | 59,812                               | (396 )                     | —         | —                        | —                          |
|                               | \$458,328                      | \$ 64,277                            | \$ 5,530                   | \$128,657 | \$ 9,197                 | \$ 7,693                   |

|                               | Six months ended June 30,<br>2016 |                          |                            | 2015      |                          |                            |
|-------------------------------|-----------------------------------|--------------------------|----------------------------|-----------|--------------------------|----------------------------|
|                               | Proceeds<br>(in thousands)        | Accumulated<br>gains (1) | Gain on<br>liquidation (2) | Proceeds  | Accumulated<br>gains (1) | Gain on<br>liquidation (2) |
| Mortgage loans                | \$74,916                          | \$ 8,079                 | \$ 2,748                   | \$112,440 | \$ 12,729                | \$ 4,651                   |
| REO                           | 135,573                           | 1,239                    | 9,327                      | 128,098   | 3,051                    | 10,368                     |
|                               | 210,489                           | 9,318                    | 12,075                     | 240,538   | 15,780                   | 15,019                     |
| Performing mortgage loan sale | 344,302                           | 59,812                   | (396 )                     | —         | —                        | —                          |
|                               | \$554,791                         | \$ 69,130                | \$ 11,679                  | \$240,538 | \$ 15,780                | \$ 15,019                  |

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

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

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

The primary expenses incurred at a loan level in managing our portfolio of distressed assets are servicing and activity fees. From the time of acquisition of the distressed assets through their deboarding dates, we incurred servicing and activity fees of \$20.9 million and \$24.7 million for assets liquidated during the quarter and six months ended June 30, 2016, respectively, as compared to \$4.4 million and \$10.1 million during the same periods in 2015. Servicing and activity fees for the quarter and six months ended June 30, 2016 include \$5.1 million relating to the sale of performing mortgage loans.



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Net Interest Income

Net interest income is summarized below:

|  | Quarter ended June 30, 2016 |             |           | Average<br>balance | Annualized<br>interest<br>yield/cost<br>% |   |
|--|-----------------------------|-------------|-----------|--------------------|---|---|
|  | Interest income/expense     |             | Total     |                    |   |   |
|  | Discount/<br>Coupon         | fees (1)    |           |                    |   |   |
|  |                             |             |           |                    |   |   |
| <b>Assets:</b>   |                             |             |           |                    |   |   |
| <b>Correspondent production:</b>                                   |                             |             |           |                    |   |   |
| Mortgage loans acquired for sale at fair value                     | \$ 13,596                   | \$ —        | \$ 13,596 | \$ 1,422,945       | 3.78                                      | % |
| <b>Investment activities:</b>                                      |                             |             |           |                    |   |   |
| Short-term investments   | —                           | —           | —         | 25,903             | 0.00                                      | % |
| <b>Mortgage-backed securities:</b>                                 |                             |             |           |                    |   |   |
| Agency   | 2,823                       | (587 )      | 2,236     | 349,951            | 2.53                                      | % |
| Non-Agency prime jumbo   | 684                         | (164 )      | 520       | 78,102             | 2.63                                      | % |
|  | 3,507                       | (751 )      | 2,756     | 428,053            | 2.55                                      | % |
| <b>Mortgage loans:</b>   |                             |             |           |                    |   |   |
| at fair value  | 23,042                      | —           | 23,042    | 1,791,429          | 5.09                                      | % |
| at fair value held by variable interest entity                     | 4,086                       | 865         | 4,951     | 437,542            | 4.48                                      | % |
|  | 27,128                      | 865         | 27,993    | 2,228,971          | 4.97                                      | % |
| ESS from PFSI  | 5,713                       | —           | 5,713     | 318,065            | 7.11                                      | % |
| Total investment activities  | 36,348                      | 114         | 36,462    | 3,000,992          | 4.81                                      | % |
| Other  | 1,708                       | —           | 1,708     | —                  |   |   |
|  | \$ 51,652                   | \$ 114      | \$ 51,766 | \$ 4,423,937       | 4.63                                      | % |
| <b>Liabilities:</b>  |                             |             |           |                    |   |   |
| Assets sold under agreements to repurchase                         | \$ 19,860                   | \$ 2,196    | \$ 22,056 | \$ 3,268,774       | 2.67                                      | % |
| Mortgage loan participation and sale agreements                    | 302                         | 31          | 333       | 70,701             | 1.86                                      | % |
| Notes payable  | 2,203                       | 788         | 2,991     | 188,330            | 6.28                                      | % |
| Asset-backed financings of a VIE at fair value                     | 2,825                       | 781         | 3,606     | 334,233            | 4.27                                      | % |
| Exchangeable Notes   | 3,359                       | 257         | 3,616     | 250,000            | 5.72                                      | % |
| Note payable to PFSI   | 1,894                       | 328         | 2,222     | 150,000            | 5.86                                      | % |
|  | 30,443                      | 4,381       | 34,824    | 4,262,038          | 3.23                                      | % |
| <b>Interest shortfall on repayments of mortgage loans serviced</b> |                             |             |           |                    |   |   |
| for Agency securitizations   | 1,589                       | —           | 1,589     | —                  |   |   |
| Interest on mortgage loan impound deposits                         | 180                         | —           | 180       | —                  |   |   |
|  | 32,212                      | 4,381       | 36,593    | 4,262,038          | 3.40                                      | % |
| Net interest income  | \$ 19,440                   | \$ (4,267 ) | \$ 15,173 |                    |   |   |
| Net interest margin  |                             |             |           |                    | 1.37                                      | % |
| Net interest spread  |                             |             |           |                    | 1.23                                      | % |

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





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|  | Quarter ended June 30, 2015 |             |          | Average<br>balance | Annualized<br>interest<br>yield/cost<br>% |   |
|--|-----------------------------|-------------|----------|--------------------|---|---|
|  | Interest income/expense     |             | Total    |                    |   |   |
|  | Discount/<br>Coupon         | fees (1)    |          |                    |   |   |
|  | (dollars in thousands)      |             |          |                    |   |   |
| <b>Assets:</b>   |                             |             |          |                    |   |   |
| <b>Correspondent production:</b>                                   |                             |             |          |                    |   |   |
| Mortgage loans acquired for sale at fair value                     | \$10,315                    | \$ —        | \$10,315 | \$1,014,883        | 4.02                                      | % |
| <b>Investment activities:</b>                                      |                             |             |          |                    |   |   |
| Short-term investments   | 82                          | —           | 82       | 46,542             | 0.70                                      | % |
| <b>Mortgage-backed securities:</b>                                 |                             |             |          |                    |   |   |
| Agency   | 1,545                       | (4 )        | 1,541    | 185,932            | 3.28                                      | % |
| Non-Agency prime jumbo   | 983                         | (19 )       | 964      | 117,694            | 3.24                                      | % |
|  | 2,528                       | (23 )       | 2,505    | 303,626            | 3.26                                      | % |
| <b>Mortgage loans:</b>   |                             |             |          |                    |   |   |
| at fair value  | 22,171                      | —           | 22,171   | 2,295,807          | 3.82                                      | % |
| at fair value held by variable interest entity                     | 4,739                       | (310 )      | 4,429    | 504,309            | 3.47                                      | % |
|  | 26,910                      | (310 )      | 26,600   | 2,800,116          | 3.76                                      | % |
| ESS from PFSI  | 5,818                       | —           | 5,818    | 311,579            | 7.39                                      | % |
| Total investment activities  | 35,338                      | (333 )      | 35,005   | 3,461,863          | 4.00                                      | % |
| Other  | 13                          | —           | 13       | —                  |   |   |
|  | \$45,666                    | \$ (333 )   | \$45,333 | \$4,476,746        | 4.01                                      | % |
| <b>Liabilities:</b>  |                             |             |          |                    |   |   |
| Assets sold under agreements to repurchase                         | \$18,032                    | \$ 2,176    | \$20,208 | \$3,171,653        | 2.52                                      | % |
| Mortgage loan participation and sale agreements                    | 219                         | 47          | 266      | 60,363             | 1.74                                      | % |
| Federal Home Loan Bank advances                                    | 2                           | —           | 2        | 1,154              | 0.69                                      | % |
| Notes payable  | 641                         | 353         | 994      | 104,797            | 3.75                                      | % |
| Asset-backed financings of VIEs at fair value                      | 2,466                       | (52 )       | 2,414    | 159,236            | 6.00                                      | % |
| Exchangeable Notes   | 3,359                       | 242         | 3,601    | 250,000            | 5.70                                      | % |
| Note payable to PFSI   | —                           | 533         | 533      | —                  |   |   |
|  | 24,719                      | 3,299       | 28,018   | 3,747,203          | 2.96                                      | % |
| <b>Interest shortfall on repayments of mortgage loans serviced</b> |                             |             |          |                    |   |   |
| for Agency securitizations   | 1,291                       | —           | 1,291    | —                  |   |   |
| Interest on mortgage loan impound deposits                         | 430                         | —           | 430      | —                  |   |   |
|  | 26,440                      | 3,299       | 29,739   | 3,747,203          | 3.14                                      | % |
| Net interest income  | \$19,226                    | \$ (3,632 ) | \$15,594 |                    |   |   |
| Net interest margin  |                             |             |          |                    | 1.39                                      | % |
| Net interest spread  |                             |             |          |                    | 0.87                                      | % |

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

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|  | Six months ended June 30, 2016 |                       |           | Average<br>balance | Annualized<br>interest<br>yield/cost<br>% |   |
|--|--------------------------------|-----------------------|-----------|--------------------|---|---|
|  | Interest income/expense        |                       | Total     |                    |   |   |
|  | Coupon                         | Discount/<br>fees (1) |           |                    |   |   |
|  |                                |                       |           |                    |   |   |
| <b>Assets:</b>   |                                |                       |           |                    |   |   |
| <b>Correspondent production:</b>                                   |                                |                       |           |                    |   |   |
| Mortgage loans acquired for sale at fair value                     | \$22,860                       | \$—                   | \$22,860  | \$1,170,720        | 3.88                                      | % |
| <b>Investment activities:</b>                                      |                                |                       |           |                    |   |   |
| Short-term investments   | 377                            | —                     | 377       | 36,546             | 2.05                                      | % |
| <b>Mortgage-backed securities:</b>                                 |                                |                       |           |                    |   |   |
| Agency   | 4,709                          | (581 )                | 4,128     | 289,627            | 2.83                                      | % |
| Non-Agency prime jumbo   | 1,497                          | (157 )                | 1,340     | 87,030             | 3.06                                      | % |
|  | 6,206                          | (738 )                | 5,468     | 376,657            | 2.89                                      | % |
| <b>Mortgage loans:</b>   |                                |                       |           |                    |   |   |
| at fair value  | 52,228                         | —                     | 52,228    | 1,925,605          | 5.39                                      | % |
| at fair value held by variable interest entity                     | 8,386                          | 2,094                 | 10,480    | 446,013            | 4.67                                      | % |
|  | 60,614                         | 2,094                 | 62,708    | 2,371,618          | 5.26                                      | % |
| ESS from PFSI  | 12,728                         | —                     | 12,728    | 348,669            | 7.26                                      | % |
| Total investment activities  | 79,925                         | 1,356                 | 81,281    | 3,133,490          | 5.16                                      | % |
| Other  | 1,991                          | —                     | 1,991     | —                  |   |   |
|  | \$104,776                      | \$1,356               | \$106,132 | \$4,304,210        | 4.90                                      | % |
| <b>Liabilities:</b>  |                                |                       |           |                    |   |   |
| Assets sold under agreements to repurchase                         | \$38,185                       | \$4,283               | \$42,468  | \$3,033,038        | 2.78                                      | % |
| Mortgage loan participation and sale agreements                    | 593                            | 68                    | 661       | 69,649             | 1.89                                      | % |
| Federal Home Loan Bank advances                                    | 122                            | —                     | 122       | 49,019             | 0.50                                      | % |
| Notes payable  | 4,722                          | 1,612                 | 6,334     | 200,973            | 6.27                                      | % |
| Asset-backed financings of a VIE at fair value                     | 5,494                          | (536 )                | 4,958     | 325,112            | 3.03                                      | % |
| Exchangeable Notes   | 6,719                          | 509                   | 7,228     | 250,000            | 5.75                                      | % |
| Note payable to PFSI   | 3,160                          | 664                   | 3,824     | 150,000            | 5.07                                      | % |
|  | 58,995                         | 6,600                 | 65,595    | 4,077,791          | 3.20                                      | % |
| <b>Interest shortfall on repayments of mortgage loans serviced</b> |                                |                       |           |                    |   |   |
| for Agency securitizations   | 2,561                          | —                     | 2,561     | —                  |   |   |
| Interest on mortgage loan impound deposits                         | 441                            | —                     | 441       | —                  |   |   |
|  | 61,997                         | 6,600                 | 68,597    | 4,077,791          | 3.35                                      | % |
| Net interest income  | \$42,779                       | \$ (5,244 )           | \$37,535  |                    |   |   |
| Net interest margin  |                                |                       |           |                    | 1.73                                      | % |
| Net interest spread  |                                |                       |           |                    | 1.56                                      | % |

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

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|   | Six months ended June 30, 2015 |             |                 |             | Annualized interest yield/cost % |   |  |
|---|--------------------------------|-------------|-----------------|-------------|----------------------------------|---|--|
|   | Interest income/expense        |             | Average balance | Discount/   |                                  |   |  |
|   | Coupon                         | fees (1)    |                 | Total       |                                  |   |  |
|   | (dollars in thousands)         |             |                 |             |                                  |   |  |
| <b>Assets:</b>  |                                |             |                 |             |                                  |   |  |
| Correspondent production:                                   |                                |             |                 |             |                                  |   |  |
| Mortgage loans acquired for sale at fair value              | \$17,416                       | \$ —        | \$17,416        | \$887,660   | 3.90                             | % |  |
| Investment activities:                                      |                                |             |                 |             |                                  |   |  |
| Short-term investments                                      | 302                            | —           | 302             | 67,961      | 0.88                             | % |  |
| Mortgage-backed securities:                                 |                                |             |                 |             |                                  |   |  |
| Agency  | 3,161                          | 58          | 3,219           | 190,207     | 3.37                             | % |  |
| Non-Agency prime jumbo                                      | 1,915                          | 5           | 1,920           | 115,204     | 3.31                             | % |  |
|   | 5,076                          | 63          | 5,139           | 305,411     | 3.35                             | % |  |
| Mortgage loans:   |                                |             |                 |             |                                  |   |  |
| at fair value   | 43,725                         | —           | 43,725          | 2,303,080   | 3.78                             | % |  |
| at fair value held by variable interest entity              | 9,663                          | 179         | 9,842           | 514,879     | 3.80                             | % |  |
|   | 53,388                         | 179         | 53,567          | 2,817,959   | 3.78                             | % |  |
| ESS from PFSI   | 9,570                          | —           | 9,570           | 255,899     | 7.44                             | % |  |
| Total investment activities                                 | 68,336                         | 242         | 68,578          | 3,447,230   | 3.96                             | % |  |
| Other   | 24                             | —           | 24              | —           |                                  |   |  |
|   | \$85,776                       | \$ 242      | \$86,018        | \$4,334,890 | 3.95                             | % |  |
| <b>Liabilities:</b>   |                                |             |                 |             |                                  |   |  |
| Assets sold under agreements to repurchase                  | \$34,653                       | \$ 4,467    | \$39,120        | \$3,061,346 | 2.54                             | % |  |
| Mortgage loan participation and sale agreements             | 374                            | 99          | 473             | 52,001      | 1.81                             | % |  |
| Federal Home Loan Bank advances                             | 2                              | —           | 2               | 577         | 0.69                             | % |  |
| Notes payable   | 641                            | 353         | 994             | 52,981      | 3.73                             | % |  |
| Asset-backed financings of VIEs at fair value               | 3,876                          | 121         | 3,997           | 162,361     | 4.90                             | % |  |
| Exchangeable Notes  | 6,718                          | 480         | 7,198           | 250,000     | 5.73                             | % |  |
| Note payable to PFSI  | —                              | 533         | 533             | —           |                                  |   |  |
|   | 46,264                         | 6,053       | 52,317          | 3,579,266   | 2.91                             | % |  |
| Interest shortfall on repayments of mortgage loans serviced |                                |             |                 |             |                                  |   |  |
| for Agency securitizations                                  | 2,464                          | —           | 2,464           | —           |                                  |   |  |
| Interest on mortgage loan impound deposits                  | 704                            | —           | 704             | —           |                                  |   |  |
|   | 49,432                         | 6,053       | 55,485          | 3,579,266   | 3.08                             | % |  |
| Net interest income   | \$36,344                       | \$ (5,811 ) | \$30,533        |             |                                  |   |  |
| Net interest margin   |                                |             |                 |             | 1.40                             | % |  |
| Net interest spread   |                                |             |                 |             | 0.86                             | % |  |

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

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

|   | Quarter ended June 30,<br>2016 |         |                 | Six months ended June 30,<br>2016 |         |                 |
|---|--------------------------------|---------|-----------------|-----------------------------------|---------|-----------------|
|   | vs.                            |         |                 | vs.                               |         |                 |
|   | Quarter ended June 30,<br>2015 |         |                 | Six months ended June 30,<br>2015 |         |                 |
|   | Increase (decrease)            |         |                 | Increase (decrease)               |         |                 |
|   | due to changes in              |         |                 | due to changes in                 |         |                 |
|   | Rate                           | Volume  | Total<br>change | Rate                              | Volume  | Total<br>change |
|   | (in thousands)                 |         |                 |                                   |         |                 |
| <b>Assets:</b>  |                                |         |                 |                                   |         |                 |
| <b>Correspondent production:</b>                            |                                |         |                 |                                   |         |                 |
| Mortgage loans acquired for sale at fair value              | \$(772 )                       | \$4,053 | \$3,281         | \$(178 )                          | \$5,622 | \$5,444         |
| <b>Investment activities:</b>                               |                                |         |                 |                                   |         |                 |
| Short-term investments                                      | —                              | (82 )   | (82 )           | 313                               | (238 )  | 75              |
| <b>Mortgage -backed securities:</b>                         |                                |         |                 |                                   |         |                 |
| Agency  | (417 )                         | 1,112   | 695             | (587 )                            | 1,496   | 909             |
| Non-Agency prime jumbo                                      | (159 )                         | (285 )  | (444 )          | (145 )                            | (435 )  | (580 )          |
|   | (576 )                         | 827     | 251             | (732 )                            | 1,061   | 329             |
| <b>Mortgage loans:</b>                                      |                                |         |                 |                                   |         |                 |
| at fair value   | 6,386                          | (5,515) | 871             | 16,491                            | (7,988) | 8,503           |
| at fair value held by variable interest entity              | 1,162                          | (640 )  | 522             | 2,052                             | (1,414) | 638             |
| Total mortgage loans  | 7,548                          | (6,155) | 1,393           | 18,543                            | (9,402) | 9,141           |
| ESS from PFSI   | (224 )                         | 119     | (105 )          | (285 )                            | 3,443   | 3,158           |
| Total investment activities                                 | 6,748                          | (5,291) | 1,457           | 17,839                            | (5,136) | 12,703          |
| Other   | —                              | 1,695   | 1,695           | —                                 | 1,967   | 1,967           |
|   | 5,976                          | 457     | 6,433           | 17,661                            | 2,453   | 20,114          |
| <b>Liabilities:</b>   |                                |         |                 |                                   |         |                 |
| Assets sold under agreements to repurchase                  | 1,217                          | 631     | 1,848           | 3,695                             | (347 )  | 3,348           |
| Mortgage loan participation and sale agreement              | 19                             | 48      | 67              | 19                                | 169     | 188             |
| FHLB advances   | —                              | (2 )    | (2 )            | (1 )                              | 121     | 120             |
| <b>Asset backed secured financing of VIEs at fair value</b> |                                |         |                 |                                   |         |                 |
|   | 520                            | 672     | 1,192           | (476 )                            | 1,437   | 961             |
| Exchangeable Notes  | 15                             | —       | 15              | 30                                | —       | 30              |
| Notes payable   | 915                            | 1,082   | 1,997           | 1,034                             | 4,306   | 5,340           |
| Note payable to PFSI  | —                              | 1,689   | 1,689           | —                                 | 3,291   | 3,291           |
|   | 2,686                          | 4,120   | 6,806           | 4,301                             | 8,977   | 13,278          |
| <b>Interest shortfall on repayments of mortgage loans</b>   |                                |         |                 |                                   |         |                 |
| serviced for Agency securitizations                         | —                              | 298     | 298             | —                                 | 97      | 97              |
| Interest on mortgage loan impound deposits                  | —                              | (250 )  | (250 )          | —                                 | (263 )  | (263 )          |
|   | 2,686                          | 4,168   | 6,854           | 4,301                             | 8,811   | 13,112          |

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|                     |         |           |          |          |           |         |
|---------------------|---------|-----------|----------|----------|-----------|---------|
| Net interest income | \$3,290 | \$(3,711) | \$(421 ) | \$13,360 | \$(6,358) | \$7,002 |
|---------------------|---------|-----------|----------|----------|-----------|---------|

During the quarter and six months ended June 30, 2016, we earned net interest income of \$15.2 million and \$37.5 million, respectively, as compared to \$15.6 million and \$30.5 million for the quarter and six months ended June 30, 2015, respectively. The decrease in net interest income between quarters was due to a modest decrease in average interest earning assets, partially offset by an increase in the yield of mortgage loans at fair value. The increase in net interest income for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015 was primarily due to an increase in capitalized interest pursuant to mortgage loan modifications.

During the quarter and six months ended June 30, 2016, we recognized interest income on mortgage loans at fair value and mortgage loans at fair value held by VIEs totaling \$28.0 million and \$62.7 million, respectively, including \$16.4 million and \$39.7 million of interest capitalized pursuant to loan modifications, which compares to \$26.6 million and \$53.6 million, including \$9.9 million and \$20.1 million of interest capitalized pursuant to loan modifications in the quarter and six months ended June 30, 2015, respectively. The increase in interest income was primarily the result of an increase in yields on our mortgage loans at fair value from 3.76% and 3.78% during the quarter and six months ended June 30, 2015 to 4.97% and 5.26% during the quarter and six months ended June 30, 2016, respectively, which was mostly due to an increase in interest capitalized from mortgage loan modifications. Capitalized interest contributed 2.95% and 3.38% to our interest yield on mortgage loans at fair value during the quarter and six months ended June 30, 2016, as compared to 1.42% and 1.44% during the quarter and six months ended June 30, 2015, respectively.

At June 30, 2016, approximately 59% of the fair value of our distressed mortgage loan portfolio was nonperforming, as compared to 66% at June 30, 2015. We do not accrue interest on nonperforming mortgage loans and generally do not recognize revenues during the period we hold REO. We calculate the yield on our mortgage loan portfolio based on the portfolio's average fair value, which most closely reflects our investment in the mortgage loans. Accordingly, the yield we realize is substantially higher than would be recorded based on the mortgage loans' UPBs and performance status as we generally have purchased our distressed mortgage loans at substantial discounts to their UPB.

Nonperforming mortgage loans and REO generally take longer than performing mortgage loans to generate cash flow due to the time required to work with borrowers to resolve payment issues through our modification programs, and to acquire and liquidate the property securing the mortgage loans. The value and returns we realize from these assets are determined by our ability to assist borrowers in curing defaults, or when curing of borrower defaults is not a viable solution, by our ability to effectively manage the liquidation process. As a participant in the Home Affordable Modification Program ("HAMP") of the U.S. Department of the Treasury and HUD, we are required to comply with the process specified by the HAMP program before liquidating a mortgage loan, and this may extend the resolution process. At June 30, 2016, we held \$952.1 million in fair value of nonperforming mortgage loans and \$299.5 million in carrying value of REO, as compared to \$1.2 billion in fair value of nonperforming mortgage loans and \$341.8 million in carrying value of REO at December 31, 2015.

During the quarter and six months ended June 30, 2016, we incurred interest expense totaling \$36.6 million and \$68.6 million, respectively, as compared to \$29.7 million and \$55.5 million during the quarter and six months ended June 30, 2015, respectively. Our interest cost on interest bearing liabilities was 3.23% and 3.20% for the quarter and six months ended June 30, 2016 and 2.96% and 2.91% for the quarter and six months ended June 30, 2015, respectively. The increase in interest expense reflects higher borrowing costs associated with funding investments in MSR and ESS in the quarter and six months ended June 30, 2016, as compared to the quarter and six months ended June 30, 2015.

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Net Gain on Mortgage Loans Acquired for Sale

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

|  | Quarter ended June 30, |              | Six months ended |             |
|--|------------------------|--------------|------------------|-------------|
|  | 2016                   | 2015         | June 30,         | 2015        |
|  | (in thousands)         |              |                  |             |
| <b>Cash loss:</b>                                |                        |              |                  |             |
| Mortgage loans                                   | \$(18,461 )            | \$ (51,218 ) | \$(21,480 )      | \$(58,762 ) |
| Hedging activities                               | (29,118 )              | 18,713       | (61,694 )        | 6,186       |
|  | (47,579 )              | (32,505 )    | (83,174 )        | (52,576 )   |
| <b>Non cash gain:</b>                            |                        |              |                  |             |
| Receipt of MSR in mortgage loan sale             |                        |              |                  |             |
| transactions                                     | 60,109                 | 32,176       | 96,271           | 59,636      |
| Provision for losses relating to representations |                        |              |                  |             |
| and warranties provided in mortgage loan         |                        |              |                  |             |
| sales  |                        |              |                  |             |
| Pursuant to mortgage loan sales                  | (650 )                 | (1,419 )     | (1,221 )         | (2,344 )    |
| Adjustment to previously recorded amount         |                        |              |                  |             |
| due to change in estimate                        | —                      | —            | 1,724            | —           |
| Change in fair value during the period of        |                        |              |                  |             |
| financial instruments held at period end:        |                        |              |                  |             |
| IRLCs  | 7,423                  | (8,481 )     | 12,111           | (5,927 )    |
| Mortgage loans                                   | 5,015                  | 14,551       | 11,752           | 18,277      |
| Hedging derivatives                              | (92 )                  | 6,853        | 1,812            | 4,269       |
|  | 12,346                 | 12,923       | 25,675           | 16,619      |
|  | \$24,226               | \$ 11,175    | \$39,275         | \$21,335    |
| Purchases of mortgage loans acquired for sale to |                        |              |                  |             |
| nonaffiliates:                                   |                        |              |                  |             |
| At fair value                                    | \$5,356,013            | \$ 3,693,398 | \$8,729,745      | \$6,681,133 |
| UPB  | \$5,174,019            | \$ 3,579,078 | \$8,433,382      | \$6,469,209 |

|  | June 30,       | December 31, 2015 |
|--|----------------|-------------------|
|  | 2016           |                   |
|  | (in thousands) |                   |
| <b>Fair value of mortgage loans acquired for sale held</b> |                |                   |
| at period end:   |                |                   |
| Conventional mortgage loans                                | \$824,336      | \$ 595,560        |
| Government-insured or guaranteed                           | 619,008        | 669,288           |



|  |             |              |
|--|-------------|--------------|
| mortgage loans acquired for sale to PFSI |             |              |
| Commercial mortgage loans                | 12,132      | 14,590       |
| Mortgage loans repurchased pursuant to   |             |              |
| representations and warranties           | 5,553       | 4,357        |
|  | \$1,461,029 | \$ 1,283,795 |

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

The increase in gain on mortgage loans acquired for sale during the quarter and six months ended June 30, 2016, as compared to the same periods in 2015 was due to an increase in mortgage loan volume and higher margins, both of which were driven by an increased market size and larger customer base.

#### Provision for Losses on Representations and Warranties

We provide for our estimate of the future losses that we may be required to incur as a result of our breach of representations and warranties to the purchasers. Our agreements with the purchasers include representations and warranties related to the mortgage loans we sell. The representations and warranties require adherence to purchaser and issuer origination and underwriting guidelines,

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including but not limited to the validity of the lien securing the mortgage loan, property eligibility, borrower credit, income and asset requirements, and compliance with applicable federal, state and local law.

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

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

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

|  | Quarter ended June 30,  |         | Six months     |                |
|--|-------------------------|---------|----------------|----------------|
|  | 2016                    | 2015    | ended June 30, | ended June 30, |
|  | (in thousands)          |         | 2016           | 2015           |
|  | (UPB of mortgage loans) |         |                |                |
| <b>Indemnification activity:</b>                   |                         |         |                |                |
| Mortgage loans indemnified by PMT at beginning     |                         |         |                |                |
| of period  | \$5,239                 | \$4,008 | \$5,566        | \$3,644        |
| New indemnifications                               | —                       | 1,582   | —              | 1,946          |
| Less:  |                         |         |                |                |
| Indemnified mortgage loans repurchased             | —                       | —       | —              | —              |
| Indemnified mortgage loans repaid or refinanced    | —                       | 199     | 327            | 199            |
| Mortgage loans indemnified by PMT at end of period | \$5,239                 | \$5,391 | \$5,239        | \$5,391        |
| Deposits received from correspondent lenders       |                         |         |                |                |
| collateralizing prospective indemnification losses | \$645                   | \$972   | \$645          | \$972          |
| <b>Repurchase activity:</b>                        |                         |         |                |                |
| Total UPB of mortgage loans repurchased by         |                         |         |                |                |
| PMT  | \$2,808                 | \$5,264 | \$6,350        | \$13,096       |
| Less:  |                         |         |                |                |
| UPB of mortgage loans repurchased by               |                         |         |                |                |
| correspondent lenders                              | 3,561                   | 5,986   | 3,269          | 11,084         |
| UPB of mortgage loans repaid by borrowers          | 19                      | —       | 1,678          | —              |
| UPB of mortgage loans repurchased by PMT           |                         |         |                |                |
| with losses chargeable to liability for            |                         |         |                |                |
| representations and warranties                     | \$(772)                 | \$(722) | \$1,403        | \$2,012        |
| Net losses (recoveries) charged (credited) to      | \$104                   | \$84    | \$410          | \$(128)        |

|  |              |              |
|--|--------------|--------------|
| liability for representations and warranties     |              |              |
| At end of period:                                |              |              |
| UPB of mortgage loans subject to representations |              |              |
| and warranties                                   | \$46,339,653 | \$37,431,575 |
| Liability for representations and warranties     | \$19,258     | \$16,714     |

During the quarter and six months ended June 30, 2016, we repurchased mortgage loans with UPBs totaling \$2.8 million and \$6.4 million and recorded net losses charged to the liability for representations and warranties of \$104,000 and \$410,000, respectively, as compared to repurchases of \$5.3 million and \$13.1 million and net losses of \$84,000 and net recoveries of \$128,000 during the same periods in 2015. The losses we have recorded to date have been moderated by our ability to in turn recover most of the losses inherent in the repurchased mortgage loans from the selling correspondent lenders. As the outstanding balance of mortgage loans we purchase and sell subject to representations and warranties increases and the mortgage loans sold season, we expect the level of repurchase activity and associated losses to increase.

The level of the liability for representations and warranties is difficult to estimate and requires considerable judgment. The level of mortgage loan repurchase losses is dependent on economic factors, investor loss mitigation strategies, our ability to recover any

losses inherent in the repurchased mortgage loan from the selling correspondent lender and other external conditions that may change over the lives of the underlying mortgage loans. We may be required to incur losses related to such representations and warranties for several quarters after the mortgage loans are sold or liquidated.

As economic fundamentals change, and as investor and Agency evaluations of their loss mitigation strategies (including claims under representations and warranties) change and as economic conditions affect our correspondent lenders' ability or willingness to fulfill their recourse obligations to us, the level of repurchase activity and ensuing losses will change, and we may be required to record adjustments to our recorded liability for losses on representations and warranties which may be material to our financial condition and results of operations. Such adjustments are included as a component of our Net gains on mortgage loans acquired for sale at fair value. We recorded a \$1.7 million reduction to previously recorded liabilities for representations and warranties during the six months ended June 30, 2016 due to our experience with the class of mortgages subject to the adjustment.

#### Loan Origination Fees

Loan origination fees represent fees we charge correspondent lenders relating to our purchase of mortgage loans from those lenders. The increase in fees during the quarter and six months ended June 30, 2016, as compared to the same periods in 2015 is reflective of the increase in the volume of mortgage loans we purchased during the quarter and six months ended June 30, 2016, as compared to the same periods in 2015.

#### Net (Loss) Gain on Investments

Net (loss) gain on investments is summarized below:

|  | Quarter ended<br>June 30,<br>2016 |            | Six months ended<br>June 30,<br>2015 |            |
|--|-----------------------------------|------------|--------------------------------------|------------|
|  | 2015                              | 2016       | 2015                                 | 2016       |
|  | (in thousands)                    |            |                                      |            |
| Net (loss) gain on investments:                |                                   |            |                                      |            |
| From non-affiliates:                           |                                   |            |                                      |            |
| Mortgage-backed securities                     | \$4,332                           | \$(6,702 ) | \$9,431                              | \$(5,186 ) |
| Mortgage loans at fair value                   | (13,463)                          | 30,068     | 932                                  | 47,254     |
| Mortgage loans held in a VIE                   | (48 )                             | (12,077)   | 8,347                                | (10,277)   |
| CRT Agreements                                 | 7,764                             | —          | 3,621                                | —          |
| Asset-backed financings of a VIE at fair value | 890                               | 3,991      | (8,963 )                             | 3,222      |
| Hedging derivatives                            | 862                               | (1,255 )   | 698                                  | (11,294)   |
|  | 337                               | 14,025     | 14,066                               | 23,719     |
| From PFSI—ESS                                  | (15,824)                          | 8,589      | (33,451)                             | 2,342      |
|  | \$(15,487)                        | \$22,614   | \$(19,385)                           | \$26,061   |

The decrease in net gain on investments during the quarter and six months ended June 30, 2016, as compared to the same periods in 2015, was caused by losses in our interest rate sensitive investments, primarily our ESS, due to the effect of decreasing mortgage interest rates during the first half of 2016; and losses in our credit-sensitive investments, primarily our mortgage loans at fair value, which reflects the reduced cash flow expectations relating to certain of our nonperforming loans during the quarter and six months ended June 30, 2016, as compared to the same periods in 2015. The reduced cash flow expectations largely result from expectations for longer liquidation periods with the attendant increased collection costs during the collection period and a reduced present value of the expected liquidation proceeds as well as lower expected home price appreciation for certain mortgage loans. These reduced

gains were partially offset by gains in our MBS from the effect of decreasing interest rates during the first half of 2016, reduced hedging costs during the quarter and six months ended June 30, 2016, as compared to the same periods in 2015, and gains from our CRT Agreements.

#### Mortgage-Backed Securities

During the quarter and six months ended June 30, 2016, we recognized net valuation gains on MBS of \$4.3 million and \$9.4 million, respectively, as compared to net valuation losses of \$6.7 million and \$5.2 million for the quarter and six months ended June 30, 2015, respectively. The gains we recorded reflect the effects of decreasing mortgage interest rates during the first half of 2016, which favorably impacts the fair value of our investment in MBS.

## ESS Purchased from PFSI

We recognized fair value losses relating to our investment in ESS totaling \$15.8 million and \$33.5 million for the quarter and six months ended June 30, 2016, respectively, as compared to fair value gains of \$8.6 million and \$2.3 million for the quarter and six months ended June 30, 2015, respectively. Mortgage interest rates declined during the first half of 2016 causing our estimate of future prepayments to increase as compared to the same periods in 2015, resulting in a decrease in fair value. The effect of this decrease in fair value was compounded by growth in our investment in ESS as our average investment in ESS increased from \$311.6 million and \$255.9 million for the quarter and six months ended June 30, 2015, respectively, to \$318.1 million and \$348.3 million for the quarter and six months ended June 30, 2016.

## Mortgage Loans at Fair Value – Distressed Mortgage Loans

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

|  | Quarter ended June 30, |             | Six months ended |             |
|--|------------------------|-------------|------------------|-------------|
|  | 2016                   | 2015        | 2016             | 2015        |
|  | (in thousands)         |             |                  |             |
| <b>Valuation changes:</b>                                      |                        |             |                  |             |
| Performing loans   | \$(8,356 )             | \$3,308     | \$(3,472 )       | \$16,068    |
| Nonperforming loans  | (5,919 )               | 23,867      | 2,044            | 26,534      |
|  | (14,275 )              | 27,175      | (1,428 )         | 42,602      |
| Gain on payoffs  | 1,208                  | 2,628       | 2,757            | 4,671       |
| (Loss) gain on sales   | (396 )                 | 265         | (397 )           | (19 )       |
|  | \$(13,463 )            | \$30,068    | \$932            | \$47,254    |
| Average portfolio balance                                      | \$1,791,429            | \$2,295,807 | \$1,925,605      | \$2,303,080 |
| <b>Number of mortgage loans relating to gain recognized on</b> |                        |             |                  |             |
| payoffs  | 138                    | 331         | 244              | 482         |
| <b>UPB of mortgage loans relating to gain recognized on</b>    |                        |             |                  |             |
| payoffs  | \$43,645               | \$70,677    | \$69,918         | \$120,565   |
| <b>Number of mortgage loans relating to loss recognized on</b> |                        |             |                  |             |
| sales  | 1,552                  | 8           | 1,552            | 39          |
| UPB of mortgage loans relating to loss recognized on sales     | \$419,435              | \$1,005     | \$418,935        | \$3,154     |

Because we have elected to record our mortgage loans at fair value, a substantial portion of the income we record with respect to such mortgage loans results from changes in fair value. Valuation changes amounted to losses of \$14.3 million and \$1.4 million in the quarter and six months ended June 30, 2016, respectively, as compared to gains of \$27.2 million and \$42.6 million for the same periods in 2015. Cash is generated when mortgage loans are monetized through payoffs or sales, when payments of principal and interest occur on such loans, generally after they are modified, or when the property securing a mortgage loan that has been settled through acquisition of the property has been sold.

The valuation changes on performing mortgage loans reflect the effects of capitalization of delinquent interest on loans we modify. When we capitalize interest in a loan modification, we increase the carrying value of the mortgage

loan, and the interest income we recognize is offset by a valuation loss of corresponding magnitude. Changes in other inputs may result in further valuation changes to the mortgage loan, and subsequent performance of a modified mortgage loan will impact its future value. During the quarter and six months ended June 30, 2016, we capitalized interest totaling \$16.4 million and \$39.7 million, respectively, as compared to \$9.9 million and \$20.1 million for the quarter and six months ended June 30, 2015.

During the quarter and six months ended June 30, 2016, our gains from performing mortgage loans decreased as significantly more interest was capitalized as compared to the same periods in 2015, resulting in reduced gains on such mortgage loans. Implementing long-term, sustainable loan modification is one means by which we endeavor to increase the fair value of the distressed mortgage loans which we have typically purchased at discounts to their UPB.

Gains on nonperforming mortgage loans decreased during the quarter and six months ended June 30, 2016 as compared to the same periods in 2015 as our expectations of future cash flows relating to certain of these mortgage loans decreased due to our expectations of longer liquidation periods and related ongoing collection and carrying costs than originally anticipated.

We recognize valuation gains to reflect the commitment price of the mortgage loans subject to the sale at the time we enter into the commitment to sell such mortgage loans. Therefore, the computation of the valuation gains includes the expected proceeds from

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pending mortgage loan sales at period end and the gain recognized on sale of mortgage loans reflects the difference between proceeds from sale of the mortgage loans and the commitment price of sale.

There can be no assurance that sale of mortgage loans at fair value will continue to be a reliable means of liquidating reperforming mortgage assets in the future. We continue to monitor and explore the market for mortgage loan sales or securitizations backed by reperforming and modified mortgage loans as a means of recovering our investment in such mortgage loans.

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

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

The following tables present a summary of mortgage loan modifications completed:

| Modification type (1)               | Quarter ended June 30,<br>2016           |   | 2015                                     |   | Six months ended June 30,<br>2016        |   | 2015                                     |   |
|-------------------------------------|--|---|--|---|--|---|--|---|
|                                     | Number<br>of<br>of<br>loans<br>loans (2) | Balance<br>of<br>of<br>loans<br>loans (2) | Number<br>of<br>of<br>loans<br>loans (2) | Balance<br>of<br>of<br>loans<br>loans (2) | Number<br>of<br>of<br>loans<br>loans (2) | Balance<br>of<br>of<br>loans<br>loans (2) | Number<br>of<br>of<br>loans<br>loans (2) | Balance<br>of<br>of<br>loans<br>loans (2) |
| Rate reduction                      | 174                                      | \$46,869                                  | 129                                      | \$33,588                                  | 393                                      | \$103,798                                 | 278                                      | \$67,266                                  |
| Term extension                      | 271                                      | \$73,484                                  | 168                                      | \$42,791                                  | 606                                      | \$166,274                                 | 337                                      | \$83,475                                  |
| Capitalization of interest and fees | 295                                      | \$80,237                                  | 208                                      | \$54,733                                  | 647                                      | \$177,967                                 | 404                                      | \$100,986                                 |
| Principal forbearance               | 101                                      | \$28,100                                  | 52                                       | \$16,484                                  | 192                                      | \$56,995                                  | 96                                       | \$29,629                                  |
| Principal reduction                 | 177                                      | \$52,021                                  | 100                                      | \$25,854                                  | 386                                      | \$112,830                                 | 198                                      | \$49,545                                  |
| Total (1)                           | 295                                      | \$80,237                                  | 208                                      | \$54,733                                  | 647                                      | \$177,967                                 | 404                                      | \$100,986                                 |
| Defaults of mortgage loans          |  |   |  |   |  |   |  |   |
| modified in the prior year period   |  | \$2,469                                   |  | \$4,611                                   |  | \$7,236                                   |  | \$17,849                                  |
| As a percentage of balance of       |  |   |  |   |  |   |  |   |
| loans before modification           | 6  | %   | 4  | %   | 14                                       | %   | 9  | %   |
| Defaults during the period of       |  | \$14,675                                  |  | \$12,216                                  |  | \$51,363                                  |  | \$48,632                                  |
| mortgage loans modified since       |  |   |  |   |  |   |  |   |



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| acquisitions (3)                 |       |   |         |   |          |   |         |   |
|----------------------------------|-------|---|---------|---|----------|---|---------|---|
| As a percentage of balance of    |       |   |         |   |          |   |         |   |
| loans before modification        | 4     | % | 3       | % | 15       | % | 10      | % |
| Repayments and sales of mortgage |       |   |         |   |          |   |         |   |
| loans modified in the            |       |   |         |   |          |   |         |   |
| prior year period                | \$417 |   | \$1,467 |   | \$25,643 |   | \$2,907 |   |
| As a percentage of balance of    |       |   |         |   |          |   |         |   |
| loans before modification        | 1     | % | 1       | % | 26       | % | 1       | % |

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

(2) Before modification.

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

73

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

| Category                   | Quarter ended June 30,<br>2016                   |                       |                        |                       | Six months ended June 30,<br>2015 |                       |                        |                       |
|----------------------------|--|-----------------------|------------------------|-----------------------|-----------------------------------|-----------------------|------------------------|-----------------------|
|                            | Before<br>modification<br>(dollars in thousands) | After<br>modification | Before<br>modification | After<br>modification | Before<br>modification            | After<br>modification | Before<br>modification | After<br>modification |
| Loan balance               | \$272  | \$ 290                | \$263                  | \$ 278                | \$275                             | \$ 293                | \$250                  | \$ 262                |
| Remaining term<br>(months) | 342  | 450                   | 334                    | 426                   | 334                               | 449                   | 326                    | 426                   |
| Interest rate              | 4.62%  | 3.42%                 | 4.94%                  | 3.39%                 | 4.80%                             | 3.60%                 | 5.20%                  | 3.45%                 |
| Forbeared principal        | \$17   | \$ 18                 | \$—                    | \$ 13                 | \$17                              | \$ 18                 | \$—                    | \$ 11                 |

Net Mortgage Loan Servicing Fees

Our correspondent production activity is the primary source of our mortgage loan servicing portfolio. When we sell mortgage loans, we generally enter into a contract to service the mortgage loans and recognize the fair value of such contracts as MSR. Under these contracts, we are required to perform mortgage loan servicing functions in exchange for fees and the right to other compensation. The servicing functions, which are performed on our behalf by PLS, typically include, among other responsibilities, collecting and remitting mortgage loan payments; responding to borrower inquiries; accounting for principal and interest, holding custodial (impound) funds for payment of property taxes and insurance premiums; counseling delinquent mortgagors; and supervising foreclosures and property dispositions.

Net loan servicing fees are summarized below:

|   | Quarter ended June 30,<br>2016 |              | Six months ended June 30,<br>2015 |              |
|---|--------------------------------|--------------|-----------------------------------|--------------|
|   | 2016                           | 2015         | 2016                              | 2015         |
|   | (in thousands)                 |              |                                   |              |
| Servicing fees (1)                                | \$31,578                       | \$25,887     | \$60,450                          | \$48,516     |
| MSR recapture fee from PFSI                       | 311                            | —            | 440                               | —            |
| Effect of MSRs:                                   |                                |              |                                   |              |
| Carried at lower of amortized cost or fair value: |                                |              |                                   |              |
| Amortization                                      | (15,531 )                      | (9,988 )     | (29,818 )                         | (19,580 )    |
| (Provision for) reversal of impairment            | (23,170 )                      | 7,082        | (40,876 )                         | 703          |
| Gain on sale                                      | 11                             | —            | 11                                | 83           |
| Carried at fair value—change in fair value        | (4,941 )                       | 6,306        | (16,356 )                         | (3,510 )     |
| Gains (losses) on hedging derivatives             | 27,433                         | (16,270 )    | 57,394                            | (5,193 )     |
|   | (16,198 )                      | (12,870 )    | (29,645 )                         | (27,497 )    |
| Net loan servicing fees                           | \$15,691                       | \$13,017     | \$31,245                          | \$21,019     |
| Average servicing portfolio                       | \$45,647,524                   | \$35,742,835 | \$44,531,795                      | \$35,215,677 |

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

Net loan servicing fees increased \$2.7 million, or 21%, and \$10.2 million, or 49%, during the quarter and six months ended June 30, 2016, respectively, as compared to the same periods in 2015. The increase was primarily due to a \$5.7 million, or 22%, and an \$11.9 million, or 25%, increase in servicing fees for the quarter and six months ended June 30, 2016, respectively, as compared to the same periods in 2015, partially offset by a \$3.3 million and \$2.1 million increase in the effect of MSR on net loan servicing fees.

The increase in servicing fees is attributable to a 28% and a 26% increase in the average size of our servicing portfolio measured in UPB for the quarter and six months ended June 30, 2016, respectively, as compared to the same periods in 2015. The increase in the effect of MSR on net loan servicing fees was primarily a result of an increase in amortization and changes in fair value from the realization of cash flows that result from the growth in our average servicing portfolios and an increase in the provision for impairment as a result of the effect of a reduction in interest rates on the expected life of the mortgage loans subject to MSR during the quarter and six months ended June 30, 2016, as compared to the same periods in 2015, partially offset by an increase in gains from hedging derivatives.

We have entered into an MSR recapture agreement that requires PLS to transfer to us the MSR with respect to new mortgage loans originated in refinancing transactions where PLS refinances a mortgage loan for which we previously held the MSR. PLS is generally required to transfer MSR relating to such mortgage loans (or, under certain circumstances, other mortgage loans) that have an aggregate unpaid principal balance that is not less than 30% of the aggregate unpaid principal balance of all the loans so originated. Where the fair value of the aggregate MSR to be transferred for the applicable month is less than \$200,000, PLS may, at its option,

settle in cash with us in an amount equal to such fair market value in place of transferring such MSR. We recognized MSR recapture income during the quarter and six months ended June 30, 2016 of \$311,000 and \$440,000, respectively, and we did not recognize MSR recapture income during the quarter and six months ended June 30, 2015.

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

We have identified two classes of MSRs: originated MSRs backed by mortgage loans with initial interest rates of less than or equal to 4.5% and MSRs backed by mortgage loans with initial interest rates of more than 4.5%. Our accounting for MSRs is based on the class of MSRs. Originated MSRs backed by mortgage loans with initial interest rates of less than or equal to 4.5% are accounted for using the amortization method. Originated MSRs backed by mortgage loans with initial interest rates of more than 4.5% are accounted for at fair value with changes in fair value recorded in current period income.

Our MSRs are summarized by the basis on which we account for the assets as presented below:

|   | June 30,<br>2016 | December 31, 2015 |     |   |
|---|------------------|-------------------|-----|---|
|   | (in thousands)   |                   |     |   |
| MSRs carried at fair value                            | \$57,977         | \$ 66,584         |     |   |
| MSR carried at lower of amortized cost or fair value: |                  |                   |     |   |
| Amortized cost  | \$465,301        | \$ 404,101        |     |   |
| Valuation allowance                                   | (51,820 )        | (10,944 )         |     |   |
| Carrying value  | \$413,481        | \$ 393,157        |     |   |
| Fair value  | \$417,094        | \$ 424,154        |     |   |
| <b>Total MSR:</b>                                     |                  |                   |     |   |
| Carrying value  | \$471,458        | \$ 459,741        |     |   |
| Fair value  | \$475,071        | \$ 490,738        |     |   |
| UPB of mortgage loans underlying MSRs                 | \$47,087,431     | \$ 42,300,338     |     |   |
| <b>Average servicing fee rate (in basis points)</b>   |                  |                   |     |   |
| MSRs carried at lower of amortized cost or fair value | 25               | 26                |     |   |
| MSRs carried at fair value                            | 25               | 25                |     |   |
| <b>Average note interest rate</b>                     |                  |                   |     |   |
| MSRs carried at lower of amortized cost or fair value | 3.9              | %                 | 3.9 | % |
| MSRs carried at fair value                            | 4.7              | %                 | 4.7 | % |

#### Results of Real Estate Acquired in Settlement of Loans

Results of REO includes the gains or losses we record upon sale of the properties as well as valuation adjustments we record during the period we hold those properties. During the quarter and six months ended June 30, 2016, we recorded net losses of \$2.6 million and \$8.6 million, respectively, as compared to \$1.8 million and \$7.6 million for the same periods in 2015, respectively, in Results of real estate acquired in settlement of loans.

Results of REO are summarized below:

|   | Quarter ended          |            | Six months ended |            |
|---|------------------------|------------|------------------|------------|
|   | June 30,               |            | June 30,         |            |
|   | 2016                   | 2015       | 2016             | 2015       |
|   | (dollars in thousands) |            |                  |            |
| During the period:                                      |                        |            |                  |            |
| Proceeds from sales of REO                              | \$70,665               | \$62,121   | \$135,573        | \$128,097  |
| Results of real estate acquired in settlement of loans: |                        |            |                  |            |
| Valuation adjustments, net                              | (7,283 )               | (6,606 )   | (17,928 )        | (18,006 )  |
| Gain on sale, net                                       | 4,718                  | 4,800      | 9,327            | 10,368     |
|   | \$(2,565 )             | \$(1,806 ) | \$(8,601 )       | \$(7,638 ) |
| Number of properties sold                               | 416                    | 359        | 792              | 845        |
| Average carrying value of REO                           | \$309,217              | \$317,324  | \$323,342        | \$314,489  |
| Period end:   |                        |            |                  |            |
| Carrying value  | \$299,458              | \$325,822  |                  |            |
| Number of properties in inventory                       | 1,324                  | 1,681      |                  |            |

## Expenses

Our expenses are summarized below:

|  | Quarter ended  |          | Six months ended |          |
|--|----------------|----------|------------------|----------|
|  | June 30,       |          | June 30,         |          |
|  | 2016           | 2015     | 2016             | 2015     |
|  | (in thousands) |          |                  |          |
| Expenses payable to PFSI:                |                |          |                  |          |
| Mortgage loan fulfillment fees           | \$19,111       | \$15,333 | \$32,046         | \$28,199 |
| Mortgage loan servicing fees             | 16,427         | 12,136   | 27,880           | 22,806   |
| Management fees                          | 5,199          | 5,779    | 10,551           | 12,782   |
| Mortgage loan collection and liquidation | 4,290          | 3,182    | 6,504            | 4,627    |
| Professional services                    | 2,011          | 1,662    | 4,304            | 3,490    |
| Compensation                             | 2,224          | 1,389    | 3,513            | 4,198    |
| Other (1)                                | 6,515          | 5,196    | 12,151           | 10,052   |
|  | \$55,777       | \$44,677 | \$96,949         | \$86,154 |

(1) For the quarter ended June 30, 2015, in accordance with the terms of our management agreement, PCM provided to us a discretionary waiver of \$700,000 of overhead expenses that otherwise would have been allocable to us. On December 15, 2015, the Operating Partnership amended its management agreement to provide that the overhead costs and expenses incurred by PFSI in any quarter and reimbursable by the Operating Partnership is capped at an amount equal to the product of (A) 70 basis points (0.0070), multiplied by (B) our shareholders' equity (as defined in the management agreement) as of the last day of the month preceding quarter end, divided by four.

Expenses increased \$11.1 million, or 25%, and \$10.8 million, or 13%, during the quarter and six months ended June 30, 2016, respectively, as compared to the same periods in 2015, primarily due to higher mortgage loan fulfillment fees from an increase in the volume of Agency-eligible mortgage loans we purchased in our correspondent

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production activities, higher mortgage loan servicing fees reflecting higher activity-based servicing fees relating to mortgage loan sales and liquidations, and higher mortgage loan collection and liquidation expenses from increased litigation and other foreclosure costs on distressed mortgage loans.

### Mortgage Loan Fulfillment Fees

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

|  | Quarter ended June 30, |             | Six months ended |             |
|--|------------------------|-------------|------------------|-------------|
|  | 2016                   | 2015        | June 30,<br>2016 | 2015        |
|  | (dollars in thousands) |             |                  |             |
| Fulfillment fee expense                        | \$19,111               | \$15,333    | \$32,046         | \$28,199    |
| UPB of mortgage loans fulfilled by PLS         | \$5,174,019            | \$3,579,078 | \$8,433,383      | \$6,469,210 |
| Average fulfillment fee rate (in basis points) | 37                     | 43          | 38               | 44          |

76

The increase in loan fulfillment fees of \$3.8 million during the quarter and six months ended June 30, 2016, as compared to the same periods in 2015 is primarily due to an increase in the volume of Agency-eligible mortgage loans we purchased in our correspondent production activities, partially offset by a decrease in the average fulfillment fee rate charged by PFSI due to contractual discretionary reductions in the fulfillment fee by PFSI to facilitate our successful completion of certain mortgage loan sale transactions.

### Mortgage Loan Servicing Fees

Mortgage loan servicing fees increased by \$4.3 million and \$5.1 million during the quarter and six months ended June 30, 2016, respectively, as compared to the same periods in 2015. We incur mortgage loan servicing fees primarily in support of our investment in mortgage loans at fair value and our mortgage loan servicing portfolio. The increase in mortgage loan servicing fees reflects the increase in activity-based fees on distressed mortgage loans of \$5.4 million and \$6.0 million during the quarter and six months ended June 30, 2016, respectively, as compared to the same period in 2015. These increases were partially offset by a decrease in our average investment in distressed mortgage loans at fair value of \$504.4 million and \$377.5 million during the quarter and six months ended June 30, 2016, respectively, as compared to the same period in 2015.

Mortgage loan servicing fees payable to PLS are summarized below:

|  | Quarter ended June 30, |              | Six months ended June 30, |              |
|--|------------------------|--------------|---------------------------|--------------|
|  | 2016                   | 2015         | 2016                      | 2015         |
|  | (in thousands)         |              |                           |              |
| <b>Mortgage loan servicing fees</b>                    |                        |              |                           |              |
| <b>Mortgage loans acquired for sale at fair value:</b> |                        |              |                           |              |
| Base   | \$79                   | \$42         | \$135                     | \$68         |
| Activity-based   | 172                    | 59           | 287                       | 90           |
|  | 251                    | 101          | 422                       | 158          |
| <b>Mortgage loans at fair value:</b>                   |                        |              |                           |              |
| <b>Distressed mortgage loans</b>                       |                        |              |                           |              |
| Base   | 2,908                  | 4,183        | 6,267                     | 8,215        |
| Activity-based   | 8,518                  | 3,093        | 11,967                    | 5,987        |
|  | 11,426                 | 7,276        | 18,234                    | 14,202       |
| <b>Mortgage loans held in VIE</b>                      |                        |              |                           |              |
| Base   | 51                     | 27           | 92                        | 57           |
| Activity-based   | —                      | —            | —                         | —            |
|  | 51                     | 27           | 92                        | 57           |
| <b>MSRs:</b>   |                        |              |                           |              |
| Base   | 4,583                  | 4,627        | 8,927                     | 8,253        |
| Activity-based   | 116                    | 105          | 205                       | 136          |
|  | 4,699                  | 4,732        | 9,132                     | 8,389        |
|  | \$16,427               | \$12,136     | \$27,880                  | \$22,806     |
| <b>Average investment in:</b>                          |                        |              |                           |              |
| Mortgage loans acquired for sale at fair value         | \$1,422,945            | \$1,014,883  | \$1,170,720               | \$887,660    |
| <b>Mortgage loans at fair value:</b>                   |                        |              |                           |              |
| Distressed mortgage loans                              | \$1,791,429            | \$2,295,807  | \$1,925,605               | \$2,303,080  |
| Mortgage loans held in a VIE                           | \$437,542              | \$504,309    | \$446,013                 | \$514,879    |
| Average mortgage loan servicing portfolio              | \$45,647,524           | \$35,742,835 | \$44,531,795              | \$35,215,677 |

Management Fees

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

|                       | Quarter ended  |         | Six months ended |          |
|-----------------------|----------------|---------|------------------|----------|
|                       | June 30,       |         | June 30,         |          |
|                       | 2016           | 2015    | 2016             | 2015     |
|                       | (in thousands) |         |                  |          |
| Base                  | \$5,199        | \$5,709 | \$10,551         | \$11,439 |
| Performance incentive | —              | 70      | —                | 1,343    |
|                       | \$5,199        | \$5,779 | \$10,551         | \$12,782 |

77

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Management fees decreased by \$580,000 and \$2.2 million during the quarter and six months ended June 30, 2016, respectively, as compared to the same periods in 2015, primarily due to the decrease in our shareholders' equity, which is the basis for the calculation of our base management fee, as a result of our share repurchases and dividend distributions.

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

#### Professional Services

Professional service expense increased \$349,000 and \$814,000 during the quarter and six months ended June 30, 2016, respectively, as compared to the same periods in 2015, primarily due to an increase in expenses for audit fees and tax compliance consulting costs.

#### Mortgage loan collection and liquidation

Mortgage loan collection and liquidation expenses increased \$1.1 million and \$1.9 million during the quarter and six months ended June 30, 2016, respectively, as compared to the same periods in 2015, due to increased legal and other foreclosure costs on distressed mortgage loans. As distressed mortgage loans continue to season, we expect to incur increased costs related to the ongoing preservation of our interests in such mortgage loans.

#### Compensation

Compensation expense increased by \$835,000 during the quarter ended June 30, 2016, as compared to the same period in 2015, primarily due to increased share-based compensation expense, reflecting the effects of the grant of awards under our share-based compensation plan during February 2016. Compensation expense decreased \$685,000 during the six months ended June 30, 2016, as compared to the same period in 2015, primarily due to decreased share-based compensation expense, reflecting the effects of our decreasing share price on the portion of our restricted share unit grants that are accounted for using variable accounting.

#### Other Expenses

Other expenses are summarized below:

|  | Quarter ended<br>June 30, |         | Six months ended<br>June 30, |          |
|--|---------------------------|---------|------------------------------|----------|
|  | 2016                      | 2015    | 2016                         | 2015     |
|  | (in thousands)            |         |                              |          |
| Common overhead allocation from PFSI (1) | \$2,434                   | \$2,546 | \$4,996                      | \$4,937  |
| Mortgage loan origination                | 1,557                     | 1,176   | 2,678                        | 2,129    |
| Real estate held for investment          | 930                       | —       | 1,487                        | —        |
| Technology                               | 332                       | 311     | 766                          | 603      |
| Insurance                                | 316                       | 302     | 634                          | 675      |
| Other                                    | 946                       | 861     | 1,590                        | 1,708    |
|  | \$6,515                   | \$5,196 | \$12,151                     | \$10,052 |

(1) For the quarter ended June 30, 2015, in accordance with the terms of our management agreement, PCM provided to us a discretionary waiver of \$700,000 of overhead expenses that otherwise would have been allocable to us. On December 15, 2015, the Operating Partnership amended its management agreement to provide that the overhead costs and expenses incurred by PFSI in any quarter and reimbursable by the Operating Partnership is capped at an amount equal to the product of (A) 70 basis points (0.0070), multiplied by (B) our shareholders' equity (as defined in the management agreement) as of the last day of the month preceding quarter end, divided by four.

Other expenses increased during the quarter and six months ended June 30, 2016, as compared to the same periods in 2015, by \$1.3 million and \$2.1 million, respectively, primarily due to higher expenses incurred in the management of our real estate held for investment and higher loan origination expenses, reflecting increased mortgage loan production volume.

## Income Taxes

We have elected to treat PMC as a taxable REIT subsidiary (“TRS”). Income from a TRS is only included as a component of REIT taxable income to the extent that the TRS makes dividend distributions of income to the REIT. No such dividend distributions have been made to date. A TRS is subject to corporate federal and state income tax. Accordingly, a provision for income taxes for PMC is included in the accompanying consolidated statements of operations.

Our effective tax rate was 35.4% and (219.8)% for the quarter and six months ended June 30, 2016 and (11.9)% and (67.3)% for the quarter and six months ended June 30, 2015, respectively. Our taxable REIT subsidiary recognized tax benefits of \$3.7 million and \$6.1 million on losses of \$9.3 million and \$15.3 million while our consolidated pretax loss was \$8.2 million and pretax income was \$2.9 million for the quarter and six months ended June 30, 2016, respectively. For the same periods in 2015, the taxable REIT subsidiary recognized a tax benefit of \$1.1 million and \$12.9 million on losses of \$2.6 million and \$31.3 million while our reported consolidated pretax income was \$25.1 million and \$21.3 million, respectively. The relative values between the tax benefit at the taxable REIT subsidiary and our consolidated pretax income drive the fluctuation in the effective tax rate. The primary difference between our effective tax rate and the statutory tax rate is due to non-taxable REIT income resulting from the dividends paid deduction.

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

## Balance Sheet Analysis

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

|  | June 30,<br>2016 | December<br>31,<br>2015 |
|--|------------------|-------------------------|
|  | (in thousands)   |                         |
| <b>Assets</b>                                  |                  |                         |
| Cash   | \$95,705         | \$58,108                |
| <b>Investments:</b>                            |                  |                         |
| Short-term investments                         | 16,877           | 41,865                  |
| Mortgage-backed securities                     | 531,612          | 322,473                 |
| Mortgage loans acquired for sale at fair value | 1,461,029        | 1,283,795               |
| Mortgage loans at fair value                   | 2,035,997        | 2,555,788               |
| ESS  | 294,551          | 412,425                 |
| Derivative assets                              | 35,007           | 10,085                  |
| Real estate acquired in settlement of loans    | 299,458          | 341,846                 |
| Real estate held for investment                | 20,662           | 8,796                   |
| MSRs   | 471,458          | 459,741                 |
|  | 5,166,651        | 5,436,814               |
| Deposits securing CRT Agreements               | 338,812          | 147,000                 |
| Other  | 166,394          | 185,002                 |
| Total assets                                   | \$5,767,562      | \$5,826,924             |
| <b>Liabilities</b>                             |                  |                         |
| <b>Borrowings:</b>                             |                  |                         |
| Assets sold under agreements to repurchase and | \$3,372,026      | \$3,128,780             |

|   |             |             |
|---|-------------|-------------|
| mortgage loan participation and               |             |             |
| sale agreement                                |             |             |
| FHLB advances                                 | —           | 183,000     |
| Notes payable                                 | 163,976     | 236,015     |
| Asset-backed financing of a VIE at fair value | 325,939     | 247,690     |
| Exchangeable Notes                            | 245,564     | 245,054     |
| Note payable to PFSI                          | 150,000     | 150,000     |
|   | 4,257,505   | 4,190,539   |
| Other   | 149,230     | 140,272     |
| Total liabilities                             | 4,406,735   | 4,330,811   |
| Shareholders' equity                          | 1,360,827   | 1,496,113   |
| Total liabilities and shareholders' equity    | \$5,767,562 | \$5,826,924 |

Total assets decreased by approximately \$59.4 million, or 1%, during the period from December 31, 2015 through June 30, 2016, primarily due to a \$519.8 million decrease in mortgage loans at fair value, a \$117.9 million decrease in ESS, and a \$42.4 million decrease in REO, partially offset by a \$177.2 million increase in mortgage loans acquired for sale at fair value, a \$209.1 million increase in MBS, a \$191.8 million increase in deposits securing CRT Agreements and a \$12.6 million increase in cash and short-term investments.

#### Asset Acquisitions

Our asset acquisitions are summarized below.

#### Correspondent Production

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

|  | Quarter ended June 30, |              | Six months ended June 30, |              |
|--|------------------------|--------------|---------------------------|--------------|
|  | 2016                   | 2015         | 2016                      | 2015         |
|  | (in thousands)         |              |                           |              |
| Correspondent mortgage loan purchases:                       |                        |              |                           |              |
| Government-insured or guaranteed                             | \$9,956,586            | \$8,761,085  | \$16,732,075              | \$14,139,919 |
| Agency-eligible  | 5,353,197              | 3,666,578    | 8,720,051                 | 6,593,996    |
| Jumbo  | 2,815                  | 26,820       | 9,694                     | 87,137       |
| Commercial mortgage loans                                    | 1,346                  | —            | 6,061                     | —            |
|  | \$15,313,944           | \$12,454,483 | \$25,467,881              | \$20,821,052 |
| UPB of correspondent mortgage loan purchases                 | \$14,608,669           | \$11,895,426 | \$24,295,892              | \$19,895,426 |
| Gain on mortgage loans acquired for sale                     | \$24,226               | \$11,175     | \$39,275                  | \$21,335     |
| Fair value of correspondent loans in inventory at period end |                        |              |                           |              |
| pending sale to:   |                        |              |                           |              |
| PFSI   | \$619,008              | \$830,330    |                           |              |
| Non-affiliates   | 842,021                | 1,383,544    |                           |              |
|  | \$1,461,029            | \$2,213,874  |                           |              |

During the quarter and six months ended June 30, 2016, we purchased for sale \$15.3 billion and \$25.5 billion in fair value of correspondent production loans, respectively, as compared to \$12.5 billion and \$20.8 billion in fair value of correspondent production loans during the quarter and six months ended June 30, 2015, respectively. The increase in correspondent purchases during the quarter and six months ended June 30, 2016, as compared to the same periods in 2015, is a result of a favorable interest rate environment and continued growth in our correspondent production seller network.

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

## Investment Portfolio

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

|  | Quarter ended  |            | Six months ended |            |
|--|----------------|------------|------------------|------------|
|  | June 30,       |            | June 30,         |            |
|  | 2016           | 2015       | 2016             | 2015       |
|  | (in thousands) |            |                  |            |
| MBS  | \$ 199,223     | \$—        | \$ 249,925       | \$ 25,129  |
| Distressed mortgage loans—nonperforming (1)            | —              | —          | —                | 241,981    |
| Deposits of restricted cash relating to CRT Agreements | 126,031        | —          | 192,737          | —          |
| MSRs received in mortgage loan sales                   | 60,109         | 32,176     | 96,271           | 59,636     |
| ESS purchased from PFSI                                | —              | 140,875    | —                | 187,287    |
|  | \$ 385,363     | \$ 173,051 | \$ 538,933       | \$ 514,033 |

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

Our acquisitions during the quarter and six months ended June 30, 2016 and 2015 were financed through the use of a combination of proceeds from liquidations of existing investments and borrowings. We continue to identify additional means of increasing our investment portfolio through cash flow from our business activities, existing investments, borrowings, and transactions that minimize current cash outlays. However, we expect that, over time, our ability to continue our investment activities portfolio growth will depend on our ability to raise additional equity capital.

### Investment Portfolio Composition

#### Mortgage-Backed Securities

Following is a summary of our Agency and non-Agency prime jumbo MBS holdings:

|                   | June 30, 2016                        |            |                            |                         | December 31, 2015 |            |            |                            |                         |              |
|-------------------|--------------------------------------|------------|----------------------------|-------------------------|-------------------|------------|------------|----------------------------|-------------------------|--------------|
|                   | Fair value<br>(dollars in thousands) | Principal  | Average Life<br>(in years) | Weighted Average Coupon | Market yield      | Fair value | Principal  | Average Life<br>(in years) | Weighted Average Coupon | Market yield |
| <b>Agency:</b>    |                                      |            |                            |                         |                   |            |            |                            |                         |              |
| Freddie Mac       | \$ 146,250                           | \$ 138,577 | 4.9                        | 3.5 %                   | 2.1 %             | \$ 154,697 | \$ 150,099 | 7.4                        | 3.5 %                   | 3.0 %        |
| Fannie Mae        | 317,558                              | 300,476    | 4.7                        | 3.5 %                   | 2.1 %             | 70,453     | 68,215     | 7.4                        | 3.5 %                   | 3.0 %        |
|                   | 463,808                              | 439,053    |                            |                         |                   | 225,150    | 218,314    |                            |                         |              |
| <b>Non-Agency</b> |                                      |            |                            |                         |                   |            |            |                            |                         |              |
| prime jumbo       | 67,804                               | 66,183     | 2.6                        | 3.7 %                   | 2.6 %             | 97,323     | 98,337     | 4.9                        | 3.5 %                   | 3.6 %        |
|                   | \$ 531,612                           | \$ 505,236 |                            |                         |                   | \$ 322,473 | \$ 316,651 |                            |                         |              |

#### Distressed Mortgage Loans

The relationship of the fair value of our distressed mortgage loans at fair value to the underlying real estate collateral is summarized below:

|                     | June 30, 2016 |              | December 31, 2015 |              |
|---------------------|---------------|--------------|-------------------|--------------|
|                     | Loan          | Collateral   | Loan              | Collateral   |
| <b>Fair values:</b> |               |              |                   |              |
| Performing loans    | \$ 656,762    | \$ 873,422   | \$ 877,438        | \$ 1,134,560 |
| Nonperforming loans | 952,144       | 1,314,229    | 1,222,956         | 1,702,548    |
|                     | \$ 1,608,906  | \$ 2,187,651 | \$ 2,100,394      | \$ 2,837,108 |

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

disposition process, changes in borrower performance and the underlying collateral values. Ultimate realization in a disposition of these assets will be net of any servicing advances held on the balance sheet in relation to these investments.

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



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

| Loan type              | June 30, 2016    |         |                   |                     |         |                   | December 31, 2015 |         |                   |                     |         |                   |
|------------------------|------------------|---------|-------------------|---------------------|---------|-------------------|-------------------|---------|-------------------|---------------------|---------|-------------------|
|                        | Performing loans |         |                   | Nonperforming loans |         |                   | Performing loans  |         |                   | Nonperforming loans |         |                   |
|                        | Fair value       | % total | Average note rate | Fair value          | % total | Average note rate | Fair value        | % total | Average note rate | Fair value          | % total | Average note rate |
| (dollars in thousands) |                  |         |                   |                     |         |                   |                   |         |                   |                     |         |                   |
| Fixed                  | \$313,064        | 48 %    | 4.17%             | \$360,762           | 38 %    | 5.56%             | \$417,658         | 48 %    | 4.35%             | \$481,325           | 39 %    | 5.62%             |
| ARM/Hybrid             | 109,773          | 17 %    | 3.51%             | 544,029             | 57 %    | 4.87%             | 160,051           | 18 %    | 3.33%             | 696,802             | 57 %    | 4.80%             |
| Interest rate          |                  |         |                   |                     |         |                   |                   |         |                   |                     |         |                   |
| step-up                | 233,925          | 35 %    | 2.47%             | 47,352              | 5 %     | 2.29%             | 299,569           | 34 %    | 2.28%             | 44,829              | 4 %     | 2.25%             |
| Balloon                | —                | —       | —                 | —                   | 0 %     | —                 | 160               | 0 %     | 1.97%             | —                   | 0 %     | 0.00%             |
|                        | \$656,762        | 100%    | 3.43%             | \$952,144           | 100%    | 4.98%             | \$877,438         | 100%    | 3.43%             | \$1,222,956         | 100%    | 5.01%             |

| Lien position          | June 30, 2016    |         |                   |                     |         |                   | December 31, 2015 |         |                   |                     |         |                   |
|------------------------|------------------|---------|-------------------|---------------------|---------|-------------------|-------------------|---------|-------------------|---------------------|---------|-------------------|
|                        | Performing loans |         |                   | Nonperforming loans |         |                   | Performing loans  |         |                   | Nonperforming loans |         |                   |
|                        | Fair value       | % total | Average note rate | Fair value          | % total | Average note rate | Fair value        | % total | Average note rate | Fair value          | % total | Average note rate |
| (dollars in thousands) |                  |         |                   |                     |         |                   |                   |         |                   |                     |         |                   |
| 1st lien               | \$656,000        | 100 %   | 3.42%             | \$952,008           | 100 %   | 4.97%             | \$876,748         | 100%    | 3.43%             | \$1,222,816         | 100%    | 5.01%             |
| 2nd lien               | 762              | 0 %     | 4.08%             | 135                 | 0 %     | 8.56%             | 690               | 0 %     | 4.28%             | 140                 | 0 %     | 8.47%             |
| Unsecured              | —                | 0 %     | 0.00%             | —                   | 0 %     | 0.01%             | —                 | 0 %     | 0.00%             | —                   | 0 %     | 0.00%             |
|                        | \$656,762        | 100%    | 3.43%             | \$952,144           | 100%    | 4.98%             | \$877,438         | 100%    | 3.43%             | \$1,222,956         | 100%    | 5.01%             |

| Occupancy Owner        | June 30, 2016    |         |                   |                     |         |                   | December 31, 2015 |         |                   |                     |         |                   |
|------------------------|------------------|---------|-------------------|---------------------|---------|-------------------|-------------------|---------|-------------------|---------------------|---------|-------------------|
|                        | Performing loans |         |                   | Nonperforming loans |         |                   | Performing loans  |         |                   | Nonperforming loans |         |                   |
|                        | Fair value       | % total | Average note rate | Fair value          | % total | Average note rate | Fair value        | % total | Average note rate | Fair value          | % total | Average note rate |
| (dollars in thousands) |                  |         |                   |                     |         |                   |                   |         |                   |                     |         |                   |
| occupied               | \$515,710        | 79 %    | 3.49%             | \$512,350           | 54 %    | 4.96%             | \$685,801         | 78 %    | 3.49%             | \$666,257           | 55 %    | 4.99%             |
| Investment             |                  |         |                   |                     |         |                   |                   |         |                   |                     |         |                   |
| property               | 139,797          | 21 %    | 3.19%             | 439,108             | 46 %    | 5.00%             | 188,659           | 22 %    | 3.20%             | 555,531             | 45 %    | 5.03%             |
| Other                  | 1,255            | 0 %     | 4.07%             | 686                 | 0 %     | 6.07%             | 2,978             | 0 %     | 4.17%             | 1,168               | 0 %     | 5.69%             |
|                        | \$656,762        | 100%    | 3.43%             | \$952,144           | 100%    | 4.98%             | \$877,438         | 100%    | 3.43%             | \$1,222,956         | 100%    | 5.01%             |

|  | June 30, 2016    |                     |  | December 31, 2015 |                     |  |
|--|------------------|---------------------|--|-------------------|---------------------|--|
|  | Performing loans | Nonperforming loans |  | Performing loans  | Nonperforming loans |  |

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| Loan<br>age                | Average                                 |            |              | Average       |            |              | Average       |            |              | Average       |            |              |
|----------------------------|---|------------|--------------|---------------|------------|--------------|---------------|------------|--------------|---------------|------------|--------------|
|                            | Fair<br>value<br>(dollars in thousands) | %<br>total | note<br>rate | Fair<br>value | %<br>total | note<br>rate | Fair<br>value | %<br>total | note<br>rate | Fair<br>value | %<br>total | note<br>rate |
| Less<br>than 12<br>months  | \$29                                    | 0 %        | 1.98%        | \$—           | 0 %        | 0 %          | \$55          | 0 %        | 3.18%        | \$—           | 0 %        | 0.00%        |
| 12 - 35<br>months          | 21,193                                  | 3 %        | 4.29%        | —             | 0 %        | 1.09%        | 24,331        | 3 %        | 4.24%        | —             | 0 %        | 0.00%        |
| 36 - 59<br>months          | 1,393                                   | 0 %        | 4.08%        | 91            | 0 %        | 3.57%        | 4,131         | 0 %        | 3.22%        | 2,083         | 0 %        | 3.43%        |
| 60<br>months<br>or<br>more | 634,146                                 | 97 %       | 3.40%        | 952,053       | 100 %      | 4.98%        | 848,921       | 97 %       | 3.41%        | 1,220,873     | 100 %      | 5.01%        |
|                            | \$656,762                               | 100 %      | 3.43%        | \$952,144     | 100 %      | 4.98%        | \$877,438     | 100 %      | 3.43%        | \$1,222,956   | 100 %      | 5.01%        |

82

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| Origination<br>FICO score | June 30, 2016    |            |                         |                     |            |                         | December 31, 2015 |            |                         |                     |            |                         |
|---------------------------|------------------|------------|-------------------------|---------------------|------------|-------------------------|-------------------|------------|-------------------------|---------------------|------------|-------------------------|
|                           | Performing loans |            |                         | Nonperforming loans |            |                         | Performing loans  |            |                         | Nonperforming loans |            |                         |
|                           | Fair<br>value    | %<br>total | Average<br>note<br>rate | Fair<br>value       | %<br>total | Average<br>note<br>rate | Fair<br>value     | %<br>total | Average<br>note<br>rate | Fair<br>value       | %<br>total | Average<br>note<br>rate |
| (dollars in thousands)    |                  |            |                         |                     |            |                         |                   |            |                         |                     |            |                         |
| Less than<br>600          | \$158,886        | 24 %       | 3.68 %                  | \$161,616           | 17 %       | 4.87 %                  | \$200,856         | 23 %       | 3.77 %                  | \$203,493           | 17 %       | 5.01 %                  |
| 600-649                   | 129,890          | 20 %       | 3.48 %                  | 178,243             | 19 %       | 4.81 %                  | 158,654           | 18 %       | 3.58 %                  | 237,879             | 19 %       | 4.88 %                  |
| 650-699                   | 164,063          | 25 %       | 3.28 %                  | 293,424             | 31 %       | 5.02 %                  | 216,648           | 25 %       | 3.33 %                  | 370,178             | 30 %       | 5.03 %                  |
| 700-749                   | 144,106          | 22 %       | 3.25 %                  | 237,141             | 25 %       | 5.12 %                  | 210,329           | 24 %       | 3.15 %                  | 301,417             | 25 %       | 5.09 %                  |
| 750 or<br>greater         | 59,817           | 9 %        | 3.43 %                  | 81,720              | 8 %        | 5.04 %                  | 90,951            | 10 %       | 3.24 %                  | 109,989             | 9 %        | 5.06 %                  |
|                           | \$656,762        | 100 %      | 3.43 %                  | \$952,144           | 100 %      | 4.98 %                  | \$877,438         | 100 %      | 3.43 %                  | \$1,222,956         | 100 %      | 5.01 %                  |

| Current<br>loan-to-value<br>(1) | June 30, 2016    |            |                         |                     |            |                         | December 31, 2015 |            |                         |                     |            |                         |
|---------------------------------|------------------|------------|-------------------------|---------------------|------------|-------------------------|-------------------|------------|-------------------------|---------------------|------------|-------------------------|
|                                 | Performing loans |            |                         | Nonperforming loans |            |                         | Performing loans  |            |                         | Nonperforming loans |            |                         |
|                                 | Fair<br>value    | %<br>total | Average<br>note<br>rate | Fair<br>value       | %<br>total | Average<br>note<br>rate | Fair<br>value     | %<br>total | Average<br>note<br>rate | Fair<br>value       | %<br>total | Average<br>note<br>rate |
| (dollars in thousands)          |                  |            |                         |                     |            |                         |                   |            |                         |                     |            |                         |
| Less than<br>80%                | \$225,085        | 34 %       | 4.07 %                  | \$281,945           | 30 %       | 5.14 %                  | \$250,154         | 29 %       | 4.09 %                  | \$309,945           | 25 %       | 5.07 %                  |
| 80% -<br>99.99%                 | 156,747          | 24 %       | 3.60 %                  | 269,082             | 28 %       | 4.86 %                  | 225,574           | 26 %       | 3.53 %                  | 317,076             | 26 %       | 4.91 %                  |
| 100% -<br>119.99%               | 124,075          | 19 %       | 3.23 %                  | 206,969             | 22 %       | 4.93 %                  | 190,336           | 22 %       | 3.26 %                  | 291,866             | 24 %       | 5.07 %                  |
| 120% or<br>greater              | 150,855          | 23 %       | 2.83 %                  | 194,146             | 20 %       | 4.99 %                  | 211,374           | 23 %       | 2.97 %                  | 304,069             | 25 %       | 5.00 %                  |
|                                 | \$656,762        | 100 %      | 3.43 %                  | \$952,144           | 100 %      | 4.98 %                  | \$877,438         | 100 %      | 3.43 %                  | \$1,222,956         | 100 %      | 5.01 %                  |

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

| Geographic<br>distribution | June 30, 2016    |            |                         |                     |            |                         | December 31, 2015 |            |                         |                     |            |                         |
|----------------------------|------------------|------------|-------------------------|---------------------|------------|-------------------------|-------------------|------------|-------------------------|---------------------|------------|-------------------------|
|                            | Performing loans |            |                         | Nonperforming loans |            |                         | Performing loans  |            |                         | Nonperforming loans |            |                         |
|                            | Fair<br>value    | %<br>total | Average<br>note<br>rate | Fair<br>value       | %<br>total | Average<br>note<br>rate | Fair<br>value     | %<br>total | Average<br>note<br>rate | Fair<br>value       | %<br>total | Average<br>note<br>rate |
| (dollars in thousands)     |                  |            |                         |                     |            |                         |                   |            |                         |                     |            |                         |
| California                 | \$173,264        | 26 %       | 3.36 %                  | \$146,354           | 15 %       | 3.98 %                  | \$260,103         | 30 %       | 3.20 %                  | \$201,717           | 16 %       | 4.06 %                  |
| New York                   | 85,338           | 13 %       | 3.09 %                  | 252,381             | 27 %       | 5.55 %                  | 99,081            | 11 %       | 3.07 %                  | 293,277             | 24 %       | 5.58 %                  |
| Florida                    | 44,474           | 7 %        | 3.06 %                  | 101,544             | 11 %       | 5.25 %                  | 61,999            | 7 %        | 3.15 %                  | 126,705             | 10 %       | 5.43 %                  |
| New Jersey                 | 39,140           | 6 %        | 2.83 %                  | 131,695             | 14 %       | 5.11 %                  | 47,939            | 5 %        | 2.84 %                  | 167,020             | 14 %       | 5.25 %                  |

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|       |           |      |       |           |      |       |           |      |       |             |      |       |
|-------|-----------|------|-------|-----------|------|-------|-----------|------|-------|-------------|------|-------|
| Other | 314,546   | 48 % | 3.86% | 320,170   | 33 % | 5.02% | 408,316   | 47 % | 4.08% | 434,237     | 36 % | 4.86% |
|       | \$656,762 | 100% | 3.43% | \$952,144 | 100% | 4.98% | \$877,438 | 100% | 3.43% | \$1,222,956 | 100% | 5.01% |

| Payment status             | June 30, 2016    |         |                   |                     |         |                   | December 31, 2015 |         |                   |                     |         |                   |
|----------------------------|------------------|---------|-------------------|---------------------|---------|-------------------|-------------------|---------|-------------------|---------------------|---------|-------------------|
|                            | Performing loans |         |                   | Nonperforming loans |         |                   | Performing loans  |         |                   | Nonperforming loans |         |                   |
|                            | Fair value       | % total | Average note rate | Fair value          | % total | Average note rate | Fair value        | % total | Average note rate | Fair value          | % total | Average note rate |
| Current                    | \$512,553        | 78 %    | 3.38%             | \$—                 | 0 %     | 0.00%             | \$691,925         | 79 %    | 3.34%             | \$—                 | 0 %     | 0.00%             |
| 30 days delinquent         | 100,301          | 15 %    | 3.52%             | —                   | 0 %     | 0.00%             | 131,098           | 15 %    | 3.73%             | —                   | 0 %     | 0.00%             |
| 60 days delinquent         | 43,908           | 7 %     | 3.67%             | —                   | 0 %     | 0.00%             | 54,415            | 6 %     | 3.78%             | —                   | 0 %     | 0.00%             |
| 90 days or more delinquent | —                | 0 %     | 0.00%             | 363,328             | 38 %    | 4.46%             | —                 | 0 %     | 0.00%             | 459,060             | 38 %    | 4.48%             |
| In foreclosure             | —                | 0 %     | 0.00%             | 588,816             | 62 %    | 5.31%             | —                 | 0 %     | 0.00%             | 763,896             | 62 %    | 5.33%             |
|                            | \$656,762        | 100%    | 3.43%             | \$952,144           | 100%    | 4.98%             | \$877,438         | 100%    | 3.43%             | \$1,222,956         | 100%    | 5.01%             |

We believe that our current fair value estimates are representative of fair value at the reporting date. However, the market for distressed mortgage assets is illiquid with a limited number of participants. Furthermore, our business strategy is to enhance value

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during the period in which the loans are held. Therefore, any resulting appreciation or depreciation in the fair value of the loans is recorded during such holding period and ultimately realized at the end of the holding period.

Following is a comparison of the key inputs we use in the valuation of our mortgage loans at fair value using “Level 3” fair value inputs:

| Key inputs                                 | June 30,<br>2016 | December 31,<br>2015 |
|--|------------------|----------------------|
| Discount rate                              |                  |                      |
| Range                                      | 2.5% – 15.0%     | 2.5% – 15.0%         |
| Weighted average                           | 6.7%             | 7.1%                 |
| Twelve-month projected housing price index |                  |                      |
| change                                     |                  |                      |
| Range                                      | 2.7% – 5.2%      | 1.5% – 5.1%          |
| Weighted average                           | 4.0%             | 3.6%                 |
| Prepayment speed (1)                       |                  |                      |
| Range                                      | 0.1% – 13.7%     | 0.1% – 9.6%          |
| Weighted average                           | 3.9%             | 3.7%                 |
| Total prepayment speed (2)                 |                  |                      |
| Range                                      | 0.7% – 25.4%     | 0.5% – 27.2%         |
| Weighted average                           | 19.0%            | 19.6%                |

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

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

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

The weighted average discount rate used in the valuation of mortgage loans at fair value decreased from 7.1% at December 31, 2015 to 6.7% at June 30, 2016 as lower estimates of recoveries in the resolution of the distressed portfolios reduced yield expectations.

The weighted average twelve-month projected housing price index change used in the valuation of our portfolio of mortgage loans at fair value increased from 3.6% at December 31, 2015 to 4.0% at June 30, 2016, due to improved forecasts for real estate price appreciation in the geographic areas in which our portfolio of mortgage loans is concentrated.

The weighted average total prepayment speed used in the valuation of our portfolio of mortgage loans at fair value decreased from 19.6% at December 31, 2015 to 19.0% at June 30, 2016 due to our projections of longer liquidation periods for certain of our mortgage loans.

### Real Estate Acquired in Settlement of Loans

Following is a summary of our REO by property type:

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| Property type              | June 30, 2016          |          |   | December 31, 2015 |          |   |
|----------------------------|------------------------|----------|---|-------------------|----------|---|
|                            | Carrying value         | of total |   | Carrying value    | of total |   |
|                            | (dollars in thousands) |          |   |                   |          |   |
| 1 - 4 dwelling units       | \$219,868              | 73       | % | \$249,340         | 73       | % |
| Planned unit development   | 47,511                 | 16       | % | 54,404            | 16       | % |
| Condominium/Townhome/Co-op | 31,595                 | 11       | % | 35,593            | 10       | % |
| 5+ dwelling units          | 484                    | 0        | % | 2,509             | 1        | % |
|                            | \$299,458              | 100      | % | \$341,846         | 100      | % |

84

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| Geographic distribution | June 30, 2016          |            |  | December 31, 2015 |            |  |
|-------------------------|------------------------|------------|--|-------------------|------------|--|
|                         | Carrying value         | % of total |  | Carrying value    | % of total |  |
|                         | (dollars in thousands) |            |  |                   |            |  |
| California              | \$61,852               | 21 %       |  | \$76,222          | 22 %       |  |
| New Jersey              | 46,370                 | 16 %       |  | 36,394            | 11 %       |  |
| New York                | 40,473                 | 14 %       |  | 27,300            | 8 %        |  |
| Florida                 | 39,739                 | 13 %       |  | 58,924            | 17 %       |  |
| Maryland                | 19,737                 | 7 %        |  | 30,763            | 9 %        |  |
| Illinois                | 16,292                 | 5 %        |  | 21,029            | 6 %        |  |
| Other                   | 74,995                 | 25 %       |  | 91,214            | 27 %       |  |
|                         | \$299,458              | 100 %      |  | \$341,846         | 100 %      |  |

Following is a summary of the status of our portfolio of acquisitions by quarter acquired for the periods in which we made acquisitions:

|                    | Acquisitions for the quarter ended |               |                   |               |               |               |                |               |
|--------------------|------------------------------------|---------------|-------------------|---------------|---------------|---------------|----------------|---------------|
|                    | March 31, 2015                     |               | December 31, 2014 |               | June 30, 2014 |               | March 31, 2014 |               |
|                    | At purchase                        | June 30, 2016 | At purchase       | June 30, 2016 | At purchase   | June 30, 2016 | At purchase    | June 30, 2016 |
|                    | (dollars in millions)              |               |                   |               |               |               |                |               |
| UPB                | \$310.2                            | \$255.9       | \$330.8           | \$263.9       | \$37.9        | \$27.9        | \$439.0        | \$276.9       |
| Pool factor (1)    | 1.00                               | 0.82          | 1.00              | 0.80          | 1.00          | 0.74          | 1.00           | 0.63          |
| Collection status: |                                    |               |                   |               |               |               |                |               |
| Delinquency        |                                    |               |                   |               |               |               |                |               |
| Current            | 1.8 %                              | 23.8 %        | 1.6 %             | 34.7 %        | 0.7 %         | 43.7 %        | 6.2 %          | 16.3 %        |
| 30 days            | 0.3 %                              | 1.4 %         | 1.6 %             | 4.8 %         | 0.6 %         | 4.2 %         | 0.7 %          | 3.4 %         |
| 60 days            | 0.1 %                              | 1.6 %         | 7.1 %             | 2.5 %         | 1.4 %         | 3.4 %         | 0.7 %          | 1.1 %         |
| over 90 days       | 66.7 %                             | 22.0 %        | 52.7 %            | 19.1 %        | 59.0 %        | 18.2 %        | 37.5 %         | 17.5 %        |
| In foreclosure     | 31.1 %                             | 34.7 %        | 36.9 %            | 28.2 %        | 38.2 %        | 13.6 %        | 53.8 %         | 44.3 %        |
| REO                | 0.0 %                              | 16.5 %        | 0.0 %             | 10.7 %        | 0.0 %         | 16.9 %        | 1.1 %          | 17.4 %        |

(1) Ratio of UPB remaining to UPB at acquisition.

|                    | Acquisitions for the quarter ended |               |                    |               |               |               |                |               |
|--------------------|------------------------------------|---------------|--------------------|---------------|---------------|---------------|----------------|---------------|
|                    | December 31, 2013                  |               | September 30, 2013 |               | June 30, 2013 |               | March 31, 2013 |               |
|                    | At purchase                        | June 30, 2016 | At purchase        | June 30, 2016 | At purchase   | June 30, 2016 | At purchase    | June 30, 2016 |
|                    | (dollars in millions)              |               |                    |               |               |               |                |               |
| UPB                | \$507.3                            | \$323.8       | \$929.5            | \$460.8       | \$397.3       | \$195.1       | \$366.2        | \$120.2       |
| Pool factor (1)    | 1.00                               | 0.64          | 1.00               | 0.50          | 1.00          | 0.49          | 1.00           | 0.33          |
| Collection status: |                                    |               |                    |               |               |               |                |               |

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Delinquency

|                |      |   |      |   |      |   |      |   |      |   |      |   |      |   |      |   |
|----------------|------|---|------|---|------|---|------|---|------|---|------|---|------|---|------|---|
| Current        | 1.4  | % | 13.5 | % | 0.8  | % | 19.5 | % | 4.8  | % | 29.0 | % | 1.6  | % | 39.0 | % |
| 30 days        | 0.2  | % | 2.0  | % | 0.3  | % | 3.4  | % | 7.4  | % | 7.4  | % | 1.5  | % | 11.2 | % |
| 60 days        | 0.0  | % | 0.8  | % | 0.7  | % | 2.2  | % | 7.6  | % | 5.7  | % | 3.5  | % | 5.0  | % |
| over 90 days   | 38.3 | % | 20.2 | % | 58.6 | % | 20.3 | % | 45.3 | % | 17.3 | % | 82.2 | % | 19.6 | % |
| In foreclosure | 60.0 | % | 40.9 | % | 39.6 | % | 31.3 | % | 34.9 | % | 22.8 | % | 11.2 | % | 13.5 | % |
| REO            | 0.0  | % | 22.6 | % | 0.0  | % | 23.3 | % | 0.0  | % | 17.8 | % | 0.0  | % | 11.6 | % |

(1) Ratio of UPB remaining to UPB at acquisition.

85

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|                          | Acquisitions for the quarter ended |               |                    |               |               |               |                   |               |
|--------------------------|------------------------------------|---------------|--------------------|---------------|---------------|---------------|-------------------|---------------|
|                          | December 31, 2012                  |               | September 30, 2012 |               | June 30, 2012 |               | December 31, 2011 |               |
|                          | At purchase                        | June 30, 2016 | At purchase        | June 30, 2016 | At purchase   | June 30, 2016 | At purchase       | June 30, 2016 |
|                          | (dollars in millions)              |               |                    |               |               |               |                   |               |
| Unpaid principal balance | \$290.3                            | \$ 102.6      | \$357.2            | \$ 105.4      | \$402.5       | \$ 93.5       | \$49.0            | \$ 18.5       |
| Pool factor (1)          | 1.00                               | 0.35          | 1.00               | 0.30          | 1.00          | 0.23          | 1.00              | 0.38          |
| Collection status:       |                                    |               |                    |               |               |               |                   |               |
| Delinquency              |                                    |               |                    |               |               |               |                   |               |
| Current                  | 3.1 %                              | 35.8 %        | 0.0 %              | 23.8 %        | 45.0 %        | 35.3 %        | 0.2 %             | 40.2 %        |
| 30 days                  | 1.3 %                              | 8.6 %         | 0.0 %              | 2.4 %         | 4.0 %         | 10.4 %        | 0.1 %             | 4.9 %         |
| 60 days                  | 5.4 %                              | 4.2 %         | 0.1 %              | 1.4 %         | 4.3 %         | 4.5 %         | 0.2 %             | 0.7 %         |
| over 90 days             | 57.8 %                             | 18.9 %        | 49.1 %             | 19.2 %        | 31.3 %        | 21.8 %        | 70.4 %            | 23.5 %        |
| In foreclosure           | 32.4 %                             | 16.0 %        | 50.8 %             | 31.4 %        | 15.3 %        | 21.7 %        | 29.0 %            | 21.5 %        |
| REO                      | 0.0 %                              | 16.5 %        | 0.0 %              | 21.9 %        | 0.1 %         | 6.2 %         | 0.0 %             | 9.2 %         |

(1)Ratio of UPB remaining to UPB at acquisition.

|                          | Acquisitions for the quarter ended |               |               |               |                |               |                   |               |
|--------------------------|------------------------------------|---------------|---------------|---------------|----------------|---------------|-------------------|---------------|
|                          | September 30, 2011                 |               | June 30, 2011 |               | March 31, 2011 |               | December 31, 2010 |               |
|                          | At purchase                        | June 30, 2016 | At purchase   | June 30, 2016 | At purchase    | June 30, 2016 | At purchase       | June 30, 2016 |
|                          | (dollars in millions)              |               |               |               |                |               |                   |               |
| Unpaid principal balance | \$542.6                            | \$ 97.3       | \$259.8       | \$ 58.8       | \$515.1        | \$ 108.8      | \$277.8           | \$ 37.7       |
| Pool factor (1)          | 1.00                               | 0.18          | 1.00          | 0.23          | 1.00           | 0.21          | 1.00              | 0.14          |
| Collection status:       |                                    |               |               |               |                |               |                   |               |
| Delinquency              |                                    |               |               |               |                |               |                   |               |
| Current                  | 0.6 %                              | 28.8 %        | 11.5 %        | 29.4 %        | 2.0 %          | 25.6 %        | 5.0 %             | 36.9 %        |
| 30 days                  | 1.3 %                              | 8.0 %         | 6.5 %         | 7.9 %         | 1.9 %          | 4.5 %         | 4.0 %             | 11.7 %        |
| 60 days                  | 2.0 %                              | 2.5 %         | 5.2 %         | 3.9 %         | 3.9 %          | 2.6 %         | 5.1 %             | 3.2 %         |
| over 90 days             | 22.6 %                             | 19.1 %        | 31.2 %        | 21.8 %        | 25.9 %         | 18.8 %        | 26.8 %            | 14.6 %        |
| In foreclosure           | 73.0 %                             | 26.8 %        | 43.9 %        | 25.3 %        | 66.3 %         | 34.7 %        | 59.1 %            | 17.7 %        |
| REO                      | 0.4 %                              | 14.8 %        | 1.7 %         | 11.8 %        | 0.0 %          | 13.8 %        | 0.0 %             | 16.0 %        |

(1)Ratio of UPB remaining to UPB at acquisition.

|                          | Acquisitions for the quarter ended |               |               |               |                |               |
|--------------------------|------------------------------------|---------------|---------------|---------------|----------------|---------------|
|                          | September 30, 2010                 |               | June 30, 2010 |               | March 31, 2010 |               |
|                          | At purchase                        | June 30, 2016 | At purchase   | June 30, 2016 | At purchase    | June 30, 2016 |
|                          | (dollars in millions)              |               |               |               |                |               |
| Unpaid principal balance | \$146.2                            | \$ 16.4       | \$195.5       | \$ 23.4       | \$182.7        | \$ 24.5       |

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|                    |        |        |        |        |        |        |
|--------------------|--------|--------|--------|--------|--------|--------|
| Pool factor (1)    | 1.00   | 0.11   | 1.00   | 0.12   | 1.00   | 0.13   |
| Collection status: |        |        |        |        |        |        |
| Delinquency        |        |        |        |        |        |        |
| Current            | 1.2 %  | 36.9 % | 5.1 %  | 27.8 % | 6.2 %  | 26.3 % |
| 30 days            | 0.4 %  | 12.8 % | 2.0 %  | 12.4 % | 1.6 %  | 13.6 % |
| 60 days            | 1.3 %  | 5.4 %  | 4.1 %  | 1.6 %  | 5.8 %  | 3.6 %  |
| over 90 days       | 38.2 % | 16.4 % | 42.8 % | 17.0 % | 37.8 % | 20.1 % |
| In foreclosure     | 58.9 % | 19.2 % | 45.9 % | 33.9 % | 46.4 % | 21.1 % |
| REO                | 0.0 %  | 9.3 %  | 0.0 %  | 7.3 %  | 2.3 %  | 15.3 % |

(1) Ratio of UPB remaining to UPB at acquisition.

86

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## Cash Flows

Our cash flows for the six months ended June 30, 2016 and 2015 are summarized below:

|                      | Quarter ended June 30, |               |             |
|----------------------|------------------------|---------------|-------------|
|                      | 2016                   | 2015          | Change      |
|                      | (in thousands)         |               |             |
| Operating activities | \$(178,359)            | \$(1,660,413) | \$1,482,054 |
| Investing activities | 315,189                | (46,706)      | 361,895     |
| Financing activities | (99,233)               | 1,745,431     | (1,844,664) |
| Net cash flows       | \$37,597               | \$38,312      | \$(715)     |

Our cash flows resulted in a net increase in cash of \$37.6 million during the six months ended June 30, 2016, as discussed below.

## Operating activities

Cash used by operating activities totaled \$178.4 million during the six months ended June 30, 2016, as compared to cash used by operating activities of \$1.7 billion during the six months ended June 30, 2015. The decrease in cash flows used by operating activities is primarily due to the slower growth of our inventory of mortgage loans acquired for sale during the six months ended June 30, 2016, as compared to the same period in 2015.

## Investing activities

Net cash provided by our investing activities was \$315.2 million for the six months ended June 30, 2016, as compared to cash used by investing activities of \$46.7 million for the six months ended June 30, 2015. The increase in cash flows from investing activities reflects higher investment acquisitions during the first quarter of 2015 from the purchase of distressed mortgage loans and ESS of \$429.3, as compared to no acquisitions of distressed mortgage loans or ESS during the same period in 2016, and a higher realization of proceeds from sales and repayments on our investments, which exceeded our investment in CRT Agreements, during the six months ended June 30, 2016, as compared to the same period in 2015. We realized cash inflows from repayments of MBS, sales and repayments of mortgage loans, repayment of ESS, and sales of REO totaling \$681.5 million. We used cash to purchase MBS of \$249.9 million and increased deposits of cash collateral securing CRT Agreements transactions by \$192.7 million.

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

## Financing activities

Net cash used by financing activities was \$99.2 million for the six months ended June 30, 2016, as compared to cash provided of \$1.7 billion for the six months ended June 30, 2015. During the six months ended June 30, 2016, we (i) financed lower amounts of assets sold under agreements to repurchase from a lower balance of mortgage loans at fair value; (ii) repaid all outstanding debt obligations with the Federal Home Loan Bank; and (iii) repurchased

common shares under our share repurchase program. As discussed below in Liquidity and Capital Resources, our Manager continues to evaluate and pursue additional sources of financing that may be required to provide us with future investing capacity.

We do not raise equity or enter into borrowings for the purpose of financing the payment of dividends. We believe that our cash flows from the liquidation of our investments, which include accumulated gains recorded during the periods we hold those investments, along with our cash earnings, are adequate to fund our operating expenses and dividend payment requirements. However, we manage our liquidity in the aggregate and are reinvesting our cash flows in new investments as well as using such cash to fund our dividend requirements.

#### Liquidity and Capital Resources

Our liquidity reflects our ability to meet our current obligations (including the purchase of loans from correspondent lenders, our operating expenses and, when applicable, retirement of, and margin calls relating to, our debt and derivatives positions), make

investments as our Manager identifies them, pursue our share repurchase program and make distributions to our shareholders. We generally need to distribute at least 90% of our taxable income each year (subject to certain adjustments) to our shareholders to qualify as a REIT under the Internal Revenue Code. This distribution requirement limits our ability to retain earnings and thereby replenish or increase capital to support our activities.

We expect our primary sources of liquidity to be proceeds from liquidations from our investment portfolio, including distressed assets, cash earnings on our investments, cash flows from business activities, and proceeds from borrowings and/or additional equity offerings. We believe that our liquidity is sufficient to meet our current liquidity needs.

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

Our current leverage strategy is to finance our assets where we believe such borrowing is prudent, appropriate and available. We have made collateralized borrowings in the form of sales of assets under agreements to repurchase, mortgage loan participation and sale agreements and notes payable. We also previously made collateralized borrowings in the form of borrowings under forward purchase agreements and advances from the Federal Home Loan Bank of Des Moines. To the extent available to us, we expect in the future to obtain long-term financing for assets with estimated future lives of more than one year; this may include term financing and securitization of performing (including newly purchased jumbo mortgage loans), nonperforming and/or reperforming mortgage loans.

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

Our repurchase agreements represent the sales of assets together with agreements for us to buy back the assets at a later date. Following is a summary of the activities in our repurchase agreements financing:

| Assets sold under agreements to repurchase | Quarter ended June 30, |             | Six months ended |             |
|--|------------------------|-------------|------------------|-------------|
|  | 2016                   | 2015        | June 30,         | 2015        |
|  | (in thousands)         |             |                  |             |
| Average balance outstanding                | \$3,268,774            | \$3,172,806 | \$3,033,038      | \$3,061,923 |
| Maximum daily balance outstanding          | \$4,331,706            | \$3,511,918 | \$4,402,724      | \$3,842,167 |
| Ending balance                             | \$3,275,691            | \$3,500,569 |                  |             |

The difference between the maximum and average daily amounts outstanding is primarily due to increasing volume and the timing of loan purchases and sales in our correspondent acquisition business. The total facility size of our assets sold under agreements to repurchase was approximately \$4.5 billion at June 30, 2016.

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As of June 30, 2016 and December 31, 2015, we financed our investments in MBS, mortgage loans acquired for sale at fair value, mortgage loans at fair value, mortgage loans at fair value held by a VIE, MSRs, ESS, REO and deposits securing CRT Agreements with sales under agreements to repurchase, notes payable, asset-backed financing and a mortgage loan participation and sale agreement. We also financed certain of our investments as of December 31, 2015 with FHLB advances, as follows:

|  | June 30,<br>2016       | December 31,<br>2015 |   |
|--|------------------------|----------------------|---|
|  | (dollars in thousands) |                      |   |
| Assets financed                            | \$5,265,241            | \$ 5,231,476         |   |
| Total assets in classes of assets financed | \$5,432,917            | \$ 5,376,068         |   |
| Secured borrowings (1)                     | \$4,013,104            | \$ 3,947,033         |   |
| Percentage of invested assets pledged      | 97                     | % 97                 | % |
| Advance rate against pledged assets        | 76                     | % 75                 | % |
| Leverage ratio (2)                         | 3.13x                  | 2.81x                |   |

(1) Excludes the effect of unamortized debt issuance costs.

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

88

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

- The transactions relating to mortgage loans and REO under agreements to repurchase generally provide for terms of approximately one year and, in one instance, two years.
- The transactions relating to mortgage loans under mortgage loan participation and sale agreement provide for terms of approximately one year.
- The transactions relating to assets under notes payable provide for terms of approximately one year.

As of June 30, 2016, leverage on MSR and ESS continues to be limited in availability due to the requirement of each Agency that its rights and interest in the MSR remain senior to those of any lender extending credit. As we continue to aggregate MSR and ESS, the limited availability of financing could place stress on our capital and liquidity positions or require us to forego attractive investment opportunities.

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

- profitability at the Company for at least one (1) of the previous two consecutive fiscal quarters, as of the end of each fiscal quarter, and over the prior six month period measured at each calendar quarter end, and at the Company and our Operating Partnership over the prior three (3) calendar quarters;
- a minimum of \$40 million in unrestricted cash and cash equivalents among the Company and/or our subsidiaries; a minimum of \$40 million in unrestricted cash and cash equivalents among our Operating Partnership and its consolidated subsidiaries; a minimum of \$25 million in unrestricted cash and cash equivalents between PMC and PMH; and a minimum of \$10 million in unrestricted cash and cash equivalents at each of PMC and PMH;
- a minimum tangible net worth for the Company of \$860 million; a minimum tangible net worth for our Operating Partnership of \$700 million; a minimum tangible net worth for PMH of \$250 million; and a minimum tangible net worth for PMC of \$150 million;
- a maximum ratio of total liabilities to tangible net worth of less than 10:1 for PMC and PMH and 5:1 for the Company and our Operating Partnership; and
- at least two warehouse or repurchase facilities that finance amounts and assets similar to those being financed under our existing debt financing agreements.

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

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

- positive net income during each calendar quarter;
- a minimum in unrestricted cash and cash equivalents of \$20 million;
- a minimum tangible net worth of \$200 million; and
- a maximum ratio of total liabilities to tangible net worth of 10:1.

In addition to the financial covenants imposed upon us and PLS under our debt financing agreements, effective December 31, 2015, each of the Agencies has implemented new minimum financial eligibility requirements for Agency mortgage sellers/servicers and MBS issuers, as applicable. These minimum financial eligibility requirements are intended to set a minimum level of capital needed to adequately absorb potential losses and a minimum amount of liquidity needed to service Agency mortgage loans and MBS and cover the associated financial obligations and risks. Currently, we and/or PLS as our servicer, as applicable, are required to comply with the following minimum financial eligibility requirements:

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A minimum net worth of a base of \$2.5 million plus 25 basis points of UPB for total 1-4 unit residential mortgage loans serviced.

·A tangible net worth/total assets ratio greater than or equal to 6%.

89

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- Liquidity equal to or exceeding 3.5 basis points multiplied by the aggregate UPB of all mortgages secured by 1-4 unit residential properties serviced for Freddie Mac, Fannie Mae and Ginnie Mae (“Agency Mortgage Servicing”) plus 200 basis points multiplied by the sum of nonperforming (90 or more days delinquent) Agency Mortgage Servicing that exceed 6% of Agency Mortgage Servicing.
- In the case of PLS, liquidity equal to the greater of \$1.0 million or 0.10% (10 basis points) of its outstanding Ginnie Mae single-family securities, which must be met with cash and cash equivalents.
- In the case of PLS, net worth equal to \$2.5 million plus 0.35% (35 basis points) of its outstanding Ginnie Mae single-family obligations.

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

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

### Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

#### Off-Balance Sheet Arrangements and Guarantees

As of June 30, 2016, we have not entered into any off-balance sheet arrangements or guarantees of off-balance sheet obligations.

#### Contractual Obligations

As of June 30, 2016, we had contractual obligations aggregating to \$6.2 billion comprised of borrowings, interest expense on long term debt from our Exchangeable Notes and asset-backed financing of a VIE, and commitments to purchase mortgage loans from correspondent lenders. Payment obligations under these agreements, including expected interest payments on financing agreements, are summarized below:

|   | Payments due by period |                     |                |                | More<br>than |
|---|------------------------|---------------------|----------------|----------------|--------------|
|   | Total                  | Less than<br>1 year | 1 - 3<br>years | 3 - 5<br>years |              |
| Contractual obligations                         | Total                  | 1 year              | 1 - 3<br>years | 3 - 5<br>years | 5 years      |
| (in thousands)                                  |                        |                     |                |                |              |
| Commitments to purchase mortgage loans from     |                        |                     |                |                |              |
| correspondent lenders                           | \$1,658,813            | \$1,658,813         | \$—            | \$—            | \$—          |
| Assets sold under agreements to repurchase      | 3,276,854              | 3,276,854           | —              | —              | —            |
| Mortgage loan participation and sale agreements | 96,335                 | 96,335              | —              | —              | —            |
| Notes payable                                   | 164,003                | 164,003             | —              | —              | —            |

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|                                    |             |             |          |           |           |
|------------------------------------|-------------|-------------|----------|-----------|-----------|
| Note payable to PFSI               | 150,000     | 150,000     | —        | —         | —         |
| Asset-backed financing of a VIE    | 325,939     | —           | —        | —         | 325,939   |
| Exchangeable Notes                 | 250,000     | —           | —        | 250,000   | —         |
| Interest expense on long term debt | 233,571     | 24,754      | 48,742   | 34,216    | 125,859   |
| Total                              | \$6,155,515 | \$5,370,759 | \$48,742 | \$284,216 | \$451,798 |

90

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The amount at risk (the fair value of the assets pledged plus the related margin deposit, less the amount advanced by the counterparty and accrued interest) relating to our debt financing is summarized by counterparty below as of June 30, 2016:

| Counterparty                                    | Amount at risk<br>(in thousands) |
|---|----------------------------------|
| Citibank, N.A.                                  | \$ 327,363                       |
| JPMorgan Chase & Co.                            | 173,781                          |
| Credit Suisse First Boston Mortgage Capital LLC | 158,462                          |
| Bank of America, N.A.                           | 77,557                           |
| Daiwa Capital Markets America Inc.              | 18,103                           |
| Morgan Stanley Bank, N.A.                       | 14,924                           |
| BNP Paribas Corporate & Institutional Banking   | 10,582                           |
| Barclays Bank PLC                               | 3,879                            |
| Wells Fargo, N.A.                               | 3,070                            |
|   | \$ 787,721                       |

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

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

The base management fee is calculated at a defined annualized percentage of “shareholders’ equity.” Our “shareholders’ equity” is defined as the sum of the net proceeds from any issuances of our equity securities since our inception (weighted for the time outstanding during the measurement period); plus our retained earnings at the end of the quarter; less any amount that we pay for repurchases of our common shares (weighted for the time held during the measurement period); and excluding one-time events pursuant to changes in GAAP and certain other non-cash charges after discussions between our Manager and our independent trustees and approval by a majority of our independent trustees.

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

The performance incentive fee is calculated at a defined annualized percentage of the amount by which “net income,” on a rolling four-quarter basis and before deducting the incentive fee, exceeds certain levels of return on “equity.” For the purpose of determining the amount of the performance incentive fee, “net income” is defined as net income or loss computed in accordance with GAAP and certain other non-cash charges determined after discussions between our Manager and our independent trustees and approval by a majority of our independent trustees. For this purpose, “equity”

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

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

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

amount, and a performance incentive fee is earned. The performance incentive fee may be paid in cash or in our common shares (subject to a limit of no more than 50% paid in common shares), at our option.

Our Manager is entitled to reimbursement of its organizational and operating expenses, including third-party expenses, incurred on our behalf. Pursuant to the terms of our management agreement, our Manager is entitled to grant discretionary waivers of certain overhead expenses that otherwise would be allocable to us. On December 15, 2015, the Operating Partnership amended its management agreement to provide that the overhead costs and expenses incurred by PFSI in any quarter and reimbursable by the Operating Partnership is capped at an amount equal to the product of (A) 70 basis points (0.0070), multiplied by (B) PMT's shareholders' equity (as defined in the management agreement) as of the last day of the month preceding quarter end, divided by four.

Our Manager may also be entitled to a termination fee under certain circumstances. Specifically, the termination fee is payable for (1) our termination of our management agreement without cause, (2) our Manager's termination of our management agreement upon a default by us in the performance of any material term of the agreement that has continued uncured for a period of 30 days after receipt of written notice thereof or (3) our Manager's termination of the agreement after the termination by us without cause (excluding a non-renewal) of our MBWS agreement, our MSR recapture agreement, or our servicing agreement (each as described and/or defined below). The termination fee is equal to three times the sum of (a) the average annual base management fee and (b) the average annual (or, if the period is less than 24 months, annualized) performance incentive fee, in each case earned by our Manager during the 24-month period before termination.

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

**Servicing Agreement.** We have entered into a loan servicing agreement with PLS, pursuant to which PLS provides servicing for our portfolio of residential mortgage loans. The loan servicing provided by PLS includes collecting principal, interest and escrow account payments, if any, with respect to mortgage loans, as well as managing loss mitigation, which may include, among other things, collection activities, loan workouts, modifications, foreclosures and short sales. PLS also engages in certain loan origination activities that include refinancing mortgage loans and financings that facilitate sales of real estate owned properties, or REOs. The term of our servicing agreement, as amended, expires on February 1, 2017, subject to automatic renewal for additional 18-month periods, unless terminated earlier in accordance with the terms of the agreement.

The base servicing fees for distressed whole loans are calculated based on a monthly per-loan dollar amount, with the actual dollar amount for each loan based on the delinquency, bankruptcy and/or foreclosure status of such loan or whether the underlying mortgaged property has become REO. Presently, the base servicing fee rates for distressed whole loans range from \$30 per month for current loans up to \$125 per month for loans that are in foreclosure. The base servicing fee rate for REO is \$75 per month. To the extent that we rent our REO under our REO rental program, we pay PLS an REO rental fee of \$30 per month per REO, an REO property lease renewal fee of \$100 per lease renewal, and a property management fee in an amount equal to PLS's cost if property management services and/or any related software costs are outsourced to a third-party property management firm or 9% of gross rental income if PLS provides property management services directly. We are also required to reimburse PLS for certain third party vendor fees.

The base servicing fees for loans subserviced by PLS on our behalf are also calculated through a monthly per-loan dollar amount, with the actual dollar amount for each loan based on whether the mortgage loan is a fixed-rate or adjustable-rate loan. The base servicing fees for loans subserviced on our behalf are \$7.50 per month for fixed-rate loans and \$8.50 per month for adjustable-rate mortgage loans. To the extent that these loans become delinquent, PLS

is entitled to an additional servicing fee per loan falling within a range of \$10 to \$55 per month and based on the delinquency, bankruptcy and foreclosure status of the loan or \$75 per month if the underlying mortgaged property becomes REO. PLS is also entitled to customary ancillary income and certain market-based fees and charges, including boarding and deboarding fees, liquidation and disposition fees, and assumption, modification and origination fees.

In addition, because we do not have any employees or infrastructure, PLS is required to provide a range of services and activities significantly greater in scope than the services provided in connection with a customary servicing arrangement. For these services, PLS receives a supplemental servicing fee of \$25 per month for each distressed whole loan. PLS is entitled to reimbursement for all customary, bona fide reasonable and necessary out-of-pocket expenses incurred by PLS in connection with the performance of its servicing obligations.

Except as otherwise provided in our MSR recapture agreement, when PLS effects a refinancing of a loan on our behalf and not through a third-party lender and the resulting loan is readily saleable, or PLS originates a loan to facilitate the disposition of the real

estate acquired by us in settlement of a loan, PLS is entitled to receive from us market-based fees and compensation consistent with pricing and terms PLS offers unaffiliated third parties on a retail basis.

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

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

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

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

We do not hold the Ginnie Mae approval required to issue Ginnie Mae MBS and act as a servicer. Accordingly, under our MBWS agreement, PLS currently purchases loans saleable in accordance with the Ginnie Mae Mortgage-Backed Securities Guide "as is" and without recourse of any kind from us at cost, plus accrued interest and a sourcing fee of three basis points in each case on the UPB of the loan, less an administrative fee we collect from the correspondent seller.

In the event that we purchase mortgage loans with a total UPB in any month greater than \$2.5 billion and less than \$5 billion, PLS has agreed to discount the amount of such fulfillment fees by reimbursing us an amount equal to the product of (i) 0.025%, (ii) the amount of UPB in excess of \$2.5 billion and less than or equal to \$5 billion, and (iii) the percentage of the total UPB relating to mortgage loans for which we paid fulfillment fees in such month. In the event we purchase mortgage loans with a total UPB in any month greater than \$5 billion, PLS has agreed to further discount the amount of fulfillment fees by reimbursing us an amount equal to the product of (i) 0.05%, (ii) the amount of UPB in excess of \$5 billion, and (iii) the percentage of total UPB relating to mortgage loans for which we paid fulfillment fees in such month.

In consideration for the mortgage banking services provided by PLS with respect to our acquisition of mortgage loans under PLS's early purchase program, PLS is entitled to fees accruing (i) at a rate equal to \$1,500 per annum, and (ii) in the amount of \$35 for each mortgage loan that we acquire thereunder. In consideration for the warehouse services provided by PLS with respect to mortgage loans that we finance for our warehouse lending clients, with respect to each facility, PLS is entitled to fees accruing (i) at a rate equal to \$40,000 per annum for each of the first twenty (20) warehouse lending facilities active in any month and \$10,000 per annum for each additional warehouse lending

facility active in any month, and (ii) in the amount of \$50 with respect to each mortgage loan that we finance thereunder. Where we have entered into both an early purchase agreement and a warehouse lending agreement with the same client, PLS shall only be entitled, with respect to any mortgage loan that becomes subject to both such agreements, the applicable warehouse lending fees.

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

**MSR Recapture Agreement.** Effective February 1, 2013, we entered into an MSR recapture agreement with PLS. Pursuant to the terms of our MSR recapture agreement, if PLS refinances through its consumer direct lending business loans for which we previously held the MSRs, PLS is generally required to transfer and convey to us, without cost to us, the MSRs with respect to new mortgage



loans originated in those refinancings (or, under certain circumstances, other mortgage loans) that have an aggregate unpaid principal balance that is not less than 30% of the total UPB of all such loans so originated. Where the fair market value of the aggregate MSR to be transferred for the applicable month is less than \$200,000, PLS may, at its option, wire cash to us in an amount equal to the fair market value of the MSR in lieu of transferring such MSR. The term of our MSR recapture agreement expires, unless terminated earlier in accordance with the terms of the agreement, on February 1, 2017, subject to automatic renewal for additional 18-month periods, unless terminated in accordance with the terms of the agreement.

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

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

On December 19, 2014, we entered into a second master spread acquisition and MSR servicing agreement with PLS (the “12/19/14 Spread Acquisition Agreement”). The terms of the 12/19/14 Spread Acquisition Agreement are substantially similar to the terms of the 2/1/13 Spread Acquisition Agreement, except that we only intend to purchase ESS relating to Freddie Mac MSRs under the 12/19/14 Spread Acquisition Agreement.

To the extent PLS refinances any of the mortgage loans relating to the ESS we have acquired, the 12/19/14 Spread Acquisition Agreement also contains recapture provisions requiring that PLS transfer to us, at no cost, the ESS relating to a certain percentage of the unpaid principal balance of the newly originated mortgage loans. To the extent the fair market value of the aggregate ESS to be transferred for the applicable month is less than \$200,000, PLS may, at its option, wire cash to us in an amount equal to such fair market value in lieu of transferring such ESS.

On February 29, 2016, the parties terminated the 2/1/13 Spread Acquisition Agreement and all amendments thereto. In connection with the termination of the 2/1/13 Spread Acquisition Agreement, PLS reacquired from us all of its right, title and interest in and to all of the Fannie Mae ESS previously sold by PLS to us and then subject to such 2/1/13 Spread Acquisition Agreement. On February 29, 2016, PLS also reacquired from us all of its right, title and interest in and to all of the Freddie Mac ESS previously sold by PLS to us and then subject to such 12/19/14 Spread Acquisition Agreement. The 12/19/14 Spread Acquisition Agreement remains in full force and effect.

On April 30, 2015, we amended and restated a third master spread acquisition and MSR servicing agreement with PLS (the “4/30/15 Spread Acquisition Agreement”). The terms of the 4/30/15 Spread Acquisition Agreement are substantially similar to the terms of the 2/1/13 Spread Acquisition Agreement and the 12/19/14 Spread Acquisition Agreement, except that we only intend to purchase ESS relating to Ginnie Mae MSRs under the 4/30/15 Spread Acquisition Agreement.

To the extent PLS refinances any of the mortgage loans relating to the ESS we have acquired, the 4/30/15 Spread Acquisition Agreement also contains recapture provisions requiring that PLS transfer to us, at no cost, the ESS relating to a certain percentage of the unpaid principal balance of the newly originated mortgage loans. However, under the 4/30/15 Spread Acquisition Agreement, in any month where the transferred ESS relating to newly originated

Ginnie Mae mortgage loans is not equivalent to at least 90% of the product of the excess servicing fee rate and the unpaid principal balance of the refinanced mortgage loans, PLS is also required to transfer additional ESS or cash in the amount of such shortfall. Similarly, in any month where the transferred ESS relating to modified Ginnie Mae mortgage loans is not equivalent to at least 90% of the product of the excess servicing fee rate and the unpaid principal balance of the modified mortgage loans, the 4/30/15 Spread Acquisition Agreement contains provisions that require PLS to transfer additional ESS or cash in the amount of such shortfall. To the extent the fair market value of the aggregate ESS to be transferred for the applicable month is less than \$200,000, PLS may, at its option, wire cash to us in an amount equal to such fair market value in lieu of transferring such ESS.

In connection with our entry into the 4/30/15 Spread Acquisition Agreement, we were also required to amend and restate the terms of a Security and Subordination Agreement (the "Security Agreement") with CSFB. Under the terms of the Security Agreement, we pledged to CSFB our rights under the 4/30/15 Spread Acquisition Agreement and our interest in any ESS purchased thereunder. The Security Agreement is required as a result of a separate repurchase agreement between PLS and CSFB (the "MSR Repo"),

pursuant to which PLS finances Ginnie Mae MSR's and servicing advance receivables and pledges to CSFB all of its rights and interests in any Ginnie Mae MSR's it owns or acquires, and a separate acknowledgement agreement with respect thereto, by and among Ginnie Mae, CSFB and PLS. As a condition to permitting PLS to transfer to us the ESS relating to a portion of those pledged Ginnie Mae MSR's, CSFB requires such transfer to be subject to CSFB's continuing lien on the ESS, the pledge and acknowledgement of which were effected pursuant to the Security Agreement. CSFB's lien on the ESS remains subordinate to the rights and interests of Ginnie Mae pursuant to the provisions of the 4/30/15 Spread Acquisition Agreement and the terms of the acknowledgement agreement.

The Security Agreement contains representations, warranties and covenants by us that are substantially similar to those contained in our other financing arrangements with CSFB. The Security Agreement also permits CSFB to liquidate our ESS along with the related MSR's to the extent there exists an event of default under the MSR Repo, and it contains certain trigger events, including breaches of representations, warranties or covenants and defaults under other of our credit facilities, that would require PLS to either (i) repay in full the outstanding loan amount under the MSR Repo or (ii) repurchase the ESS from us at fair market value. To the extent PLS is unable to repay the loan under the MSR Repo or repurchase our ESS, an event of default would exist under the MSR Repo, thereby entitling CSFB to liquidate the ESS and the related MSR's. In the event our ESS is liquidated as a result of certain actions or inactions of PLS, we generally would be entitled to seek indemnity under the 4/30/15 Spread Acquisition Agreement.

Note Payable to PLS. In connection with the MSR Repo and the Security Agreement described above, we entered into an underlying loan and security agreement with PLS, dated as of April 30, 2015, pursuant to which we may borrow up to \$150 million from PLS for the purpose of financing our investment in ESS (the "Underlying LSA"). In order to secure our borrowings, we pledge our ESS to PLS under the Underlying LSA, and PLS, in turn, re-pledges such ESS to CSFB under the MSR Repo.

The principal amount of the borrowings under the Underlying LSA is based upon a percentage of the market value of the ESS pledged to PLS, subject to the \$150 million sublimit described above. Pursuant to the Underlying LSA, we granted to PLS a security interest in all of our right, title and interest in, to and under the ESS pledged to secure the borrowings.

We have agreed with PLS in connection with the Underlying LSA that we are required to repay PLS the principal amount of borrowings plus accrued interest to the date of such repayment, and PLS, in turn, is required to repay CSFB the corresponding amount under the MSR Repo. Interest accrues on our note relating to the Underlying LSA at a rate based on CSFB's cost of funds under the MSR Repo. We were also required to pay PLS a fee for the structuring of the Underlying LSA in an amount equal to the portion of the corresponding fee paid by PLS to CSFB and allocable to the increase in the maximum loan amount under the MSR Repo resulting from the ESS financing.

Loan Purchase Agreements. We have entered into a mortgage loan purchase agreement and a flow commercial mortgage loan purchase agreement with our Servicer. Currently, we use the mortgage loan purchase agreement for the purpose of acquiring prime jumbo residential mortgage loans originated by our Servicer through its consumer direct lending channel. We use the flow commercial mortgage loan purchase agreement for the purpose of acquiring small balance commercial mortgage loans, including multifamily mortgage loans, originated by our Servicer as part of our commercial lending business. Each of the loan purchase agreements contains customary terms and provisions, including representations and warranties, covenants, repurchase remedies and indemnities. The purchase prices we pay our Servicer for such loans are market-based.

Commercial Mortgage Servicing Oversight Agreement. We have also entered into a commercial mortgage servicing oversight agreement with PLS that governs its oversight of the master and/or special servicing performed by third party servicers in connection with certain commercial mortgage loans we acquire. For the oversight services performed under this agreement, we are required to pay PLS a fee equal to 5 basis points per annum based on the UPB of the related commercial mortgage loans for which it provides oversight servicing.

Reimbursement Agreement. In connection with the initial public offering of our common shares on August 4, 2009 (the "IPO"), we entered into an agreement with PCM pursuant to which we agreed to reimburse PCM for the \$2.9 million payment that it made to the underwriters for the IPO (the "Conditional Reimbursement") if we satisfied certain performance measures over a specified period of time. Effective February 1, 2013, we amended the terms of the reimbursement agreement to provide for the reimbursement of PCM of the Conditional Reimbursement if we are required to pay PCM performance incentive fees under our management agreement at a rate of \$10 in reimbursement for every \$100 of performance incentive fees earned. The reimbursement of the Conditional Reimbursement is subject to a maximum reimbursement in any particular 12-month period of \$1.0 million and the maximum amount that may be reimbursed under the agreement is \$2.9 million. The reimbursement agreement also provides for the payment to the IPO underwriters of the payment that we agreed to make to them at the time of the IPO if we satisfied certain performance measures over a specified period of time. As PCM earns performance incentive fees under our management agreement, the IPO underwriters will be paid at a rate of \$20 of payments for every \$100 of performance incentive fees earned by PCM. The payment to the underwriters is subject to a maximum reimbursement in any particular 12-month period of \$2.0 million and the maximum amount that may be paid under the agreement is \$5.9 million.

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

### Quantitative and Qualitative Disclosures About Market Risk

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices, real estate values and other market-based risks. The primary market risks that we are exposed to are real estate risk, credit risk, interest rate risk, prepayment risk, inflation risk and market value risk. Our primary trading asset is our inventory of mortgage loans acquired for sale. We believe that such assets' fair values respond primarily to changes in the market interest rates for comparable recently-originated mortgage loans. Our other market-risk assets are a substantial portion of our investments and are comprised of distressed mortgage nonperforming loans and MSR. We believe that the fair values of MSR also respond primarily to changes in the market interest rates for comparable mortgage loans. We believe that the fair values of our investment in distressed mortgage loans respond primarily to changes in the fair value of the real estate securing such loans.

#### Mortgage Loans at Fair Value

The following table summarizes the estimated change in fair value of our portfolio of distressed mortgage loans (comprised of mortgage loans at fair value, excluding mortgage loans at fair value held by VIE) as of June 30, 2016, given several hypothetical (instantaneous) changes in home values from those used in estimating fair value:

| Property value shift in % | -15%                   | -10%        | -5%         | +5%       | +10%      | +15%      |
|---------------------------|------------------------|-------------|-------------|-----------|-----------|-----------|
|                           | (dollars in thousands) |             |             |           |           |           |
| Fair value                | 1,430,619              | 1,484,236   | 1,533,443   | 1,619,020 | 1,655,658 | 1,688,554 |
| Change in fair value:     |                        |             |             |           |           |           |
| \$                        | \$(147,636 )           | \$(94,019 ) | \$(44,812 ) | \$40,765  | \$77,403  | \$110,300 |
| %                         | (9.4 )%                | (6.0 )%     | (2.8 )%     | 2.6 %     | 4.9 %     | 7.0 %     |

The following table summarizes the estimated change in fair value of our mortgage loans at fair value held by VIE as of June 30, 2016, net of the effect of changes in fair value of the related asset-backed financing of the VIE at fair value, given several hypothetical (instantaneous) changes in interest rates and parallel shifts in the yield curve:

| Interest rate shift in basis points | -200                  | -100      | -50       | 50         | 100        | 200         |
|-------------------------------------|-----------------------|-----------|-----------|------------|------------|-------------|
|                                     | (dollar in thousands) |           |           |            |            |             |
| Fair value                          | \$438,965             | \$438,461 | \$437,488 | \$433,536  | \$430,046  | \$421,025   |
| Change in fair value:               |                       |           |           |            |            |             |
| \$                                  | \$3,044               | \$2,540   | \$1,567   | \$(2,385 ) | \$(5,875 ) | \$(14,986 ) |
| %                                   | 0.7 %                 | 0.6 %     | 0.4 %     | (0.6 )%    | (1.4 )%    | (3.4 )%     |

#### Mortgage Servicing Rights

The following tables summarize the estimated change in fair value of MSR accounted for using the amortization method as of June 30, 2016, given several shifts in pricing spreads, prepayment speed and annual per-loan cost of servicing:

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| Pricing spread shift in % | -20%                   | -10%      | -5%       | +5%        | +10%        | +20%        |
|---------------------------|------------------------|-----------|-----------|------------|-------------|-------------|
|                           | (dollars in thousands) |           |           |            |             |             |
| Fair value                | \$444,346              | \$430,303 | \$423,599 | \$410,782  | \$404,653   | \$392,920   |
| Change in fair value:     |                        |           |           |            |             |             |
| \$                        | \$27,252               | \$13,209  | \$6,504   | \$(6,312 ) | \$(12,441 ) | \$(24,175 ) |
| %                         | 6.5                    | % 3.2     | % 1.6     | % (1.5 )%  | (3.0 )%     | (5.8 )%     |

| Prepayment speed shift in % | -20%                   | -10%      | -5%       | +5%        | +10%        | +20%        |
|-----------------------------|------------------------|-----------|-----------|------------|-------------|-------------|
|                             | (dollars in thousands) |           |           |            |             |             |
| Fair value                  | \$458,603              | \$436,969 | \$426,825 | \$407,753  | \$398,779   | \$381,851   |
| Change in fair value:       |                        |           |           |            |             |             |
| \$                          | \$41,508               | \$19,874  | \$9,731   | \$(9,341 ) | \$(18,315 ) | \$(35,243 ) |
| %                           | 10.0                   | % 4.8     | % 2.3     | % (2.2 )%  | (4.4 )%     | (8.4 )%     |

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| Per-loan servicing cost shift in % | -20%                   | -10%      | -5%       | +5%        | +10%       | +20%        |
|------------------------------------|------------------------|-----------|-----------|------------|------------|-------------|
|                                    | (dollars in thousands) |           |           |            |            |             |
| Fair value                         | \$430,431              | \$423,763 | \$420,429 | \$413,760  | \$410,426  | \$403,757   |
| Change in fair value:              |                        |           |           |            |            |             |
| \$                                 | \$13,337               | \$6,669   | \$3,334   | \$(3,334 ) | \$(6,669 ) | \$(13,337 ) |
| %                                  | 3.2                    | % 1.6     | % 0.8     | % (0.8 )   | % (1.6 )   | % (3.2 )    |

The following tables summarize the estimated change in fair value of MSR's accounted for using the fair value option method as of June 30, 2016, given several shifts in pricing spreads, prepayment speed and annual per-loan cost of servicing:

| Pricing spread shift in % | -20%                   | -10%     | -5%      | +5%      | +10%       | +20%       |
|---------------------------|------------------------|----------|----------|----------|------------|------------|
|                           | (dollars in thousands) |          |          |          |            |            |
| Fair value                | \$61,665               | \$59,763 | \$58,856 | \$57,121 | \$56,292   | \$54,705   |
| Change in fair value:     |                        |          |          |          |            |            |
| \$                        | \$3,689                | \$1,788  | \$880    | \$(854 ) | \$(1,683 ) | \$(3,271 ) |
| %                         | 6.4                    | % 3.1    | % 1.5    | % (1.5 ) | % (2.9 )   | % (5.6 )   |

| Prepayment speed shift in % | -20%                   | -10%     | -5%      | +5%        | +10%       | +20%       |
|-----------------------------|------------------------|----------|----------|------------|------------|------------|
|                             | (dollars in thousands) |          |          |            |            |            |
| Fair value                  | \$65,897               | \$61,730 | \$59,805 | \$56,236   | \$54,581   | \$51,501   |
| Change in fair value:       |                        |          |          |            |            |            |
| \$                          | \$7,922                | \$3,754  | \$1,829  | \$(1,739 ) | \$(3,395 ) | \$(6,475 ) |
| %                           | 13.7                   | % 6.5    | % 3.2    | % (3.0 )   | % (5.9 )   | % (11.2 )  |

| Per-loan servicing cost shift in % | -20%                   | -10%     | -5%      | +5%      | +10%       | +20%       |
|------------------------------------|------------------------|----------|----------|----------|------------|------------|
|                                    | (dollars in thousands) |          |          |          |            |            |
| Fair value                         | \$60,051               | \$59,014 | \$58,495 | \$57,457 | \$56,938   | \$55,900   |
| Change in fair value:              |                        |          |          |          |            |            |
| \$                                 | \$2,076                | \$1,038  | \$519    | \$(519 ) | \$(1,038 ) | \$(2,076 ) |
| %                                  | 3.6                    | % 1.8    | % 0.9    | % (0.9 ) | % (1.8 )   | % (3.6 )   |

Excess servicing spread

The following tables summarize the estimated change in fair value of our ESS as of June 30, 2016, given several shifts in pricing spreads and prepayment speed:

| Pricing spread shift in % | -20%                   | -10%      | -5%       | +5%       | +10%      | +20%      |
|---------------------------|------------------------|-----------|-----------|-----------|-----------|-----------|
|                           | (dollars in thousands) |           |           |           |           |           |
| Fair value                | \$309,154              | \$301,676 | \$298,071 | \$294,551 | \$287,757 | \$281,272 |
| Change in fair value:     |                        |           |           |           |           |           |

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|                             |                        |           |           |            |             |             |
|-----------------------------|------------------------|-----------|-----------|------------|-------------|-------------|
| \$                          | \$14,602               | \$7,125   | \$3,520   | \$(3,437 ) | \$(6,794 )  | \$(13,280 ) |
| %                           | 5.0                    | % 2.4     | % 1.2     | % (1.2 )%  | (2.3 )%     | (4.5 )%     |
| Prepayment speed shift in % | -20%                   | -10%      | -5%       | +5%        | +10%        | +20%        |
|                             | (dollars in thousands) |           |           |            |             |             |
| Fair value                  | \$328,642              | \$310,782 | \$302,476 | \$286,983  | \$279,751   | \$266,211   |
| Change in fair value:       |                        |           |           |            |             |             |
| \$                          | \$34,091               | \$16,231  | \$7,925   | \$(7,568 ) | \$(14,800 ) | \$(28,340 ) |
| %                           | 11.6                   | % 5.5     | % 2.7     | % (2.6 )%  | (5.0 )%     | (9.6 )%     |



### Item 3. Quantitative and Qualitative Disclosures About Market Risk

In response to this Item 3, the information set forth on pages 97 through 98 is incorporated herein by reference.

### Item 4. Controls and Procedures

#### Disclosure Controls and Procedures

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

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

#### Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended June 30, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

From time to time, we may be involved in various legal proceedings, claims and actions arising in the ordinary course of business. As of June 30, 2016, we were not involved in any such legal proceedings, claims or actions that management believes would be reasonably likely to have a material adverse effect on us.

## Item 1A. Risk Factors

There are no material changes from the risk factors set forth under Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 29, 2016.

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

There were no sales of unregistered equity securities during the quarter or nine months ended June 30, 2016.

The following table provides information about our common share repurchases during the quarter ended June 30, 2016:

| Period                               | Total<br>number of<br>shares<br>purchased | Average<br>price<br>paid<br>per<br>Share | Total number of<br>shares<br>purchased as<br>part of publicly<br>announced<br>plans<br>or programs (a) | Amount   |
|--------------------------------------|---|--|--|--|
|                                      |   |  |  | available<br>for<br>future share<br>repurchases<br>under the<br>plans or<br>programs<br>(a)<br>(in<br>thousands) |
| January 1, 2016 – January 31, 2016   | —   | \$ —                                     | —  | \$ 183,662   |
| February 1, 2016 – February 29, 2016 | 3,257,479                                 | \$ 11.90                                 | 3,257,479  | \$ 144,884   |
| March 1, 2016 – March 31, 2016       | 1,898,906                                 | \$ 13.53                                 | 1,898,906  | \$ 119,191   |
| April 1, 2016 – April 30, 2016       | 100,000                                   | \$ 13.68                                 | 100,000  | \$ 117,823   |
| May 1, 2016 – May 31, 2016           | 282,999                                   | \$ 14.91                                 | 282,999  | \$ 113,604   |
| June 1, 2016 – June 30, 2016         | 802,520                                   | \$ 15.92                                 | 802,520  | \$ 100,828   |
|                                      | 6,341,904                                 | \$ 13.06                                 | 6,341,904  | \$ 100,828   |

(a) In August 2015, our board of trustees approved a share repurchase program pursuant to which we are authorized to repurchase up to \$150 million of our common shares. In February 2016, our board of trustees approved an increase to our share repurchase program pursuant to which we are now authorized to repurchase up to \$200 million of our

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common shares. Under the program, we have discretion to determine the dollar amount of common shares to be repurchased and the timing of any repurchases in compliance with applicable law and regulation. The program does not have an expiration date. Amounts presented reflect balances as of the end of the applicable period.

### Item 3. Defaults Upon Senior Securities

None

### Item 4. Mine Safety Disclosures

Not applicable

### Item 5. Other Information

None

Item 6. Exhibits

Exhibit

Number Exhibit Description

- 3.1 Declaration of Trust of PennyMac Mortgage Investment Trust, as amended and restated (incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
- 3.2 Amended and Restated Bylaws of PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on August 13, 2013).
- 4.1 Specimen Common Share Certificate of PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 4.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
- 4.2 Indenture for Senior Debt Securities, dated as of April 30, 2013, among PennyMac Corp., PennyMac Mortgage Investment Trust and The Bank of New York Mellon Trust Company, N.A. (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on April 30, 2013).
- 4.3 First Supplemental Indenture, dated as of April 30, 2013, among PennyMac Corp., PennyMac Mortgage Investment Trust and The Bank of New York Mellon Trust Company, N.A. (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed on April 30, 2013).
- 4.4 Form of 5.375% Exchangeable Senior Notes due 2020 (included in Exhibit 4.3).
- 10.1 Amended and Restated Limited Partnership Agreement of PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
- 10.2 Registration Rights Agreement, dated as of August 4, 2009, among PennyMac Mortgage Investment Trust, Stanford L. Kurland, David A. Spector, BlackRock Holdco II, Inc., Highfields Capital Investments LLC and Private National Mortgage Acceptance Company, LLC (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
- 10.3 Amended and Restated Underwriting Fee Reimbursement Agreement, dated as of February 1, 2013, by and among PennyMac Mortgage Investment Trust, PennyMac Operating Partnership, L.P. and PNMAC Capital Management, LLC (incorporated by reference to Exhibit 1.6 of the Company's Current Report on Form 8-K filed on February 7, 2013).
- 10.4 Amended and Restated Management Agreement, dated as of February 1, 2013, among PennyMac Mortgage Investment Trust, PennyMac Operating Partnership, L.P. and PNMAC Capital Management, LLC (incorporated by reference to Exhibit 1.1 of the Company's Current Report on Form 8-K filed on February 7, 2013).
- 10.5 Amendment Number One to Amended and Restated Management Agreement, dated as of December 15, 2015, by and among PennyMac Mortgage Investment Trust, PennyMac Operating Partnership, L.P. and

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PNMAC Capital Management, LLC (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on December 18, 2015).

- 10.6 Second Amended and Restated Flow Servicing Agreement, dated as of March 1, 2013, between PennyMac Operating Partnership, L.P. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.14 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
- 10.7 Amendment No. 1 to Second Amended and Restated Flow Servicing Agreement, dated as of November 14, 2013, between PennyMac Operating Partnership, L.P. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on November 20, 2013).
- 10.8 Amendment No. 2 to Second Amended and Restated Flow Servicing Agreement, dated as of June 1, 2014, between PennyMac Operating Partnership, L.P. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.8 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014).
- 10.9 Amendment No. 3 to Second Amended and Restated Flow Servicing Agreement, dated as of December 11, 2014, between PennyMac Operating Partnership, L.P. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2014).
- 10.10 Amendment No. 4 to Second Amended and Restated Flow Servicing Agreement, dated as of March 31, 2015, between PennyMac Operating Partnership, L.P. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.9 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015).
- 10.11 Amendment No. 5 to Second Amended and Restated Flow Servicing Agreement, dated as of September 1, 2015, between PennyMac Operating Partnership, L.P. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.10 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015).

Exhibit

Number Exhibit Description

- 10.12 Amendment No. 6 to Second Amended and Restated Flow Servicing Agreement, dated as of June 1, 2016, between PennyMac Operating Partnership, L.P. and PennyMac Loan Services, LLC.
- 10.13† PennyMac Mortgage Investment Trust 2009 Equity Incentive Plan (incorporated by reference to Exhibit 10.5 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
- 10.14† Form of Restricted Share Unit Award Agreement under the PennyMac Mortgage Investment Trust 2009 Equity Incentive Plan (incorporated by reference to Exhibit 10.8 to Amendment No. 3 to the Company's Registration Statement on Form S-11, filed with the SEC on July 24, 2009).
- 10.15† Form of Restricted Share Unit Award Agreement under the PennyMac Mortgage Investment Trust 2009 Equity Incentive Plan (incorporated by reference to Exhibit 10.14 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016).
- 10.16† Form of Performance Share Unit Award Agreement under the PennyMac Mortgage Investment Trust 2009 Equity Incentive Plan (incorporated by reference to Exhibit 10.15 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016).
- 10.17 Master Repurchase Agreement, dated as of December 9, 2010, among PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC, and PennyMac Loan Services, LLC, and Citibank, N.A. (incorporated by reference to Exhibit 1.1 of the Company's Current Report on Form 8-K filed on December 15, 2010).
- 10.18 Amendment Number One to the Master Repurchase Agreement, dated as of February 25, 2011, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 1.1 of the Company's Current Report on Form 8-K filed on March 3, 2011).
- 10.19 Amendment Number Two to the Master Repurchase Agreement, dated as of December 8, 2011, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.28 of the Company's Annual Report on Form 10-K for the year ended December 31, 2011).
- 10.20 Amendment Number Three to the Master Repurchase Agreement, dated as of February 24, 2012, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.30 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).
- 10.21 Amendment Number Four to the Master Repurchase Agreement, dated as of April 13, 2012, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.32 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012).
- 10.22 Amendment Number Five to the Master Repurchase Agreement, dated as of April 20, 2012, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.33 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012).

- 10.23 Amendment Number Six to the Master Repurchase Agreement, dated as of May 31, 2012, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 1.1 of the Company's Current Report on Form 8-K filed on June 5, 2012).
- 10.24 Amendment Number Seven to the Master Repurchase Agreement, dated as of November 13, 2012, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.39 of the Company's Annual Report on Form 10-K for the year ended December 31, 2012).
- 10.25 Amendment Number Eight to the Master Repurchase Agreement, dated as of December 31, 2012, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.40 of the Company's Annual Report on Form 10-K for the year ended December 31, 2012).
- 10.26 Amendment Number Nine to the Master Repurchase Agreement, dated as of March 12, 2013, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 1.1 of the Company's Current Report on Form 8-K filed on March 13, 2013).

Exhibit

Number Exhibit Description

- 10.27 Amendment Number Ten to the Master Repurchase Agreement, dated as of April 19, 2013, by and among Citibank, N.A.  
  
and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.47 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013).
- 10.28 Amendment Number Eleven to the Master Repurchase Agreement, dated as of June 25, 2013, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.48 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013).
- 10.29 Amendment Number Twelve to the Master Repurchase Agreement, dated as of July 25, 2013, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 1.1 of the Company's Current Report on Form 8-K filed on July 31, 2013).
- 10.30 Amendment Number Thirteen to the Master Repurchase Agreement, dated as of September 26, 2013, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.48 of the Company's Annual Report on Form 10-K for the year ended December 31, 2013).
- 10.31 Amendment Number Fourteen to the Master Repurchase Agreement, dated as of February 5, 2014, by and among Citibank, N.A. and PennyMac Corp., PennyMac Holdings, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.11 of the Company's Current Report on Form 8-K filed on February 6, 2014).
- 10.32 Amendment Number Fifteen to the Master Repurchase Agreement, dated as of May 13, 2014, by and among Citibank, N.A. and PennyMac Corp., PennyMac Holdings, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.50 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014).
- 10.33 Amendment Number Sixteen to the Master Repurchase Agreement, dated as of July 24, 2014, by and among Citibank, N.A. and PennyMac Corp., PennyMac Holdings, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.42 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014).
- 10.34 Amendment Number Seventeen to the Master Repurchase Agreement, dated as of August 7, 2014, by and among Citibank, N.A. and PennyMac Corp., PennyMac Holdings, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.43 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014).
- 10.35 Amendment Number Eighteen to the Master Repurchase Agreement, dated as of September 8, 2014, by and among Citibank, N.A. and PennyMac Corp., PennyMac Holdings, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.44 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014).



- 10.36 Amendment Number Nineteen to the Master Repurchase Agreement, dated as of July 6, 2015, by and among Citibank, N.A. and PennyMac Corp., PennyMac Holdings, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.44 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015).
- 10.37 Amendment Number Twenty to the Master Repurchase Agreement, dated as of September 7, 2015, by and among Citibank, N.A. and PennyMac Corp., PennyMac Holdings, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.47 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015).
- 10.38 Amendment Number Twenty-One to Master Repurchase Agreement, dated as of October 22, 2015, among PennyMac Corp., PennyMac Holdings, LLC and PennyMac Loan Services, LLC and Citibank, N.A. (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on October 28, 2015).
- 10.39 Amendment Number Twenty-Two to Master Repurchase Agreement, dated as of December 2, 2015, among PennyMac Corp., PennyMac Holdings, LLC and PennyMac Loan Services, LLC and Citibank, N.A. (incorporated by reference to Exhibit 10.52 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015).
- 10.40 Guaranty Agreement, dated as of December 9, 2010, by PennyMac Mortgage Investment Trust in favor of Citibank, N.A. (incorporated by reference to Exhibit 1.2 of the Company's Current Report on Form 8-K filed on December 15, 2010).
- 10.41 Amended and Restated Master Repurchase Agreement, dated as of March 31, 2016, by and among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Holdings, LLC, PennyMac Corp, PennyMac Operating Partnership, L.P., PMC REO Financing Trust and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on April 6, 2016).
- 10.42 Amendment and Restated Guaranty, dated as of March 31, 2016, by PennyMac Mortgage Investment Trust, PennyMac Operating Partnership, L.P. and Credit Suisse First Boston Mortgage Capital, LLC (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on April 6, 2016).

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Exhibit

| Number | Exhibit Description   |
|--------|---|
| 10.43  | Amended and Restated Master Repurchase Agreement, dated as of March 31, 2016, by and among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Operating Partnership, L.P. and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on April 6, 2016). |
| 10.44  | Master Repurchase Agreement, dated as of May 24, 2012, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 1.1 of the Company's Current Report on Form 8-K filed on May 30, 2012).   |
| 10.45  | Amendment Number One to the Master Repurchase Agreement, dated as of October 15, 2012, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 1.1 of the Company's Current Report on Form 8-K filed on October 16, 2012).   |
| 10.46  | Amendment Number Two to the Master Repurchase Agreement, dated as of November 13, 2012, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.62 of the Company's Annual Report on Form 10-K for the year ended December 31, 2012).   |
| 10.47  | Amendment Number Three to the Master Repurchase Agreement, dated as of December 31, 2012, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.72 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).  |
| 10.48  | Amendment Number Four to the Master Repurchase Agreement, dated as of May 23, 2013, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.77 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013).   |
| 10.49  | Amendment Number Five to the Master Repurchase Agreement, dated as of June 25, 2013, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.78 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013).  |
| 10.50  | Amendment Number Six to the Master Repurchase Agreement, dated as of July 25, 2013, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 1.2 of the Company's Current Report on Form 8-K filed on July 31, 2013).   |
| 10.51  | Amendment Number Seven to the Master Repurchase Agreement, dated as of February 5, 2014, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.12 of the Company's Current Report on Form 8-K filed on February 6, 2014).   |
| 10.52  | Amendment Number Eight to the Master Repurchase Agreement, dated as of July 24, 2014, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.86 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014).  |
| 10.53  |   |

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Amendment Number Nine to the Master Repurchase Agreement, dated as of August 7, 2014, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.87 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014).

- 10.54 Amendment Number Ten to the Master Repurchase Agreement, dated as of September 8, 2014, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.88 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014).
- 10.55 Amendment Number Eleven to the Master Repurchase Agreement, dated as of July 6, 2015, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.89 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015).
- 10.56 Amendment Number Twelve to the Master Repurchase Agreement, dated as of September 7, 2015, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.96 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015).
- 10.57 Amendment Number Thirteen to Master Repurchase Agreement, dated as of October 22, 2015, among PennyMac Corp., PennyMac Loan Services, LLC and Citibank, N.A. (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on October 28, 2015).
- 10.58 Amendment Number Fourteen to Master Repurchase Agreement, dated as of December 2, 2015, among PennyMac Corp., PennyMac Loan Services, LLC and Citibank, N.A. (incorporated by reference to Exhibit 10.106 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015).
- 10.59 Amendment Number Fifteen to Master Repurchase Agreement, dated as of July 25, 2016, among PennyMac Corp., PennyMac Loan Services, LLC and Citibank, N.A.

103

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Exhibit

Number Exhibit Description

- 10.60 Guaranty, dated as of May 24, 2012, by PennyMac Mortgage Investment Trust in favor of Citibank, N.A. (incorporated by reference to Exhibit 1.2 of the Company's Current Report on Form 8-K filed on May 30, 2012).
- 10.61 Guaranty, dated as of September 28, 2012, by PennyMac Mortgage Investment Trust in favor of Credit Suisse First Boston Mortgage Capital LLC (incorporated by reference to Exhibit 1.2 of the Company's Current Report on Form 8-K filed on October 3, 2012).
- 10.62 Master Repurchase Agreement, dated as of November 20, 2012, among PennyMac Corp., Morgan Stanley Bank, N.A. and Morgan Stanley Mortgage Capital Holdings LLC (incorporated by reference to Exhibit 1.1 of the Company's Current Report on Form 8-K filed on November 26, 2012).
- 10.63 Amendment Number One to the Master Repurchase Agreement, dated as of August 20, 2013, among PennyMac Corp., Morgan Stanley Bank, N.A. and Morgan Stanley Mortgage Capital Holdings LLC (incorporated by reference to Exhibit 10.96 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013).
- 10.64 Amendment Number Two to the Master Repurchase Agreement, dated as of August 26, 2013, among PennyMac Corp., Morgan Stanley Bank, N.A. and Morgan Stanley Mortgage Capital Holdings LLC (incorporated by reference to Exhibit 10.97 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013).
- 10.65 Amendment Number Three to the Master Repurchase Agreement, dated as of November 14, 2013, among PennyMac Corp., Morgan Stanley Bank, N.A. and Morgan Stanley Mortgage Capital Holdings LLC (incorporated by reference to Exhibit 10.95 of the Company's Annual Report on Form 10-K for the year ended December 31, 2013).
- 10.66 Amendment Number Four to the Master Repurchase Agreement, dated as of December 19, 2013, among PennyMac Corp., Morgan Stanley Bank, N.A. and Morgan Stanley Mortgage Capital Holdings LLC (incorporated by reference to Exhibit 10.96 of the Company's Annual Report on Form 10-K for the year ended December 31, 2013).
- 10.67 Amendment Number Five to the Master Repurchase Agreement, dated as of December 18, 2014, among PennyMac Corp., Morgan Stanley Bank, N.A. and Morgan Stanley Mortgage Capital Holdings LLC (incorporated by reference to Exhibit 10.101 of the Company's Annual Report on Form 10-K for the year ended December 31, 2014).
- 10.68 Amendment Number Six to the Master Repurchase Agreement, dated as of July 27, 2015, among PennyMac Corp., Morgan Stanley Bank, N.A. and Morgan Stanley Mortgage Capital Holdings LLC (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on July 30, 2015).
- 10.69 Amendment Number Seven to the Master Repurchase Agreement, dated as of December 17, 2015, among PennyMac Corp., Morgan Stanley Bank, N.A. and Morgan Stanley Mortgage Capital Holdings LLC

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(incorporated by reference to Exhibit 10.125 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015).

- 10.70 Guaranty, dated as of November 20, 2012, by PennyMac Mortgage Investment Trust in favor of Morgan Stanley Bank, N.A. and Morgan Stanley Mortgage Capital Holdings LLC (incorporated by reference to Exhibit 1.2 of the Company's Current Report on Form 8-K filed on November 26, 2012).
- 10.71 Mortgage Banking and Warehouse Services Agreement, dated as of February 1, 2013, by and between PennyMac Loan Services, LLC and PennyMac Corp. (incorporated by reference to Exhibit 1.3 of the Company's Current Report on Form 8-K filed on February 7, 2013).
- 10.72 Amendment No. 1 to Mortgage Banking and Warehouse Services Agreement, dated as of March 1, 2013, by and between PennyMac Loan Services, LLC and PennyMac Corp. (incorporated by reference to Exhibit 10.85 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
- 10.73 Amendment No. 2 to Mortgage Banking and Warehouse Services Agreement, dated as of August 14, 2013, by and between PennyMac Loan Services, LLC and PennyMac Corp. (incorporated by reference to Exhibit 1.1 of the Company's Current Report on Form 8-K filed on August 19, 2013).
- 10.74 Amendment No. 3 to Mortgage Banking and Warehouse Services Agreement, dated as of December 15, 2015, by and between PennyMac Loan Services, LLC and PennyMac Corp. (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on December 18, 2015).
- 10.75 MSR Recapture Agreement, dated as of February 1, 2013, by and between PennyMac Loan Services, LLC and PennyMac Corp. (incorporated by reference to Exhibit 1.4 of the Company's Current Report on Form 8-K filed on February 7, 2013).
- 10.76 Amendment No. 1 to MSR Recapture Agreement, dated as of August 1, 2013, by and between PennyMac Loan Services, LLC and PennyMac Corp. (incorporated by reference to Exhibit 10.103 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013).

Exhibit

Number Exhibit Description

- 10.77 Amended and Restated Master Spread Acquisition and MSR Servicing Agreement, dated as of April 30, 2015, between PennyMac Loan Services, LLC and PennyMac Holdings, LLC (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on May 6, 2015).
- 10.78 Amendment No. 1 to Amended and Restated Master Spread Acquisition and MSR Servicing Agreement, dated as of August 26, 2015, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Loan Services, LLC and PennyMac Holdings, LLC (incorporated by reference to Exhibit 10.129 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015).
- 10.79 Amendment No. 2 to Amended and Restated Master Spread Acquisition and MSR Servicing Agreement, dated as of November 10, 2015, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Loan Services, LLC and PennyMac Holdings, LLC (incorporated by reference to Exhibit 10.143 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015).
- 10.80 Second Amended and Restated Security and Subordination Agreement, dated as of November 10, 2015, between PennyMac Holdings, LLC and Credit Suisse First Boston Mortgage Capital LLC (incorporated by reference to Exhibit 10.145 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015).
- 10.81 Master Spread Acquisition and MSR Servicing Agreement, dated as of December 19, 2014, by and between PennyMac Loan Services, LLC, PennyMac Holdings, LLC and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on December 24, 2014).
- 10.82 Amendment No 1. to Master Spread Acquisition and MSR Servicing Agreement, dated as of March 3, 2015, by and between PennyMac Loan Services, LLC, PennyMac Operating Partnership, L.P., and PennyMac Holdings, LLC (incorporated by reference to Exhibit 10.122 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015).
- 10.83 Mortgage Loan Participation Purchase and Sale Agreement, dated as of December 23, 2011, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on February 6, 2014).
- 10.84 Amendment No. 1 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of August 17, 2012, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on February 6, 2014).
- 10.85 Amendment No. 2 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of October 29, 2012, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K filed on February 6, 2014).
- 10.86 Amendment No. 3 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of December 5, 2012, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and

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PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.5 of the Company's Current Report on Form 8-K filed on February 6, 2014).

- 10.87 Amendment No. 4 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of January 3, 2013, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.6 of the Company's Current Report on Form 8-K filed on February 6, 2014).
- 10.88 Amendment No. 5 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of March 28, 2013, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.7 of the Company's Current Report on Form 8-K filed on February 6, 2014).
- 10.89 Amendment No. 6 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of January 2, 2014, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.8 of the Company's Current Report on Form 8-K filed on February 6, 2014).
- 10.90 Amendment No. 7 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of January 31, 2014, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.9 of the Company's Current Report on Form 8-K filed on February 6, 2014).
- 10.91 Amendment No. 8 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of March 27, 2014, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.130 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014).

Exhibit

Number Exhibit Description

- 10.92 Amendment No. 9 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of January 30, 2015, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.130 of the Company's Annual Report on Form 10-K for the year ended December 31, 2014).
- 10.93 Amendment No. 10 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of December 22, 2015, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.159 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015).
- 10.94 Amendment No. 11 to Mortgage Loan Participation Purchase and Sale Agreement, dated as of March 29, 2016, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.164 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016).
- 10.95 Guaranty, dated as of December 23, 2011, by PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. in favor of Bank of America, N.A. (incorporated by reference to Exhibit 10.10 of the Company's Current Report on Form 8-K filed on February 6, 2014).
- 10.96 Master Repurchase Agreement, dated as of July 9, 2014, among Bank of America, N.A., PennyMac Operating Partnership, L.P. and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on July 14, 2014).
- 10.97 Amendment No. 1 to Master Repurchase Agreement, dated as of January 30, 2015, among Bank of America, N.A., PennyMac Operating Partnership, L.P. and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.133 of the Company's Annual Report on Form 10-K for the year ended December 31, 2014).
- 10.98 Amendment No. 2 to Master Repurchase Agreement, dated as of March 29, 2016, among Bank of America, N.A., PennyMac Operating Partnership, L.P. and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.168 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016).
- 10.99 Guaranty, dated as of July 9, 2014, by PennyMac Mortgage Investment Trust in favor of Bank of America, N.A. (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on July 14, 2014).
- 10.100 Master Repurchase Agreement, dated as of January 27, 2015, among JPMorgan Chase Bank, National Association, PennyMac Corp., PennyMac Operating Partnership, L.P., PennyMac Holdings, LLC, PMC REO Trust 2015-1, TRS REO Trust 1-A, and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on February 2, 2015).
- 10.101



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Amendment No. 1 to Master Repurchase Agreement, dated as of March 27, 2015, among JPMorgan Chase Bank, National Association, PennyMac Corp., PennyMac Operating Partnership, L.P., PennyMac Holdings, LLC, PMC REO Trust 2015-1, TRS REO Trust 1-A, and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.143 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015).

- 10.102 Guaranty, dated as of January 27, 2015, by PennyMac Mortgage Investment Trust in favor of JPMorgan Chase Bank, National Association (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on February 2, 2015).
- 10.103 Loan and Security Agreement, dated as of March 31, 2015, between PennyMac Corp. and Citibank, N.A. (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K as filed with the SEC on April 3, 2015).
- 10.104 Amendment Number One to the Loan and Security Agreement, dated as of May 13, 2015, between PennyMac Corp. and Citibank, N.A. (incorporated by reference to Exhibit 10.145 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015).
- 10.105 Amendment Number Two to the Loan and Security Agreement, dated as of July 6, 2015, between PennyMac Corp. and Citibank, N.A. (incorporated by reference to Exhibit 10.146 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015).
- 10.106 Amendment Number Three to the Loan and Security Agreement, dated as of March 29, 2016, between PennyMac Corp. and Citibank, N.A.
- 10.107 Guaranty, dated as of March 31, 2015, by PennyMac Mortgage Investment Trust in favor of Citibank, N.A. (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K as filed with the SEC on April 3, 2015).
- 10.108 Loan and Security Agreement, dated as of April 30, 2015, by and between PennyMac Loan Services, LLC and PennyMac Holdings, LLC (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K as filed with the SEC on May 6, 2015).

Exhibit

Number Exhibit Description

- 10.109 Amendment No. 1 to Loan and Security Agreement, dated as of October 30, 2015, by and between PennyMac Loan Services, LLC and PennyMac Holdings, LLC (incorporated by reference to Exhibit 10.159 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015).
- 10.110 Amendment No. 2 to Loan and Security Agreement, dated as of November 10, 2015, by and among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Loan Services, LLC and PennyMac Holdings, LLC (incorporated by reference to Exhibit 10.173 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015).
- 10.111 Amendment No. 3 to Loan and Security Agreement, dated as of December 15, 2015, by and among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Loan Services, LLC and PennyMac Holdings, LLC (incorporated by reference to Exhibit 10.174 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015).
- 10.112 Amendment No. 4 to Loan and Security Agreement, dated as of January 28, 2016, by and among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Loan Services, LLC and PennyMac Holdings, LLC (incorporated by reference to Exhibit 10.175 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015).
- 10.113 Amendment No. 5 to Loan and Security Agreement, dated as of March 31, 2016, by and among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Loan Services, LLC and PennyMac Holdings, LLC.
- 10.114 Guaranty, dated as of April 30, 2015, by PennyMac Mortgage Investment Trust in favor of Credit Suisse First Boston Mortgage Capital LLC (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on May 6, 2015).
- 10.115 Amended and Restated Guaranty, dated as of November 10, 2015, by PennyMac Mortgage Investment Trust in favor of Credit Suisse First Boston Mortgage Capital LLC (incorporated by reference to Exhibit 10.177 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015).
- 10.116 Advances, Pledge and Security Agreement, dated as of June 16, 2014, between PMT Insurance, LLC and the Federal Home Loan Bank of Des Moines (incorporated by reference to Exhibit 10.150 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015).
- 10.117 Affiliate Collateral Pledge and Security Agreement, dated as of May 26, 2015, by and among PennyMac Securities Holding, LLC, PMT Insurance, LLC, and the Federal Home Loan Bank of Des Moines (incorporated by reference to Exhibit 10.151 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015).
- 10.118 Affiliate Collateral Pledge and Security Agreement, dated as of May 26, 2015, by and among PennyMac Corp., PMT Insurance, LLC, and the Federal Home Loan Bank of Des Moines (incorporated by reference to Exhibit 10.152 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015).
- 10.119 Affiliate Collateral Pledge and Security Agreement, dated as of May 26, 2015, by and among PennyMac Holdings, LLC, PMT Insurance, LLC, and the Federal Home Loan Bank of Des Moines (incorporated by reference to Exhibit 10.153 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30,

2015).

- 10.120 Guaranty, dated as of April 9, 2015, by PennyMac Mortgage Investment Trust in favor of Federal Home Loan Bank of Des Moines (incorporated by reference to Exhibit 10.154 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015).
- 10.121 Mortgage Loan Purchase Agreement, dated as of September 25, 2012, by and between PennyMac Loan Services, LLC and PennyMac Corp. (incorporated by reference to Exhibit 10.183 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015).
- 10.122 Flow Sale Agreement, dated as of June 16, 2015, by and between PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.155 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015).
- 10.123 Master Repurchase Agreement, dated as of September 14, 2015, among Barclays Bank PLC, PennyMac Corp., PennyMac Loan Services, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on September 18, 2015).
- 10.124 Mortgage Loan Participation Purchase and Sale Agreement, dated as of September 14, 2015, among PennyMac Corp., PennyMac Loan Services, LLC and Barclays Bank PLC (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on September 18, 2015).
- 10.125 Amended and Restated Loan and Security Agreement, dated as of January 22, 2016, by and among PennyMac Corp., PennyMac Holdings, LLC, PennyMac Mortgage Investment Trust and Barclays Bank PLC (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on January 28, 2016).

107

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Exhibit

Number Exhibit Description

- 10.126 Master Spread Acquisition and MSR Servicing Agreement, dated as of January 22, 2016, by and between PennyMac Corp. and PennyMac Holdings, LLC (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on January 28, 2016).
- 10.127 Amended and Restated Flow Commercial Mortgage Loan Purchase Agreement, dated as of June 1, 2016, by and between PennyMac Loan Services, LLC and PennyMac Corp.
- 10.128 Servicing Agreement, dated as of July 13, 2015, between PennyMac Corp., PennyMac Holdings, LLC, any other parties signing this Agreement as an owner of Mortgage Loans as listed in Schedule I and any New Owners, PennyMac Loan Services, LLC, and Midland Loan Services, a division of PNC Bank, National Association (incorporated by reference to Exhibit 10.191 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015).
- 10.129 Amended and Restated Commercial Mortgage Service Oversight Agreement, dated as of June 1, 2016, among PennyMac Corp., PennyMac Holdings, LLC, and PennyMac Loan Services, LLC.
- 31.1 Certification of Stanford L. Kurland pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Anne D. McCallion pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1\*\* Certification of Stanford L. Kurland pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2\*\* Certification of Anne D. McCallion pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015, (ii) the Consolidated Statements of Income for the quarters ended June 30, 2016 and 2015, (iii) the Consolidated Statements of Changes in Shareholders' Equity for the quarters ended June 30, 2016 and 2015, (iv) the Consolidated Statements of Cash Flows for the quarters ended June 30, 2016 and 2015, and (v) the Notes to the Consolidated Financial Statements.

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

†Indicates management contract or compensatory plan or arrangement.

SIGNATURES

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

Pennymac Mortgage Investment Trust

(Registrant)

Dated: August 5, 2016 By: /s/ Stanford L. Kurland  
Stanford L. Kurland  
Chairman of the Board and Chief Executive Officer

Dated: August 5, 2016 By: /s/ Anne D. McCallion  
Anne D. McCallion  
Chief Financial Officer