AG Mortgage Investment Trust, Inc.
Form 10-Q
August 07, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2018

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ____________ to ____________

Commission file number 001-35151

AG MORTGAGE INVESTMENT TRUST, INC.

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

(212) 692-2000

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large Accelerated filer ¨ Accelerated filer x Non-Accelerated filer ¨ Smaller reporting company ¨ Emerging growth company ¨ (Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

As of July 23, 2018, there were 28,226,211 outstanding shares of common stock of AG Mortgage Investment Trust, Inc.

AG MORTGAGE INVESTMENT TRUST, INC.

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PART I

ITEM 1. FINANCIAL STATEMENTS

AG Mortgage Investment Trust, Inc. and Subsidiaries

Consolidated Balance Sheets

(Unaudited)

	June 30, 2018	December 31, 2017
Assets		
Real estate securities, at fair value:		
Agency - $1,818,202,310 and $2,126,135,420 pledged as collateral, respectively	$ 2,044,789,802	$ 2,247,161,035
Non-Agency - $799,315,479 and $976,071,673 pledged as collateral, respectively	821,946,929	1,004,255,658
ABS - $24,510,960 and $30,832,553 pledged as collateral, respectively	37,755,352	40,957,553
CMBS - $205,848,907 and $211,179,945 pledged as collateral, respectively	210,335,164	220,168,505
Residential mortgage loans, at fair value - $90,133,713 and $15,860,583 pledged as collateral, respectively	93,129,269	18,889,693
Commercial loans, at fair value - $32,800,000 pledged as collateral	43,216,666	57,520,646
Investments in debt and equity of affiliates	129,378,242	99,696,347
Excess mortgage servicing rights, at fair value	29,281,765	5,083,514
Cash and cash equivalents	31,145,470	15,199,655
Restricted cash	50,980,839	37,615,281
Interest receivable	12,156,133	12,607,386
Receivable under reverse repurchase agreements	-	24,671,320
Derivative assets, at fair value	4,222,706	2,127,070
Other assets	2,582,919	2,491,201
Due from broker	1,563,968	850,514
Total Assets	$3,512,485,224	$ 3,789,295,378
Liabilities		
Repurchase agreements	$2,634,181,881	$ 3,004,407,018
Securitized debt, at fair value	13,984,245	16,477,801
Obligation to return securities borrowed under reverse repurchase agreements, at fair value	-	24,379,356
Payable on unsettled trades	134,597,154	2,418,710
Interest payable	7,193,331	5,225,940
Derivative liabilities, at fair value	625,990	450,208

Dividend payable	14,100,464	13,391,457
Due to affiliates	4,035,705	4,258,074
Accrued expenses	1,316,664	790,271
Taxes payable	923,448	1,545,448
Due to broker	4,968,236	1,691,888
Total Liabilities	2,815,927,118	3,075,036,171
Commitments and Contingencies (Note 13)		
Stockholders' Equity		
Preferred stock - $0.01 par value; 50,000,000 shares authorized:		
8.25% Series A Cumulative Redeemable Preferred Stock, 2,070,000 shares issued and outstanding ($51,750,000 aggregate liquidation preference)	49,920,772	49,920,772
8.00% Series B Cumulative Redeemable Preferred Stock, 4,600,000 shares issued and outstanding ($115,000,000 aggregate liquidation preference)	111,293,233	111,293,233
Common stock, par value $0.01 per share; 450,000,000 shares of common stock authorized and 28,200,928 and 28,192,541 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	282,011	281,927
Additional paid-in capital	585,641,670	585,530,292
Retained earnings/(deficit)	(50,579,580)	(32,767,017)
Total Stockholders' Equity	696,558,106	714,259,207
Total Liabilities & Stockholders' Equity	$3,512,485,224	$ 3,789,295,378

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

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AG Mortgage Investment Trust, Inc. and Subsidiaries

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Net Interest Income				
Interest income	$ 36,011,375	$ 31,220,535	$ 75,368,522	$ 59,180,427
Interest expense	16,270,821	10,201,393	31,596,603	18,362,805
	19,740,554	21,019,142	43,771,919	40,817,622
Other Income/(Loss)				
Net realized gain/(loss)	(11,059,686)	(10,121,477)	(22,898,818)	(12,549,564)
Realized gain/(loss) on periodic interest settlements of derivative instruments, net	1,261,684	(1,857,542)	(208,476)	(3,467,519)
Unrealized gain/(loss) on real estate securities and loans, net	(578,375)	25,546,552	(36,733,183)	38,297,116
Unrealized gain/(loss) on derivative and other instruments, net	4,781,276	1,927,169	41,871,242	1,801,297
Other income	20,131	3,845	20,386	31,882
	(5,574,970)	15,498,547	(17,948,849)	24,113,212
Expenses				
Management fee to affiliate	2,386,669	2,443,780	4,825,838	4,919,596
Other operating expenses	3,442,611	2,851,353	6,665,155	5,644,587
Servicing fees	22,178	86,001	84,356	162,002
Equity based compensation to affiliate	93,948	87,540	145,410	165,018
Excise tax	375,000	375,000	750,000	750,000
	6,320,406	5,843,674	12,470,759	11,641,203
Income/(loss) before equity in earnings/(loss) from affiliates	7,845,178	30,674,015	13,352,311	53,289,631
Equity in earnings/(loss) from affiliates	322,967	2,497,116	3,063,243	4,999,162
Net Income/(Loss)	8,168,145	33,171,131	16,415,554	58,288,793
Dividends on preferred stock	3,367,354	3,367,354	6,734,708	6,734,708
Net Income/(Loss) Available to Common Stockholders	$ 4,800,791	$ 29,803,777	$ 9,680,846	$ 51,554,085

Earnings/(Loss) Per Share of Common Stock				
Basic	$ 0.17	$ 1.08	$ 0.34	$ 1.86
Diluted	$ 0.17	$ 1.07	$ 0.34	$ 1.86
Weighted Average Number of Shares of Common Stock Outstanding				
Basic	28,200,928	27,724,183	28,198,315	27,713,104
Diluted	28,228,070	27,731,325	28,221,904	27,720,309

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

AG Mortgage Investment Trust, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity

(Unaudited)

	Common Stock		8.25 % Series A Cumulative Redeemable	8.00 % Series B Cumulative Redeemable	Additional	Retained	
	Shares	Amount	Preferred Stock	Preferred Stock	Paid-in Capital	Earnings/(Deficit)	Total
Balance at January 1, 2017	27,700,154	$277,002	$49,920,772	$111,293,233	$576,276,322	$(81,890,939)	$655,876,390
Net proceeds from issuance of common stock	99,932	1,000	-	-	1,779,185	-	1,780,185
Grant of restricted stock and amortization of equity based compensation	5,076	51	-	-	284,871	-	284,922
Common dividends declared	-	-	-	-	-	(26,363,887)	(26,363,887)
Preferred Series A dividends declared	-	-	-	-	-	(2,134,708)	(2,134,708)
Preferred Series B dividends declared	-	-	-	-	-	(4,600,000)	(4,600,000)
Net Income/(Loss)	-	-	-	-	-	58,288,793	58,288,793
Balance at June 30, 2017	27,805,162	$278,053	$49,920,772	$111,293,233	$578,340,378	$(56,700,741)	$683,131,695
Balance at January 1, 2018	28,192,541	$281,927	$49,920,772	$111,293,233	$585,530,292	$(32,767,017)	$714,259,207
	-	-	-	-	(225,419)	-	(225,419)

Net proceeds from issuance of common stock							
Grant of restricted stock and amortization of equity based compensation	8,387	84	-	-	336,797	-	336,881
Common dividends declared	-	-	-	-	-	(27,493,409)	(27,493,409)
Preferred Series A dividends declared	-	-	-	-	-	(2,134,708)	(2,134,708)
Preferred Series B dividends declared	-	-	-	-	-	(4,600,000)	(4,600,000)
Net Income/(Loss)	-	-	-	-	-	16,415,554	16,415,554
Balance at June 30, 2018	28,200,928	$282,011	$49,920,772	$111,293,233	$585,641,670	$(50,579,580)	$696,558,106

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

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AG Mortgage Investment Trust, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Cash Flows from Operating Activities		
Net income/(loss)	$ 16,415,554	$ 58,288,793
Adjustments to reconcile net income/(loss) to net cash provided by (used in) operating activities:		
Net amortization of premium	36,693	(3,173,222)
Net realized (gain)/loss	22,898,818	12,549,564
Unrealized (gains)/losses on real estate securities and loans, net	36,733,183	(38,297,116)
Unrealized (gains)/losses on derivative and other instruments, net	(41,871,242)	(1,801,297)
Equity based compensation to affiliate	145,410	165,018
Equity based compensation expense	191,471	119,904
(Income)/loss from investments in debt and equity of affiliates in excess of distributions received	2,586,377	(2,048,062)
Change in operating assets/liabilities:		
Interest receivable	(20,344)	(1,617,572)
Other assets	(451,383)	555,298
Due from broker	(646,869)	(56,819)
Interest payable	1,443,162	1,764,770
Due to affiliates	(222,369)	333,322
Accrued expenses	600,034	(23,391)
Taxes payable	(622,000)	(916,000)
Net cash provided by (used in) operating activities	37,216,495	25,843,190
Cash Flows from Investing Activities		
Purchase of real estate securities	(1,147,269,288)	(841,128,758)
Purchase of residential mortgage loans	(105,450,264)	-
Purchase of commercial loans	-	(10,270,833)
Purchase of U.S. Treasury securities	(249,658,991)	-
Purchase of excess mortgage servicing rights	(25,162,285)	(2,422,805)
Investments in debt and equity of affiliates	(40,781,194)	(14,471,397)
Proceeds from sales of real estate securities	1,314,738,672	260,894,043
Proceeds from sales of residential mortgage loans	30,980,940	13,760,936
Proceeds from sales of U.S. treasury securities	249,227,323	-
Principal repayments/return of basis on real estate securities and excess mortgage servicing rights	246,920,274	219,677,305
Principal repayments on commercial loans	14,521,806	13,478,194
Principal repayments on residential mortgage loans	1,255,512	5,145,108
	20,862,325	4,097,932

Distribution received in excess of income from investments in debt and equity of affiliates		
Net proceeds from/(payments made) on reverse repurchase agreements	24,695,299	22,680,932
Net proceeds from/(payments made) on sales of securities borrowed under reverse repurchase agreements	(24,032,417)	(22,413,242)
Net settlement of interest rate swaps and other instruments	19,330,928	(9,619,621)
Net settlement of TBAs	164,531	1,331,055
Cash flows provided by/(used in) other investing activities	784,668	3,398,529
Net cash provided by/(used in) investing activities	331,127,839	(355,862,622)
Cash Flows from Financing Activities		
Net proceeds from issuance of common stock	(225,419)	1,830,184
Borrowings under repurchase agreements	26,737,707,545	14,939,399,850
Repayments of repurchase agreements	(27,074,212,237)	(14,577,400,121)
Repayments of loan participation	-	(1,800,000)
Net collateral received from/(paid to) derivative counterparty	31,178,389	(430,940)
Net collateral received from/(paid to) repurchase counterparty	37,871	(321,957)
Dividends paid on common stock	(26,784,402)	(26,315,977)
Dividends paid on preferred stock	(6,734,708)	(6,734,708)
Net cash provided by/(used in) financing activities	(339,032,961)	328,226,331
Net change in cash, cash equivalents and restricted cash	29,311,373	(1,793,101)
Cash, cash equivalents, and restricted cash, Beginning of Period	52,814,936	79,053,418
Cash, cash equivalents, and restricted cash, End of Period	$82,126,309	$77,260,317
Supplemental disclosure of cash flow information:		
Cash paid for interest on repurchase agreements	$29,292,276	$16,736,898
Cash paid for income tax	$1,384,449	$1,727,709
Supplemental disclosure of non-cash financing and investing activities:		
Principal repayments on real estate securities not yet received	$800,785	$9,879,692
Principal repayments on residential mortgage loans not yet received	$-	$447,676
Common stock dividends declared but not paid	$14,100,464	$13,205,483
Repayments of repurchase agreements not yet paid	$-	$6,537,247
Decrease in securitized debt	$2,481,926	$2,747,475
Transfer from residential mortgage loans to other assets	$654,153	$2,050,070
Transfer from non-agency to investments in debt and equity of affiliates	$44,969,520	$-
Transfer from other assets to investments in debt and equity of affiliates	$242,336	$-
Transfer from repurchase agreements to investments in debt and equity of affiliates	$33,720,445	$-

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows:

	June 30, 2018	June 30, 2017
Cash and cash equivalents	$ 31,145,470	$ 29,150,477
Restricted cash	50,980,839	48,109,840
	$82,126,309	$77,260,317

Total cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows

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

AG Mortgage Investment Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

June 30, 2018

1. Organization

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

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

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

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

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

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

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

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

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

2. Summary of significant accounting policies

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

Cash and cash equivalents

Cash is comprised of cash on deposit with financial institutions. The Company classifies highly liquid investments with original maturities of three months or less from the date of purchase as cash equivalents. As of June 30, 2018 and December 31, 2017, the Company held no cash equivalents. The Company places its cash with high credit quality institutions to minimize credit risk exposure. Cash pledged to the Company as collateral is unrestricted in use and, accordingly, is included as a component of “Cash and cash equivalents” on the consolidated balance sheets. Any cash held by the Company as collateral is included in the “Due to broker” line item on the consolidated balance sheets and in cash flows from financing activities on the consolidated statement of cash flows. Due to broker does not include variation margin received on centrally cleared derivatives. See Note 8 for more detail. Any cash due to the Company in the form of principal payments is included in the “Due from broker” line item on the consolidated balance sheets and in cash flows from operating activities on the consolidated statement of cash flows.

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AG Mortgage Investment Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

June 30, 2018

Restricted cash

Restricted cash includes cash pledged as collateral for clearing and executing trades, derivatives and repurchase agreements and is not available to the Company for general corporate purposes. Restricted cash may be returned to the Company when the related collateral requirements are exceeded or at the maturity of the derivative or repurchase agreement. Restricted cash is carried at cost, which approximates fair value. Restricted cash does not include variation margin pledged on centrally cleared derivatives. See Note 8 for more detail.

Offering costs

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

Use of estimates

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

Earnings/(Loss) per share

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

Valuation of financial instruments

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

The three levels of the hierarchy under ASC 820 are described below:

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

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

Accounting for real estate securities

Investments in real estate securities are recorded in accordance with ASC 320-10, "Investments – Debt and Equity Securities," ASC 325-40, "Beneficial Interests in Securitized Financial Assets," or ASC 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality." The Company has chosen to make a fair value election pursuant to ASC 825, "Financial Instruments" for its real estate securities portfolio. Real estate securities are recorded at fair market value on the consolidated balance sheets and the periodic change in fair market value is recorded in current period earnings on the consolidated statement of operations as a component of "Unrealized gain/(loss) on real estate securities and loans, net." Real estate securities acquired through securitizations are shown in the line item "Purchase of real estate securities" on the consolidated statement of cash flows.

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AG Mortgage Investment Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

June 30, 2018

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

When the Company purchases securities with evidence of credit deterioration since origination, it will analyze to determine if the guidance found in ASC 310-30 is applicable.

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

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

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

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

Any remaining unrealized losses on securities at June 30, 2018 do not represent other than temporary impairment as the Company has the ability and intent to hold the securities to maturity or for a period of time sufficient for a forecasted market price recovery up to or above the amortized cost of the investment, and the Company is not required to sell the security for regulatory or other reasons. In addition, any unrealized losses on the Company's Agency RMBS accounted for under ASC 320 are not due to credit losses given their explicit guarantee of principal and interest by the GSEs, but rather are due to changes in interest rates and prepayment expectations. See Note 3 for a summary of OTTI charges recorded.

Sales of securities

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

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

Accounting for mortgage loans

Investments in mortgage loans are recorded in accordance with ASC 310-10. At purchase, the Company may aggregate its mortgage loans into pools based on common risk characteristics. Once a pool of loans is assembled, its composition is maintained. The Company has chosen to make a fair value election pursuant to ASC 825 for its mortgage loan portfolio. Loans are recorded at fair market value on the consolidated balance sheets and any periodic change in fair market value will be recorded in current period earnings on the consolidated statement of operations as a component of "Unrealized gain/(loss) on real estate securities and loans, net."

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

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

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

Investments in debt and equity of affiliates

The Company’s unconsolidated ownership interests in affiliates are accounted for using the equity method. A majority of the Company’s investments held through affiliated entities are comprised of real estate securities, Excess MSRs, and loans, including loans held through Mortgage Acquisition Holding I LLC (“MATH”) as discussed below. These entities have chosen to make a fair value election on their financial instruments pursuant to ASC 825; as such, the Company will treat these investments consistently with this election. As of June 30, 2018 and December 31, 2017, these investments had a gross fair market value of $199.8 million and $88.3 million, respectively, net of any non-recourse securitized debt.

On December 9, 2015, the Company, alongside private funds under the management of Angelo, Gordon, through AG Arc LLC, one of the Company’s indirect subsidiaries (“AG Arc”), formed Arc Home LLC (“Arc Home”). The Company has chosen to make a fair value election with respect to its investment in AG Arc pursuant to ASC 825. As of June 30, 2018 and December 31, 2017, the Company’s interest in AG Arc had a fair market value of $18.4 million and $17.9 million, respectively. See Note 11 for additional detail.

On August 27, 2017, the Company, alongside private funds under the management of Angelo, Gordon, formed “MATH” to conduct a residential mortgage investment strategy. MATH in turn sponsored the formation of an entity called Mortgage Acquisition Trust I LLC (“MATT”) to purchase predominantly “Non-QMs,” which are residential mortgage loans that are not deemed “qualified mortgage,” or “QM,” loans under the rules of the CFPB. Non-QMs are not eligible for delivery to Fannie Mae, Freddie Mac, or Ginnie Mae. MATT is expected to make an election to be treated as a real estate investment trust beginning with the 2018 tax year. In furtherance of this business, MATH’s sponsoring funds have agreed to provide up to $75.0 million of capital to MATH, of which the Company agreed to provide $33.4 million for use in this mortgage investment business. The Company invests in MATT through MATH, and these indirect subsidiaries have chosen to make a fair value election on their respective financial instruments pursuant to ASC 825. As such, the Company will treat this investment consistently with this election. As of June 30, 2018, the Company had funded $5.1 of its total capital commitment and the Company’s outstanding commitment was $28.3 million (net of any return of capital to the Company).

The Company’s investments in debt and equity of affiliates are recorded at fair market value on the consolidated balance sheets in the “Investments in debt and equity of affiliates” line item and periodic changes in fair market value are recorded in current period earnings on the consolidated statement of operations as a component of “Equity in earnings/(loss) from affiliates.” Capital contributions, distributions and profits and losses of such entities are allocated in accordance with the terms of the applicable agreements.

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Accounting for excess mortgage servicing rights

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

The Company amortizes or accretes any premium or discount over the life of the related Excess MSRs utilizing the effective interest method. On at least a quarterly basis, the Company evaluates the collectability of interest of its Excess MSRs to determine whether they are impaired. An Excess MSR is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the existing contractual terms.

The Company updates its estimate of the cash flows expected to be collected on at least a quarterly basis for Excess MSRs. In estimating these cash flows, there are a number of assumptions that will be subject to uncertainties and contingencies including both the rate and timing of interest receipts, and assumptions of prepayments, repurchases, defaults and liquidations. If there is a significant increase in expected cash flows over what was previously expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, the Company will recognize these changes prospectively through an adjustment of the Excess MSR’s yield over its remaining life. Decreases in cash flows expected to be collected from previously projected cash flows, which includes all cash flows originally expected to be collected by the investor plus any additional cash flows expected to be collected arising from changes in estimate after acquisition, may be recognized as impairment. Increases in interest income may be recognized on an Excess MSR on which the Company previously recorded an OTTI charge if the performance of such Excess MSR subsequently improves.

Investment consolidation and transfers of financial assets

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

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

The Company entered into a resecuritization transaction which resulted in the Company consolidating the VIE that was created to facilitate the transaction and to which the underlying assets in connection with the resecuritization were transferred. In determining the accounting treatment to be applied to this resecuritization transaction, the Company evaluated whether the entity used to facilitate this transaction was a VIE and, if so, whether it should be consolidated. Based on its evaluation, the Company concluded that the VIE should be consolidated. If the Company had determined that consolidation was not required, it would have then assessed whether the transfer of the underlying assets would qualify as a sale or should be accounted for as secured financings under GAAP. See Note 3 below for more detail.

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

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

On February 12, 2016, the Company originated a $12.0 million commercial loan and at closing, transferred a 15% or $1.8 million interest in the loan (the “Participation Interest”) to an unaffiliated third party. The Company, as transferor, evaluated the transfer under ASC 860-10, and concluded the transferred participation interest should be accounted for as a secured borrowing. The Company has recorded the $12.0 million commercial loan on its consolidated balance sheets as an asset in the “Commercial loans, at fair value” line item. The Company has recorded a $1.8 million liability in the “Loan participation payable, at fair value” line item representing the transfer of the participation interest. The Company has chosen to make a fair value election on the consolidated interest pursuant to ASC 825. The holder of the participation interest has no recourse to the general credit of the Company. The commercial loan was paid off in full in February 2017. The principal and interest due on the Participation Interest was paid from these proceeds. See Note 4 for more detail.

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

Interest income recognition

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

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

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

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

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

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

Repurchase agreements

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

The Company pledges certain securities or loans as collateral under repurchase agreements with financial institutions, the terms and conditions of which are negotiated on a transaction-by-transaction basis. The amounts available to be borrowed are dependent upon the fair value of the securities or loans pledged as collateral, which fluctuates with changes in interest rates, type of security and liquidity conditions within the banking, mortgage finance and real estate industries. In response to declines in fair value of pledged assets, lenders may require the Company to post additional collateral or pay down borrowings to re-establish agreed upon collateral requirements, referred to as margin calls. As of June 30, 2018 and December 31, 2017, the Company has met all margin call requirements.

Accounting for derivative financial instruments

The Company enters into derivative contracts as a means of mitigating interest rate risk rather than to enhance returns. The Company accounts for derivative financial instruments in accordance with ASC 815-10, "Derivatives and Hedging." ASC 815-10 requires an entity to recognize all derivatives as either assets or liabilities on the balance sheet and to measure those instruments at fair value. Additionally, if or when hedge accounting is elected, the fair value adjustments will affect either other comprehensive income in stockholders' equity until the hedged item is recognized in earnings or net income depending on whether the derivative instrument is designated and qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity. As of June 30, 2018 and December 31, 2017, the Company did not have any interest rate derivatives designated as hedges. All derivatives have been recorded at fair value in accordance with ASC 820-10, with corresponding changes in value recognized in the consolidated statement of operations. The Company records derivative asset and liability positions on a gross basis with respect to its counterparties. The Company records the daily receipt or payment of variation margin associated with the Company's centrally cleared derivative instruments on a net basis. See Note 8 for a discussion of this accounting treatment. During the period in which the Company unwinds a derivative, it records a realized gain/(loss) in the "Net realized gain/(loss)" line item in the consolidated statement of operations.

To-be-announced securities

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

The Company presents the purchase or sale of TBAs net of the corresponding payable or receivable, respectively, until the settlement date of the transaction. Contracts for the purchase or sale of Agency RMBS are accounted for as derivatives if they do not qualify for the "regular way" security trade scope exception found in ASC 815-10. To be eligible for this scope exception, the contract must meet the following conditions: (1) there is no other way to purchase or sell that security, (2) delivery of that security and settlement will occur within the shortest period possible for that type of security, and (3) it is probable at inception and throughout the term of the individual contract that the contract will not settle net and will result in physical delivery of a security when it is issued. Unrealized gains and losses associated with TBA contracts not meeting the regular-way exception and not designated as hedging instruments are recognized in the consolidated statement of operations in the line item "Unrealized gain/(loss) on derivative and other instruments, net."

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U.S. Treasury securities

The Company may purchase long or sell short U.S. Treasury securities to help mitigate the potential impact of changes in interest rates. The Company may finance its purchase of U.S. Treasury securities with overnight repurchase agreements. The Company may borrow securities to cover short sales of U.S. Treasury securities through overnight reverse repurchase agreements, which are accounted for as borrowing transactions, and the Company recognizes an obligation to return the borrowed securities at fair value on its consolidated balance sheets based on the value of the underlying borrowed securities as of the reporting date. Interest income and expense associated with purchases and short sales of U.S. Treasury securities are recognized in “Interest income” and “Interest expense”, respectively, on the consolidated statement of operations. Realized and unrealized gains and losses associated with purchases and short sales of U.S. Treasury securities are recognized in “Net realized gain/(loss)” and “Unrealized gain/(loss) on derivative and other instruments, net,” respectively, on the consolidated statement of operations. As of June 30, 2018, and December 31, 2017, the Company had no positions in U.S. Treasury securities.

Short positions in U.S. Treasury securities through reverse repurchase agreements

The Company may sell short U.S. Treasury securities to help mitigate the potential impact of changes in interest rates. The Company may borrow securities to cover short sales of U.S. Treasury securities under reverse repurchase agreements, which are accounted for as borrowing transactions, and the Company recognizes an obligation to return the borrowed securities at fair value on its consolidated balance sheets based on the value of the underlying borrowed securities as of the reporting date. The Company establishes haircuts to ensure the market value of the underlying assets remain sufficient to protect the Company in the event of a default by a counterparty. Realized and unrealized gains and losses associated with purchases and short sales of U.S. Treasury securities are recognized in “Net realized gain/(loss)” and “Unrealized gain/(loss) on derivative and other instruments, net,” respectively, on the consolidated statement of operations. As of June 30, 2018, and December 31, 2017, the Company had no short positions in U.S. Treasury securities.

Manager compensation

The management agreement provides for payment to the Manager of a management fee. The management fee is accrued and expensed during the period for which it is calculated and earned. For a more detailed discussion on the fees payable under the management agreement, see Note 11.

Income taxes

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

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

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

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

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

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

REIT requirements, it would be subject to federal income taxes and applicable state and local taxes.

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

The Company evaluates uncertain income tax positions, if any, in accordance with ASC 740, “Income Taxes.” The Company classifies interest and penalties, if any, related to unrecognized tax benefits as a component of provision for income taxes. See Note 10 for further details.

Stock-based compensation

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

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

Recent accounting pronouncements

In August 2016, the FASB issued ASU 2016-15, “Classification of Certain Cash Receipts and Cash Payments,” (“ASU 2016-15”). ASU 2016-15 addresses eight specific cash flow issues with the objective of reducing existing diversity of how certain cash receipts and cash payments are presented. These specific issues include debt prepayment and debt extinguishment costs, settlement of zero-coupon debt, proceeds from the settlement of insurance claims, and beneficial interests in securitization transactions, among others. The adoption of this standard reclassified certain items on the Company’s consolidated statement of cash flows between the “Cash flows from Operating Activities” and the “Cash Flows from Investing Activities” line items as it pertains to the settlement of certain instruments. The Company adopted ASU 2016-15 in the first quarter of 2018 and applied the guidance retrospectively to its prior period consolidated statement of cash flows.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The adoption of this standard required the Company to reconcile changes in cash, cash equivalents, and restricted cash on the consolidated statement of cash flows. As a result, the Company no longer presents transfers between cash and cash equivalents and restricted cash in the statement of cash flows. The Company adopted ASU 2016-18 in the first quarter of 2018 and applied the guidance retrospectively to its prior period consolidated statement of cash flows.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses,” (“ASU 2016-13”). ASU 2016-13 introduces a new model related to the accounting for credit losses on instruments, specifically, financial assets subject to credit losses and measured at amortized cost and certain off-balance sheet credit exposures. ASU 2016-13 amends the current guidance, requiring an OTTI charge only when fair value is below the amortized cost of an asset. The length of time the fair value of an available-for-sale debt security has been below the amortized cost will no longer impact the determination of whether a credit loss exists. As such, it is no longer an other-than-temporary model. In addition, credit losses on available-for-sale debt securities will now be limited to the difference between the security’s amortized cost basis and its fair value. The new debt security model will also require the use of an allowance to record estimated credit losses. The new guidance also expands the disclosure requirements regarding an entity’s assumptions, and models. In addition, public entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination (i.e., by vintage year). ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company is currently evaluating its method of adoption and the impact this ASU will have on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, “Premium Amortization of Purchased Callable Debt Securities” (“ASU 2017-08”). The amendments in this update require purchase premiums for investments in debt securities that are noncontingently callable by the issuer (at a fixed price and preset date) to be amortized to the earliest call date. Previously, purchase premiums for such investments were permitted to be amortized to the instrument’s maturity date. ASU 2017-08 is effective for public business entities for fiscal years beginning after December 15, 2018 and interim periods within those years. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

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In June 2018, the FASB issued ASU 2018–07, "Improvements to Nonemployee Share–Based Payment Accounting" ("ASU 2018-07"). The standard largely aligns the accounting for share–based payment awards issued to employees and nonemployees. Equity–classified share–based payment awards issued to nonemployees will be measured on the grant date, instead of being remeasured through the performance completion date (generally the vesting date), as required under the current guidance. The standard is to be applied on a modified retrospective basis through a cumulative–effect adjustment to retained earnings as of the beginning of the fiscal year when adopted. The standard is effective for public business entities for fiscal years beginning after December 15, 2018 and interim periods within those years. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

3. Real Estate Securities

The following tables detail the Company's real estate securities portfolio as of June 30, 2018 and December 31, 2017. The Company's Agency RMBS are mortgage pass-through certificates or collateralized mortgage obligations ("CMOs") representing interests in or obligations backed by pools of residential mortgage loans issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. The Company's Non-Agency RMBS, ABS and CMBS portfolios are primarily not issued or guaranteed by Fannie Mae, Freddie Mac or any agency of the U.S. Government and are therefore subject to credit risk. The principal and interest payments on Agency RMBS securities have an explicit guarantee by either an agency of the U.S. government or a U.S government-sponsored entity.

The following table details the Company's real estate securities portfolio as of June 30, 2018:

				Gross Unrealized (1)			Weighted Average
	Current Face	Premium / (Discount)	Amortized Cost	Gains	Losses	Fair Value	Coupon (2)
Agency RMBS:							
30 Year Fixed Rate	$1,744,052,949	$52,134,603	$1,796,187,552	$1,100,504	$(25,173,693)	$1,772,114,363	3.87%
Fixed Rate CMO	48,555,453	373,443	48,928,896	-	(763,693)	48,165,203	3.00%

ARM	112,452,842	249,941	112,702,783	-	(1,922,206)	110,780,577	2.42%
Interest Only	657,244,631	(543,347,263)	113,897,368	1,859,804	(2,027,513)	113,729,659	3.75%
Total Agency:	2,562,305,875	(490,589,276)	2,071,716,599	2,960,308	(29,887,105)	2,044,789,802	3.76%
Credit Investments:							
Non-Agency RMBS	963,580,656	(200,563,564)	763,017,092	59,848,020	(3,789,337)	819,075,775	4.63%
Non-Agency RMBS Interest Only	335,341,583	(332,089,320)	3,252,263	141,996	(523,105)	2,871,154	0.53%
Total Non-Agency:	1,298,922,239	(532,652,884)	766,269,355	59,990,016	(4,312,442)	821,946,929	3.98%
ABS	39,817,063	(2,488,221)	37,328,842	445,154	(18,644)	37,755,352	8.84%
CMBS	212,840,112	(44,960,274)	167,879,838	1,102,784	(1,829,763)	167,152,859	5.93%
CMBS Interest Only	1,941,715,126	(1,901,631,424)	40,083,702	3,130,403	(31,800)	43,182,305	0.37%
Total CMBS:	2,154,555,238	(1,946,591,698)	207,963,540	4,233,187	(1,861,563)	210,335,164	0.81%
Total	$6,055,600,415	$(2,972,322,079)	$3,083,278,336	$67,628,665	$(36,079,754)	$3,114,827,247	2.76%

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

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

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The following table details the Company's real estate securities portfolio as of December 31, 2017:

	Current Face	Premium / (Discount)	Amortized Cost	Gross Unrealized (1) Gains	Gross Unrealized (1) Losses	Fair Value	Weighted Average Coupon (2)
Agency RMBS:							
30 Year Fixed Rate	$1,848,172,215	$81,133,356	$1,929,305,571	$5,124,870	$(5,397,445)	$1,929,032,996	3.79%
Fixed Rate CMO	52,263,914	406,502	52,670,416	280,340	-	52,950,756	3.00%
ARM	176,560,807	(834,745)	175,726,062	683,254	(21,920)	176,387,396	2.35%
Interest Only	644,238,995	(554,353,362)	89,885,633	1,608,431	(2,704,177)	88,789,887	3.27%
Total Agency:	2,721,235,931	(473,648,249)	2,247,587,682	7,696,895	(8,123,542)	2,247,161,035	3.56%
Credit Investments:							
Non-Agency RMBS	1,165,533,510	(228,542,116)	936,991,394	66,812,751	(2,210,053)	1,001,594,092	4.45%
Non-Agency RMBS Interest Only	371,297,100	(367,976,760)	3,320,340	129,480	(788,254)	2,661,566	0.30%
Total Non-Agency:	1,536,830,610	(596,518,876)	940,311,734	66,942,231	(2,998,307)	1,004,255,658	3.38%
ABS	40,655,000	(438,491)	40,216,509	741,044	-	40,957,553	7.61%
CMBS	221,305,103	(51,818,496)	169,486,607	1,059,546	(1,079,582)	169,466,571	5.58%
CMBS Interest Only	2,021,260,566	(1,974,312,498)	46,948,068	3,778,264	(24,398)	50,701,934	0.40%
Total CMBS:	2,242,565,669	(2,026,130,994)	216,434,675	4,837,810	(1,103,980)	220,168,505	0.80%
Total	$6,541,287,210	$(3,096,736,610)	$3,444,550,600	$80,217,980	$(12,225,829)	$3,512,542,751	2.60%

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

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

The following table presents the gross unrealized losses and fair value of the Company's real estate securities by length of time that such securities have been in a continuous unrealized loss position on June 30, 2018 and December 31, 2017:

	Less than 12 months		Greater than 12 months	
As of	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2018	$1,770,772,474	$(32,717,705)	$90,665,044	$(3,362,049)
December 31, 2017	1,116,925,170	(8,011,731)	188,434,092	(4,214,098)

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

For the three months ended June 30, 2018 the Company recognized an OTTI charge of $0.7 million on its securities, which is included in the "Net realized gain/(loss)" line item on the consolidated statement of operations. The Company recorded $0.7 million of OTTI due to an adverse change in cash flows on certain securities where the fair values of the securities were less than their carrying amounts. Of the $0.7 million of OTTI recorded, $0.5 million related to securities where OTTI was not recognized in a prior year.

For the six months ended June 30, 2018 the Company recognized an OTTI charge of $1.7 million on its securities, which is included in the "Net realized gain/(loss)" line item on the consolidated statement of operations. The Company recorded $1.7 million of OTTI due to an adverse change in cash flows on certain securities where the fair values of the securities were less than their carrying amounts. Of the $1.7 million of OTTI recorded, $1.1 million related to securities where OTTI was not recognized in a prior year.

For the three months ended June 30, 2017 the Company recognized an OTTI charge of $1.8 million on its securities, which is included in the "Net realized gain/(loss)" line item on the consolidated statement of operations. Of this amount, $0.9 million was recognized on one security in an unrealized loss position which the Company demonstrated intent to sell, and the charge represents a write-down of cost to fair value as of the reporting date. The Company recorded $0.9 million of OTTI due to an adverse change in cash flows on certain securities where the fair values of the securities were less than their carrying amounts. For the three months ended June 30, 2017, all of the OTTI recorded pertained to securities where OTTI was recognized in a prior year.

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For the six months ended June 30, 2017 the Company recognized an OTTI charge of $4.5 million on its securities, which is included in the "Net realized gain/(loss)" line item on the consolidated statement of operations. Of this amount, $1.9 million was recognized on three securities in an unrealized loss position which the Company demonstrated intent to sell, and the charge represents a write-down of cost to fair value as of the reporting date. The Company recorded $2.6 million of OTTI due to an adverse change in cash flows on certain securities where the fair values of the securities were less than their carrying amounts. Of the $4.5 million of OTTI recorded, $1.1 million related to securities where OTTI was not recognized in a prior year.

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

The following table details weighted average life broken out by Agency RMBS, Agency Interest-Only ("IO") and Credit Securities as of June 30, 2018:

	Agency RMBS (1)			Agency IO			Credit Investm
Weighted Average Life (3)	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value
Less than or equal to 1 year	$-	$-	-	$-	$-	-	$67,308,265
Greater than one year and less than or equal to five years	158,976,558	161,662,626	2.59%	19,417,060	18,534,551	3.02%	429,040,535
Greater than five years and less than or equal to ten years	1,412,577,947	1,435,730,973	3.89%	94,312,599	95,362,817	4.02%	412,502,055
Greater than ten years	359,505,638	360,425,632	3.79%	-	-	-	161,186,590
Total	$1,931,060,143	$1,957,819,231	3.76%	$113,729,659	$113,897,368	3.75%	$1,070,037,44

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

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

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

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

The following table details weighted average life broken out by Agency RMBS, Agency IO and Credit Securities as of December 31, 2017:

	Agency RMBS (1)			Agency IO			Credit Investme
Weighted Average Life (3)	Fair Value	Amortized Cost	**Weighted Average Coupon**	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value
Less than or equal to 1 year	$-	$-	-	$-	$-	-	$117,531,313
Greater than one year and less than or equal to five years	229,338,153	228,396,478	2.50%	28,836,904	29,519,508	2.36%	477,066,079
Greater than five years and less than or equal to ten years	1,865,474,374	1,865,706,312	3.79%	59,952,983	60,366,125	4.36%	482,183,493
Greater than ten years	63,558,621	63,599,259	3.50%	-	-	-	188,600,831
Total	$2,158,371,148	$2,157,702,049	3.64%	$88,789,887	$89,885,633	3.27%	$1,265,381,716

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

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

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

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

For the three months ended June 30, 2018, the Company sold 48 securities for total proceeds of $586.3 million, recording realized gains of $0.3 million and realized losses of $17.1 million. For the six months ended June 30, 2018, the Company sold 105 securities for total proceeds of $1.3 billion, recording realized gains of $6.2 million and realized losses of $35.5 million.

For the three months ended June 30, 2017, the Company sold 15 securities for total proceeds of $141.8 million, recording realized gains of $0.5 million and realized losses of $1.4 million. For the six months ended June 30, 2017, the Company sold 30 securities for total proceeds of $260.9 million, recording realized gains of $1.0 million and realized losses of $2.1 million.

See Notes 4 and 8 for amounts realized on sales of loans and the settlement of certain derivatives, respectively.

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

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The Company previously entered into a resecuritization transaction that resulted in the Company consolidating the VIE created with the SPE which was used to facilitate the transaction. The Company concluded that the entity created to facilitate this transaction was a VIE. The Company also determined that the VIE created to facilitate the resecuritization transaction should be consolidated by the Company and treated as a secured borrowing, based on the Company's involvement in the VIE, including the design and purpose of the SPE, and whether the Company's involvement reflected a controlling financial interest that resulted in the Company being deemed the primary beneficiary of the VIE.

The following table details certain information on the Company's consolidated VIE as of June 30, 2018:

			Weighted Average		
	Current Face	Fair Value	Coupon	Yield	Life (Years) (1)
Consolidated tranche (2)	$13,872,792	$13,984,245	3.73%	4.37 %	2.70
Retained tranche	8,519,101	6,345,307	3.52%	17.46%	8.87
Total resecuritized asset	$22,391,893	$20,329,552	3.65%	8.46 %	5.05

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

(2) As of June 30, 2018, the fair market value of the consolidated tranche is included in the Company's consolidated balance sheets as "Non-Agency RMBS". As of June 30, 2018, the Company has recorded secured financing of $14.0 million on the consolidated balance sheets in the "Securitized debt, at fair value" line item. The Company recorded the proceeds from the issuance of the secured financing in the "Cash Flows from Financing Activities" section of the consolidated statement of cash flows at the time of securitization.

The following table details certain information on the Company's consolidated VIE as of December 31, 2017:

Weighted Average

	Current Face	Fair Value	Coupon	Yield	Life (Years) (1)
Consolidated tranche (2)	$16,354,718	$16,477,801	3.11%	3.92 %	2.95
Retained tranche	8,617,903	6,100,571	4.28%	15.48%	9.04
Total resecuritized asset	$24,972,621	$22,578,372	3.51%	7.04 %	5.05

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

(2) As of December 31, 2017, the fair market value of the consolidated tranche is included in the Company's consolidated balance sheets as "Non-Agency RMBS". As of December 31, 2017, the Company has recorded secured financing of $16.5 million on the consolidated balance sheets in the "Securitized debt, at fair value" line item. The Company recorded the proceeds from the issuance of the secured financing in the "Cash Flows from Financing Activities" section of the consolidated statement of cash flows at the time of securitization.

The holders of the consolidated tranche have no recourse to the general credit of the Company. The Company has no obligation to provide any other explicit or implicit support to any VIE.

4. Loans

Residential mortgage loans

In June 2018, the Company purchased a residential mortgage loan portfolio with an aggregate unpaid principal balance and acquisition fair value of $86.3 million and $76.3 million, respectively, net of sales.

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The table below details certain information regarding the Company's residential mortgage loan portfolio as of June 30, 2018:

	Unpaid Principal Balance	Premium (Discount)	Amortized Cost	Gross Unrealized (1) Gains	Losses	Fair Value	Weighted Average Coupon	Yield	Life (Years) (2)
Residential mortgage loans	$107,872,692	$(16,328,505)	$91,544,187	$1,706,872	$(121,790)	$93,129,269	4.14%	6.80%	7.85

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

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

The table below details certain information regarding the Company's residential mortgage loan portfolio as of December 31, 2017:

	Unpaid Principal Balance	Premium (Discount)	Amortized Cost	Gross Unrealized (1) Gains	Losses	Fair Value	Weighted Average Coupon	Yield	Life (Years) (2)
Residential mortgage loans	$25,675,566	$(7,792,057)	$17,883,509	$1,006,184	$ -	$18,889,693	3.10%	12.24%	5.67

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

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

The table below details information regarding the Company's re-performing and non-performing residential mortgage loans as of June 30, 2018 and December 31, 2017:

	June 30, 2018		December 31, 2017	
	Fair Value	Unpaid Principal Balance	Fair Value	Unpaid Principal Balance
Re-Performing	$48,958,703	$ 57,015,094	$7,068,795	$ 9,543,318
Non-Performing	44,170,566	50,857,598	11,820,898	16,132,248
	$ 93,129,269	$ 107,872,692	$ 18,889,693	$ 25,675,566

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

No OTTI was recorded for the three and six months ended June 30, 2018 on the Company's residential mortgage loans.

For the three and six months ended June 30, 2017 the Company recognized $0.4 million of OTTI on certain loan pools, which is included in the "Net realized gain/(loss)" line item on the consolidated statement of operations. The Company recorded the $0.4 million of OTTI due to an adverse change in cash flows where the fair values of the securities were less than their carrying amounts. The $0.4 million related to non-performing loan pools with an unpaid principal balance of $9.8 million and an average fair market value of $7.7 million and $8.1 million for the three and six months ended June 30, 2017, respectively.

As of June 30, 2018 and December 31, 2017 the Company had residential mortgage loans that were in the process of foreclosure with a fair value of $11.1 million and $9.1 million, respectively.

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

Concentration of Credit Risk	June 30, 2018	December 31, 2017

Percentage of fair value of mortgage loans secured by properties in the following states:				
Representing 5% or more of fair value:				
California	27	%	7	%
New York	10	%	37	%
Florida	8	%	1	%
Maryland	5	%	7	%
New Jersey	5	%	6	%

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The Company records interest income on a level-yield basis. The accretable discount is determined by the excess of the Company's estimate of undiscounted principal, interest, and other cash flows expected to be collected over its initial investment in the mortgage loan. The following is a summary of the changes in the accretable portion of discounts for the three and six months ended June 30, 2018 and June 30, 2017, respectively:

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Beginning Balance	$9,824,687	$18,725,471	$9,318,058	$18,281,517
Additions	36,442,554	-	36,442,554	-
Accretion	(542,322)	(708,857)	(1,032,951)	(1,462,394)
Reclassifications from/(to) non-accretable difference	824,509	1,909,368	1,821,767	3,381,708
Disposals	(1,499,455)	(9,584,506)	(1,499,455)	(9,859,355)
Ending Balance	$45,049,973	$10,341,476	$45,049,973	$10,341,476

As of June 30, 2018, the Company's residential mortgage loan portfolio was comprised of 641 conventional loans with original loan balances between $10,000 and $1.9 million.

As of December 31, 2017, the Company's residential mortgage loan portfolio was comprised of 125 conventional loans with original loan balances between $9,000 and $1.1 million.

For the three and six months ended June 30, 2018, the Company sold 150 loans for total proceeds of $31.0 million, recording realized gains of $0.7 million and realized losses of $0.1 million. For the three months ended June 30, 2017, the Company sold 60 loans for total proceeds of $9.3 million, recording realized gains of $2.6 million and realized losses of $0.2 million. For the six months ended June 30, 2017, the Company sold 66 loans for total proceeds of $10.2 million, recording realized gains of $2.6 million and realized losses of $0.3 million. In addition, for the three and six months ended June 30, 2017, the Company received $3.6 million of proceeds from sold loans which were unsettled at December 31, 2016.

Commercial loans

The following table presents detail on the Company’s commercial loan portfolio on June 30, 2018.

				Gross Unrealized (1)			Weighted Average				
Loan (2) (7)	Current Face	Premium (Discount)	Amortized Cost	Gains	Losses	Fair Value	Coupon (5)	Yield	Life (Years) (6)	Initial Stated Maturity Date	E M
Loan B (3)	$32,800,000	$-	$32,800,000	$-	$-	$32,800,000	6.76 %	7.14 %	1.03	July 1, 2016	Ju
Loan F (4)	10,416,666	(17,354)	10,399,312	17,354	-	10,416,666	13.05%	15.02%	0.20	September 9, 2018	S 2
	$43,216,666	$(17,354)	$43,199,312	$17,354	$-	$43,216,666	8.28 %	9.04 %	0.83		

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

(2) Loan E paid off at par in Q2 2018, with the Company receiving $14.5 million of principal proceeds.

(3) Loan B is comprised of a first mortgage and mezzanine loan of $31.8 million and $1.0 million, respectively. As of June 30, 2018, Loan B has been extended to the extended maturity date shown above.

(4) Loan F is a mezzanine loan of up to $14.6 million, of which $10.4 million has been advanced.

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

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

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

(8) Represents the maturity date of the last possible extension option.

The following table presents detail on the Company’s commercial loan portfolio on December 31, 2017.

				Gross Unrealized (1)			Weighted Average				
Loan (7)	Current Face	Premium (Discount)	Amortized Cost	Gains	Losses	Fair Value	Coupon (5)	Yield	Life (Years) (6)	Initial Stated Maturity Date	
Loan B (2)	$32,800,000	$-	$32,800,000	$-	$-	$32,800,000	6.14 %	6.52 %	1.53	July 1, 2016	
Loan E (3)	14,521,806	(1,027,510)	13,494,296	809,684	-	14,303,980	9.83 %	12.70%	3.01	April 9, 2017	
Loan F (4)	10,416,666	(76,512)	10,340,154	76,512	-	10,416,666	12.43%	13.98%	0.70	September 9, 2018	
	$57,738,472	$(1,104,022)	$56,634,450	$886,196	$-	$57,520,646	8.20 %	9.41 %	1.76		

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

(2) Loan B is comprised of a first mortgage and mezzanine loan of $31.8 million and $1.0 million, respectively. As of December 31, 2017, Loan B has been extended to the extended maturity date shown above.

(3) Loan E is a mezzanine loan. As of December 31, 2017, Loan E has been extended to April 9, 2018.

(4) Loan F is a mezzanine loan of up to $14.6 million, of which $10.4 million has been advanced.

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

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

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

(8) Represents the maturity date of the last possible extension option.

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In February 2016, the Company originated a $12.0 million commercial loan and, at closing, transferred a 15.0%, or $1.8 million, participation interest in the loan (the "Participation Interest") to an unaffiliated third party. The Participation Interest did not meet the sales criteria established under ASC 860; therefore, the entire commercial loan has been recorded as an asset in the "Commercial loans, at fair value" line item on the Company's consolidated balance sheets, referred to in the above table as "Loan D." The weighted average coupon and yield on the commercial loan was 10.62% and 14.33%, respectively, at December 31, 2016. A $1.8 million liability was recorded in the "Loan participation payable, at fair value" line item on the Company's consolidated balance sheets representing the transfer of the Participation Interest. The Company recorded the origination of the commercial loan in the "Cash Flows from Investing Activities" section and the proceeds from the transfer in the "Cash Flows from Financing Activities" section of the consolidated statement of cash flows. The weighted average coupon and yield on the Participation Interest was 10.62% and 21.70%, respectively, at December 31, 2016. In February 2017, the Company received $12.0 million of proceeds from the pay-off of Loan D. The principal and interest due on the Participation Interest was paid from these proceeds.

During the three and six months ended June 30, 2018, the Company recorded $0.1 and $1.1 million of discount accretion, respectively, on its commercial loans. The decrease in discount accretion is a result of the recognition of most of the outstanding discount on a commercial loan which paid off at par in April 2018, in which the Company received $14.5 million of principal proceeds. During the three and six months ended June 30, 2017, the Company recorded $0.1 million and $0.2 million of discount accretion, respectively, on its commercial loans.

5. Excess MSRs

The following table presents detail on the Company's Excess MSR portfolio on June 30, 2018.

			Gross Unrealized (1)			Weighted Average	
	Unpaid Principal Balance	Amortized Cost	Gains	Losses	Fair Value	Yield	Life (Years) (2)
Agency Excess MSRs	$3,785,622,348	$28,537,117	$1,422,916	$(934,417)	$29,025,616	10.97 %	7.0
	45,265,798	241,862	21,777	(7,490)	256,149	24.07 %	4.9

Credit Excess MSRs							
Total Excess MSRs	$3,830,888,146	$28,778,979	$1,444,693	$(941,907)	$29,281,765	11.08 %	7.0

(1) The Company has chosen to make a fair value election pursuant to ASC 825 for its Excess MSR portfolio. Unrealized gains and losses are recognized in current period earnings in the "Unrealized gain/(loss) on derivative and other instruments, net" line item. The gross unrealized columns above represent inception to date unrealized gains (losses).

(2) Actual maturities of Excess MSRs may be shorter than stated contractual maturities. Maturities are affected by prepayments of principal.

The following table presents detail on the Company's Excess MSR portfolio on December 31, 2017.

			Gross Unrealized (1)			Weighted Average	
	Unpaid Principal Balance	Amortized Cost	Gains	Losses	Fair Value	Yield	Life (Years) (2)
Agency Excess MSRs	$768,385,219	$4,478,816	$333,019	$(11,127)	$4,800,708	12.23 %	6.3
Credit Excess MSRs	50,307,900	258,460	24,346	-	282,806	21.87 %	5.0
Total Excess MSRs	$818,693,119	$4,737,276	$357,365	$(11,127)	$5,083,514	12.76 %	6.2

(1) The Company has chosen to make a fair value election pursuant to ASC 825 for its Excess MSR portfolio. Unrealized gains and losses are recognized in current period earnings in the "Unrealized gain/(loss) on derivative and other instruments, net" line item. The gross unrealized columns above represent inception to date unrealized gains (losses).

(2) Actual maturities of Excess MSRs may be shorter than stated contractual maturities. Maturities are affected by prepayments of principal.

As described in Note 2, the Company evaluates securities for OTTI on at least a quarterly basis. The determination of whether an excess MSR is other-than-temporarily impaired involves judgments and assumptions based on subjective and objective factors. When the fair value of an excess MSR is less than its amortized cost at the balance sheet date, the excess MSR is considered impaired, and the impairment is designated as either "temporary" or "other-than-temporary." There was no OTTI for the three and six months ended June 30, 2018. There was no OTTI for the three and six months ended June 30, 2017.

6. Fair value measurements

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

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

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

Beginning in the first quarter of 2017, as a result of a CME amendment to its rule book governing central clearing activities, the daily exchange of variation margin associated with a CME centrally cleared derivative instrument is legally characterized as the daily settlement of the derivative instrument itself, as opposed to a pledge of collateral. Accordingly, beginning in 2017, the Company accounts for the daily receipt or payment of variation margin associated with its centrally cleared interest rate swaps and futures as a direct reduction to the carrying value of the interest rate swap and future derivative asset or liability, respectively. Beginning in 2017, the carrying amount of centrally cleared interest rate swaps and futures reflected in the Company's consolidated balance sheets is equal to the unsettled fair value of such instruments. See Note 8 for more information.

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

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

TBA instruments are similar in form to the Company's Agency RMBS portfolio, and the Company therefore estimates fair value based on similar methods.

The Company entered into a resecuritization transaction that resulted in the Company consolidating a VIE created with the SPE which was used to facilitate the transaction. The Company categorizes the fair value measurement of the consolidated tranche as Level 3.

In December 2015, the Company, alongside private funds under the management of Angelo, Gordon, through AG Arc, formed Arc Home. The Company invests in Arc Home through AG Arc. In June 2016, Arc Home closed on the acquisition of a Fannie Mae, Freddie Mac, FHA, VA and Ginnie Mae seller/servicer of residential mortgages. Through this subsidiary, Arc Home originates conforming, Government, Jumbo and other non-conforming residential mortgage loans, retains the mortgage servicing rights associated with the loans it originates, and purchases additional mortgage servicing rights from third-party sellers. As a result of this acquisition, the Company transferred its investment in AG Arc from Level 1 into Level 3.

In February 2016, the Company originated a $12.0 million commercial loan and transferred a 15% participation interest in the loan to an unaffiliated third party. The Company categorizes the fair value measurement of the commercial loan and consolidated participation interest as Level 3. The commercial loan was paid off in full in February 2017.

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The following table presents the Company's financial instruments measured at fair value as of June 30, 2018:

	Fair Value at June 30, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Agency RMBS:				
30 Year Fixed Rate	$-	$1,772,114,363	$-	$1,772,114,363
Fixed Rate CMO	-	48,165,203	-	48,165,203
ARM	-	110,780,577	-	110,780,577
Interest Only	-	113,729,659	-	113,729,659
Credit Investments:				
Non-Agency RMBS	-	32,968,019	786,107,756	819,075,775
Non-Agency RMBS Interest Only	-	-	2,871,154	2,871,154
ABS	-	-	37,755,352	37,755,352
CMBS	-	7,321,017	159,831,842	167,152,859
CMBS Interest Only	-	-	43,182,305	43,182,305
Residential mortgage loans	-	-	93,129,269	93,129,269
Commercial loans	-	-	43,216,666	43,216,666
Excess mortgage servicing rights	-	-	29,281,765	29,281,765
Derivative assets	-	4,222,706	-	4,222,706
AG Arc	-	-	18,352,632	18,352,632
Total Assets Carried at Fair Value	$-	$2,089,301,544	$1,213,728,741	$3,303,030,285
Liabilities:				
Securitized debt	$-	$-	$(13,984,245)	$(13,984,245)
Derivative liabilities	-	(625,990)	-	(625,990)
Total Liabilities Carried at Fair Value	$-	$(625,990)	$(13,984,245)	$(14,610,235)

The following table presents the Company's financial instruments measured at fair value as of December 31, 2017:

	Fair Value at December 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Agency RMBS:				

30 Year Fixed Rate	$-	$1,929,032,996	$-	$1,929,032,996
Fixed Rate CMO	-	52,950,756	-	52,950,756
ARM	-	176,387,396	-	176,387,396
Interest Only	-	88,789,887	-	88,789,887
Credit Investments:				
Non-Agency RMBS	-	156,170,350	845,423,742	1,001,594,092
Non-Agency RMBS Interest Only	-	-	2,661,566	2,661,566
ABS	-	-	40,957,553	40,957,553
CMBS	-	8,216,506	161,250,065	169,466,571
CMBS Interest Only	-	-	50,701,934	50,701,934
Residential mortgage loans	-	-	18,889,693	18,889,693
Commercial loans	-	-	57,520,646	57,520,646
Excess mortgage servicing rights	-	-	5,083,514	5,083,514
Derivative assets	110,063	2,017,007	-	2,127,070
AG Arc	-	-	17,911,091	17,911,091
Total Assets Carried at Fair Value	$110,063	$2,413,564,898	$1,200,399,804	$3,614,074,765
Liabilities:				
Securitized debt	$-	$-	$(16,477,801)	$(16,477,801)
Securities borrowed under reverse repurchase agreements	-	(24,379,356)	-	(24,379,356)
Derivative liabilities	-	(450,208)	-	(450,208)
Total Liabilities Carried at Fair Value	$-	$(24,829,564)	$(16,477,801)	$(41,307,365)

The Company did not have any transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy during the three and six months ended June 30, 2018 and June 30, 2017.

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

Three Months Ended

June 30, 2018

	Non-Agency RMBS	Non-Agency RMBS IO	ABS	CMBS	**CMBS Interest Only**	Residential Mortgage Loans	Comm Loans
Beginning balance	$730,919,118	$2,912,380	$35,838,056	$182,970,152	$48,624,976	$19,872,126	$57,66
Transfers (1):							
Transfers into level 3	93,950,988	-	-	-	-	-	-
Purchases/Transfers	2,290,922	-	2,628,040	26,056,250	-	105,041,253	-
Proceeds from sales/redemptions	(6,683,073)	-	-	-	(4,658,476)	(30,831,907)	-
Proceeds from settlement	(31,612,092)	-	(736,946)	(48,240,806)	-	(1,072,865)	(14,5
Total net gains/(losses) (2)							
Included in net income	(2,758,107)	(41,226)	26,202	(953,754)	(784,195)	120,662	72,60
Ending Balance	$786,107,756	$2,871,154	$37,755,352	$159,831,842	$43,182,305	$93,129,269	$43,21
Change in unrealized appreciation/(depreciation) for level 3 assets/liabilities still held as of June 30, 2018 (3)	$(2,721,807)	$(41,226)	$26,202	$(1,026,231)	$(550,652)	$(581,143)	$(145,

(1) Transfers are assumed to occur at the beginning of the period. During the three months ended June 30, 2018, the Company t
Level 3 category from the Level 2 category under the fair value hierarchy of ASC 820.
(2) Gains/(losses) are recorded in the following line items in the consolidated statement of operations:

Unrealized gain/(loss) on real estate securities and loans, net	$(5,771,704)

Unrealized gain/(loss) on derivative and other instruments, net	(427,515)
Net realized gain/(loss)	828,665
Equity in earnings/(loss) from affiliates	(85,588)
Total	$(5,456,142)

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

Unrealized gain/(loss) on real estate securities and loans, net	$(5,665,304)
Unrealized gain/(loss) on derivative and other instruments, net	(427,515)
Equity in earnings/(loss) from affiliates	(85,588)
Total	$(6,178,407)

Three Months Ended

June 30, 2017

	Non-Agency RMBS	Non-Agency RMBS Interest Only	ABS	CMBS	CMBS Interest Only	Residential Mortgage Loans	Comme Loans
Beginning balance	$762,089,348	$3,557,950	$21,165,442	$122,215,294	$52,921,927	$36,255,911	$58,274
Transfers (1):							
Transfers into level 3	70,603,992	-	-	-	-	-	-
Transfers out of level 3	(51,307,381)	-	-	-	-	-	-
Purchases/Transfers	215,073,421	-	39,717,021	15,000,001	-	-	-
Capital contributions	-	-	-	-	-	-	-
Proceeds from sales/redemptions	(61,084,219)	-	(9,311,530)	-	-	(9,248,143)	-
Proceeds from settlement	(86,015,924)	-	(3,984,154)	(108,799)	-	(4,631,367)	(1,176
Total net gains/(losses) (2)							
Included in net income	13,661,665	(344,553)	330,577	551,831	(116,288)	1,078,832	196,12
Ending Balance	$863,020,902	$3,213,397	$47,917,356	$137,658,327	$52,805,639	$23,455,233	$57,294
Change in unrealized appreciation/(depreciation) for level 3 assets/liabilities still held as of June 30, 2017 (3)	$14,997,601	$(344,553)	$(95,002)	$897,090	$(116,288)	$(913,062)	$196,12

(1) Transfers are assumed to occur at the beginning of the period. During the three months ended June 30, 2017, the Company t the Level 3 category from the Level 2 category and 5 Non-Agency RMBS securities into the Level 2 category from the Level 3 820.

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

Unrealized gain/(loss) on real estate securities and loans, net	$15,783,215
Unrealized gain/(loss) on derivative and other instruments, net	(1,286)
Net realized gain/(loss)	(376,705)
Equity in earnings/(loss) from affiliates	243,104
Total	$15,648,328

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

Unrealized gain/(loss) on real estate securities and loans, net	$14,670,232
Unrealized gain/(loss) on derivative and other instruments, net	(1,286)
Equity in earnings/(loss) from affiliates	243,104
Total	$14,912,050

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Six Months Ended

June 30, 2018

	Non-Agency RMBS	Non-Agency RMBS Interest Only	ABS	CMBS	CMBS Interest Only	Residential Mortgage Loans	Comn Loans
Beginning balance	$845,423,742	$2,661,566	$40,957,553	$161,250,065	$50,701,934	$18,889,693	$57,5
Transfers (1):							
Transfers into level 3	101,985,493	-	-	-	-	-	-
Transfers out of level 3	-	-	-	(6,951,115)	-	-	-
Purchases/Transfers	93,876,423	-	5,596,268	56,256,250	-	105,041,253	-
Proceeds from sales/redemptions	(184,804,178)	-	-	-	(4,658,476)	(30,831,907)	-
Proceeds from settlement	(69,562,698)	-	(8,710,793)	(49,144,767)	-	(1,255,512)	(14,5
Total net gains/(losses) (2)							
Included in net income	(811,026)	209,588	(87,676)	(1,578,591)	(2,861,153)	1,285,742	217,
Ending Balance	$786,107,756	$2,871,154	$37,755,352	$159,831,842	$43,182,305	$93,129,269	$43,2
Change in unrealized appreciation/(depreciation) for level 3 assets/liabilities still held as of June 30, 2018 (3)	$(1,697,476)	$229,918	$(69,140)	$(1,651,068)	$(2,627,610)	$583,937	$-

(1) Transfers are assumed to occur at the beginning of the period. During the six months ended June 30, 2018, the Company tra
Level 3 category from the Level 2 category and 1 CMBS security into the Level 2 category from the Level 3 category under th
(2) Gains/(losses) are recorded in the following line items in the consolidated statement of operations:

Unrealized gain/(loss) on real estate securities and loans, net	$(9,095,280)
Unrealized gain/(loss) on derivative and other instruments, net	(440,192)
Net realized gain/(loss)	5,469,990

Equity in earnings/(loss) from affiliates	441,541
Total	$(3,623,941)

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

Unrealized gain/(loss) on real estate securities and loans, net	$(5,231,439)
Unrealized gain/(loss) on derivative and other instruments, net	(440,192)
Equity in earnings/(loss) from affiliates	441,541
Total	$(5,230,090)

Six Months Ended

June 30, 2017

	Non-Agency RMBS	Non-Agency RMBS IO	ABS	CMBS	CMBS Interest Only	Residential Mortgage Loans	Comm Loans
Beginning balance	$717,760,534	$3,761,446	$21,231,956	$130,789,615	$52,136,726	$38,195,576	$60,0
Transfers (1):							
Transfers into level 3	156,247,235	-	-	-	-	-	-
Transfers out of level 3	(87,193,669)	-	-	-	-	-	-
Purchases/Transfers	257,276,811	-	46,447,667	18,568,750	-	-	10,2
Capital contributions	-	-	-	-	-	-	-
Proceeds from sales/redemptions	(84,759,581)	-	(16,977,157)	(4,533,594)	-	(10,102,590)	-
Proceeds from settlement	(115,376,445)	-	(3,984,154)	(8,594,055)	-	(5,297,349)	(13,
Total net gains/(losses) (2)							
Included in net income	19,066,017	(548,049)	1,199,044	1,427,611	668,913	659,596	488,
Ending Balance	$863,020,902	$3,213,397	$47,917,356	$137,658,327	$52,805,639	$23,455,233	$57,2
Change in unrealized appreciation/(depreciation) for level 3 assets still held as of June 30, 2017 (3)	$20,392,109	$(548,049)	$743,730	$1,857,762	$668,913	$(1,401,691)	$432,

(1) Transfers are assumed to occur at the beginning of the period. During the six months ended June 30, 2017, the Company tra
category from the Level 2 category and 8 Non-Agency RMBS securities into the Level 2 category from the Level 3 category ur
(2) Gains/(losses) are recorded in the following line items in the consolidated statement of operations:

$23,619,676

Unrealized gain/(loss) on real estate securities and loans, net	
Unrealized gain/(loss) on derivative and other instruments, net	(188,861)
Net realized gain/(loss)	(661,873)
Equity in earnings/(loss) from affiliates	358,738
Total	$23,127,680

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

Unrealized gain/(loss) on real estate securities and loans, net	$22,141,236
Unrealized gain/(loss) on derivative and other instruments, net	(33,934)
Equity in earnings/(loss) from affiliates	358,738
Total	$22,466,040

Refer to the tables above for details on transfers between the Level 3 and Level 2 categories under ASC 820. Transfers into the Level 3 category of the fair value hierarchy occur due to instruments exhibiting indications of reduced levels of market transparency. Transfers out of the Level 3 category of the fair value hierarchy occur due to instruments exhibiting indications of increased levels of market transparency. Indications of increases or decreases in levels of market transparency include a change in observable transactions or executable quotes involving these instruments or similar instruments. Changes in these indications could impact price transparency, and thereby cause a change in level designations in future periods.

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The following tables present a summary of quantitative information about the significant unobservable inputs used in the fair value measurement of investments for which the Company has utilized Level 3 inputs to determine fair value.

Asset Class	Fair Value at June 30, 2018	Valuation Technique	Unobservable Input	Range (Weighted Average)
			Yield	2.74% - 31.75% (4.66%)
Non-Agency RMBS	$ 761,543,614	Discounted Cash Flow	Projected Collateral Prepayments	0.00% - 30.00% (11.60%)
			Projected Collateral Losses	0.00% - 30.00% (2.69%)
			Projected Collateral Severities	0.00% - 100.00% (31.67%)
	$ 24,564,142	Consensus Pricing	Offered Quotes	75.25 - 98.56 (83.28)
			Yield	7.00% - 25.00% (22.10%)
Non-Agency RMBS Interest Only	$ 2,871,154	Discounted Cash Flow	Projected Collateral Prepayments	9.50% - 18.00% (16.75%)
			Projected Collateral Losses	0.75% - 1.50% (1.41%)
			Projected Collateral Severities	10.00% - 65.00% (17.43%)
			Yield	6.19% - 6.19% (6.19%)
ABS	$ 32,925,013	Discounted Cash Flow	Projected Collateral Prepayments	20.00% - 40.00% (23.27%)
			Projected Collateral Losses	0.00% - 0.00% (0.00%)
			Projected Collateral Severities	0.00% - 0.00% (0.00%)
	$ 4,830,339	Consensus Pricing	Offered Quotes	100.00 - 100.00 (100.00)
			Yield	5.58% - 8.66% (6.93%)
CMBS	$ 156,869,879	Discounted Cash Flow	Projected Collateral Prepayments	0.00% - 0.00% (0.00%)
			Projected Collateral Losses	0.00% - 0.00% (0.00%)
			Projected Collateral Severities	0.00% - 0.00% (0.00%)
	$ 2,961,963	Consensus Pricing	Offered Quotes	4.28 - 8.77 (7.64)

			Yield	3.48% - 6.31% (4.74%)
CMBS Interest Only	$ 43,182,305	Discounted Cash Flow	Projected Collateral Prepayments	99.00% - 100.00% (99.90%)
			Projected Collateral Losses	0.00% - 0.00% (0.00%)
			Projected Collateral Severities	0.00% - 0.00% (0.00%)
			Yield	6.50% - 9.00% (7.93%)
Residential Mortgage Loans	$ 16,822,776	Discounted Cash Flow	Projected Collateral Prepayments	3.65% - 4.82% (4.22%)
			Projected Collateral Losses	3.60% - 6.01% (3.90%)
			Projected Collateral Severities	14.69% - 31.45% (18.29%)
	$ 76,306,493	Recent Transaction	Cost	N/A
			Yield	7.14% - 7.14% (7.14%)
Commercial Loans	$ 32,800,000	Discounted Cash Flow	Credit Spread	4.75 bps - 4.75 bps (4.75 bps)
			Recovery Percentage (1)	100.00% - 100.00% (100.00%)
	$ 10,416,666	Consensus Pricing	Offered Quotes	100.00 - 100.00 (100.00)
			Yield	8.50% - 11.57% (9.19%)
Excess Mortgage Servicing Rights	$ 29,025,616	Discounted Cash Flow	Projected Collateral Prepayments	6.20% - 10.01% (8.07%)
	$ 256,149	Consensus Pricing	Offered Quotes	0.03 - 0.53 (0.50)
AG Arc	$ 18,352,632	Comparable Multiple	Book Value Multiple	1.0x - 1.0x (1.0x)

Liability Class	Fair Value at June 30, 2018	Valuation Technique	Unobservable Input	Range (Weighted Average)
			Yield	3.98% - 3.98% (3.98%)
Securitized debt	$ (13,984,245)	Discounted Cash Flow	Projected Collateral Prepayments	10.00% - 10.00% (10.00%)
			Projected Collateral Losses	3.00% - 3.00% (3.00%)
			Projected Collateral Severities	45.00% - 45.00% (45.00%)

(1) Represents the proportion of the principal expected to be collected relative to the loan balances as of June 30, 2018.

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Asset Class	Fair Value at December 31, 2017	Valuation Technique	Unobservable Input	Range (Weighted Average)
			Yield	0.94% - 31.75% (4.49%)
Non-Agency RMBS	$ 783,880,884	Discounted Cash Flow	Projected Collateral Prepayments	0.00% - 35.00% (10.50%)
			Projected Collateral Losses	0.00% - 50.00% (3.25%)
			Projected Collateral Severities	0.00% - 100.00% (34.77%)
	$ 14,794,010	Consensus Pricing	Offered Quotes	74.75 - 74.75 (74.75)
	$ 46,748,848	Recent Transaction	Recent Transaction	N/A
			Yield	7.00% - 25.00% (22.34%)
Non-Agency RMBS Interest Only	$ 2,661,566	Discounted Cash Flow	Projected Collateral Prepayments	10.50% - 18.00% (16.89%)
			Projected Collateral Losses	1.50% - 2.00% (1.57%)
			Projected Collateral Severities	10.00% - 40.00% (14.43%)
			Yield	4.62% - 9.83% (7.56%)
ABS	$ 40,957,533	Discounted Cash Flow	Projected Collateral Prepayments	20.00% - 40.00% (22.62%)
			Projected Collateral Losses	0.00% - 2.00% (1.74%)
			Projected Collateral Severities	0.00% - 50.00% (43.45%)
			Yield	-1.45% - 8.35% (6.24%)
CMBS	$ 157,684,840	Discounted Cash Flow	Projected Collateral Prepayments	0.00% - 0.00% (0.00%)
			Projected Collateral Losses	0.00% - 0.00% (0.00%)
			Projected Collateral Severities	0.00% - 0.00% (0.00%)
	$ 3,565,225	Consensus Pricing	Offered Quotes	6.20 - 7.60 (7.12)
			Yield	2.93% - 5.90% (4.43%)
CMBS Interest Only	$ 50,701,934	Discounted Cash Flow	Projected Collateral Prepayments	100.00% - 100.00% (100.00%)

			Projected Collateral Losses	0.00% - 0.00% (0.00%)
			Projected Collateral Severities	0.00% - 0.00% (0.00%)
			Yield	6.25% - 9.00% (7.81%)
Residential Mortgage Loans	$ 18,889,693	Discounted Cash Flow	Projected Collateral Prepayments	2.98% - 5.05% (3.93%)
			Projected Collateral Losses	3.88% - 6.91% (4.27%)
			Projected Collateral Severities	20.21% - 37.25% (22.00%)
			Yield	6.52% - 6.52% (6.52%)
Commercial Loans	$ 32,800,000	Discounted Cash Flow	Credit Spread	4.75 bps - 4.75 bps (4.75 bps)
			Recovery Percentage (1)	100.00% - 100.00% (100.00%)
	$ 24,720,646	Consensus Pricing	Offered Quotes	98.50 - 100.00 (99.13)
			Yield	9.12% - 11.74% (10.29%)
Excess Mortgage Servicing Rights	$ 4,800,708	Discounted Cash Flow	Projected Collateral Prepayments	7.59% - 11.85% (9.67%)
	$ 282,806	Consensus Pricing	Offered Quotes	0.04 - 0.52 (0.48)
AG Arc	$ 17,911,091	Comparable Multiple	Book Value Multiple	1.0x - 1.0x (1.0x)

Liability Class	Fair Value at December 31, 2017	Valuation Technique	Unobservable Input	Range (Weighted Average)
			Yield	3.23% - 3.23% (3.23%)
Securitized debt	$ (16,477,801)	Discounted Cash Flow	Projected Collateral Prepayments	14.00% - 14.00% (14.00%)
			Projected Collateral Losses	7.00% - 7.00% (7.00%)
			Projected Collateral Severities	40.00% - 40.00% (40.00%)

(1) Represents the proportion of the principal expected to be collected relative to the loan balances as of December 31, 2017.

As further described above, values for the Company’s securities portfolio are based upon prices obtained from third-party pricing services. Broker quotations may also be used. The significant unobservable inputs used in the fair value measurement of the Company’s securities are prepayment rates, probability of default, and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Also, as described above, valuation of the Company’s loan portfolio is determined by the Manager using third-party pricing services where available, specialized third party valuation service providers, or model-based pricing. The evaluation considers the underlying characteristics of each loan, which are observable inputs, including: coupon, maturity date, loan age, reset date, collateral type, periodic and life cap, geography, and prepayment speeds. These valuations also require significant judgments, which include assumptions regarding capitalization rates, re-performance rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders and other factors deemed necessary by management. Changes in the market environment and other events that may occur over the life of our investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently estimated. If applicable, analyses provided by valuation service providers are reviewed and considered by the Manager.

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7. Repurchase agreements

The Company pledges certain real estate securities and loans as collateral under repurchase agreements with financial institutions, the terms and conditions of which are negotiated on a transaction-by-transaction basis. Repurchase agreements involve the sale and a simultaneous agreement to repurchase the transferred assets or similar assets at a future date. The amount borrowed generally is equal to the fair value of the assets pledged less an agreed-upon discount, referred to as a “haircut.” The Company calculates haircuts disclosed in the tables below by dividing allocated capital on each borrowing by the current fair market value of each investment. Repurchase agreements entered into by the Company are accounted for as financings and require the repurchase of the transferred assets at the end of each agreement’s term, typically 30 to 90 days. The carrying amount of the Company’s repurchase agreements approximates fair value due to their short-term maturities or floating rate coupons. If the Company maintains the beneficial interest in the specific assets pledged during the term of the borrowing, it receives the related principal and interest payments. If the Company does not maintain the beneficial interest in the specific assets pledged during the term of the borrowing, it will have the related principal and interest payments remitted to it by the lender. Interest rates on these borrowings are fixed based on prevailing rates corresponding to the terms of the borrowings, and interest is paid at the termination of the borrowing at which time the Company may enter into a new borrowing arrangement at prevailing market rates with the same counterparty or repay that counterparty and negotiate financing with a different counterparty. If the fair value of pledged assets declines due to changes in market conditions or the publishing of monthly security paydown factors, lenders typically would require the Company to post additional securities as collateral, pay down borrowings or establish cash margin accounts with the counterparties in order to re-establish the agreed-upon collateral requirements, referred to as margin calls. The fair value of financial instruments pledged as collateral on the Company’s repurchase agreements disclosed in the tables below represent the Company’s fair value of such instruments which may differ from the fair value assigned to the collateral by its counterparties. The Company maintains a level of liquidity in the form of cash and unpledged Agency RMBS and Agency Interest-Only securities in order to meet these obligations. Under the terms of the Company’s master repurchase agreements, the counterparties may, in certain cases, sell or re-hypothecate the pledged collateral.

The following table presents certain financial information regarding the Company’s repurchase agreements secured by real estate securities as of June 30, 2018:

	Repurchase Agreements			Financial Instruments Pledged		
Repurchase Agreements Maturing Within:	Balance	Weighted Average Rate	Weighted Average Haircut	Fair Value Pledged	Amortized Cost	Accrued Interest

Overnight	$110,636,000	2.31%	3.0%	$114,031,956	$115,775,602	$362,555
30 days or less	1,784,082,000	2.45%	9.2%	1,991,350,098	1,962,154,041	7,740,255
31-60 days	420,130,000	2.50%	8.7%	468,641,667	467,140,552	1,740,034
61-90 days	181,449,000	2.48%	9.0%	207,489,411	206,058,822	747,579
Greater than 180 days	49,475,000	3.11%	16.1%	59,213,101	59,632,409	40,138
Total / Weighted Average	$2,545,772,000	2.47%	9.0%	$2,840,726,233	$2,810,761,426	$10,630,561

The following table presents certain financial information regarding the Company's repurchase agreements secured by real estate securities as of December 31, 2017:

	Repurchase Agreements			Financial Instruments Pledged		
Repurchase Agreements Maturing Within:	Balance	Weighted Average Rate	Weighted Average Haircut	Fair Value Pledged	Amortized Cost	Accrued Interest
Overnight	$128,779,000	1.80%	3.2%	$133,012,426	$133,030,219	$375,987
30 days or less	2,105,103,000	1.94%	9.6%	2,361,573,884	2,302,744,090	8,406,811
31-60 days	611,763,000	1.76%	7.6%	677,310,405	670,307,102	2,131,225
61-90 days	32,445,000	3.04%	25.9%	43,850,631	42,711,854	300,842
91-180 days	1,131,000	3.21%	22.7%	1,462,574	1,478,767	1,296
Greater than 180 days	93,059,628	3.00%	20.4%	119,489,680	118,698,392	46,682
Total / Weighted Average	$2,972,280,628	1.94%	9.4%	$3,336,699,600	$3,268,970,424	$11,262,843

The following table presents certain financial information regarding the Company's repurchase agreements secured by interests in residential mortgage loans as of June 30, 2018:

	Repurchase Agreements				Financial Instruments Pledged		
Repurchase Agreements Maturing Within:	Balance	Weighted Average Rate	Weighted Average Funding Cost	Weighted Average Haircut	Fair Value Pledged	Amortized Cost	Accrued Interes
Greater than 180 days	$66,613,881	4.11%	4.15%	26.1%	$90,133,713	$88,309,563	$60,997

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The following table presents certain financial information regarding the Company's repurchase agreements secured by interests in residential mortgage loans as of December 31, 2017:

	Repurchase Agreements			Financial Instruments Pledged		
Repurchase Agreements Maturing Within:	Balance	Weighted Average Rate and Funding Cost (1)	Weighted Average Haircut	Fair Value Pledged	Amortized Cost	Accrued Interest
Greater than 180 days	$10,330,390	4.07 %	34.8 %	$15,860,583	$14,870,542	$10,316

(1) As of December 31, 2017, the weighted average rate equaled the weighted average funding cost on the Company's repurchase agreements secured by residential mortgage loans as a result of the full recognition of deferred fee amounts.

The following table presents certain financial information regarding the Company's repurchase agreements secured by interests in commercial loans as of June 30, 2018:

	Repurchase Agreements			Financial Instruments Pledged		
Repurchase Agreements Maturing Within:	Balance	Weighted Average Rate and Funding Cost (1)	Weighted Average Haircut	Fair Value Pledged	Amortized Cost	Accrued Interest
Greater than 180 days	$21,796,000	4.24 %	33.5 %	$32,800,000	$32,800,000	$276,922

(1) As of June 30, 2018, the weighted average rate equaled the weighted average funding cost on the Company's repurchase agreements secured by commercial loans as a result of the full recognition of deferred fee amounts.

The following table presents certain financial information regarding the Company's repurchase agreements secured by commercial loans as of December 31, 2017:

	Repurchase Agreements			Financial Instruments Pledged		
Repurchase Agreements Maturing Within:	Balance	Weighted Average Rate and Funding Cost (1)	Weighted Average Haircut	Fair Value Pledged	Amortized Cost	Accrued Interest
Greater than 180 days	$21,796,000	3.70 %	33.5 %	$32,800,000	$32,800,000	$203,633

(1) As of December 31, 2017, the weighted average rate equaled the weighted average funding cost on the Company's repurchase agreements secured by commercial loans as a result of the full recognition of deferred fee amounts.

Although repurchase agreements are committed borrowings until maturity, the lender retains the right to mark the underlying collateral to fair value. A reduction in the value of pledged assets resulting from changes in market conditions or factor changes would require the Company to provide additional collateral or cash to fund margin calls. See Note 8 for details on collateral posted/received against certain derivatives. The following table presents information with respect to the Company's posting of collateral under repurchase agreements on June 30, 2018 and December 31, 2017, broken out by investment type:

	June 30, 2018	December 31, 2017
Fair Value of investments pledged as collateral under repurchase agreements		
Agency RMBS	$1,811,050,887	$ 2,118,615,429
Non-Agency RMBS	799,315,479	976,071,673
ABS	24,510,960	30,832,553
CMBS	205,848,907	211,179,945
Residential Mortgage Loans	90,133,713	15,860,583
Commercial Loans	32,800,000	32,800,000
Cash pledged (i.e., restricted cash) under repurchase agreements	11,495,756	12,155,251
Total collateral pledged under Repurchase agreements	$ 2,975,155,702	$ 3,397,515,434

The following table presents information with respect to the Company's total borrowings under repurchase agreements on June 30, 2018 and December 31, 2017, broken out by investment type:

	June 30, 2018	December 31, 2017
Repurchase agreements secured by investments:		
Agency RMBS	$1,712,500,000	$ 2,005,133,000
Non-Agency RMBS	653,525,000	784,896,628
ABS	18,495,000	22,761,000
CMBS	161,252,000	159,490,000
Residential Mortgage Loans	66,613,881	10,330,390
Commercial Loans	21,796,000	21,796,000
Gross Liability for Repurchase agreements	$ 2,634,181,881	$ 3,004,407,018

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The following table presents both gross information and net information about repurchase agreements eligible for offset in the consolidated balance sheets as of June 30, 2018:

				Gross Amounts Not Offset in the Consolidated Balance Sheets		
Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets	Financial Instruments Posted	Cash Collateral Posted	Net Amount
Repurchase Agreements	$ 2,634,181,881	$ -	$ 2,634,181,881	$ 2,634,181,881	$ -	$ -

The following table presents both gross information and net information about repurchase agreements eligible for offset in the consolidated balance sheets as of December 31, 2017:

				Gross Amounts Not Offset in the Consolidated Balance Sheets		
Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets	Financial Instruments Posted	Cash Collateral Posted	Net Amount
Repurchase Agreements	$ 3,004,407,018	$ -	$ 3,004,407,018	$ 3,004,407,018	$ -	$ -

The Company seeks to obtain financing from several different counterparties in order to reduce the financing risk related to any single counterparty. The Company has entered into master repurchase agreements (“MRAs”) or loan agreements with such financing counterparties. As of June 30, 2018 and December 31, 2017 the Company had 40 and 39 financing counterparties, respectively, under which it had outstanding debt with 29 and 27 counterparties, respectively.

The following table presents information at June 30, 2018 with respect to each counterparty that provides the Company with financing for which the Company had greater than 5% of its stockholders' equity at risk, excluding stockholders' equity at risk under financing through affiliated entities.

Counterparty	Stockholders' Equity at Risk	Weighted Average Maturity (days)	Percentage of Stockholders' Equity
RBC (Barbados) Trading Bank Corporation	$ 37,141,335	24	5 %

The following table presents information at December 31, 2017 with respect to each counterparty that provides the Company with financing for which the Company had greater than 5% of its stockholders' equity at risk, excluding stockholders' equity at risk under financing through affiliated entities.

Counterparty	Stockholders' Equity at Risk	Weighted Average Maturity (days)	Percentage of Stockholders' Equity
RBC (Barbados) Trading Bank Corporation	$ 45,239,399	26	6 %
Barclays Capital Inc	39,358,150	13	6 %

On September 17, 2014, AG MIT CREL, LLC ("AG MIT CREL"), a subsidiary of the Company, entered into a Master Repurchase Agreement and Securities Contract (the "CREL Repurchase Agreement") with Wells Fargo to finance AG MIT CREL's acquisition of certain beneficial interests in one or more commercial mortgage loans. Each transaction under the CREL Repurchase Agreement will have its own specific terms, such as identification of the assets subject to the transaction, sale price, repurchase price and rate. The CREL Repurchase Agreement provided for a funding period ending September 17, 2016 and an initial facility termination date of September 17, 2016 (the "Initial Termination Date"), subject to the satisfaction of certain terms of the extensions described below. AG MIT CREL had three (3) one-year options to extend the term of the CREL Repurchase Agreement.

On August 4, 2015, the Company, AG MIT CREL and AG MIT entered into an Omnibus Amendment No. 1 to Master Repurchase and Securities Contract, Guarantee Agreement and Fee and Pricing Letter (the "First Amendment") with Wells Fargo. The First Amendment amended certain terms in the CREL Repurchase Agreement, the Guarantee, dated as of September 17, 2014, delivered by the Company and AG MIT to Wells Fargo and the Fee and Pricing Letter, dated as of September 17, 2014, between AG MIT CREL and Wells Fargo. The First Amendment lowered the maximum aggregate borrowing capacity available under the CREL Repurchase Agreement from $150 million to approximately $42.8 million. The First Amendment also provided that the CREL Repurchase Agreement become full recourse to the Company and AG MIT, LLC. By amending the recourse of the CREL Repurchase Agreement to the Company and AG MIT, the Company was able to remove certain financial covenants on AG MIT CREL that limited the amount that AG MIT CREL could borrow under the CREL Repurchase Agreement. The First Amendment also eliminated the fee for the portion of the repurchase facility that was unused. The CREL Repurchase Agreement contains representations, warranties, covenants, including financial covenants, events of default and indemnities that are customary for agreements of this type. As of June 30, 2018 and December 31, 2017, the Company had $21.8 million of debt outstanding under this facility.

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In September 2016, the Company exercised its first option to extend the term of the CREL Repurchase Agreement. In June 2017, the Company, AG MIT CREL and AG MIT entered into an Omnibus Amendment No. 2 to Master Repurchase and Securities Contract, Guarantee Agreement and Fee and Pricing Letter (the “Second Amendment”) with Wells Fargo. The Second Amendment amended the CREL Repurchase Agreement to extend the facility termination date to July 1, 2019 and removed the second and third extension options.

In June 2018, AG MIT WFB1 2014 LLC (“AG MIT WFB1”), a subsidiary of the Company, entered into Amendment Numbers Seven and Eight of the Master Repurchase Agreement and Securities Contract (as amended, the “WFB1 Repurchase Agreement”) with Wells Fargo to finance the ownership and acquisition of certain pools of residential mortgage loans. The WFB1 Repurchase Agreement provides for a funding period ending June 14, 2019 and a facility termination date of June 15, 2020. The maximum aggregate borrowing capacity available under the WFB1 Repurchase Agreement is $110.0 million. The WFB1 Repurchase Agreement contains representations, warranties, covenants, including financial covenants, events of default and indemnities that are customary for agreements of this type. In the event the debt outstanding under the WFB1 Repurchase Agreement falls below $7.0 million, a cash trap trigger event will occur in which all income payments received by Wells Fargo will be applied against the outstanding balance until the WFB1 Repurchase Agreement is paid off. As of June 30, 2018 and December 31, 2017, the Company had $66.6 million and $10.3 million of debt outstanding under the WFB1 Repurchase Agreement, respectively.

The Company’s MRAs generally include customary representations, warranties, and covenants, but may also contain more restrictive supplemental terms and conditions. Although specific to each MRA, typical supplemental terms include requirements of minimum equity, leverage ratios, performance triggers or other financial ratios.

8. Derivatives

The Company’s derivatives may include interest rate swaps (“swaps”), TBAs, swaption contracts and Eurodollar Futures and U.S. Treasury Futures, (collectively, “Futures”). Derivatives have not been designated as hedging instruments. The Company may also utilize other instruments to manage interest rate risk, including long and short positions in U.S. Treasury securities.

The Company may exchange cash "variation margin" with the counterparties to its derivative instruments at least on a daily basis based upon daily changes in fair value as measured by the Chicago Mercantile Exchange ("CME"), the central clearinghouse through which those derivatives are cleared. In addition, the CME requires market participants to deposit and maintain an "initial margin" amount which is determined by the CME and is generally intended to be set at a level sufficient to protect the CME from the maximum estimated single-day price movement in that market participant's contracts.

Receivables recognized for the right to reclaim cash initial margin posted in respect of derivative instruments are included in the "Restricted cash" line item in the consolidated balance sheets. Prior to the first quarter of 2017, the daily exchange of variation margin associated with centrally cleared derivative instruments was considered a pledge of collateral. For these prior periods, receivables recognized for the right to reclaim cash variation margin posted in respect of derivative instruments are included in the "Restricted cash" line item in the consolidated balance sheets.

Beginning in the first quarter of 2017, as a result of a CME amendment to their rule book which governs their central clearing activities, the daily exchange of variation margin associated with a centrally cleared derivative instrument is legally characterized as the daily settlement of the derivative instrument itself, as opposed to a pledge of collateral. Accordingly, beginning in 2017, the Company accounts for the daily receipt or payment of variation margin associated with its centrally cleared derivative instruments as a direct reduction to the carrying value of the derivative asset or liability, respectively. Beginning in 2017, the carrying amount of centrally cleared derivative instruments reflected in the Company's consolidated balance sheets approximates the unsettled fair value of such instruments; because variation margin is exchanged on a one-day lag, the unsettled fair value of such instruments represents the change in fair value that occurred on the last day of the reporting period. Non-exchange traded derivatives were not affected by these legal interpretations and continue to be reported at fair value including accrued interest.

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The following table presents the fair value of the Company's derivative and other instruments and their balance sheet location at June 30, 2018 and December 31, 2017.

Derivatives and Other Instruments	Designation	Balance Sheet Location	June 30, 2018	December 31, 2017
Interest rate swaps (1)	Non-Hedge	Derivative assets, at fair value	$ 2,853,609	$ 1,428,240
Interest rate swaps (1)	Non-Hedge	Derivative liabilities, at fair value	(473,647)	(450,208)
Swaptions	Non-Hedge	Derivative assets, at fair value	971,831	362,202
TBAs	Non-Hedge	Derivative assets, at fair value	397,266	226,565
TBAs	Non-Hedge	Derivative liabilities, at fair value	(152,343)	-
Short positions on U.S. Treasury Futures	Non-Hedge	Derivative assets, at fair value	-	110,063
Short positions on U.S. Treasuries	Non-Hedge	Obligation to return securities borrowed under reverse repurchase agreements, at fair value (2)	-	(24,379,356)

(1) As of June 30, 2018, the Company applied a reduction in fair value of $62.2 million and $1.9 million to its interest rate swap assets and liabilities, respectively. As of December 31, 2017, the Company applied a reduction in fair value of $19.5 million and $0.6 million to its interest rate swap assets and liabilities, respectively, related to variation margin.

(2) The Company's obligation to return securities borrowed under reverse repurchase agreements relates to securities borrowed to cover short sales of U.S. Treasury securities. The change in fair value of the borrowed securities is recorded in the "Unrealized gain/(loss) on derivatives and other instruments, net" line item in the Company's consolidated statement of operations.

The following table summarizes information related to derivatives and other instruments:

Non-hedge derivatives and other instruments held long/(short):	June 30, 2018	December 31, 2017
Notional amount of Pay Fix/Receive Float Interest Rate Swap Agreements	$ 2,396,000,000	$ 2,227,000,000
Notional amount of Swaptions	250,000,000	270,000,000

Net notional amount of TBAs	160,000,000	100,000,000
Notional amount of short positions on U.S. Treasury Futures (1)	(20,000,000)	(52,500,000)
Notional amount of short positions on U.S. Treasuries	-	(24,668,000)

(1) Each U.S. Treasury Future contract embodies $100,000 of notional value.

The following table summarizes gains/(losses) related to derivatives and other instruments:

Non-hedge derivatives and other instruments gain/(loss):	Statement of Operations Location	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Interest rate swaps, at fair value	Unrealized gain/(loss) on derivative and other instruments, net	$5,610,322	$2,027,635	$41,862,031	$3,258,849
Interest rate swaps, at fair value	Net realized gain/(loss)	5,861,656	(8,082,738)	5,861,656	(8,082,738)
Swaptions, at fair value	Unrealized gain/(loss) on derivative and other instruments, net	(383,517)	-	(31,746)	-
Swaptions, at fair value	Net realized gain/(loss)	-	-	50,625	-
U.S. Treasury Futures	Unrealized gain/(loss) on derivative and other instruments, net	384,938	1,273,312	(109,419)	1,379,811
U.S. Treasury Futures	Net realized gain/(loss)	66,820	(2,882,643)	739,600	(3,830,579)
TBAs (1)	Unrealized gain/(loss) on derivative and other instruments, net	(409,370)	(1,409,304)	18,357	(1,049,539)
TBAs (1)	Net realized gain/(loss)	(208,086)	1,573,086	164,531	1,331,055
U.S. Treasuries	Unrealized gain/(loss) on derivative and other instruments, net	-	-	(94,004)	(1,724,922)
U.S. Treasuries	Net realized gain/(loss)	-	-	131,375	1,730,547

(1) For the three months ended June 30, 2018, gains and losses from purchases and sales of TBAs consisted of $0.6 million of net TBA dollar roll net interest income and net losses of $1.3 million due to price changes. For the six months ended June 30, 2018, gains and losses from purchases and sales of TBAs consisted of $1.1 million of net TBA dollar roll net interest income and net losses of $1.0 million due to price changes. For the three months ended June 30, 2017, gains and losses from purchases and sales of TBAs consisted of $0.7 million of net TBA dollar roll net interest income and net losses of $0.6 million due to price changes. For the six months ended June 30, 2017, gains and losses from purchases and sales of TBAs consisted of $1.1 million of net TBA dollar roll net interest income and net losses of $0.8 million due to price changes.

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The following table presents both gross information and net information about derivative and other instruments eligible for offset in the consolidated balance sheets as of June 30, 2018:

				Gross Amounts Not Offset in the Consolidated Balance Sheet		
Description (1)	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets (Liabilities) Presented in the Consolidated Balance Sheets	Financial Instruments (Posted)/Received	Cash Collateral (Posted)/Received	Net Amount
Derivative Assets (2)						
Interest Rate Swaps	$ 4,666,803	$ -	$ 4,666,803	$ -	$ 4,666,803	$ -
Interest Rate Swaptions	971,831	-	971,831	-	500,000	471,831
TBAs	397,266	-	397,266	-	-	397,266
Total Derivative Assets	$ 6,035,900	$ -	$ 6,035,900	$ -	$ 5,166,803	$ 869,097
Derivative Liabilities (3)						
Interest Rate Swaps	$ 277,398	$ -	$ 277,398	$ -	$ 277,398	$ -
TBAs	(152,343)	-	(152,343)	-	(152,343)	-
Total Derivative Liabilities	$ 125,055	$ -	$ 125,055	$ -	$ 125,055	$ -

(1) The Company applied a reduction in fair value of $62.2 million and $1.9 million to its interest rate swap assets and liabilities, respectively, related to variation margin.

(2) Included in Derivative Assets on the consolidated balance sheet is $6,035,900 less accrued interest of $(1,813,194) for a total of $4,222,706.

(3) Included in Derivative Liabilities on the consolidated balance sheet is $125,055 million plus accrued interest of $(751,045) for a total of $(625,990).

The following table presents both gross information and net information about derivative instruments eligible for offset in the consolidated balance sheets as of December 31, 2017:

				Gross Amounts Not Offset in the Consolidated Balance Sheet		
Description (1)	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets (Liabilities) Presented in the Consolidated Balance Sheets	Financial Instruments (Posted)/Received	Cash Collateral (Posted)/Received	Net Amount
Receivable Under Reverse Repurchase Agreements	$ 24,671,320	$ -	$ 24,671,320	$ 24,379,356	$ -	$ 291,964
Derivative Assets (2)						
Interest Rate Swaps	$ 4,543,743	$ -	$ 4,543,743	$ -	$ 1,666,444	$ 2,877,299
Interest Rate Swaptions	362,202	-	362,202	-	-	362,202
TBAs	226,565	-	226,565	-	-	226,565
U.S. Treasury Futures - Short	110,063	-	110,063	-	-	110,063
Total Derivative Assets	$ 5,242,573	$ -	$ 5,242,573	$ -	$ 1,666,444	$ 3,576,129
Derivative Liabilities (3)						
Interest Rate Swaps	$ (5,645)	$ -	$ (5,645)	$ -	$ (5,645)	$ -
Total Derivative Liabilities	$ (5,645)	$ -	$ (5,645)	$ -	$ (5,645)	$ -

(1) The Company applied a reduction in fair value of $19.5 million and $0.6 million to its interest rate swap assets and liabilities, respectively, related to variation margin.

(2) Included in Derivative Assets on the consolidated balance sheet is $5,242,573 less accrued interest of $(3,115,503) for a total of $2,127,070.

(3) Included in Derivative Liabilities on the consolidated balance sheet is $(5,645) plus accrued interest of $(444,563) for a total of $(450,208).

The Company must post cash or securities as collateral on its derivative instruments when their fair value declines. This typically occurs when prevailing market rates change adversely, with the severity of the change also dependent on the term of the derivatives involved. The posting of collateral is generally bilateral, meaning that if the fair value of the Company’s derivatives increases, its counterparty will post collateral to it. As of June 30, 2018, the Company pledged real estate securities with a fair value of $7.2 million and cash of $35.9 million as collateral against certain derivatives. The Company’s counterparties posted cash of $4.1 million to it as collateral for certain derivatives. As of December 31, 2017, the Company pledged real estate securities with a fair value of $7.5 million and cash of $25.4 million as collateral against certain derivatives. The Company’s counterparties posted cash of $1.7 million as collateral for certain derivatives.

Interest rate swaps

To help mitigate exposure to increases in short-term interest rates, the Company uses currently-paying and may use forward-starting, one- or three-month LIBOR-indexed, pay-fixed, receive-variable, interest rate swap agreements. This arrangement hedges our exposure to higher short-term interest rates because the variable-rate payments received on the swap agreements largely offset additional interest accruing on the related borrowings due to the higher interest rate, leaving the fixed-rate payments to be paid on the swap agreements as the Company’s effective borrowing rate, subject to certain adjustments including changes in spreads between variable rates on the swap agreements and actual borrowing rates.

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AG Mortgage Investment Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

June 30, 2018

As of June 30, 2018, the Company's interest rate swap positions consist of pay-fixed interest rate swaps. The following table presents information about the Company's interest rate swaps as of June 30, 2018:

Maturity	Notional Amount	Weighted Average Pay-Fixed Rate	Weighted Average Receive-Variable Rate	Weighted Average Years to Maturity
2019 2020	$ 170,000,000	1.36 %	2.34 %	1.38