AG Mortgage Investment Trust, Inc.
Form 10-Q
May 03, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2019
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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 and Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ý 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.
Large Accelerated filer ¨ Accelerated filer ý Non-Accelerated filer ¨ Smaller reporting company ¨ Emerging growth 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 ý
Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Trading Symbols:	Name of each exchange on which registered:
Common Stock, $0.01 par value per share	MITT	New York Stock Exchange (NYSE)

8.25% Series A Cumulative Redeemable Preferred Stock	MITT PrA	New York Stock Exchange (NYSE)
8.00% Series B Cumulative Redeemable Preferred Stock	MITT PrB	New York Stock Exchange (NYSE)

As of April 23, 2019, there were 32,709,397 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)
(in thousands, except per share data)

	March 31, 2019	December 31, 2018
Assets		
Real estate securities, at fair value:		
Agency - $2,240,880 and $1,934,562 pledged as collateral, respectively	$2,287,981	$1,988,280
Non-Agency - $640,396 and $605,243 pledged as collateral, respectively (1)	659,340	625,350
ABS - $12,594 and $13,346 pledged as collateral, respectively	20,199	21,160
CMBS - $266,689 and $248,355 pledged as collateral, respectively	276,403	261,385
Residential mortgage loans, at fair value - $117,830 and $99,283 pledged as collateral, respectively	202,047	186,096
Commercial loans, at fair value - $2,467 and $- pledged as collateral, respectively	110,223	98,574
Single-family rental properties, net	137,886	138,678
Investments in debt and equity of affiliates	102,099	84,892
Excess mortgage servicing rights, at fair value	24,301	26,650
Cash and cash equivalents	50,779	31,579
Restricted cash	37,266	52,779
Other assets	98,617	33,503
Total Assets	$4,007,141	$3,548,926
Liabilities		
Financing arrangements, net	$3,214,909	$2,822,505
Securitized debt, at fair value	10,515	10,858
Dividend payable	16,352	14,372
Other liabilities	33,729	45,180
Total Liabilities	3,275,505	2,892,915
Commitments and Contingencies (Note 14)		
Stockholders' Equity		
Preferred stock - $0.01 par value; 50,000 shares authorized:		
8.25% Series A Cumulative Redeemable Preferred Stock, 2,070 shares issued and outstanding ($51,750 aggregate liquidation preference)	49,921	49,921
8.00% Series B Cumulative Redeemable Preferred Stock, 4,600 shares issued and outstanding ($115,000 aggregate liquidation preference)	111,293	111,293
Common stock, par value $0.01 per share; 450,000 shares of common stock authorized and 32,703 and 28,744 shares issued and outstanding at March 31, 2019 and December 31, 2018, respectively	327	287
Additional paid-in capital	661,561	595,412
Retained earnings/(deficit)	(91,466)	(100,902)
Total Stockholders' Equity	731,636	656,011
Total Liabilities & Stockholders' Equity	$4,007,141	$3,548,926

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

(1) See Note 3 for details related to variable interest entities.

AG Mortgage Investment Trust, Inc. and Subsidiaries
Consolidated Statements of Operations (Unaudited)
(in thousands, except per share data)

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Net Interest Income		
Interest income	$41,490	$39,357
Interest expense	23,341	15,326
Total Net Interest Income	18,149	24,031
Other Income/(Loss)		
Rental income	3,397	—
Net realized gain/(loss)	(20,610)	(11,839)
Net interest component of interest rate swaps	1,781	(1,470)
Unrealized gain/(loss) on real estate securities and loans, net	46,753	(36,155)
Unrealized gain/(loss) on derivative and other instruments, net	(10,086)	37,090
Other income	596	—
Total Other Income/(Loss)	21,831	(12,374)
Expenses		
Management fee to affiliate	2,345	2,439
Other operating expenses	3,830	3,223
Equity based compensation to affiliate	126	51
Excise tax	92	375
Servicing fees	371	62
Property depreciation and amortization	1,447	—
Property operating expenses	1,843	—
Total Expenses	10,054	6,150
Income/(loss) before equity in earnings/(loss) from affiliates	29,926	5,507
Equity in earnings/(loss) from affiliates	(771)	2,740
Net Income/(Loss)	29,155	8,247
Dividends on preferred stock	3,367	3,367
Net Income/(Loss) Available to Common Stockholders	$25,788	$4,880
Earnings/(Loss) Per Share of Common Stock		
Basic	$0.84	$0.17
Diluted	$0.84	$0.17
Weighted Average Number of Shares of Common Stock Outstanding		
Basic	30,551	28,196
Diluted	30,581	28,217

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

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AG Mortgage Investment Trust, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity (Unaudited)
(in thousands)

	Common Stock		8.25 % Series A Cumulative Redeemable Preferred Stock	8.00 % Series B Cumulative Redeemable Preferred Stock	Additional Paid-in Capital	Retained Earnings/(Deficit)	Total
	Shares	Amount					
Balance at January 1, 2018	28,193	$ 282	$ 49,921	$ 111,293	$585,530	$ (32,767)	$714,259
Net proceeds from issuance of common stock	—	—	—	—	(63)	—	(63)
Grant of restricted stock and amortization of equity based compensation	3	—	—	—	143	—	143
Common dividends declared	—	—	—	—	—	(13,393)	(13,393)
Preferred Series A dividends declared	—	—	—	—	—	(1,067)	(1,067)
Preferred Series B dividends declared	—	—	—	—	—	(2,300)	(2,300)
Net Income/(Loss)	—	—	—	—	—	8,247	8,247
Balance at March 31, 2018	28,196	$ 282	$ 49,921	$ 111,293	$585,610	$ (41,280)	$705,826
Balance at January 1, 2019	28,744	$ 287	$ 49,921	$ 111,293	$595,412	$ (100,902)	$656,011
Net proceeds from issuance of common stock	3,953	40	—	—	65,924	—	65,964
Grant of restricted stock and amortization of equity based compensation	6	—	—	—	225	—	225
Common dividends declared	—	—	—	—	—	(16,352)	(16,352)
Preferred Series A dividends declared	—	—	—	—	—	(1,067)	(1,067)
Preferred Series B dividends declared	—	—	—	—	—	(2,300)	(2,300)
Net Income/(Loss)	—	—	—	—	—	29,155	29,155
Balance at March 31, 2019	32,703	$ 327	$ 49,921	$ 111,293	$661,561	$ (91,466)	$731,636

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

AG Mortgage Investment Trust, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)
(in thousands)

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Cash Flows from Operating Activities		
Net income/(loss)	$ 29,155	$ 8,247
Adjustments to reconcile net income/(loss) to net cash provided by (used in) operating activities:		
Net amortization of premium/(discount)	(1,656)	(959)
Net realized (gain)/loss	20,610	11,839
Unrealized (gain)/loss on real estate securities and loans, net	(46,753)	36,155
Unrealized (gain)/loss on derivative and other instruments, net	10,086	(37,090)
Property depreciation and amortization	1,447	—
Equity based compensation to affiliate	126	51
Equity based compensation expense	99	92
(Income)/loss from investments in debt and equity of affiliates in excess of distributions received	1,635	2,127
Change in operating assets/liabilities:		
Other assets	(1,025)	(152)
Other liabilities	(4,004)	4,542
Net cash provided by (used in) operating activities	9,720	24,852
Cash Flows from Investing Activities		
Purchase of real estate securities	(645,249)	(686,020)
Purchase of residential mortgage loans	(19,745)	—
Origination of commercial loans	(11,748)	—
Purchase of commercial loans	(10,118)	—
Purchase of U.S. Treasury securities	—	(249,659)
Purchase of excess mortgage servicing rights	—	(7,604)
Investments in debt and equity of affiliates	(20,734)	(39,216)
Proceeds from sales of real estate securities	213,027	728,366
Proceeds from sales of residential mortgage loans	75	—
Proceeds from sales of U.S. treasury securities	—	249,227
Principal repayments/return of basis on real estate securities and excess mortgage servicing rights	63,995	112,743
Principal repayments on commercial loans	10,471	—
Principal repayments on residential mortgage loans	4,007	183
Distributions received in excess of income from investments in debt and equity of affiliates	1,893	6,460
Net proceeds from/(payments made) on reverse repurchase agreements	11,487	24,695
Net proceeds from/(payments made) on sales of securities borrowed under reverse repurchase agreements	(11,437)	(24,032)
Net settlement of interest rate swaps and other instruments	(31,268)	6,504
Net settlement of TBAs	(431)	373
Cash flows provided by/(used in) other investing activities	(1,151)	1,224
Net cash provided by/(used in) investing activities	(446,926)	123,244

Cash Flows from Financing Activities		
Net proceeds from issuance of common stock	65,964	(63)
Borrowings under financing arrangements	10,167,128	13,806,248
Repayments of financing arrangements	(9,774,724)	(13,950,356)
Net collateral received from/(paid to) derivative counterparty	(599)	27,207
Net collateral received from/(paid to) repurchase counterparty	863	384
Dividends paid on common stock	(14,372)	(13,391)
Dividends paid on preferred stock	(3,367)	(3,367)
Net cash provided by/(used in) financing activities	440,893	(133,338)
Net change in cash, cash equivalents and restricted cash	3,687	14,758
Cash, cash equivalents, and restricted cash, Beginning of Period	84,358	52,815
Cash, cash equivalents, and restricted cash, End of Period	$ 88,045	$ 67,573

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	Three Months Ended March 31, 2019		Three Months Ended March 31, 2018	
Supplemental disclosure of cash flow information:				
Cash paid for interest on financing arrangements	$	24,847	$	14,513
Cash paid for excise and income taxes	$	1,396	$	1,379
Supplemental disclosure of non-cash financing and investing activities:				
Receivable on unsettled trades	$	68,389	$	104,654
Payable on unsettled trades	$	—	$	117,356
Principal repayments on real estate securities not yet received	$	—	$	1,018
Common stock dividends declared but not paid	$	16,352	$	13,393
Decrease in securitized debt	$	317	$	994
Transfer from residential mortgage loans to other assets	$	628	$	—
Transfer from non-agency to investments in debt and equity of affiliates	$	—	$	44,970
Transfer from financing arrangements to investments in debt and equity of affiliates	$	—	$	33,720

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:

	March 31, 2019	March 31, 2018
Cash and cash equivalents	$50,779	$25,294
Restricted cash	37,266	42,279
Total cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows	$88,045	$67,573

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)
March 31, 2019

1. Organization

AG Mortgage Investment Trust, Inc. (the "Company") was incorporated in the state of Maryland on March 1, 2011. The Company is a hybrid mortgage REIT that opportunistically invests in a diversified portfolio of residential mortgage-backed securities, or RMBS, residential and commercial mortgage assets, financial assets and real estate. RMBS include securities issued or guaranteed by a U.S. 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"). Residential and commercial mortgage assets, financial assets and real estate include Non-Agency RMBS, ABS, CMBS, excess mortgage servicing rights ("Excess MSRs"), loans, and single-family rental properties, each as described below.

Non-Agency RMBS represent fixed- and floating-rate RMBS issued by entities or organizations other than a GSE 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 for which 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 evidencing 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."

Single-family rental properties represent equity interests in residential properties held for the purpose of owning, leasing, and operating as single-family rental properties.

The Company conducts its business through the following segments: (i) Securities and Loans and (ii) Single-Family Rental Properties.

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.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
March 31, 2019

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. Cash equivalents includes cash invested in money market funds. As of March 31, 2019 and December 31, 2018, the Company held $35.9 million and $0.6 million, respectively, of 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 "Other liabilities" line item on the consolidated balance sheets and in cash flows from financing activities on the consolidated statement of cash flows. Due to broker, which is included in the "Other liabilities" line item on the consolidated balance sheets, does not include variation margin received on centrally cleared derivatives. See Note 9 for more detail. Any cash due to the Company in the form of principal payments is included in the "Other assets" line item on the consolidated balance sheets and in cash flows from operating activities on the consolidated statement of cash flows.

Restricted cash

Restricted cash includes cash pledged as collateral for clearing and executing trades, derivatives, financing arrangements and security deposits. Restricted cash also includes cash deposited into accounts related to rent deposits and collections, security deposits, property taxes, insurance premiums, interest expenses, property management fees and capital expenditures. Restricted cash is not available to the Company for general corporate purposes. As of March 31, 2019 and December 31, 2018, the Company held $1.5 million and $1.3 million, respectively, of restricted cash related to security deposits. Restricted cash may be returned to the Company when the related collateral requirements are exceeded or at the maturity of the derivative or financing arrangement. Restricted cash is carried at cost, which approximates fair value. Restricted cash does not include variation margin pledged on centrally cleared derivatives. See Note 9 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.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
March 31, 2019

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.

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 the securities 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 March 31, 2019 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 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 residential and commercial mortgage loans

Investments in mortgage loans are recorded in accordance with ASC 310-10, "Receivables." 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."

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. These types of investments may also be held directly by the Company. 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.

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.

On August 29, 2017, the Company, alongside private funds under the management of Angelo Gordon, formed Mortgage Acquisition Holding I LLC ("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.

During Q3 2018, the Company transferred certain of its CMBS from certain of its non-wholly owned subsidiaries to a consolidated entity. The Company executed this transfer in order to obtain financing on these real estate securities. As a result, there was a reclassification of these assets from the "Investments in debt and equity of affiliates" line item to the "CMBS" line item on the Company's consolidated balance sheets. In addition, the Company has also shown this reclassification as a non-cash transfer from the "Investments in debt and equity of affiliates" line item to the "CMBS" line item on its consolidated statements of cash flows.

The below table reconciles the fair market value of investments to the "Investments in debt and equity of affiliates" line item on the Company's consolidated balance sheet (in thousands).

	March 31, 2019			December 31, 2018		
	Assets	Liabilities	Equity	Assets	Liabilities	Equity
Real Estate Securities, Excess MSRs and Loans, at fair value (1)(2)	$244,867	$(176,950)	$67,917	$213,419	$(138,893)	$74,526
AG Arc, at fair value	23,775	—	23,775	20,360	—	20,360
Cash and Other assets/(liabilities)	11,510	(1,103)	10,407	7,423	(17,417)	(9,994)
Investments in debt and equity of affiliates	$280,152	$(178,053)	$102,099	$241,202	$(156,310)	$84,892

(1) Net of any non-recourse securitized debt.

(2) Within Real Estate Securities, Excess MSRs and Loans is $144.4 million and $113.3 million of fair market value of Non-QMs held in MATT at March 31, 2019 and December 31, 2018, respectively.

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.

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.

Accounting for single-family rental properties

Purchases of single-family rental properties are treated as asset acquisitions under ASU 2017-01, "Clarifying the Definition of a Business" and are recorded at their purchase price, which is allocated between land, building and improvements, and in-place lease intangibles (when a tenant is in place at the acquisition date) based upon their relative fair values at the date of acquisition. Fair value is determined in accordance with ASC 820 and is primarily based on unobservable data inputs. In making estimates of fair values for purposes of allocating the purchase price, the Company utilizes its own market knowledge and published market data and generally engages a third-party valuation specialist to assist management in the determination of fair value for purposes of allocating price of properties acquired as part of portfolio level transactions. For purposes of this allocation, the purchase price is inclusive of acquisition costs, which include legal costs, as well as other closing costs.

The Company incurs costs to acquire, stabilize and prepare our single-family rental properties to be rented. These costs include renovation and other costs associated with these activities. The Company capitalizes these costs as a component of the Company's investment in each single-family rental property, using specific identification and relative allocation methodologies. The capitalization period associated with the Company's stabilization activities begins at such time that activities commence and concludes at the time that a single-family rental property is available to be leased. Once a property is ready for its intended use, expenditures for ordinary maintenance and repairs are expensed to operations as incurred. The Company capitalizes expenditures that improve or extend the life of a home and for certain furniture and fixtures additions.

The Company records single-family rental properties at purchase price plus any capitalized expenses less accumulated depreciation and amortization and any impairment to the "Single-family rental properties, net" line item on the consolidated balance sheets. Costs capitalized in connection with property acquisitions and improvements are depreciated over their estimated useful lives on a straight line basis. Buildings are depreciated over 30 years and improvements are depreciated over a range of 5 years to 30 years. In-place lease intangibles are recorded based on the costs to execute similar leases as well as an estimate of lost rent revenue at in-place rental rates during the estimated time required to lease the property. The in-place lease intangibles are amortized over the remaining life of the leases in place at purchase and are recorded in "Single-family rental properties, net" on the Company's consolidated balance sheets. The weighted average remaining life of the leases in place at purchase is 3.3 months.

The Company assesses impairment in its single-family rental properties at least on a quarterly basis, or whenever events or changes in business circumstances indicate that carrying amounts of the assets may not be fully recoverable. When such trigger events occur, the Company determines whether there has been impairment by comparing the asset’s carrying value with its estimated fair value. Should impairment exist, the asset is written down to its estimated fair value. This analysis is performed at the property level using estimated cash flows, which are estimated based on a number of assumptions that are subject to economic and market uncertainties, including, among others, demand for rental properties, competition for customers, changes in market rental rates, costs to operate each property, expected ownership periods and value of the property. If the carrying amount of a property exceeds the sum of its undiscounted future operating and disposition cash flows, an impairment loss is recorded for excess of the carrying amount over the estimated fair value.

Minimum contractual rents from leases are recognized on a straight-line basis over the terms of the leases in rental income. Therefore, actual amounts billed in accordance with the lease during any given period may be higher or lower than the amount of rental income recognized during the period. Straight-line rental income commences when the customer takes control of the leased premises.

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 in 2014 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 transferred certain of its CMBS in Q3 2018 from certain of its non-wholly owned subsidiaries into a newly formed wholly owned entity so the Company could obtain financing on these real estate securities. The Company evaluated whether this newly formed entity was a VIE and, 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 accounted for its investment in this entity as an equity method investment. See Note 3 below as well as the "Investments in debt and equity of affiliates" section above 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.

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

From time to time, the Company may securitize mortgage loans it holds if such financing is available. These transactions will be recorded in accordance with ASC 860-10 and will be accounted for as either a "sale" and the loans will be removed from the consolidated balance 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, "Imputation of Interest," 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 records an 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 made that are uncertain and subject to judgments and assumptions based on subjective and objective factors 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.

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.

Financing arrangements

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

The Company pledges certain securities, loans or properties as collateral under financing arrangements with financial institutions, the terms and conditions of which are negotiated on a transaction-by-transaction basis. The amounts available to be borrowed under repurchase agreements and revolving facilities are dependent upon the fair value of the securities, or loans pledged as collateral, which can fluctuate 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 assets pledged under repurchase agreements and revolving facilities, 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 March 31, 2019 and December 31, 2018, 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 March 31, 2019 and December 31, 2018, 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 9 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."

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.The Company establishes haircuts to ensure the fair market value of the underlying assets remain sufficient to protect the Company in the event of a default by a counterparty. Interest income and expense associated with purchases and short sales of U.S. Treasury securities are recognized in "Interest income" and "Interest expense," respectively, on the consolidated statement of operations. Realized and unrealized gains and losses associated with purchases and short sales of U.S. Treasury securities are recognized in "Net realized gain/(loss)" and "Unrealized gain/(loss) on derivative and other instruments, net," respectively, on the consolidated statement of operations.

Manager compensation

The management agreement provides for payment to the Manager of a management fee. The management fee is accrued and expensed during the period for which it is earned. For a more detailed discussion on the fees payable under the management agreement, see Note 12.

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.

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 11 for further details.

Deal related performance fees

The Company accrues deal related performance fees, payable to Arc Home and third party operators, on certain of its CMBS, Excess MSRs and its single-family rental properties. The deal related performance fees are based on these investments meeting certain performance hurdles. The fees are accrued and expensed during the period for which they are incurred and are included in the "Other operating expenses" and "Equity in earnings/(loss) from affiliates" line items on the Consolidated Statement of Operations.

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 and restricted stock units issued to the Company's directors and the Manager are measured at its estimated fair value at the grant date, and is amortized and expensed over the vesting period on a straight-line basis. 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 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 June 2018, the FASB issued ASU 2018-7, "Improvements to Nonemployee Share–Based Payment Accounting" ("ASU 2018-7"). 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 adopted ASU 2018-7 in the first quarter of 2019 and applied the

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guidance on a modified retrospective basis through a cumulative-effect adjustment to retained earnings. The adjustment was immaterial.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820) Disclosure Framework–Changes to the Disclosure Requirements for Fair Value Measurement" ("ASU 2018-13"). ASU 2018-13 changes the fair value measurement disclosure requirements of ASC 820 "Fair Value Measurement" by adding, eliminating, and modifying certain disclosure requirements. ASU 2018-13 is effective for all entities for fiscal years beginning after December 15, 2019 and requires application of the prospective method of transition. The Company is currently assessing the impact the 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 March 31, 2019 and December 31, 2018. 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 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 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 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 on the consolidated statement of operations. The gross unrealized gains/(losses) stated in the tables below represent inception to date unrealized gains/(losses).

The following table details the Company’s real estate securities portfolio as of March 31, 2019 (in thousands):

				Gross Unrealized			Weighted Average	
	Current Face	Premium / (Discount)	Amortized Cost	Gains	Losses	Fair Value	Coupon (1)	Yield
Agency RMBS:								
30 Year Fixed Rate	$2,046,873	$58,524	$2,105,397	$35,992	$(1,408)	$2,139,981	4.10%	3.61 %
Fixed Rate CMO	42,622	298	42,920	—	(9)	42,911	3.00%	2.79 %
Interest Only	648,694	(542,216)	106,478	1,701	(3,090)	105,089	3.61%	7.43 %
Total Agency RMBS:	2,738,189	(483,394)	2,254,795	37,693	(4,507)	2,287,981	3.97%	3.77 %
Credit Investments:								
Non-Agency RMBS	785,687	(182,370)	603,317	54,108	(586)	656,839	5.07%	7.09 %
Non-Agency RMBS Interest Only	282,731	(279,675)	3,056	533	(1,088)	2,501	0.63%	17.04%
Total Non-Agency:	1,068,418	(462,045)	606,373	54,641	(1,674)	659,340	4.32%	7.12 %
ABS	20,605	(116)	20,489	—	(290)	20,199	9.72%	10.24%
CMBS	336,448	(126,349)	210,099	17,308	(401)	227,006	5.91%	8.52 %
CMBS Interest Only	3,392,935	(3,346,783)	46,152	3,413	(168)	49,397	0.24%	6.93 %
Total CMBS:	3,729,383	(3,473,132)	256,251	20,721	(569)	276,403	0.50%	8.24 %
Total Credit Investments:	4,818,406	(3,935,293)	883,113	75,362	(2,533)	955,942	1.29%	7.51 %

Total	$7,556,595	$(4,418,687)	$3,137,908	$113,055	$(7,040)	$3,243,923	2.31%	4.87 %

(1) 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, 2018 (in thousands):

	Current Face	Premium / (Discount)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Coupon (1)	Weighted Average Yield
Agency RMBS:								
30 Year Fixed Rate	$1,781,995	$50,750	$1,832,745	$6,544	$(9,174)	$1,830,115	4.08%	3.66%
Fixed Rate CMO	44,418	327	44,745	—	(388)	44,357	3.00%	2.79%
Interest Only	680,743	(565,659)	115,084	1,788	(3,064)	113,808	3.61%	8.13%
Total Agency RMBS:	2,507,156	(514,582)	1,992,574	8,332	(12,626)	1,988,280	3.94%	3.89%
Credit Investments:								
Non-Agency RMBS	763,753	(189,569)	574,184	50,131	(2,064)	622,251	5.09%	7.18%
Non-Agency RMBS Interest Only	296,677	(293,520)	3,157	879	(937)	3,099	0.63%	21.88%
Total Non-Agency:	1,060,430	(483,089)	577,341	51,010	(3,001)	625,350	4.29%	7.25%
ABS	22,125	(179)	21,946	—	(786)	21,160	9.49%	10.22%
CMBS	361,514	(163,366)	198,148	14,936	(2,030)	211,054	6.12%	8.87%
CMBS Interest Only	3,401,670	(3,354,311)	47,359	3,243	(271)	50,331	0.24%	6.87%
Total CMBS:	3,763,184	(3,517,677)	245,507	18,179	(2,301)	261,385	0.48%	8.48%
Total Credit Investments:	4,845,739	(4,000,945)	844,794	69,189	(6,088)	907,895	1.26%	7.67%
Total	$7,352,895	$(4,515,527)	$2,837,368	$77,521	$(18,714)	$2,896,175	2.23%	5.08%

(1) 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 as of March 31, 2019 and December 31, 2018 (in thousands):

As of	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	Greater than 12 months Fair Value	Greater than 12 months Unrealized Losses
March 31, 2019	$142,762	$(2,554)	$250,514	$(4,486)
December 31, 2018	966,620	(14,937)	81,170	(3,777)

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 March 31, 2019 the Company recognized an OTTI charge of $2.4 million on its securities, which is included in the "Net realized gain/(loss)" line item on the consolidated statement of operations. The Company recorded $2.4 million of OTTI due to an adverse change in cash flows on certain securities where the fair values of the securities were less than their carrying amounts. Of the $2.4 million of OTTI recorded, $0.3 million related to securities where OTTI was not recognized in a prior year.

For the three months ended March 31, 2018 the Company recognized an OTTI charge of $1.0 million on its securities, which is included in the "Net realized gain/(loss)" line item on the consolidated statement of operations. The Company recorded $1.0 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 $1.0 million of OTTI recorded, $0.6 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

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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 the weighted average life of our real estate securities broken out by Agency RMBS and Credit Investments as of March 31, 2019 (in thousands):

	Agency RMBS			Credit Investments		
Weighted Average Life (1)	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value	Amortized Cost	Weighted Average Coupon (2)
Less than or equal to 1 year	$—	$—	—	$90,407	$ 90,496	0.66 %
Greater than one year and less than or equal to five years	58,962	58,485	3.01 %	283,537	267,034	0.99 %
Greater than five years and less than or equal to ten years	2,229,019	2,196,310	4.04 %	388,946	353,524	1.35 %
Greater than ten years	—	—	— %	193,052	172,059	5.83 %
Total	$2,287,981	$2,254,795	3.97 %	$955,942	$ 883,113	1.29 %

(1) This is based on projected life. Typically, actual maturities of mortgage-backed securities are 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) Equity residual investments and principal only securities with a zero coupon rate are excluded from this calculation.

The following table details the weighted average life of our real estate securities broken out by Agency RMBS and Credit Investments as of December 31, 2018 (in thousands):

	Agency RMBS			Credit Investments		
Weighted Average Life (1)	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value	Amortized Cost	Weighted Average Coupon (2)
Less than or equal to 1 year	$—	$—	—	$73,194	$ 73,738	0.59 %
Greater than one year and less than or equal to five years	61,644	61,305	3.01 %	240,232	226,342	0.89 %
Greater than five years and less than or equal to ten years	1,908,417	1,912,545	4.02 %	420,050	388,500	1.47 %
Greater than ten years	18,219	18,724	3.50 %	174,419	156,214	5.77 %
Total	$1,988,280	$1,992,574	3.94 %	$907,895	$ 844,794	1.26 %

(1) This is based on projected life. Typically, actual maturities of mortgage-backed securities are 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) Equity residual investments and principal only securities with a zero coupon rate are excluded from this calculation.

For the three months ended March 31, 2019, the Company sold 26 securities for total proceeds of $213.0 million, with an additional $68.4 million proceeds on 5 unsettled security sales, recording realized gains of $4.3 million and realized losses of $2.2 million.

For the three months ended March 31, 2018, the Company sold 57 securities for total proceeds of $728.4 million, with an additional $104.7 million of proceeds on 8 unsettled security sales as of quarter end, recording realized gains of $5.9 million and realized losses of $18.4 million.

See Notes 4 and 9 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 an 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.

The Company previously entered into a resecuritization transaction in 2014 that resulted in the Company consolidating the VIE created for the transaction with the SPE, which was used to facilitate the transaction ("VIE A"). The Company concluded that the SPE 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 VIE A, 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 VIE A as of March 31, 2019 (in thousands):

			Weighted Average		
	Current Face	Fair Value	Coupon	Yield	Life (Years) (1)
Consolidated tranche (2)	$ 10,504	$ 10,515	4.24%	4.47 %	2.33
Retained tranche	8,393	6,719	4.50%	18.98%	8.30
Total resecuritized asset	$ 18,897	$ 17,234	4.36%	10.12%	4.98

(1) This is based on projected life. Typically, actual maturities of investments and loans are 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 March 31, 2019, the fair market value of the consolidated tranche is included in the Company's consolidated balance sheets as "Non-Agency RMBS." As of March 31, 2019, the Company has recorded secured financing of $10.5 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 following table details certain information on VIE A as of December 31, 2018 (in thousands):

			Weighted Average		
	Current Face	Fair Value	Coupon	Yield	Life (Years) (1)
Consolidated tranche (2)	$10,821	$10,858	4.10%	4.47 %	2.39
Retained tranche	8,401	6,550	4.61%	18.50%	8.37
Total resecuritized asset	$19,222	$17,408	4.32%	9.75 %	5.00

(1) This is based on projected life. Typically, actual maturities of investments and loans are 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, 2018, 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, 2018, the Company has recorded secured financing of $10.9 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 VIE A.

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The Company transferred certain of its CMBS in Q3 2018 from certain of its non-wholly owned subsidiaries into a newly formed entity so it could obtain financing on these real estate securities ("VIE B"). The Company concluded that the entity created to facilitate this transfer was a VIE. The Company also determined that VIE B should be consolidated by the Company based on the Company’s 100% equity ownership in VIE B (despite a profit participation interest held by an unaffiliated third party in VIE B), the Company's involvement in VIE B, including the design and purpose of the entity, and whether the Company’s involvement reflected a controlling financial interest that resulted in the Company being deemed the primary beneficiary of VIE B.

The following table details certain information on VIE B as of March 31, 2019 and December 31, 2018 (in thousands):

	March 31, 2019	December 31, 2018
Assets		
CMBS	$ 88,400	$ 84,515
Cash and cash equivalents	600	595
Restricted cash	—	258
Other assets	152	151
Total assets	$ 89,152	$ 85,519
Liabilities		
Financing arrangements, net	$ 55,340	$ 54,278
Other liabilities	3,301	2,954
Total liabilities	$ 58,641	$ 57,232

Except for restricted cash, assets held by VIE B are not restricted and can be used to settle any obligations of the Company. The liabilities of VIE B are recourse to the Company and can be satisfied with assets of the Company.

4. Loans

Residential mortgage loans

In February 2019, the Company purchased a residential mortgage loan portfolio with a gross aggregate unpaid principal balance and a gross acquisition fair value of $25.9 million and $19.7 million, respectively.

For the three months ended March 31, 2019, the Company sold 1 loan for total proceeds of $0.1 million, recording realized gains of $16,044. No residential mortgage loans were sold for the three months ended March 31, 2018.

The Company has chosen to make a fair value election pursuant to ASC 825 for its residential mortgage 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 gains/(losses) stated in the tables below represents inception to date unrealized gains/(losses).

The table below details information regarding the Company’s residential mortgage loan portfolio as of March 31, 2019 (in thousands):

	Gross Unrealized	Weighted Average

	Unpaid Principal Balance	Premium (Discount)	Amortized Cost	Gains	Losses	Fair Value	Coupon	Yield	Life (Years) (1)
Residential mortgage loans	$237,780	$(36,060)	$ 201,720	$1,039	$(712)	$202,047	4.80%	6.84%	7.88

(1) This is based on projected life. Typically, actual maturities of residential mortgage loans are shorter than stated contractual maturities. Maturities are affected by the lives of the underlying mortgages, periodic payments of principal and prepayments of principal.

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The table below details information regarding the Company’s residential mortgage loan portfolio as of December 31, 2018 (in thousands):

				Gross Unrealized			Weighted Average		
	Unpaid Principal Balance	Premium (Discount)	Amortized Cost	Gains	Losses	Fair Value	Coupon	Yield	Life (Years) (1)
Residential mortgage loans	$216,853	$(31,773)	$ 185,080	$ 1,190	$ (174)	$ 186,096	4.75%	6.53%	7.14

(1) This is based on projected life. Typically, actual maturities of residential mortgage loans are 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 March 31, 2019 and December 31, 2018 (in thousands):

	March 31, 2019		December 31, 2018	
	Fair Value	Unpaid Principal Balance	Fair Value	Unpaid Principal Balance
Re-Performing	$161,777	$ 187,811	$148,508	$ 172,470
Non-Performing	40,270	49,969	37,588	44,383
	$202,047	$ 237,780	$186,096	$ 216,853

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 months ended March 31, 2019 and March 31, 2018 on the Company’s residential mortgage loans.

As of March 31, 2019 and December 31, 2018 the Company had residential mortgage loans that were in the process of foreclosure with a fair value of $16.8 million and $17.3 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 the geographic concentration of credit risk within the Company’s mortgage loan portfolio:

Geographic Concentration of Credit Risk	March 31, 2019	December 31, 2018
Percentage of fair value of mortgage loans secured by properties in the following states:		
Representing 5% or more of fair value:		
California	18 %	19 %
Florida	9 %	9 %
Georgia	5 %	5 %
New York	4 %	5 %

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The Company records interest income on an effective interest 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 months ended March 31, 2019 and March 31, 2018, respectively (in thousands):

	Three Months Ended	
	March 31, 2019	March 31, 2018
Beginning Balance	$ 79,610	$ 9,318
Additions	19,731	&#