

Edgar Filing: PennyMac Mortgage Investment Trust - Form 10-Q

PennyMac Mortgage Investment Trust
Form 10-Q
May 03, 2019

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srt:MaximumMember pmt:MortgageLoansAtFairValueMember us-gaap:MeasurementInputPriceVolatilityMember 2018-12-31 0001464423 srt:WeightedAverageMember pmt:MortgageLoansAtFairValueMember us-gaap:MeasurementInputPriceVolatilityMember 2019-03-31 0001464423 srt:WeightedAverageMember pmt:MortgageLoansAtFairValueMember us-gaap:MeasurementInputPriceVolatilityMember 2018-12-31 0001464423 srt:MinimumMember pmt:MortgageLoansAtFairValueMember pmt:MeasurementInputVoluntaryPrepaymentRateMember 2019-03-31 0001464423 srt:MinimumMember pmt:MortgageLoansAtFairValueMember pmt:MeasurementInputVoluntaryPrepaymentRateMember 2018-12-31 0001464423 srt:MaximumMember pmt:MortgageLoansAtFairValueMember pmt:MeasurementInputVoluntaryPrepaymentRateMember 2019-03-31 0001464423 srt:MaximumMember pmt:MortgageLoansAtFairValueMember pmt:MeasurementInputVoluntaryPrepaymentRateMember 2018-12-31 0001464423 srt:WeightedAverageMember pmt:MortgageLoansAtFairValueMember pmt:MeasurementInputVoluntaryPrepaymentRateMember 2019-03-31 0001464423 srt:WeightedAverageMember pmt:MortgageLoansAtFairValueMember pmt:MeasurementInputVoluntaryPrepaymentRateMember 2018-12-31 0001464423 srt:MinimumMember pmt:MortgageLoansAtFairValueMember us-gaap:MeasurementInputPrepaymentRateMember 2019-03-31 0001464423 srt:MinimumMember pmt:MortgageLoansAtFairValueMember us-gaap:MeasurementInputPrepaymentRateMember 2018-12-31 0001464423 srt:MaximumMember pmt:MortgageLoansAtFairValueMember us-gaap:MeasurementInputPrepaymentRateMember 2019-03-31 0001464423 srt:MaximumMember pmt:MortgageLoansAtFairValueMember us-gaap:MeasurementInputPrepaymentRateMember 2018-12-31 0001464423 srt:WeightedAverageMember pmt:MortgageLoansAtFairValueMember us-gaap:MeasurementInputPrepaymentRateMember 2019-03-31 0001464423 srt:WeightedAverageMember pmt:MortgageLoansAtFairValueMember us-gaap:MeasurementInputPrepaymentRateMember 2018-12-31 0001464423 srt:WeightedAverageMember pmt:ExcessSpreadInvestmentMember 2019-01-01 2019-03-31 0001464423 srt:WeightedAverageMember pmt:ExcessSpreadInvestmentMember 2018-01-01 2018-12-31 0001464423 srt:MinimumMember pmt:ExcessSpreadInvestmentMember 2019-01-01 2019-03-31 0001464423 srt:MinimumMember pmt:ExcessSpreadInvestmentMember 2018-01-01 2018-12-31 0001464423 srt:MaximumMember pmt:ExcessSpreadInvestmentMember 2019-01-01 2019-03-31 0001464423 srt:MaximumMember pmt:ExcessSpreadInvestmentMember 2018-01-01 2018-12-31 0001464423 srt:MinimumMember pmt:MeasurementInputPullThroughRateMember 2019-03-31 0001464423 srt:MinimumMember pmt:MeasurementInputPullThroughRateMember 2018-12-31 0001464423 srt:MaximumMember pmt:MeasurementInputPullThroughRateMember 2019-03-31 0001464423 srt:MaximumMember pmt:MeasurementInputPullThroughRateMember 2018-12-31 0001464423 srt:WeightedAverageMember pmt:MeasurementInputPullThroughRateMember 2019-03-31 0001464423 srt:WeightedAverageMember pmt:MeasurementInputPullThroughRateMember 2018-12-31 0001464423 srt:MinimumMember pmt:MeasurementInputServicingFeeMultipleMember 2019-03-31 0001464423 srt:MinimumMember pmt:MeasurementInputServicingFeeMultipleMember 2018-12-31 0001464423 srt:MaximumMember pmt:MeasurementInputServicingFeeMultipleMember 2019-03-31 0001464423 srt:MaximumMember pmt:MeasurementInputServicingFeeMultipleMember 2018-12-31 0001464423 srt:WeightedAverageMember pmt:MeasurementInputServicingFeeMultipleMember 2019-03-31 0001464423 srt:WeightedAverageMember pmt:MeasurementInputServicingFeeMultipleMember 2018-12-31 0001464423 srt:MinimumMember pmt:MeasurementInputUnpaidPrincipalBalanceMember 2019-03-31 0001464423 srt:MinimumMember pmt:MeasurementInputUnpaidPrincipalBalanceMember 2018-12-31 0001464423 srt:MaximumMember pmt:MeasurementInputUnpaidPrincipalBalanceMember 2019-03-31 0001464423 srt:MaximumMember pmt:MeasurementInputUnpaidPrincipalBalanceMember 2018-12-31 0001464423 srt:WeightedAverageMember pmt:MeasurementInputUnpaidPrincipalBalanceMember 2019-03-31 0001464423 srt:WeightedAverageMember pmt:MeasurementInputUnpaidPrincipalBalanceMember 2018-12-31 0001464423 srt:MinimumMember pmt:CreditRiskTransferAgreementsMember us-gaap:MeasurementInputDiscountRateMember 2019-01-01 2019-03-31 0001464423 srt:MinimumMember pmt:CreditRiskTransferAgreementsMember us-gaap:MeasurementInputDiscountRateMember 2018-01-01 2018-12-31 0001464423 srt:MaximumMember pmt:CreditRiskTransferAgreementsMember us-gaap:MeasurementInputDiscountRateMember 2019-01-01 2019-03-31 0001464423 srt:MaximumMember pmt:CreditRiskTransferAgreementsMember

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us-gaap:MeasurementInputDiscountRateMember 2018-01-01 2018-12-31 0001464423 srt:WeightedAverageMember
pmt:CreditRiskTransferAgreementsMember us-gaap:MeasurementInputDiscountRateMember 2019-01-01
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us-gaap:RepurchaseAgreementsMember us-gaap:FairValueInputsLevel3Member 2019-03-31 0001464423
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2019-03-31 0001464423 pmt:FairValueInputPrepaymentSpeedMember
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2018-12-31 0001464423 us-gaap:MortgageBackedSecuritiesMember 2018-12-31 0001464423 srt:MinimumMember
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2018-12-31 0001464423 srt:MinimumMember pmt:PennyMacLoanServicesLlcMember 2019-01-01 2019-03-31
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pmt:MasterRepurchaseAgreementMember us-gaap:EmbeddedDerivativeFinancialInstrumentsMember 2019-01-01
2019-03-31 0001464423 pmt:NetDerivativeRelatedToCreditRiskTransferTransactionsMember 2019-03-31
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us-gaap:RepurchaseAgreementsMember 2019-03-31 0001464423 pmt:ForwardPurchaseContractMember 2019-03-31

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0001464423 pmt:ForwardSalesContractsMember 2019-03-31 0001464423
pmt:MortgageBackedSecuritiesPutOptionsMember 2019-03-31 0001464423
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pmt:CallOptionsOnInterestRateFuturesMember 2019-03-31 0001464423
pmt:PutOptionsOnInterestRateFuturesMember 2019-03-31 0001464423 pmt:SwapFuturesMember 2019-03-31
0001464423 pmt:BondFuturesMember 2019-03-31 0001464423
pmt:NetDerivativeRelatedToCreditRiskTransferTransactionsMember 2018-12-31 0001464423
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2017-12-31 0001464423 pmt:ForwardPurchaseContractMember 2018-01-01 2018-03-31 0001464423
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2018-03-31 0001464423 us-gaap:InterestRateLockCommitmentsMember
pmt:DerivativesNotSubjectToMasterNettingAdjustmentMember 2019-03-31 0001464423
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2018-12-31 0001464423 pmt:DeutscheBankSecuritiesLLCMember 2019-03-31 0001464423
pmt:RjBrienAssociatesLlcMember 2019-03-31 0001464423 pmt:JPMorganSecuritiesLLCMember 2019-03-31
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pmt:FederalNationalMortgageAssociationMember 2019-03-31 0001464423 pmt:BankOfAmericaNaMember
2019-03-31 0001464423 pmt:GoldmanSachsMember 2019-03-31 0001464423
pmt:CitigroupGlobalMarketsIncMember 2019-03-31 0001464423 pmt:MitsubishiUFJSecuritiesMember 2019-03-31
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pmt:MorganStanleyAndCompanyLLCMember 2019-03-31 0001464423 pmt:OtherCounterpartiesMember
2019-03-31 0001464423 pmt:DeutscheBankSecuritiesLLCMember 2018-12-31 0001464423
pmt:RjBrienAssociatesLlcMember 2018-12-31 0001464423 pmt:JPMorganSecuritiesLLCMember 2018-12-31
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pmt:MorganStanleyAndCompanyLLCMember 2018-12-31 0001464423 pmt:OtherCounterpartiesMember
2018-12-31 0001464423 pmt:DerivativeLiabilitiesBeforeNettingMember 2019-03-31 0001464423
pmt:UnpaidPrincipalBalanceMember 2019-03-31 0001464423
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us-gaap:SecuritiesSoldUnderAgreementsToRepurchaseMember 2019-03-31 0001464423
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2018-12-31 0001464423 pmt:UnamortizedDebtIssuanceCostsAdjustmentMember 2018-12-31 0001464423
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pmt:UnpaidPrincipalBalanceBeforeUnamortizedDebtIssuanceCostsAdjustmentMember
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pmt:FederalNationalMortgageAssociationMember
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 pmt:OtherCounterpartiesMember
 pmt:UnpaidPrincipalBalanceBeforeUnamortizedDebtIssuanceCostsAdjustmentMember
 us-gaap:SecuritiesSoldUnderAgreementsToRepurchaseMember 2019-03-31 0001464423
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 pmt:UnpaidPrincipalBalanceBeforeUnamortizedDebtIssuanceCostsAdjustmentMember
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pmt:CumulativeDividendsFromMarchFifteenTwoThousandTwentyFourAndThereafterMember 2017-03-01

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2017-03-31 0001464423 us-gaap:SeriesBPreferredStockMember 2017-07-01 2017-07-31 0001464423
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pmt:FederalNationalMortgageAssociationAndFederalHomeLoanMortgageCorporationMember 2019-03-31
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2018-12-31

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 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: 001-34416

PennyMac Mortgage Investment Trust

(Exact name of registrant as specified in its charter)

Maryland	27-0186273
(State or other jurisdiction of	(IRS Employer
incorporation or organization)	Identification No.)

3043 Townsgate Road, Westlake Village, California	91361
(Address of principal executive offices)	(Zip Code)
(818) 224-7442	

(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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for

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such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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
 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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol (s)	Name of Each Exchange on Which Registered
8.125% Series A Cumulative Redeemable Preferred Shares of Beneficial Interest, \$0.01 Par Value	PMT/PA	New York Stock Exchange
8.00% Series B Cumulative Redeemable Preferred Shares of Beneficial Interest, \$0.01 Par Value	PMT/PB	New York Stock Exchange
Common Shares of Beneficial Interest, \$0.01 Par Value	PMT	New York Stock Exchange

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

<u>Class</u>	<u>Outstanding at May 2, 2019</u>
Common Shares of Beneficial Interest, \$0.01 par value	68,412,435

PENNYMAC MORTGAGE INVESTMENT TRUST

FORM 10-Q

March 31, 2019

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

You should not place undue reliance on any forward-looking statement and should consider the following uncertainties and risks, as well as the risks and uncertainties discussed elsewhere in this Report and the section entitled “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission (“SEC”) on February 26, 2019.

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

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

the availability, terms and deployment of short-term and long-term capital;
the adequacy of our cash reserves and working capital;

1

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

subsidiaries (“TRSs”) for U.S. federal income tax purposes, as applicable, and our ability and the ability of our subsidiaries to operate effectively within the limitations imposed by these rules;

- changes in governmental regulations, accounting treatment, tax rates and similar matters (including changes to laws governing the taxation of REITs, or the exclusions from registration as an investment company);
- our ability to make distributions to our shareholders in the future;
- our failure to deal appropriately with issues that may give rise to reputational risk; and
- our organizational structure and certain requirements in our charter documents.

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

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	March 31, 2019	December 31, 2018
	(in thousands, except share information)	
ASSETS		
Cash	\$68,538	\$ 59,845
Short-term investments at fair value	29,751	74,850
Mortgage-backed securities at fair value pledged to creditors	2,589,106	2,610,422
Mortgage loans acquired for sale at fair value (includes \$1,414,330 and \$1,621,879 pledged to creditors, respectively)	1,435,071	1,643,957
Mortgage loans at fair value (includes \$394,361 and \$399,266 pledged to creditors, respectively)	398,664	408,305
Excess servicing spread purchased from PennyMac Financial Services, Inc. at fair value pledged to secure <i>Assets sold to PennyMac Financial Services, Inc. under agreements to</i>		
repurchase	205,081	216,110
Derivative assets (includes \$97,883 and \$87,976 pledged to creditors, respectively)	188,710	167,165
Firm commitment to purchase credit risk transfer securities at fair value	79,784	37,994
Real estate acquired in settlement of loans (includes \$18,927 and \$40,198 pledged to creditors, respectively)	72,175	85,681
Real estate held for investment (includes \$30,007 and \$23,262 pledged to creditors, respectively)	42,346	43,110
Deposits securing credit risk transfer agreements (includes \$1,137,283 and \$1,146,501 pledged to creditors, respectively)	1,137,283	1,146,501
Mortgage servicing rights at fair value (includes \$1,133,736 and \$1,139,582 pledged to creditors, respectively)	1,156,908	1,162,369
Servicing advances	37,392	67,666
Due from PennyMac Financial Services, Inc.	3,345	4,077
Other	111,833	85,309
Total assets	\$7,555,987	\$ 7,813,361
LIABILITIES		
Assets sold under agreements to repurchase	\$4,179,829	\$ 4,777,027
Mortgage loan participation purchase and sale agreements	73,142	178,639
Exchangeable senior notes	248,652	248,350
Notes payable	739,224	445,573

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Asset-backed financing of a variable interest entity at fair value	275,509	276,499
Interest-only security payable at fair value	32,564	36,011
Assets sold to PennyMac Financial Services, Inc. under agreements to repurchase	125,929	131,025
Derivative liabilities	8,750	5,914
Accounts payable and accrued liabilities	74,294	70,687
Due to PennyMac Financial Services, Inc.	29,951	33,464
Income taxes payable	32,866	36,526
Liability for losses under representations and warranties	7,688	7,514
Total liabilities	5,828,398	6,247,229

Commitments and contingencies Note 20

SHAREHOLDERS' EQUITY

Preferred shares of beneficial interest, \$0.01 par value per share, authorized 100,000,000 shares,

issued and outstanding 12,400,000 shares, liquidation preference \$310,000,000	299,707	299,707
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Common shares of beneficial interest—authorized, 500,000,000 common shares of \$0.01

par value; issued and outstanding, 68,412,435 and 60,951,444 common shares, respectively

Additional paid-in capital	1,431,887	1,285,533
Accumulated deficit	(4,689)	(19,718)
Total shareholders' equity	1,727,589	1,566,132
Total liabilities and shareholders' equity	\$7,555,987	\$ 7,813,361

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

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

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

	March 31, 2019	December 31, 2018
	(in thousands)	
ASSETS		
Mortgage loans at fair value	\$289,552	\$ 290,573
Derivative assets	130,447	123,987
Deposits securing credit risk transfer agreements	1,137,283	1,146,501
Other—interest receivable	825	839
	\$1,558,107	\$ 1,561,900
LIABILITIES		
Asset-backed financing at fair value	\$275,509	\$ 276,499
Interest-only security payable at fair value	32,564	36,011
Accounts payable and accrued liabilities—interest payable	825	839
	\$308,898	\$ 313,349

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

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Quarter ended March 31,	
	2019	2018
	(in thousands, except per share amounts)	
Net investment income		
Net gain (loss) on investments:		
From nonaffiliates	\$98,655	\$(7,733)
From PennyMac Financial Services, Inc.	(3,562)	7,751
	95,093	18
Net gain on mortgage loans acquired for sale:		
From nonaffiliates	19,329	4,986
From PennyMac Financial Services, Inc.	1,994	2,641
	21,323	7,627
Mortgage loan origination fees	12,938	7,037
Net mortgage loan servicing fees:		
From nonaffiliates	(31,714)	55,560
From PennyMac Financial Services, Inc.	634	595
	(31,080)	56,155
Interest income:		
From nonaffiliates	60,015	37,046
From PennyMac Financial Services, Inc.	3,066	3,934
	63,081	40,980
Interest expense:		
To nonaffiliates	52,943	32,840
To PennyMac Financial Services, Inc.	1,796	1,976
	54,739	34,816
Net interest income	8,342	6,164
Results of real estate acquired in settlement of loans	(1,480)	(3,226)
Other	1,482	1,898
Net investment income	106,618	75,673
Expenses		
Earned by PennyMac Financial Services, Inc.:		
Mortgage loan fulfillment fees	27,574	11,944
Mortgage loan servicing fees	10,570	11,019
Management fees	7,248	5,696
Mortgage loan origination	2,277	272
Compensation	1,969	1,268
Mortgage loan collection and liquidation	1,584	2,229
Professional services	1,327	1,319
Real estate held for investment	1,054	1,438
Other	3,148	2,650
Total expenses	56,751	37,835
Income before (benefit from) provision for income taxes	49,867	37,838

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(Benefit from) provision for income taxes	(3,660)	9,652
Net income	53,527	28,186
Dividends on preferred shares	6,234	6,234
Net income attributable to common shareholders	\$47,293	\$21,952
Earnings per common share		
Basic	\$0.73	\$0.36
Diluted	\$0.68	\$0.35
Weighted average common shares outstanding		
Basic	64,629	60,761
Diluted	73,371	69,875
Dividends declared per common share	\$0.47	\$0.47

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

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PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

	Preferred shares		Common shares			Additional paid-in capital	Accumulated deficit	Total
	Number of shares	Amount	Number of shares	Par value				
	(in thousands, except per share amounts)							
Balance at December 31, 2017	12,400	\$299,707	61,334	\$613	\$1,290,931	\$ (46,666)	\$1,544,585
Cumulative effect of a change in accounting								
principle—Adoption of fair value accounting for mortgage servicing rights	—	—	—	—	—	14,361		14,361
Balance at January 1, 2018	12,400	299,707	61,334	613	1,290,931	(32,305)	1,558,946
Net income	—	—	—	—	—	28,186		28,186
Share-based compensation	—	—	220	2	897	—		899
Dividends:								
Common shares (\$0.47 per share)	—	—	—	—	—	(28,818)	(28,818)
Preferred shares	—	—	—	—	—	(6,236)	(6,236)
Repurchase of common shares	—	—	(671)	(6)	(10,713)	—		(10,719)
Balance at March 31, 2018	12,400	\$299,707	60,883	\$609	\$1,281,115	\$ (39,173)	\$1,542,258
Balance at December 31, 2018	12,400	\$299,707	60,951	\$610	\$1,285,533	\$ (19,718)	\$1,566,132
Net income	—	—	—	—	—	53,527		53,527
Share-based compensation	—	—	240	2	(985)	—		(983)
Issuance of common shares	—	—	7,221	72	149,395	—		149,467
Issuance costs relating to common shares	—	—	—	—	(2,056)	—		(2,056)
Dividends:								
Common shares (\$0.47 per share)	—	—	—	—	—	(32,262)	(32,262)
Preferred shares	—	—	—	—	—	(6,236)	(6,236)
Balance at March 31, 2019	12,400	\$299,707	68,412	\$684	\$1,431,887	\$ (4,689)	\$1,727,589

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

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Cash flows from operating activities		
Net income	\$53,527	\$28,186
Adjustments to reconcile net income to net cash provided by operating activities:		
Net gain on investments	(95,093)	(18)
Net gain on mortgage loans acquired for sale at fair value	(21,323)	(7,627)
Net change in fair value of mortgage servicing rights	96,194	(5,125)
Accrual of interest on excess servicing spread purchased from PennyMac Financial Services, Inc.	(3,066)	(3,934)
Capitalization of interest and fees on mortgage loans at fair value	(762)	(2,180)
Amortization of debt issuance (premiums) and costs, net	(4,899)	236
Accrual of unearned discounts and amortization of premiums on mortgage-backed securities, mortgage loans at fair value, and asset-backed financing of a VIE	5,252	507
Results of real estate acquired in settlement of loans	1,480	3,226
Share-based compensation expense	1,617	899
Purchase of mortgage loans acquired for sale at fair value from nonaffiliates	(15,473,441)	(13,524,468)
Purchase of mortgage loans acquired for sale at fair value from PennyMac Financial Services, Inc.	(884,510)	(781,326)
Repurchase of mortgage loans subject to representation and warranties	(2,880)	(2,830)
Sale to nonaffiliates and repayment of mortgage loans acquired for sale at fair value	9,475,174	5,200,584
Sale of mortgage loans acquired for sale to PennyMac Financial Services, Inc.	6,959,390	9,212,188
Settlement of repurchase agreement derivatives	4,492	—
Decrease in servicing advances	33,052	17,204
Decrease in due from PennyMac Financial Services, Inc.	713	3,767
Decrease (Increase) in other assets	6,846	(25,462)
Increase (decrease) in accounts payable and accrued liabilities	313	(1,229)
(Decrease) increase in due to PennyMac Financial Services, Inc.	(3,513)	237
(Decrease) increase in income taxes payable	(3,660)	9,652
Net cash provided by operating activities	144,903	122,487
Cash flows from investing activities		
Net decrease (increase) in short-term investments	45,099	(52,646)
Purchase of mortgage-backed securities at fair value	—	(500,573)
Sale and repayment of mortgage-backed securities at fair value	53,682	30,741
Repurchase of mortgage loans at fair value	(1,077)	—
Sale and repayment of mortgage loans at fair value	8,436	276,467
Repayment of excess servicing spread by PennyMac Financial Services, Inc.	10,552	12,291
Net settlement of derivative financial instruments	(4,814)	(2,329)
Sale of real estate acquired in settlement of loans	16,900	32,437
Distribution from credit risk transfer agreements	30,262	27,655
Deposit of cash securing credit risk transfer agreements	—	(41,789)
Decrease (increase) in margin deposits	16,429	(9,823)

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Net cash provided by (used in) investing activities	175,469	(227,569)
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The accompanying notes are an integral part of these consolidated financial statements.

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

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Cash flows from financing activities		
Sale of assets under agreements to repurchase	22,303,421	17,446,171
Repurchase of assets sold under agreements to repurchase	(22,901,600)	(17,218,539)
Issuance of mortgage loan participation certificates	1,661,385	1,208,189
Repayment of mortgage loan participation certificates	(1,766,937)	(1,252,708)
Issuance of note payable	295,730	—
Repayment of asset-backed financing of a variable interest entity at fair value	(4,669)	(3,915)
Advances under assets sold to PennyMac Financial Services, Inc. under		
agreements to repurchase	—	2,293
Repurchase of assets sold to PennyMac Financial Services, Inc. under		
agreement to repurchase	(5,096)	(3,483)
Payment of debt issuance costs	(3,520)	(2,306)
Payment of dividends to preferred shareholders	(6,236)	(6,236)
Payment of dividends to common shareholders	(28,816)	(29,145)
Issuance of common shares	149,467	—
Payment of issuance costs related to common shares	(2,056)	—
Payment of vested share withholdings	(2,600)	—
Payment of contingent underwriting fees payable	(152)	—
Repurchase of common shares	—	(10,719)
Net cash (used in) provided by financing activities	(311,679)	129,602
Net increase in cash	8,693	24,520
Cash at beginning of quarter	59,845	77,647
Cash at end of quarter	\$68,538	\$102,167

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

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1—Organization

PennyMac Mortgage Investment Trust (“PMT” or the “Company”) is a specialty finance company, which, through its subsidiaries (all of which are wholly-owned), invests primarily in residential mortgage-related assets. The Company operates in four segments: correspondent production, credit sensitive strategies, interest rate sensitive strategies and corporate:

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

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

• The credit sensitive strategies segment represents the Company’s investments in credit risk transfer (“CRT”) arrangements, including CRT agreements (“CRT Agreements”) and CRT securities, distressed mortgage loans, real estate acquired in settlement of mortgage loans (“REO”), real estate held for investment, non-Agency subordinated bonds and small balance commercial real estate mortgage loans.

• The interest rate sensitive strategies segment represents the Company’s investments in mortgage servicing rights (“MSRs”), excess servicing spread purchased from PFSI (“ESS”), Agency and senior non-Agency MBS and the related interest rate hedging activities.

- The corporate segment includes management fees, corporate expense amounts and certain interest income.

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

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

Note 2—Basis of Presentation

The accompanying consolidated financial statements have been prepared in compliance with accounting principles generally accepted in the United States (“GAAP”) as codified in the Financial Accounting Standards Board’s (“FASB”) *Accounting Standards Codification* (“ASC”) for interim financial information and with the Securities and Exchange Commission’s instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, these financial statements and notes do not include all of the information required by GAAP for complete financial statements. The interim consolidated information should be read together with the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (the “Annual Report”).

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

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

The Company held no restricted cash during the Quarters presented. Therefore the consolidated statements of cash flows do not include references to restricted cash.

Note 3—Accounting Development

Stock Compensation

The Company adopted Accounting Standard Update 2018-07, *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting* (“ASU 2018-07”), effective January 1, 2019. ASU 2018-07 expands the scope of the *Compensation—Stock Compensation* topic of the ASC, which provides accounting guidance relating to share-based payments issued to employees, to include share-based payments issued to non-employees of the Manager and its affiliates for goods or services. Consequently, under ASU 2018-07, the accounting for share-based payments to employees of the Manager and its affiliates is now substantially aligned with the Company’s present accounting for share-based payments to its trustees.

The Company issues share-based compensation to certain employees of the Manager and its affiliates. Through December 31, 2018, the Company accounted for share-based payments to employees of the Manager and its affiliates under the guidance of *Equity – Equity-Based Payments to Non-Employees* topic of the ASC. Under that topic, the measure of cost relating to such grants was generally established based on the fair value of the shares upon vesting of the share-based awards. Accordingly, the Manager’s estimate of compensation costs, and by extension periodic expense amounts, fluctuated with movements in the Company’s common share price during the period that expense relating to the grants is being recognized. As a result of the adoption of ASU 2018-07, the cost of share-based grants made to employees of the Manager and its affiliates are fixed at the date of the grant for restricted share units issued to employees of the Manager and its affiliates and variable to the extent of changes in performance attainment expectations for performance share units issued to all grantees.

Upon adoption of ASU 2018-07, the Company did not record a cumulative effect adjustment to its accumulated deficit.

Note 4—Concentration of Risks

As discussed in Note 1— *Organization* above, PMT’s operations and investing activities are centered in residential mortgage-related assets, including CRT arrangements and distressed mortgage loans. These investments include assets that are more sensitive to borrower creditworthiness than other mortgage investments such as traditional mortgage loans and mortgage-backed securities.

As detailed in Note 6 – *Loan Sales and Variable Interest Entities*, the Company also invests in CRT arrangements whereby it sells pools of recently-originated mortgage loans into Fannie Mae-guaranteed securitizations while either:

- through May 2018, retaining a portion of the credit risk underlying such mortgage loans as part of the retention of an interest-only (“IO”) ownership interest in such mortgage loans and an obligation to absorb credit losses arising from such mortgage loans (“Recourse Obligations”); or
- beginning in June 2018, entering into a firm commitment to purchase CRT securities that absorb losses from defaults of such loans.

The Company’s retention of credit risk through its investment in CRT arrangements subjects it to risks associated with delinquency and foreclosure similar to the risks associated with owning the related mortgage loans, and, in the case of CRT Agreements, exposes the Company to risk of loss greater than the risks associated with selling such mortgage loans to Fannie Mae without the retention of such credit risk.

CRT Agreements are structured such that mortgage loans that reach a specific number of days delinquent will trigger losses chargeable to the CRT Agreements in proportion to the size of the loan and a contractual schedule of loss severity. Therefore, the risks associated with delinquency and foreclosure may in some instances be greater than the

risks associated with owning the related mortgage loans because the structure of certain of the CRT Agreements provides that the Company may be required to realize losses in the event of delinquency or foreclosure even when there is ultimately no loss realized with respect to such loans (e.g., as a result of a borrower's re-performance).

At the beginning of the aggregation period and before the settlement of the CRT securities, the Company makes a firm commitment to purchase the CRT securities. The Company has elected to account for these commitments at fair value. Accordingly, the Company recognizes the fair value of such commitment as it sells loans subject to the firm commitment, and also recognizes changes in fair value of the firm commitment during the time it is outstanding. Unlike the Company's investment in CRT Agreements before June 2018, the structure of its investment in CRT securities only requires the Company to absorb incurred losses when the reference mortgage loans realize actual losses.

In addition to the risks specific to credit, the Company is exposed to market risk and, as a result of prevailing market conditions or the economy generally, may be required to recognize losses associated with adverse changes to the fair value of the CRT arrangements.

Note 5—Transactions with Related Parties

Operating Activities

Correspondent Production Activities

The Company is provided fulfillment and other services by PLS under an amended and restated mortgage banking services agreement.

Pursuant to the terms of the agreement, the monthly fulfillment fee is an amount that shall equal (a) no greater than the product of (i) 0.35% and (ii) the aggregate initial unpaid principal balance (the “Initial UPB”) of all mortgage loans purchased in such month, plus (b) in the case of all mortgage loans other than mortgage loans sold to or securitized through Fannie Mae or Freddie Mac, no greater than the product of (i) 0.50% and (ii) the aggregate Initial UPB of all such mortgage loans sold and securitized in such month; provided however, that no fulfillment fee shall be due or payable to PLS with respect to any mortgage loans underwritten to the Ginnie Mae MBS Guide.

The Company does not hold the Ginnie Mae approval required to issue securities guaranteed by Ginnie Mae MBS and act as a servicer. Accordingly, under the agreement, PLS currently purchases loans saleable in accordance with the Ginnie Mae MBS Guide “as is” and without recourse of any kind from the Company at cost less any administrative fees paid by the correspondent to the Company plus accrued interest and a sourcing fee ranging from two to three and one-half basis points, generally based on the average number of calendar days loans are held by the Company prior to purchase by PLS.

The mortgage banking services agreement expires on September 12, 2020, subject to automatic renewal for additional 18-month periods, unless terminated earlier in accordance with the terms of the agreement.

The Company purchases newly originated conforming balance non-government insured or guaranteed mortgage loans from PLS under a mortgage loan purchase and sale agreement.

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

	Quarter ended	
	March 31,	
	2019	2018
	(in thousands)	
Mortgage loan fulfillment fees earned by PLS	\$27,574	\$11,944
UPB of mortgage loans fulfilled by PLS	\$8,135,552	\$4,225,631
Sourcing fees received from PLS included in		
<i>Net gain on mortgage loans acquired for sale</i>	\$1,994	\$2,641
UPB of mortgage loans sold to PLS	\$6,647,338	\$8,847,873
Purchases of mortgage loans acquired for sale from PLS	\$884,510	\$781,326
Tax service fee paid to PLS included in <i>Other expense</i>	\$2,243	\$1,208

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March 31, December 31,
2019 2018
(in thousands)

Mortgage loans included in *Mortgage loans acquired*

for sale at fair value pending sale to PLS	\$ 195,839	\$ 86,308
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Mortgage Loan Servicing

The Company, through its Operating Partnership, has an amended and restated mortgage loan servicing agreement with PLS dated as of September 12, 2016, pursuant to which PLS provides servicing for the Company's portfolio of residential mortgage loans and subservicing for its portfolio of MSR's. The servicing agreement provides for servicing fees earned by PLS that are based on a percentage of the mortgage loan's unpaid principal balance or fixed per loan monthly amounts based on the delinquency, bankruptcy and/or foreclosure status of the serviced mortgage loan or the REO. PLS is also entitled to market-based fees and charges including boarding and deboarding fees, liquidation and disposition, assumption, modification and origination fees and a percentage of late charges relating to mortgage loans it services for the Company.

The base servicing fee rates for distressed whole mortgage loans range from \$30 per month for current loans up to \$85 per month for loans where the borrower has declared bankruptcy. The base servicing fee rate for REO is \$75 per month.

To the extent that the Company rents its REO under an REO rental program, the Company pays PLS an REO rental fee of \$30 per month per REO, an REO property lease renewal fee of \$100 per lease renewal, and a property management fee in an amount equal to PLS' cost if property management services and/or any related software costs are outsourced to a third-party property management firm or 9% of gross rental income if PLS provides property management services directly. PLS is also entitled to retain any tenant paid application fees and late rent fees and seek reimbursement for certain third party vendor fees.

Except as otherwise provided in the MSR recapture agreement, when PLS effects a refinancing of a mortgage loan on behalf of the Company and not through a third-party lender and the resulting mortgage loan is readily saleable, or PLS originates a loan to facilitate the disposition of an REO, PLS is entitled to receive from the Company market-based fees and compensation consistent with pricing and terms PLS offers unaffiliated parties on a retail basis.

PLS is required to provide a range of services and activities significantly greater in scope than the services provided in connection with a customary servicing arrangement because the Company has a small number of employees and limited infrastructure. For these services, PLS received a supplemental fee of \$25 per month for each distressed whole loan. PLS is entitled to reimbursement for all customary, good faith reasonable and necessary out-of-pocket expenses incurred in the performance of its servicing obligations.

PLS, on behalf of the Company, is entitled to retain any incentive payments made to it and to which it is entitled under the U.S. Department of Treasury's Home Affordable Modification Plan ("HAMP"); provided, however, that with respect to any such incentive payments paid to PLS under HAMP in connection with a mortgage loan modification for which the Company previously paid PLS a modification fee, PLS shall reimburse the Company an amount equal to the incentive payments.

PLS is also entitled to certain activity-based fees for distressed whole mortgage loans that are charged based on the achievement of certain events. These fees range from \$750 for a streamline modification to \$1,750 for a full modification or liquidation and \$500 for a deed-in-lieu of foreclosure. PLS is not entitled to earn more than one liquidation fee, reperformance fee or modification fee per mortgage loan in any 18-month period.

The base servicing fees for non-distressed mortgage loans subserviced by PLS on the Company's behalf are also calculated through a monthly per-loan dollar amount, with the actual dollar amount for each loan based on whether the mortgage loan is a fixed-rate or adjustable-rate loan. The base servicing fees for loans subserviced on the Company's behalf are \$7.50 per month for fixed-rate loans and \$8.50 per month for adjustable-rate mortgage loans.

To the extent that these non-distressed mortgage loans become delinquent, PLS is entitled to an additional servicing fee per mortgage loan ranging from \$10 to \$55 per month and based on the delinquency, bankruptcy and foreclosure status of the mortgage loan or \$75 per month if the underlying mortgaged property becomes REO. PLS is also entitled to customary ancillary income and certain market-based fees and charges, including boarding and deboarding fees, liquidation and disposition fees, assumption, modification and origination fees.

The term of the servicing agreement expires on September 12, 2020, subject to automatic renewal for additional 18-month periods, unless terminated earlier in accordance with the terms of the servicing agreement.

Pursuant to the terms of an amended and restated MSR recapture agreement, if PLS refinances mortgage loans for which the Company previously held the MSRs, PLS is generally required to transfer and convey to one of the Company's wholly-owned subsidiaries cash in an amount equal to 30% of the fair market value of the MSRs related to all the loans so originated. The MSR recapture agreement expires, unless terminated earlier in accordance with the agreement, on September 12, 2020, subject to automatic renewal for additional 18-month periods.

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

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
Mortgage loan servicing fees:		
Mortgage loans acquired for sale at fair value	\$239	\$178
Mortgage loans at fair value	463	3,119
MSRs	9,868	7,722
	\$10,570	\$11,019
Average investment in:		
Mortgage loans acquired for sale at fair value	\$1,633,711	\$1,046,289
Mortgage loans at fair value:		
Distressed mortgage loans	\$112,923	\$738,333
Mortgage loans held in a VIE	\$289,771	\$314,717
Average MSR portfolio UPB	\$95,953,915	\$73,694,438
MSR recapture income recognized included in		

Net mortgage loan servicing fees—from PennyMac

Financial Services, Inc.	\$634	\$595
Management Fees		

The Company has a management agreement with PCM, which was amended and restated effective as of September 12, 2016. Under the management agreement, the Company pays PCM management fees as follows:

A base management fee that is calculated quarterly and is equal to the sum of (i) 1.5% per year of average shareholders' equity up to \$2 billion, (ii) 1.375% per year of average shareholders' equity in excess of \$2 billion and up to \$5 billion, and (iii) 1.25% per year of average shareholders' equity in excess of \$5 billion.

A performance incentive fee that is calculated quarterly at a defined annualized percentage of the amount by which "net income," on a rolling four-quarter basis and before deducting the incentive fee, exceeds certain levels of return on "equity."

The performance incentive fee is equal to the sum of: (a) 10% of the amount by which "net income" for the quarter exceeds (i) an 8% return on equity plus the high watermark, up to (ii) a 12% return on equity; plus (b) 15% of the amount by which "net income" for the quarter exceeds (i) a 12% return on equity plus the high watermark, up to (ii) a 16% return on equity; plus (c) 20% of the amount by which "net income" for the quarter exceeds a 16% return on equity plus the high watermark.

For the purpose of determining the amount of the performance incentive fee:

"Net income" is defined as net income or loss attributable to common shares of beneficial interest computed in accordance with GAAP and certain other non-cash charges determined after discussions between PCM and the Company's independent trustees and after approval by a majority of the Company's independent trustees.

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

The “high watermark” is the quarterly adjustment that reflects the amount by which the “net income” (stated as a percentage of return on equity) in that quarter exceeds or falls short of the lesser of 8% and the average Fannie Mae 30-year MBS yield (the target yield) for the four quarters then ended. The “high watermark” starts at zero and is adjusted quarterly. If the “net income” is lower than the target yield, the high watermark is increased by the difference. If the “net income” is higher than the target yield, the high watermark is reduced by the difference. Each time a performance incentive fee is earned, the high watermark returns to zero. As a result, the threshold amounts required for PCM to earn a performance incentive fee are adjusted cumulatively based on the performance of PMT’s “net income” over (or under) the target yield, until the “net income” in excess of the target yield exceeds the then-current cumulative high watermark amount.

The base management fee and the performance incentive fee are both payable quarterly in arrears. The performance incentive fee may be paid in cash or a combination of cash and the Company’s common shares (subject to a limit of no more than 50% paid in common shares), at the Company’s option.

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The management agreement expires on September 12, 2020, subject to automatic renewal for additional 18-month periods, unless terminated earlier in accordance with the terms of the agreement. In the event of termination of the management agreement between the Company and PCM, PCM may be entitled to a termination fee in certain circumstances. The termination fee is equal to three times the sum of (a) the average annual base management fee, and (b) the average annual performance incentive fee earned by PCM, in each case during the 24-month period immediately preceding the date of termination.

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

	Quarter ended	
	March 31,	
	2019	2018
	(in thousands)	
Base management	\$6,109	\$5,696
Performance incentive	1,139	—
	\$7,248	\$5,696

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

Expense Reimbursement and Amounts Payable to and Receivable from PCM

Under the management agreement, PCM is entitled to reimbursement of its organizational and operating expenses, including third-party expenses, incurred on the Company's behalf, it being understood that PCM and its affiliates shall allocate a portion of their personnel's time to provide certain legal, tax and investor relations services for the direct benefit of the Company. With respect to the allocation of PCM's and its affiliates' compensation expenses, from and after September 12, 2016, PCM shall be reimbursed \$120,000 per fiscal quarter, such amount to be reviewed annually and to not preclude reimbursement for any other services performed by PCM or its affiliates.

The Company is required to pay PCM and its affiliates a portion of rent, telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses of PCM and its affiliates required for the Company's and its subsidiaries' operations. These expenses are allocated based on the ratio of the Company's and its subsidiaries' proportion of gross assets compared to all remaining gross assets managed by PCM as calculated at each fiscal quarter end.

Following is a summary of the Company's reimbursements to PCM and its affiliates for expenses:

	Quarter ended	
	March 31,	
	2019	2018
	(in thousands)	
Reimbursement of:		
Common overhead incurred by PCM and its affiliates	\$1,236	\$1,001

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Compensation	120	120
Expenses incurred on the Company's behalf, net	570	573
	\$1,926	\$1,694
Payments and settlements during the quarter (1)	\$15,189	\$7,658

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

Spread Acquisition and MSR Servicing Agreements

On December 19, 2016, the Company, through a wholly-owned subsidiary, PennyMac Holdings, LLC ("PMH"), amended and restated a master spread acquisition and MSR servicing agreement with PLS (the "Spread Acquisition Agreement"), pursuant to which the Company may purchase from PLS, from time to time, the right to receive participation certificates representing beneficial ownership in ESS arising from Ginnie Mae MSR's acquired by PLS, in which case PLS generally would be required to service or subservice the related mortgage loans for Ginnie Mae. The primary purpose of the amendment and restatement was to facilitate the continued financing of the ESS owned by the Company in connection with the parties' participation in the GNMA MSR Facility (as defined below).

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To the extent PLS refinances any of the mortgage loans relating to the ESS the Company has acquired, the Spread Acquisition Agreement also contains recapture provisions requiring that PLS transfer to the Company, at no cost, the ESS relating to a certain percentage of the unpaid principal balance of the newly originated mortgage loans. However, under the Spread Acquisition Agreement, in any month where the transferred ESS relating to newly originated Ginnie Mae mortgage loans is not equivalent to at least 90% of the product of the excess servicing fee rate and the unpaid principal balance of the refinanced mortgage loans, PLS is also required to transfer additional ESS or cash in the amount of such shortfall. Similarly, in any month where the transferred ESS relating to modified Ginnie Mae mortgage loans is not equivalent to at least 90% of the product of the excess servicing fee rate and the unpaid principal balance of the modified mortgage loans, the Spread Acquisition Agreement contains provisions that require PLS to transfer additional ESS or cash in the amount of such shortfall. To the extent the fair market value of the aggregate ESS to be transferred for the applicable month is less than \$200,000, PLS may, at its option, settle its recapture liability to the Company in cash in an amount equal to such fair market value in lieu of transferring such ESS.

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

	Quarter ended March 31,	
	2019	2018
	(in thousands)	
ESS:		
Received pursuant to a recapture agreement	\$508	\$ 904
Repayments and sales	\$10,552	\$ 12,291
Interest income	\$3,066	\$ 3,934
Net (loss) gain included in <i>Net gain (loss) on investments</i> :		
Valuation changes	\$(4,051)	\$ 6,921
Recapture income	489	830
	\$(3,562)	\$ 7,751
	March 31,	December 31,
	2019	2018
	(in thousands)	
Excess servicing spread purchased from PennyMac		
Financial Services, Inc. at fair value	\$205,081	\$ 216,110
Financing Activities		

PFSI held 75,000 of the Company's common shares at both March 31, 2019 and December 31, 2018.

Repurchase Agreement with PLS

On December 19, 2016, the Company, through PMH, entered into a master repurchase agreement with PLS (the "PMH Repurchase Agreement"), pursuant to which PMH may borrow from PLS for the purpose of financing PMH's participation certificates representing beneficial ownership in ESS acquired from PLS under the Spread Acquisition Agreement. PLS then re-pledges such participation certificates to PNMAC GMSR ISSUER TRUST (the "Issuer Trust") under a master repurchase agreement by and among PLS, the Issuer Trust and Private National Mortgage Acceptance Company, LLC, as guarantor (the "PC Repurchase Agreement"). The Issuer Trust was formed for the purpose of allowing PLS to finance MSR and ESS relating to such MSR (the "GNMA MSR Facility").

In connection with the GNMA MSR Facility, PLS pledges and/or sells to the Issuer Trust participation certificates representing beneficial interests in MSR and ESS pursuant to the terms of the PC Repurchase Agreement. In return,

the Issuer Trust (a) has issued to PLS, pursuant to the terms of an indenture, the Series 2016-MSRVF1 Variable Funding Note, dated December 19, 2016, known as the “PNMAC GMSR ISSUER TRUST MSR Collateralized Notes, Series 2016-MSRVF1” (the “VFN”), and (b) may, from time to time pursuant to the terms of any supplemental indenture, issue to institutional investors additional term notes (“Term Notes”), in each case secured on a pari passu basis by the participation certificates relating to the MSRs and ESS. The maximum principal balance of the VFN is \$1 billion.

The principal amount paid by PLS for the participation certificates under the PMH Repurchase Agreement is based upon a percentage of the market value of the underlying ESS. Upon PMH’s repurchase of the participation certificates, PMH is required to repay PLS the principal amount relating thereto plus accrued interest (at a rate reflective of the current market and consistent with the weighted average note rate of the VFN and any outstanding Term Notes) to the date of such repurchase. PLS is then required to repay the Issuer Trust the corresponding amount under the PC Repurchase Agreement.

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Conditional Reimbursement of Initial Public Offering (“IPO”) Underwriting Fees

In connection with its IPO, the Company conditionally agreed to reimburse PCM up to \$2.9 million for underwriting fees paid to the IPO underwriters by PCM on the Company’s behalf (the “Conditional Reimbursement”). Also in connection with its IPO, the Company agreed to pay the IPO underwriters up to \$5.9 million in contingent underwriting fees. On February 1, 2019, the term of the reimbursement agreement was extended and now expires on February 1, 2023.

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

	Quarter ended March 31, 2019 2018 (in thousands)	
Sale of assets under agreements to repurchase	\$—	\$2,293
Repurchase of assets sold under agreements to repurchase	\$5,096	\$3,483
Interest expense	\$1,796	\$1,976
Conditional Reimbursement paid to:		
PCM	\$75	\$—
Underwriters	\$152	\$—

	March 31, December 31, 2019 2018 (in thousands)	
Assets sold to PFSI under agreement to repurchase	\$125,929	\$131,025
Conditional Reimbursement payable to PCM included in <i>Accounts payable and accrued liabilities</i>	\$726	\$801
Amounts Receivable from and Payable to PFSI		

Amounts receivable from and payable to PFSI are summarized below:

	March 31, December 31, 2019 2018 (in thousands)	
Due from PFSI:		
MSR recapture receivable	\$160	\$179
Other	3,185	3,898
	\$3,345	\$4,077
Due to PFSI:		
Fulfillment fees	\$11,744	\$10,006
Management fees	7,238	6,559
Mortgage loan servicing fees	4,350	4,841
Allocated expenses and expenses paid by PFSI on PMT’s behalf	3,907	9,066
Correspondent production fees	1,852	2,071
Conditional Reimbursement	726	801

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Interest on <i>Assets sold to PFSI under agreement to repurchase</i>	134	120
	\$29,951	\$ 33,464

Note 6—Loan Sales and Variable Interest Entities

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

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Unconsolidated VIEs with Continuing Involvement

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

	Quarter ended	
	March 31,	
	2019	2018
	(in thousands)	
Cash flows:		
Proceeds from sales	\$9,475,174	\$5,200,584
Mortgage loan servicing fees received (1)	\$61,272	\$48,732

(1) Net of guarantee fees

The following table summarizes collection status information for mortgage loans that are accounted for as sales where the Company maintains continuing involvement for the dates presented:

	March 31,	December 31,
	2019	2018
	(in thousands)	
UPB of mortgage loans outstanding	\$98,863,013	\$91,982,335
UPB of delinquent mortgage loans:		
30-89 days delinquent	\$564,184	\$614,668
90 or more days delinquent:		
Not in foreclosure	\$157,127	\$142,871
In foreclosure	\$39,739	\$40,445
UPB of mortgage loans in bankruptcy	\$88,936	\$75,947
Custodial funds managed by the Company (1)	\$1,384,404	\$970,328

(1) Custodial funds include borrower and investor custodial cash accounts relating to mortgage loans serviced under mortgage servicing agreements and are not included on the Company's consolidated balance sheets. The Company earns placement fees on certain of the custodial funds it manages on behalf of the mortgage loans' borrowers and investors, which are included in *Interest income* in the Company's consolidated statements of income.

Consolidated VIEs

Credit Risk Transfer Transactions

The Company has entered into mortgage loan sales arrangements pursuant to which it accepts credit risk relating to certain of its mortgage loan sales. These arrangements include CRT Agreements and sales of mortgage loans that include commitments to purchase CRT securities that absorb credit losses on such mortgage loans.

The Company, through its subsidiary, PennyMac Corp. (“PMC”), entered into CRT Agreements with Fannie Mae, pursuant to which PMC, through subsidiary trust entities, sold pools of mortgage loans into Fannie Mae-guaranteed securitizations while retaining Recourse Obligations in addition to IO ownership interests in such mortgage loans. The transfers of mortgage loans subject to CRT Agreements were accounted for as sales. The Company placed *Deposits securing CRT Agreements* into the subsidiary trust entities to secure its Recourse Obligations. The *Deposits securing CRT Agreements* represent the Company’s maximum contractual exposure to claims under its Recourse Obligations and is the sole source of settlement of losses under the CRT Agreements.

The Company’s exposure to losses under its Recourse Obligation was initially established at 3.5% of the UPB of the mortgage loans sold under the CRT Agreements. As the UPB of the underlying mortgage loans subject to each CRT Agreement is reduced through repayments, the percentage exposure of each CRT Agreement will increase to a maximum of 4.5% of outstanding UPB, although the total dollar amount of exposure to losses does not increase. Gains and losses on derivatives related to CRT Agreements are included in *Net gain (loss) on investments* in the consolidated statements of income. The final sales of mortgage loans subject to the CRT Agreements were made during 2018.

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Following is a summary of the CRT Agreements:

	Quarter ended	
	March 31,	
	2019	2018
	(in thousands)	
UPB of mortgage loans sold under CRT Agreements	\$—	\$3,210,478
Deposits securing CRT Agreements	\$—	\$41,789
Increase (decrease) in commitments to fund <i>Deposits</i>		
securing CRT Agreements resulting from sale of		
mortgage loans under CRT Agreements	—	70,486
Interest earned on <i>Deposits securing CRT Agreements</i>	\$—	\$112,275
Gains recognized on CRT Agreements included in		
<i>Net gain (loss) on investments</i>		
Realized	\$21,043	\$19,329
Resulting from valuation changes	6,460	5,355
	27,503	24,684
Change in fair value of <i>Interest-only security</i>		
payable at fair value	3,447	(2,133)
Payments made to settle losses	\$30,950	\$22,551
	\$895	\$828
	March 31,	December 31,
	2019	2018
	(in thousands)	
UPB of mortgage loans subject to credit guarantee obligations	\$29,265,550	\$29,934,003
Collection status (in UPB):		
Delinquency		
Current	\$28,989,452	\$29,633,133
30—89 days delinquent	\$198,833	\$228,296
90—180 days delinquent	\$41,299	\$39,826
180 or more days delinquent	\$2,704	\$4,208
Foreclosure	\$3,734	\$5,180
Bankruptcy	\$29,528	\$23,360
Carrying value of CRT Agreements:		
Derivative assets	\$130,447	\$123,987
Deposits securing CRT Agreements	\$1,137,283	\$1,146,501
Interest-only security payable at fair value	\$32,564	\$36,011
CRT Agreement assets pledged to secure:		
Assets sold under agreements to repurchase		
Deposits securing CRT Agreements	\$770,451	\$1,146,501
Derivative assets	\$73,148	\$87,976
Notes payable		

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Deposits securing CRT Agreements	\$366,831	\$—
Derivative assets	\$24,735	\$—

Effective in June 2018, the Company began entering into a different CRT arrangement. Under the new arrangement, the Company sells mortgage loans subject to agreements that require the Company to purchase securities that absorb credit losses on such mortgage loans. The Company has elected to account for the firm commitments to purchase such CRT securities at fair value. The Company recognizes these purchase commitments initially as a component of *Gain on sale of mortgage loans*; subsequent changes in fair value are recognized in *Net gain (loss) on investments*.

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Following is a summary of activity under these purchase commitments:

	Quarter ended March 31, 2019 (in thousands)	
UPB of mortgage loans sold	\$7,702,080	
Increase in expected face amount of firm commitment to purchase CRT securities backed by mortgage loans sold	\$281,917	
Fair value of firm commitment recognized in <i>Gain</i> on sale of mortgage loans	\$19,600	
Gains recognized on firm commitment included in <i>Net gain (loss) on investments</i>	\$22,190	
	March 31, 2019 (in thousands)	December 31, 2018
Face amount of firm commitment to purchase CRT securities	\$886,969	\$605,052
Fair value of firm commitment	\$79,784	\$37,994
UPB of mortgage loans sold subject to firm commitment to purchase CRT securities related to such loans	\$23,652,494	\$16,392,300
Collection status (in UPB):		
Current	\$23,564,883	\$16,329,044
30—89 days delinquent	\$76,198	\$61,035
90—180 days delinquent	\$8,084	\$2,221
180 or more days delinquent	\$—	\$—
Foreclosure	\$1,599	\$—
Bankruptcy	\$1,730	\$1,258

Jumbo Mortgage Loan Financing

On September 30, 2013, the Company completed a securitization transaction in which PMT Loan Trust 2013-J1, a VIE, issued \$537.0 million in UPB of certificates backed by fixed-rate prime jumbo mortgage loans, at a 3.9% weighted yield. The fair value of the certificates retained by the Company was \$14.0 million and \$14.1 million as of March 31, 2019 and December 31, 2018, respectively. The Company includes the balance of certificates issued to nonaffiliates in *Asset backed financing of a variable interest entity at fair value*.

Note 7—Fair Value

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

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

• **Level 1**—Quoted prices in active markets for identical assets or liabilities.

• **Level 2**—Prices determined or determinable using other significant observable inputs. Observable inputs are inputs that other market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the Company.

• **Level 3**—Prices determined using significant unobservable inputs. In situations where significant observable inputs are unavailable, unobservable inputs may be used. Unobservable inputs reflect the Company's own judgments about the factors that market participants use in pricing assets and liabilities, and are based on the best information available in the circumstances.

• As a result of the difficulty in observing certain significant valuation inputs affecting "Level 3" fair value assets and liabilities, the Company is required to make judgments regarding these items' fair values. Different persons in possession of the same facts may reasonably arrive at different conclusions as to the inputs to be applied in valuing these assets and liabilities and to their fair values. Such differences may result in significantly different fair value measurements. Likewise, due to the general illiquidity of some of these assets and liabilities, subsequent transactions may be at values significantly different from those reported.

Fair Value Accounting Elections

The Manager identified all of the Company's non-cash financial assets, firm commitment to purchase credit risk transfer securities and MSRs to be accounted for at fair value. The Company has elected to account for these assets at fair value so such changes in fair value will be reflected in income as they occur and more timely reflect the results of the Company's performance.

The Company has also identified the Company's asset-backed financing of a VIE and interest only security payable at fair value to be accounted for at fair value to reflect the generally offsetting changes in fair value of these borrowings to changes in fair value of the assets at fair value collateralizing these financings. For other borrowings, the Company has determined that historical cost accounting is more appropriate because under this method debt issuance costs are amortized over the term of the debt facility, thereby matching the debt issuance cost to the periods benefiting from the availability of the debt.

Financial Statement Items Measured at Fair Value on a Recurring Basis

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

	March 31, 2019			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets:				
Short-term investments	\$29,751	\$—	\$—	\$29,751
Mortgage-backed securities at fair value	—	2,589,106	—	2,589,106
Mortgage loans acquired for sale at fair value	—	1,416,710	18,361	1,435,071
Mortgage loans at fair value	—	289,552	109,112	398,664
Excess servicing spread purchased from PFSI	—	—	205,081	205,081
Derivative assets:				
CRT Agreements	—	—	130,447	130,447
Interest rate lock commitments	—	—	11,341	11,341
Repurchase agreement derivatives	—	—	17,701	17,701
Forward purchase contracts	—	26,570	—	26,570
Forward sale contracts	—	2,428	—	2,428
MBS put options	—	4,780	—	4,780
MBS call options	—	5,331	—	5,331
Call options on interest rate futures	10,699	—	—	10,699
Total derivative assets before netting	10,699	39,109	159,489	209,297
Netting	—	—	—	(20,587)
Total derivative assets after netting	10,699	39,109	159,489	188,710
Firm commitment to purchase credit risk transfer				
securities at fair value	—	—	79,784	79,784
Mortgage servicing rights at fair value	—	—	1,156,908	1,156,908
	\$40,450	\$4,334,477	\$1,728,735	\$6,083,075
Liabilities:				
Asset-backed financing of a VIE at fair value	\$—	\$275,509	\$—	\$275,509
Interest-only security payable at fair value	—	—	32,564	32,564
Derivative liabilities:				
Interest rate lock commitments	—	—	884	884

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Forward purchase contracts	—	3,435	—	3,435
Forward sales contracts	—	20,490	—	20,490
Total derivative liabilities before netting	—	23,925	884	24,809
Netting	—	—	—	(16,059)
Total derivative liabilities after netting	—	23,925	884	8,750
	\$—	\$299,434	\$33,448	\$316,823

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	December 31, 2018			Total
	Level 1	Level 2	Level 3	
	(in thousands)			
Assets:				
Short-term investments	\$74,850	\$—	\$—	\$74,850
Mortgage-backed securities at fair value	—	2,610,422	—	2,610,422
Mortgage loans acquired for sale at fair value	—	1,626,483	17,474	1,643,957
Mortgage loans at fair value	—	290,573	117,732	408,305
Excess servicing spread purchased from PFSI	—	—	216,110	216,110
Derivative assets:				
CRT Agreements	—	—	123,987	123,987
Interest rate lock commitments	—	—	12,162	12,162
Repurchase agreement derivatives	—	—	14,511	14,511
Forward purchase contracts	—	14,845	—	14,845
Forward sale contracts	—	13	—	13
MBS put options	—	218	—	218
MBS call options	—	945	—	945
Call options on interest rate futures	5,137	—	—	5,137
Put options on interest rate futures	178	—	—	178
Total derivative assets before netting	5,315	16,021	150,660	171,996
Netting	—	—	—	(4,831)
Total derivative assets after netting	5,315	16,021	150,660	167,165
Firm commitment to purchase credit risk transfer				
securities at fair value	—	—	37,994	37,994
Mortgage servicing rights at fair value	—	—	1,162,369	1,162,369
	\$80,165	\$4,543,499	\$1,702,339	\$6,321,172
Liabilities:				
Asset-backed financing of a VIE at fair value	\$—	\$276,499	\$—	\$276,499
Interest-only security payable at fair value	—	—	36,011	36,011
Derivative liabilities:				
Interest rate lock commitments	—	—	174	174
Forward purchase contracts	—	43	—	43
Forward sales contracts	—	29,273	—	29,273
Total derivative liabilities before netting	—	29,316	174	29,490
Netting	—	—	—	(23,576)
Total derivative liabilities after netting	—	29,316	174	5,914
	\$—	\$305,815	\$36,185	\$318,424

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The following is a summary of changes in items measured at fair value on a recurring basis using Level 3 inputs that are significant to the estimation of the fair values of the assets and liabilities at either the beginning or end of the quarters presented:

	Quarter ended March 31, 2019								
	Mortgage								
	loans				Interest		Firm		
	acquired			CRT	rate	Repurchase	commitment	Mortgage	
	for	Mortgage	Excess	Agreement	lock	agreement	to	servicing	
	sale at	loans at	servicing	derivatives	commitment	derivatives	CRT securities	rights	Total
	fair	fair value	spread	(1)					
	value	(in thousands)							
Assets									
Balance, December 31, 2018	\$17,474	\$117,732	\$216,110	\$123,987	\$11,988	\$14,511	\$37,994	\$1,162,369	\$1,702,165
Purchases and issuances	3,331	1,077	—	—	2,971	7,913	—	—	15,292
Repayments and sales	(3,222)	(3,609)	(10,552)	(21,043)	—	(4,492)	—	—	(42,918)
Capitalization of interest and fees	—	762	3,066	—	—	—	—	—	3,828
Capitalization of advances	—	457	—	—	—	—	—	—	457
ESS received pursuant to a recapture agreement with PFSI	—	—	508	—	—	—	—	—	508
Amounts received as proceeds from sales of mortgage loans	—	—	—	—	—	—	19,600	131,868	151,468
Changes in fair value included in income arising from:									
Changes in instrument-specific credit risk	—	1,059	—	—	—	—	—	—	1,059
Other factors	(12)	(574)	(4,051)	27,503	25,531	(231)	22,190	(137,329)	(66,973)
	(12)	485	(4,051)	27,503	25,531	(231)	22,190	(137,329)	(65,914)

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Transfers of mortgage loans to REO	—	(7,792)	—	—	—	—	—	—	(7,792)
Transfers of mortgage loans									
acquired for sale at fair value									
from "Level 2" to "Level 3" (2)	790	—	—	—	—	—	—	—	790
Transfers of interest rate lock									
commitments to mortgage									
loans acquired for sale	—	—	—	—	(30,033)	—	—	—	(30,033)
Balance, March 31, 2019	\$18,361	\$109,112	\$205,081	\$130,447	\$10,457	\$17,701	\$79,784	\$1,156,908	\$1,727,851
Changes in fair value recognized									
during the quarter relating to									
assets still held at March 31, 2019	\$(54)	\$329	\$(4,051)	\$6,460	\$10,457	\$—	\$22,190	\$(137,329)	\$(101,998)

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

(2) During the quarter ended March 31, 2019, the Manager identified certain "Level 2" fair value mortgage loans acquired for sale that were not saleable into the prime mortgage market and therefore transferred them to "Level 3".

	Quarter ended March 31, 2019
	Interest-only security payable (in thousands)
Liabilities:	
Balance, December 31, 2018	\$ 36,011
Changes in fair value included in income arising from:	
Changes in instrument-specific credit risk	—
Other factors	(3,447)
	(3,447)

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Balance, March 31, 2019	\$ 32,564
Changes in fair value recognized during the quarter relating to liability	
outstanding at March 31, 2019	\$ (3,447)

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Quarter ended March 31, 2018

Mortgage

loans

	acquired for	Mortgage loans at fair value (in thousands)	Excess servicing spread	CRT Agreement derivatives	Interest rate lock commitments (1)	Repurchase agreement derivatives	Mortgage servicing rights	Total
Assets:								
Balance, December 31, 2017	\$8,135	\$768,433	\$236,534	\$98,640	\$4,632	\$3,748	\$91,459	\$1,211,581
Cumulative effect of a change in accounting principle — Adoption of fair value accounting for mortgage servicing rights	—	—	—	—	—	—	773,035	773,035
Balance, January 1, 2018	\$8,135	\$768,433	\$236,534	\$98,640	\$4,632	\$3,748	\$864,494	\$1,984,616
Purchases and issuances	2,831	—	—	—	4,609	2,164	—	9,604
Repayments and sales	(3,539)	(272,513)	(12,291)	(19,329)	—	(8)	—	(307,680)
Capitalization of interest and fees	—	2,180	3,934	—	—	—	—	6,114
Capitalization of advances	—	1,677	—	—	—	—	—	1,677
ESS received pursuant to a recapture agreement with PFSI	—	—	904	—	—	—	—	904
Amounts received as proceeds from sales of mortgage loans	—	—	—	—	—	—	66,546	66,546
Changes in fair value included in								

income arising from:									
Changes in instrument-specific									
credit risk	—	2,681	—	—	—	—	—	—	2,681
Other factors	103	(12,632)	6,921	24,684	(19,467)	(12)	25,973	25,570	
	103	(9,951)	6,921	24,684	(19,467)	(12)	25,973	28,251	
Transfers of mortgage loans to REO	—	(21,439)	—	—	—	—	—	—	(21,439)
Transfers of mortgage loans acquired									
for sale at fair value from "Level 2"									
to "Level 3" (2)	160	—	—	—	—	—	—	—	160
Transfers of interest rate lock									
commitments to mortgage loans									
acquired for sale	—	—	—	—	12,935	—	—	—	12,935
Balance, March 31, 2018	\$7,690	\$468,387	\$236,002	\$103,995	\$2,709	\$5,892	\$957,013	\$1,781,688	
Changes in fair value recognized during									
the quarter relating to assets still held at									
March 31, 2018	\$(14)	\$(9,040)	\$6,921	\$5,355	\$2,709	\$77	\$25,973	\$31,981	

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

(2) During the quarter ended March 31, 2018, the Manager identified certain "Level 2" fair value mortgage loans acquired for sale that were not saleable into the prime mortgage market and therefore transferred them to "Level 3".

	Quarter ended March 31, 2018 Interest-only security payable (in thousands)
Liabilities:	
Balance, December 31, 2017	\$ 7,070
Changes in fair value included in income arising from:	
Changes in instrument-specific credit risk	—
Other factors	726
	726
Balance, March 31, 2018	\$ 7,796
Changes in fair value recognized during the quarter relating to liability	
outstanding at March 31, 2018	\$ 726

The Company had transfers among the fair value levels arising from transfers of IRLCs to mortgage loans held for sale at fair value upon purchase of the respective mortgage loans.

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

	March 31, 2019			December 31, 2018		
	Principal			Principal		
	amount due			amount due		
	Fair value	upon maturity	Difference	Fair value	upon maturity	Difference
	(in thousands)					
Mortgage loans acquired for sale at fair value:						
Current through 89 days delinquent:	\$1,434,210	\$ 1,377,712	\$ 56,498	\$ 1,643,465	\$ 1,580,504	\$ 62,961
90 or more days delinquent:						
Not in foreclosure	377	490	(113)	492	492	—
In foreclosure	484	504	(20)	—	—	—
	861	994	(133)	492	492	—
	\$1,435,071	\$ 1,378,706	\$ 56,365	\$ 1,643,957	\$ 1,580,996	\$ 62,961
Mortgage loans at fair value:						

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Mortgage loans held in a consolidated VIE:

Current through 89 days delinquent	\$288,670	\$ 289,006	\$(336)	\$290,573	\$ 294,617	\$(4,044)
90 or more days delinquent:						
Not in foreclosure	882	883	(1)	—	—	—
In foreclosure	—	—	—	—	—	—
	882	883	(1)	—	—	—
	289,552	289,889	(337)	290,573	294,617	(4,044)
Distressed mortgage loans at fair value:						
Current through 89 days delinquent	33,202	48,119	(14,917)	28,806	43,043	(14,237)
90 or more days delinquent:						
Not in foreclosure	32,009	63,474	(31,465)	37,288	71,732	(34,444)
In foreclosure	43,901	74,894	(30,993)	51,638	86,259	(34,621)
	75,910	138,368	(62,458)	88,926	157,991	(69,065)
	109,112	186,487	(77,375)	117,732	201,034	(83,302)
	\$398,664	\$ 476,376	\$(77,712)	\$408,305	\$ 495,651	\$(87,346)

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

	Quarter ended March 31, 2019				
	Net gain on				
	Net mortgage loan servicing fees	mortgage loans acquired for sale	Net gain (loss) on investments	Net interest income	Total
	(in thousands)				
Assets:					
Short-term investments at fair value	\$—	\$—	\$ —	\$—	\$—
Mortgage-backed securities at fair value	—	—	36,922	(4,556)	32,366
Mortgage loans acquired for sale at fair value	—	37,803	—	—	37,803
Mortgage loans at fair value	—	—	4,070	883	4,953
ESS at fair value	—	—	(4,051)	3,066	(985)
Firm commitment to purchase credit risk transfer securities at fair value	—	19,600	22,190	—	41,790
MSRs at fair value	(137,329)	—	—	—	(137,329)
	\$(137,329)	\$ 57,403	\$ 59,131	\$(607)	\$(21,402)
Liabilities:					
Interest-only security payable at fair value	\$—	\$—	\$ 3,447	\$—	\$3,447
Asset-backed financing of a VIE at fair value	—	—	(2,857)	(821)	(3,678)
	\$—	\$—	\$ 590	\$(821)	\$(231)

	Quarter ended March 31, 2018				
	Net gain on				
	Net mortgage loan servicing fees	mortgage loans acquired for sale	Net gain (loss) on investments	Net interest income	Total
	(in thousands)				
Assets:					
Short-term investments at fair value	\$—	\$—	\$ —	\$—	\$—
Mortgage-backed securities at fair value	—	—	(22,397)	440	(21,957)
Mortgage loans acquired for sale at fair value	—	(23,678)	—	—	(23,678)
Mortgage loans at fair value	—	—	(15,530)	1,774	(13,756)
ESS at fair value	—	—	6,921	3,934	10,855
MSRs at fair value	25,973	—	—	—	25,973
	\$25,973	\$(23,678)	\$ (31,006)	\$ 6,148	\$(22,563)
Liabilities:					

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Interest-only security payable	\$—	\$—	\$ 726	\$—	\$726
Asset-backed financing of a VIE at fair value	—	—	6,183	339	6,522
	\$—	\$—	\$ 6,909	\$ 339	\$7,248

Financial Statement Item Measured at Fair Value on a Nonrecurring Basis — Real estate acquired in settlement of loans

Following is a summary of the carrying value of REO that was re-measured based on fair value on a nonrecurring basis:

	Level			Total
	1	2	Level 3	
Real estate acquired in settlement of loans	(in thousands)			
March 31, 2019	\$—	\$—	\$29,377	\$29,377
December 31, 2018	\$—	\$—	\$24,515	\$24,515

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The following table summarizes the fair value changes recognized during the quarter on REO held at quarter end that were remeasured at fair value on a nonrecurring basis:

	Quarter ended	
	March 31,	
	2019	2018
	(in thousands)	
Real estate asset acquired in settlement of loans	\$(2,438)	\$(4,769)

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

Fair Value of Financial Instruments Carried at Amortized Cost

Most of the Company's borrowings are carried at amortized cost. The Company's *Assets sold under agreements to repurchase, Mortgage loan participation purchase and sale agreements, Exchangeable senior notes, Notes payable* and *Assets sold to PennyMac Financial Services, Inc. under agreements to repurchase* are classified as "Level 3" fair value liabilities due to the Company's reliance on unobservable inputs to estimate these instruments' fair values.

The Manager has concluded that the fair values of these borrowings other than *Exchangeable senior notes* and *Notes payable* approximate the agreements' carrying values due to the borrowing agreements' variable interest rates and short maturities.

Following are the fair values of the other borrowings:

		March 31, December 31,	
		2019	2018
		(in thousands)	
Instrument	Source of fair value		
Exchangeable senior notes	Broker indications	\$250,634	\$ 247,172
Notes payable	Broker quotes	\$746,293	\$ —
Notes payable	Discounted cash flow analysis	\$—	