Western Asset Mortgage Capital Corp
Form 10-Q
November 07, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)
ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2018

o 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: 001-35543
Western Asset Mortgage Capital Corporation
(Exact name of Registrant as specified in its charter)

| | |
|---|---|
| Delaware | 27-0298092 |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification Number) |

Western Asset Mortgage Capital Corporation
385 East Colorado Boulevard
Pasadena, California 91101
(Address of Registrant's principal executive offices)

(626) 844-9400
(Registrant's telephone number, including area code)

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

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

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

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

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. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 under the Securities Exchange Act of 1934). Yes o No ý

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

As of November 6, 2018 there were 48,116,379 shares, par value $0.01, of the registrant's common stock outstanding.

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Part I
ITEM I. Financial Statements

Western Asset Mortgage Capital Corporation and Subsidiaries
Consolidated Balance Sheets
(in thousands—except share and per share data)
(Unaudited)

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Assets: | | |
| Cash and cash equivalents | $ 12,817 | $ 48,024 |
| Restricted cash | 100,138 | — |
| Agency mortgage-backed securities, at fair value ($2,325,859 and $2,833,595 pledged as collateral, at fair value, respectively) | 2,475,533 | 2,858,600 |
| Non-Agency mortgage-backed securities, at fair value ($351,032 and $266,189 pledged as collateral, at fair value, respectively) | 365,710 | 378,158 |
| Other securities, at fair value ($92,391 and $89,823 pledged as collateral, at fair value, respectively) | 92,528 | 122,065 |
| Residential Whole-Loans, at fair value ($684,463 and $237,423 pledged as collateral, at fair value, respectively) | 684,463 | 237,423 |
| Residential Bridge Loans ($234,747 and $64,526 at fair value and $249,471 and $106,673 pledged as collateral, respectively) | 249,471 | 106,673 |
| Securitized commercial loans, at fair value | 1,191,048 | 24,876 |
| Commercial Loans, at fair value ($123,677 and $0 pledged as collateral, at fair value, respectively) | 143,951 | — |
| Investment related receivable ($34,559 and $0 pledged as collateral, respectively) | 113,341 | 7,665 |
| Interest receivable | 21,869 | 13,603 |
| Due from counterparties | 81,513 | 86,930 |
| Derivative assets, at fair value | 2,700 | 728 |
| Other assets | 2,903 | 2,161 |
| Total Assets (1) | $ 5,537,985 | $ 3,886,906 |
| | | |
| Liabilities and Stockholders' Equity: | | |
| Liabilities: | | |
| Repurchase agreements, net | $ 3,469,319 | $ 3,251,686 |
| Convertible senior unsecured notes, net | 109,731 | 108,743 |
| Securitized debt, at fair value (includes $313,143 and $10,945 held by affiliates, respectively) | 1,119,089 | 10,945 |
| Interest payable (includes $891 and $70 on securitized debt held by affiliates, respectively) | 10,027 | 8,322 |
| Investment related payables | 169,499 | 17,217 |
| Due to counterparties | 1,068 | 1,490 |
| Derivative liability, at fair value | 2,159 | 4,346 |
| Accounts payable and accrued expenses | 3,513 | 3,118 |
| Payable to affiliate | 2,489 | 2,041 |
| Dividend payable | 14,916 | 12,960 |
| Other liabilities | 100,530 | — |
| Total Liabilities (2) | 5,002,340 | 3,420,868 |

| | | |
|---|---|---|
| Commitments and contingencies | | |
| Stockholders' Equity: | | |
| Common stock: $0.01 par value, 500,000,000 shares authorized, 48,116,379 and 41,794,079 outstanding, respectively | 481 | 419 |
| Preferred stock, $0.01 par value, 100,000,000 shares authorized and no shares outstanding | — | — |
| Treasury stock, at cost, 0 and 125,722 shares held, respectively | — | (1,232) |
| Additional paid-in capital | 833,840 | 768,763 |
| Retained earnings (accumulated deficit) | (298,676) | (301,912) |
| Total Stockholders' Equity | 535,645 | 466,038 |
| Total Liabilities and Stockholders' Equity | $ 5,537,985 | $ 3,886,906 |

See notes to unaudited consolidated financial statements.

Western Asset Mortgage Capital Corporation and Subsidiaries
Consolidated Balance Sheets (Continued)
(in thousands—except share and per share data)
(Unaudited)

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| (1) Assets of consolidated VIEs included in the total assets above: | | |
| Restricted cash | $ 100,138 | $ — |
| Residential Whole-Loans, at fair value ($684,463 and $237,423 pledged as collateral, at fair value, respectively) | 684,463 | 237,423 |
| Residential Bridge Loans ($234,747 and $64,526 at fair value and $249,471 and $106,673 pledged as collateral, respectively) | 249,471 | 106,673 |
| Securitized commercial loans, at fair value | 1,191,048 | 24,876 |
| Commercial Loans, at fair value ($123,677 and $0 pledged as collateral, at fair value, respectively) | 123,677 | — |
| Investment related receivable | 33,430 | 7,665 |
| Interest receivable | 12,418 | 3,358 |
| Other assets | 203 | — |
| Total assets of consolidated VIEs | $ 2,394,848 | $ 379,995 |
| (2) Liabilities of consolidated VIEs included in the total liabilities above: | | |
| Securitized debt, at fair value (includes $313,143 and $10,945 held by affiliates, respectively) | $ 1,119,089 | $ 10,945 |
| Interest payable (includes $891 and $70 on securitized debt held by affiliates, respectively) | 2,487 | 70 |
| Accounts payable and accrued expenses | 737 | 189 |
| Other liabilities | 100,531 | — |
| Total liabilities of consolidated VIEs | $ 1,222,844 | $ 11,204 |

See notes to unaudited consolidated financial statements.

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Western Asset Mortgage Capital Corporation and Subsidiaries
Consolidated Statements of Operations
(in thousands—except share and per share data)
(Unaudited)

| | For the three months ended September 30, 2018 | For the three months ended September 30, 2017 | For the nine months ended September 30, 2018 | For the nine months ended September 30, 2017 |
|---|---|---|---|---|
| Net Interest Income | | | | |
| Interest income | $ 54,461 | $ 30,928 | $ 151,342 | $ 89,413 |
| Interest expense (includes $4,465, $251, $9,672 and $745 on securitized debt held by affiliates, respectively) | 38,517 | 12,363 | 97,348 | 31,507 |
| Net Interest Income | 15,944 | 18,565 | 53,994 | 57,906 |
| Other Income (Loss) | | | | |
| Realized gain (loss) on sale of investments, net | (24,229) | 1,830 | (29,262) | 20,600 |
| Other than temporary impairment | (2,533) | (7,225) | (8,423) | (19,901) |
| Unrealized gain (loss), net | 13,128 | 5,249 | (87,526) | 35,126 |
| Gain (loss) on derivative instruments, net | 24,625 | 7,217 | 132,697 | (16,035) |
| Other, net | (2) | 216 | (100) | 841 |
| Other Income (Loss) | 10,989 | 7,287 | 7,386 | 20,631 |
| Expenses | | | | |
| Management fee to affiliate | 2,284 | 1,853 | 6,723 | 6,159 |
| Other operating expenses | 1,609 | 702 | 4,133 | 1,855 |
| General and administrative expenses: | | | | |
| Compensation expense | 552 | 660 | 1,634 | 2,064 |
| Professional fees | 1,065 | 781 | 3,178 | 2,501 |
| Other general and administrative expenses | 335 | 244 | 1,093 | 993 |
| Total general and administrative expenses | 1,952 | 1,685 | 5,905 | 5,558 |
| Total Expenses | 5,845 | 4,240 | 16,761 | 13,572 |
| Income before income taxes | 21,088 | 21,612 | 44,619 | 64,965 |
| Income tax provision (benefit) | 206 | (1,155) | 555 | 1,272 |
| Net income | $ 20,882 | $ 22,767 | $ 44,064 | $ 63,693 |
| Net income per Common Share — Basic | $ 0.50 | $ 0.54 | $ 1.05 | $ 1.52 |
| Net income per Common Share — Diluted | $ 0.50 | $ 0.54 | $ 1.05 | $ 1.52 |

See notes to unaudited consolidated financial statements.

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Western Asset Mortgage Capital Corporation and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
(in thousands—except shares and share data)
(Unaudited)

| | Common Stock Outstanding | | Additional Paid-In Capital | Retained Earnings (Accumulated Deficit) | Treasury Stock | Total |
|---|---|---|---|---|---|---|
| | Shares | Par | | | | |
| Balance at December 31, 2016 | 41,919,801 | $419 | $ 765,042 | $ (334,979 ) | $— | $430,482 |
| Vesting of restricted stock | — | — | 981 | — | — | 981 |
| Equity component of convertible senior unsecured notes | — | — | 2,656 | — | — | 2,656 |
| Treasury stock | (125,722 ) | — | — | — | (1,232 ) | (1,232 ) |
| Net income | — | — | — | 85,097 | — | 85,097 |
| Dividends declared on common stock | — | — | 84 | (52,030 ) | — | (51,946 ) |
| Balance at December 31, 2017 | 41,794,079 | $419 | $ 768,763 | $ (301,912 ) | $(1,232) | $466,038 |
| Proceeds from public offerings of common stock | 6,196,578 | 62 | 64,818 | — | — | 64,880 |
| Offering costs, public offerings of common stock | — | — | (239 ) | — | — | (239 ) |
| Vesting of restricted stock | — | — | 195 | — | — | 195 |
| Treasury stock | 125,722 | — | 213 | — | 1,232 | 1,445 |
| Net income | — | — | — | 44,064 | — | 44,064 |
| Dividends declared on common stock | — | — | 90 | (40,828 ) | — | (40,738 ) |
| Balance at September 30, 2018 | 48,116,379 | $481 | $ 833,840 | $ (298,676 ) | $— | $535,645 |

See notes to unaudited consolidated financial statements.

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Western Asset Mortgage Capital Corporation and Subsidiaries
Consolidated Statements of Cash Flows (in thousands)
(Unaudited)

| | For the nine months ended September 30, 2018 | For the nine months ended September 30, 2017 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 44,064 | $ 63,693 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Premium amortization and (discount accretion), net | 2,884 | (2,658 ) |
| Interest income earned added to principal of securities | — | (46 ) |
| Amortization of deferred financing costs | 576 | — |
| Amortization of discount on convertible senior notes | 412 | — |
| Restricted stock amortization | 195 | 795 |
| Interest payments and basis recovered on MAC interest rate swaps | 1,064 | 358 |
| Premium on purchase of Residential Whole-Loans | (8,863 ) | (354 ) |
| Premium on purchase of Residential Bridge Loans | (3,191 ) | (425 ) |
| Premium on purchase of securitized commercial loans | (3,019 ) | — |
| Unrealized (gain) loss, net | 87,526 | (35,126 ) |
| Unrealized (gain) loss on derivative instruments, net | 1,460 | (156,098 ) |
| Other than temporary impairment | 8,423 | 19,901 |
| Realized (gain) loss on sale of securities, net | 29,262 | (20,600 ) |
| (Gain) loss on derivatives, net | (12,905 ) | 156,655 |
| Loss on foreign currency transactions, net | — | 1 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in interest receivable | (8,266 ) | 5,787 |
| (Increase) decrease in other assets | (599 ) | (3,736 ) |
| Increase (decrease) in interest payable | 1,705 | (11,182 ) |
| Increase (decrease) in accounts payable and accrued expenses | 221 | (667 ) |
| Increase (decrease) in payable to affiliate | 448 | (664 ) |
| Net cash provided by operating activities | 141,397 | 15,634 |
| Cash flows from investing activities: | | |
| Purchase of securities | (846,680 ) | (2,473,379) |
| Proceeds from sale of securities | 1,111,547 | 1,189,824 |
| Principal repayments and basis recovered on securities | 109,938 | 187,157 |
| Purchase of Residential Whole-Loans | (493,365 ) | (35,323 ) |
| Principal repayments on Residential Whole-Loans | 42,867 | 32,287 |
| Purchase of Commercial Loans | (164,570 ) | — |
| Principal repayments on commercial loans | 20,638 | — |
| Purchase of securitized commercial loans | (1,350,000) | — |
| Principal repayments on securitized commercial loans | 196,007 | 59 |
| Purchase of Residential Bridge Loans | (356,584 ) | (73,565 ) |
| Principal repayments on Residential Bridge Loans | 197,099 | 16,251 |
| Payment of premium for option derivatives | (829 ) | (14,995 ) |
| Premium received from option derivatives | 298 | 13,721 |

| | | |
|---|---|---|
| Premium received from credit default swaps | (174 ) | — |
| Net settlements of TBAs | 136 | 3,135 |
| Proceeds from (Payments on) termination of futures, net | 8,823 | (9,230 ) |
| Interest payments and basis recovered on MAC interest rate swaps | (1,064 ) | (358 ) |
| Due from counterparties | — | 8,449 |
| Payments on total return swaps, net | — | (552 ) |
| Premium for interest rate swaptions, net | — | (115 ) |
| Net cash used in investing activities | (1,525,913) | (1,156,634) |

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Western Asset Mortgage Capital Corporation and Subsidiaries
Consolidated Statements of Cash Flows (Continued) (in thousands)
(Unaudited)

| | For the nine months ended September 30, 2018 | For the nine months ended September 30, 2017 |
|---|---|---|
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock | 64,880 | — |
| Payment of offering costs | (65 ) | — |
| Repurchase of common stock | (1,733 ) | — |
| Proceeds from sale of treasury stock | 3,177 | — |
| Proceeds from repurchase agreement borrowings | 15,469,118 | 13,054,995 |
| Repayments of repurchase agreement borrowings | (15,251,485 ) | (11,874,382 ) |
| Proceeds from securitized debt | 1,285,219 | — |
| Repayments of securitized debt | (186,015 ) | (26 ) |
| Proceeds from forward contracts | — | 6,875 |
| Repayments of forward contracts | — | (6,850 ) |
| Due from counterparties, net | 5,417 | (11,709 ) |
| Due to counterparties, net | (422 ) | 1,580 |
| Increase in other liabilities | 100,138 | — |
| Dividends paid on common stock | (38,782 ) | (38,985 ) |
| Net cash provided by financing activities | 1,449,447 | 1,131,498 |
| | | |
| Effect of exchange rate changes on cash and cash equivalents | — | (1 ) |
| | | |
| Net increase (decrease) in cash, cash equivalents and restricted cash | 64,931 | (9,503 ) |
| Cash, cash equivalents and restricted cash, beginning of period | 48,024 | 46,172 |
| Cash, cash equivalents and restricted cash, end of period | $ 112,955 | $ 36,669 |
| | | |
| Supplemental disclosure of operating cash flow information: | | |
| Interest paid | $ 96,030 | $ 30,010 |
| Income taxes paid | $ 1,635 | $ 4,966 |
| Supplemental disclosure of non-cash financing/investing activities: | | |
| Underwriting and offering costs payable | $ 174 | $ — |
| Principal payments of securities, not settled | $ 42 | $ 16 |
| Securities sold, not settled | $ 34,559 | $ — |
| Securities purchased, not settled | $ (124,036 ) | $ (293,959 ) |
| Net unsettled TBAs | $ (10 ) | $ (2 ) |
| Dividends and distributions declared, not paid | $ 14,916 | $ 12,995 |
| Principal payments of Residential Whole-Loans, not settled | $ 11,061 | $ 4,580 |
| Principal payments of Residential Bridge Loans, not settled | $ 22,227 | $ 2,598 |
| Derivative collateral offset against derivatives | $ — | $ (157,913 ) |
| Other assets | $ 143 | $ — |

See notes to unaudited consolidated financial statements.

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Western Asset Mortgage Capital Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
(in thousands- except share and per share data)

The following defines certain of the commonly used terms in these Notes to Consolidated Financial Statements: "Agency" or "Agencies" refer to a federally chartered corporation, such as the Federal National Mortgage Association ("Fannie Mae" or "FNMA") or the Federal Home Loan Mortgage Corporation ("Freddie Mac" or "FHLMC"), or an agency of the U.S. Government, such as the Government National Mortgage Association ("Ginnie Mae" or "GNMA"); references to "MBS" refer to mortgage backed securities, including residential mortgage-backed securities or "RMBS," commercial mortgage-backed securities or "CMBS," and "Interest-Only Strips" (as defined herein); "Agency MBS" refer to RMBS, CMBS and Interest-Only Strips issued or guaranteed by the Agencies while "Non-Agency MBS" refer to RMBS, CMBS and Interest-Only Strips that are not issued or guaranteed by the Agencies; references to "ARMs" refers to adjustable rate mortgages; references to "Interest-Only Strips" refer to interest-only ("IO") and inverse interest-only ("IIO") securities issued as part of or collateralized with MBS; references to "TBA" refer to To-Be-Announced Securities; and references to "Residential Whole-Loans", "Residential Bridge Loans" and "Commercial Loans" (collectively "Whole-Loans") refer to individual mortgage loans secured by single family, multifamily and commercial properties.

## Note 1 — Organization

Western Asset Mortgage Capital Corporation, a Delaware corporation, and its subsidiaries (the "Company"), commenced operations in May 2012. The Company invests in, finances and manages a diversified portfolio of real estate related securities, whole-loans and other financial assets. The Company's portfolio is comprised of Agency CMBS, Agency RMBS (including TBAs), Non-Agency RMBS, Non-Agency CMBS, Residential Whole-Loans, Residential Bridge Loans and Commercial Loans. In addition, and to a significantly lesser extent, the Company has invested in other securities including certain Agency obligations that are not technically MBS as well as certain Non U.S. CMBS and in asset-backed securities ("ABS") investments secured by a portfolio of private student loans. The Company's investment strategy is based on Western Asset Management Company LLC's (the "Manager") perspective of which mix of portfolio assets it believes provides the Company with the best risk-reward opportunities at any given time. The Manager will vary the allocation among various asset classes subject to maintaining the Company's qualification as a REIT and maintaining its exemption from the Investment Company Act of 1940, as amended (the "1940 Act"). These restrictions limit the Company's ability to invest in non-qualifying MBS, non-real estate assets and/or assets which are not secured by real estate. Accordingly, the Company's portfolio will continue to be principally invested in qualifying MBS, Whole-Loans and other real estate related assets.

The Company is externally managed by the Manager, an investment advisor registered with the Securities and Exchange Commission ("SEC"). The Manager is a wholly-owned subsidiary of Legg Mason, Inc. The Company operates and has elected to be taxed as a real estate investment trust or "REIT" commencing with its taxable year ended December 31, 2012.

## Note 2 — Basis of Presentation and Summary of Significant Accounting Policies

### Basis of Presentation and Consolidation

The accompanying unaudited financial statements and related notes have been prepared in conformity with generally accepted accounting principles in the United States of America ("GAAP") for interim financial reporting in accordance with Article 10 of Regulation S-X and the instructions to Form 10-Q. Certain prior period amounts have been reclassified to conform to the current period's presentation. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary have been made to state fairly the Company's financial position, results of operations and cash flows. The results of operations for the period ended September 30, 2018, are not necessarily indicative of the results to be expected for the full year or any future period. These consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on March 29, 2018.

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary and variable interest entities ("VIEs") in which it is considered the primary beneficiary.  All intercompany amounts between the Company and its subsidiary and consolidated VIEs have been eliminated in consolidation.

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Variable Interest Entities

VIEs are defined as entities that by design either lack sufficient equity for the entity to finance its activities without additional subordinated financial support or are unable to direct the entity’s activities or are not exposed to the entity’s losses or entitled to its residual returns. The Company evaluates all of its interests in VIEs for consolidation. When the interests are determined to be variable interests, the Company assesses whether it is deemed the primary beneficiary. The primary beneficiary of a VIE is determined to be the party that has both the power to direct the activities of a VIE that most significantly impact the VIE’s economic performance and the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE.

To assess whether the Company has the power to direct the activities of a VIE that most significantly impact the VIE’s economic performance, it considers all facts and circumstances, including its role in establishing the VIE and its ongoing rights and responsibilities. This assessment includes: first, identifying the activities that most significantly impact the VIE’s economic performance; and second, identifying which party, if any, has power over those activities. In general, the parties that make the most significant decisions affecting the VIE or have the right to unilaterally remove those decision makers is deemed to have the power to direct the activities of a VIE.

To assess whether the Company has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE, it considers all of its economic interests. This assessment requires the Company to apply judgment in determining whether these interests, in the aggregate, are considered potentially significant to the VIE. Factors considered in assessing significance include: the design of the VIE, including its capitalization structure; subordination of interests; payment priority; relative share of interests held across various classes within the VIE’s capital structure; and the reasons why the interests are held by the Company.

In instances where the Company and its related parties have variable interests in a VIE, the Company considers whether there is a single party in the related party group that meets both the power and losses or benefits criteria on its own as though no related party relationship existed.  If one party within the related party group meets both these criteria, such reporting entity is the primary beneficiary of the VIE and no further analysis is needed.  If no party within the related party group on its own meets both the power and losses or benefits criteria, but the related party group as a whole meets these two criteria, the determination of primary beneficiary within the related party group requires significant judgment. The analysis is based upon qualitative as well as quantitative factors, such as the relationship of the VIE to each of the members of the related-party group, as well as the significance of the VIE's activities to those members, with the objective of determining which party is most closely associated with the VIE.

Ongoing assessments of whether an enterprise is the primary beneficiary of a VIE are required.

Use of Estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.  Actual results could differ from those estimates.

Significant Accounting Policies

There have been no changes to our accounting policies included in Note 2 to the consolidated financial statements of our
Annual Report on Form 10-K for the year ended December 31, 2017, other than the significant accounting policies disclosed below.

Restricted Cash

Restricted cash represents cash held by the trustee or servicer for mortgage escrows in connection with the Company's securitized loan and commercial loan investments held in two consolidated VIEs. These escrows consist of principal and interest escrows, capital improvement reserves, repair reserves, real estate tax and insurance reserves and tenant reserves. The corresponding liability is recorded in "Other liabilities" in the Consolidated Balance Sheets. The restricted cash is not available for general corporate use.

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Securitized Commercial Loans

Securitized commercial loans are comprised of commercial loans of consolidated variable interest entities which were sponsored by third parties. These loans are recorded in accordance with ASC 310-20, "Nonrefundable Fees and Other Costs". The Company has chosen to make the fair value election pursuant to ASC 825. Accordingly, these loans are recorded at fair value with periodic changes in fair value being recorded in earnings as a component of "Unrealized gain (loss), net".

The securitized commercial loans are typically collateralized by commercial real estate. As a result, the Company regularly evaluates the extent and impact of any credit migration associated with the performance and/or value of the underlying collateral property as well as the financial and operating capability of the borrower on a loan by loan basis. On a quarterly basis, the Company evaluates the collectability of both interest and principal of each loan, if circumstances warrant, to determine whether such loan is impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the existing contractual terms. When a loan is impaired, the Company does not record an allowance for loan loss as the Company has elected the fair value option. However, income recognition is suspended for loans at the earlier of the date at which payments become 90-days past due or when, in the opinion of management, a full recovery of income and principal becomes doubtful. When the ultimate collectability of the principal of an impaired loan is in doubt, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the principal of an impaired loan is not in doubt, contractual interest is recorded as interest income when received, under the cash basis method until an accrual is resumed. Interest income accrual is resumed when the loan becomes contractually current and performance is demonstrated. A loan is written off when it is no longer realizable and/or legally discharged.

Commercial Loans

Investments in Commercial Loans, which are comprised of first lien commercial mortgage loans and commercial mezzanine loans, are recorded in accordance with ASC 310-20, "Nonrefundable Fees and Other Costs". The Company has chosen to make the fair value election pursuant to ASC 825 for its Commercial Loan portfolio. Accordingly, these loans are recorded at fair value with periodic changes in fair value being recorded in earnings as a component of "Unrealized gain (loss), net". All other costs incurred in connection with acquiring the Commercial Loans or committing to purchase these loans are charged to expense as incurred.

The Company’s loans are typically collateralized by commercial real estate. As a result, the Company regularly evaluates the extent and impact of any credit migration associated with the performance and or value of the underlying collateral property as well as the financial and operating capability of the borrower on a loan by loan basis. On a quarterly basis, the Company evaluates the collectability of both interest and principal of each loan, if circumstances warrant, to determine whether such loan is impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the existing contractual terms. When a loan is impaired, the Company does not record an allowance for loan loss as the Company has elected the fair value option. However, income recognition is suspended for loans at the earlier of the date at which payments become 90-days past due or when, in the opinion of management, a full recovery of income and principal becomes doubtful. When the ultimate collectability of the principal of an impaired loan is in doubt, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the principal of an impaired loan is not in doubt, contractual interest is recorded as interest income when received, under the cash basis method until an accrual is resumed. Interest income accrual is resumed when the loan becomes contractually current and performance is demonstrated. A loan is written off when it is no longer realizable and/or legally discharged.

Interest Income Recognition

Loan Portfolio

Interest income on the Company's residential loan portfolio and commercial loan portfolio is recorded using the effective interest method based on the contractual payment terms of the loan. Any premium amortization or discount accretion will be reflected as a component of "Interest income" in the Consolidated Statements of Operations.

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Recently adopted accounting pronouncements

| Description | Adoption Date | Effect on Financial Statements |
| --- | --- | --- |
| In May 2014, the FASB issued ASU 2014-9, "Revenue from Contracts with Customers (Topic 606)." The guidance changes an entity's recognition of revenue from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new guidance requires improved disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In March 2016, the FASB issued implementation guidance which clarifies principal versus agent considerations in reporting revenue gross versus net (ASU 2016-8). In April 2016, the FASB issued implementation guidance which clarifies the identification of performance obligations (ASU 2016-10). In May 2016, the FASB issued amendments that affect only the narrow aspects of Topic 606 (ASU2016-12). | First quarter 2018. | The Company's revenue is mainly derived from interest income on our investments and to a lesser extent gains on sales of investments, which are not impacted by this standard. Therefore, the adoption of this standard did not have a material impact on the Company's consolidated financial statements. |
| In January 2016, the FASB issued ASU 2016-1, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The guidance improves certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. In February 2018, the FASB issued a separate Update for technical corrections and improvements related to the ASU 2016-01 to increase stakeholders' awareness of the amendments and to expedite the improvements (ASU 2018-3). | First quarter 2018. | The standard does not change the guidance for classifying and measuring investments in debt securities and loans as well nonrecourse liabilities of consolidated collateralized financing entities. Therefore, the adoption of this standard did not have a material impact on the Company's consolidated financial statements. |
| In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments (Topic 230)." The guidance is intended to reduce diversity in practice in how certain transactions are classified on the statement of cash flows. | First quarter 2018 and requires retrospective adoption. | The adoption of this standard did not have a material impact on its Consolidated Statements of Cash Flows. |
| In November 2016, the FASB issued ASU 2016-18 "Statement of Cash Flows (Topic 230): Restricted Cash, a consensus of the FASB's Emerging Issues Task Force." The guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents as well as disclose information about the | First quarter 2018 and requires retrospective adoption. | The adoption of this standard did not have a material impact on its Consolidated Statements of Cash Flows. |

nature of the restrictions on its cash and cash equivalents.

| | | |
|---|---|---|
| In January 2017, the FASB issued ASU 2017-01 "Business Combinations (Topic 805): Clarifying the Definition of a Business." This ASU provides a more robust framework to use in determining when a set of assets and activities constitutes a business. | First quarter 2018. The guidance should be applied prospectively on or after the effective date. | The adoption of this standard did not have a material impact on its Consolidated Statements of Cash Flows. |
| In May 2017, the FASB issued ASU 2017-09 "Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting." The amendments in this update provide guidance about which changes to the terms or conditions of a shared-based payment award require an entity to apply modification accounting in Topic 718. | First quarter 2018. | There are no changes to the terms and conditions of the Company's share-based compensation. The adoption of this standard did not have a material impact on the Company's consolidated financial statements. |

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Recently issued accounting pronouncements

| Description | Effective Date | Effect on Financial Statements |
|---|---|---|
| In June 2016, the FASB issued ASU 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” This standard significantly changes how an entity will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through the income statement. The standard will replace the current "incurred loss" approach with an "expected loss" model for instruments measured at amortized cost. For available for sale debt securities, entities will be required to record an allowance rather than reduce the carrying amount, as is currently done under the other than temporary impairment model. It also simplifies the accounting model for purchased credit impaired debt securities and loans. | First quarter 2020. | The Company is currently evaluating the impact the standard may have on its consolidated financial statements when adopted. |
| In July 2017, the FASB issued ASU 2017-11, "Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivative and Hedges (Topic 815): Part I - Accounting for Certain Financial Instruments with Down Round Features and Part II - Replacement of the Indefinite Deferral for Mandatory Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatory Redeemable Noncontrolling Interest with a Scope Exception". Part I of this update changes the classification analysis of certain financial instruments (such as warrants and convertible instruments) with down round features. Down round features are features of certain equity-linked financial instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity’s own stock. Entities that present earnings per share are required to recognize the effect of the down round feature when it is triggered. The amendments in Part II of this update recharacterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Codification, to a scope exception. Those amendments do not have an accounting effect. | First quarter 2019. | The Company is evaluating the impact this standard may have on its consolidated financial statements. |
| In June 2018, the FASB issued ASU 2018-07, "Compensation-Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting." The amendments in this update expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. | First quarter 2019. | The Company is evaluating the impact this standard may have on its consolidated financial statements. |
| In July 2018, the FASB issued ASU 2018-09, "Codification Improvements." The amendments in this update affect a wide variety of Topics in the Codification including derivatives and hedging, stock compensation-income taxes, distinguishing liabilities from equity, debt modification and extinguishment, reporting comprehensive income, business combinations-income taxes, financial services and Plan accounting. | First quarter 2019. | The Company is evaluating the impact this standard may have on its consolidated |

| | | |
|---|---|---|
| | | financial statements. |
| In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820), Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement." The amendments in this update modify the disclosure requirements on fair value measurements including the consideration of costs and benefits. | First quarter 2020. | The Company is evaluating the impact this standard may have on its consolidated financial statements. |

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Note 3 — Fair Value of Financial Instruments

The following tables present the Company’s financial instruments carried at fair value as of September 30, 2018 and December 31, 2017, based upon the valuation hierarchy (dollars in thousands):

| | September 30, 2018 | | | |
|---|---|---|---|---|
| | Fair Value | | | |
| | Level I | Level II | Level III | Total |
| Assets | | | | |
| Agency RMBS | $— | $385,008 | $— | $385,008 |
| Agency RMBS Interest-Only Strips | — | — | 12,203 | 12,203 |
| Agency RMBS Interest-Only Strips accounted for as derivatives, included in MBS | — | — | 8,006 | 8,006 |
| Agency CMBS | — | 1,958,951 | 107,124 | 2,066,075 |
| Agency CMBS Interest-Only Strips accounted for as derivatives, included in MBS | — | 4,241 | — | 4,241 |
| Subtotal Agency MBS | — | 2,348,200 | 127,333 | 2,475,533 |
| | | | | |
| Non-Agency RMBS | — | 26,076 | 57,274 | 83,350 |
| Non-Agency RMBS Interest-Only Strips | — | — | 15,513 | 15,513 |
| Non-Agency CMBS | — | 266,847 | — | 266,847 |
| Subtotal Non-Agency MBS | — | 292,923 | 72,787 | 365,710 |
| | | | | |
| Other securities | — | 82,820 | 9,708 | 92,528 |
| Total mortgage-backed securities and other securities | — | 2,723,943 | 209,828 | 2,933,771 |
| | | | | |
| Residential Whole-Loans | — | — | 684,463 | 684,463 |
| Residential Bridge Loans | — | — | 234,747 | 234,747 |
| Securitized commercial loans | — | — | 1,191,048 | 1,191,048 |
| Commercial Loans | — | — | 143,951 | 143,951 |
| Derivative assets | 1,812 | 888 | — | 2,700 |
| Total Assets | $1,812 | $2,724,831 | $2,464,037 | $5,190,680 |
| | | | | |
| Liabilities | | | | |
| Derivative liabilities | $— | $2,159 | $— | $2,159 |
| Securitized debt | — | 1,116,483 | 2,606 | 1,119,089 |
| Total Liabilities | $— | $1,118,642 | $2,606 | $1,121,248 |

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| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Fair Value | | | |
| | Level | Level II | Level III | Total |
| Assets | | | | |
| Agency RMBS | $— | $672,177 | $— | $672,177 |
| Agency RMBS Interest-Only Strips | — | 15,437 | — | 15,437 |
| Agency RMBS Interest-Only Strips accounted for as derivatives, included in MBS | — | 10,419 | — | 10,419 |
| Agency CMBS | — | 2,137,583 | 17,217 | 2,154,800 |
| Agency CMBS Interest-Only Strips | — | 10 | — | 10 |
| Agency CMBS Interest-Only Strips accounted for as derivatives, included in MBS | — | 5,757 | — | 5,757 |
| Subtotal Agency MBS | — | 2,841,383 | 17,217 | 2,858,600 |
| | | | | |
| Non-Agency RMBS | — | 90,819 | 13 | 90,832 |
| Non-Agency RMBS Interest-Only Strips | — | — | 8,722 | 8,722 |
| Non-Agency CMBS | — | 278,604 | — | 278,604 |
| Subtotal Non-Agency MBS | — | 369,423 | 8,735 | 378,158 |
| | | | | |
| Other securities | — | 112,826 | 9,239 | 122,065 |
| Total mortgage-backed securities and other securities | — | 3,323,632 | 35,191 | 3,358,823 |
| | | | | |
| Residential Whole-Loans | — | — | 237,423 | 237,423 |
| Residential Bridge Loans | — | — | 64,526 | 64,526 |
| Securitized commercial loan | — | — | 24,876 | 24,876 |
| Derivative assets | 728 | — | — | 728 |
| Total Assets | $728 | $3,323,632 | $362,016 | $3,686,376 |
| | | | | |
| Liabilities | | | | |
| Derivative liabilities | $50 | $4,296 | $— | $4,346 |
| Securitized debt | — | — | 10,945 | 10,945 |
| Total Liabilities | $50 | $4,296 | $10,945 | $15,291 |

When available, the Company uses quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, the Company will use independent pricing services and if the independent pricing service cannot price a particular asset or liability, the Company will obtain third party broker quotes. The Manager’s pricing group, which functions independently from its portfolio management personnel, reviews the third party broker quotes by comparing the broker quotes for reasonableness to alternate sources when available. If independent pricing service, or third party broker quotes are not available, the Company determines the fair value of the securities using valuation techniques that use, when possible, current market-based or independently-sourced market parameters, such as interest rates and when applicable, estimates of prepayments and credit losses.

In instances when the Company is required to consolidate a VIE that is determined to be a qualifying collateralized financing entity ("CFE"), under GAAP, the Company will measure both the financial assets and financial liabilities of the VIE using the fair value of either the VIE’s financial assets or financial liabilities, whichever is more observable.

Mortgage-backed securities and other securities

In determining the proper fair value hierarchy or level, the Company considers the amount of available observable market data for each security. Agency RMBS, given the amount of available observable market data, are classified in Level II. For Non-Agency RMBS, CMBS and other securities, to determine whether a security should be a Level II, the securities are grouped by

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security type and the Manager reviews the internal trade history, for the quarter, for each security type. If there is sufficient trade data above a predetermined threshold of a security type, the Manager determines it has sufficient observable market data and the security will be categorized as a Level II.

Values for the Company’s securities are based upon prices obtained from independent third party pricing services. The valuation methodology of the third party pricing services incorporates a commonly used market pricing method. Depending on the type of asset and the underlying collateral, the primary inputs to the model include yields for TBAs, Agency RMBS, the U.S. Treasury market and floating rate indices such as LIBOR, the Constant Maturity Treasury rate and the prime rate as a benchmark yield. In addition, the model may incorporate the current weighted average maturity and additional pool level information such as prepayment speeds, default frequencies and default severities, if applicable. When the third party pricing service cannot adequately price a particular security, the Company utilizes a broker’s quote which is reviewed for reasonableness by the Manager’s pricing group.

Residential Whole-Loans and Residential Bridge Loans

Values for the Company's Residential Whole-Loans and Bridge Loans are based upon prices obtained from an independent third party pricing service that specializes in loan valuation, utilizing a discounted cash flow valuation model that is calibrated to recent loan trade execution. Their valuation methodology incorporates commonly used market pricing methods, including loan to value ("LTV"), debt to income, maturity, interest rates, collateral location, and unpaid principal balance, prepayment penalties, FICO scores, lien position and times late. Due to the inherent uncertainty of such valuation, the fair values established for residential loans held by the Company may differ from the fair values that would have been established if a readily available market existed for these loans. Accordingly, the Company's loans are classified as Level III.

Commercial Loans

Values for the Company's Commercial Loans are based upon either prices obtained from an independent third party pricing service that specializes in loan valuation, utilizing a valuation model that is calibrated to recent loan trade execution or a broker quote. The third party pricing service uses a discounted cash flow valuation methodology that incorporates commonly used market pricing methods, including LTV, debt to income, maturity, interest rates, collateral location, and unpaid principal balance, prepayment penalties, lien position and times late. Due to the inherent uncertainty of such valuation, the fair values established for commercial loans held by the Company may differ from the fair values that would have been established if a readily available market existed for these loans. Accordingly, the Company's commercial loans are classified as a Level III.

Securitized commercial loans

Values for the Company’s securitized commercial loans are based on the CFE valuation methodology.  Since there is an extremely limited market for the securitized commercial loans, the Company determined the securitized debt is more actively traded and therefore was more observable.  Due to the inherent uncertainty of such valuation, the Company classifies its securitized commercial loans as Level III.

Securitized debt

In determining the proper fair value hierarchy or level, the Company considers the amount of available observable market data for each security. Since the securitized debt represents traded debt securities, the Manager's pricing team reviews the trade activity during the quarter for each security to determine the appropriate level within the fair value hierarchy. If there is sufficient trade data above a predetermined threshold, the Manager determines it has sufficient observable market data and the debt security will be categorized as a Level II. If there is not sufficient observable market data the debt security will be categorized as a Level III.

Derivatives

Values for the Company's derivatives are based upon prices from third party pricing services, whose pricing is subject to review by the Manager’s pricing committee. In valuing its over-the-counter interest rate derivatives, such as swaps and swaptions, its currency derivatives, such as swaps and forwards and credit derivatives such as total return swaps, the Company considers the creditworthiness of both the Company and its counterparties, along with collateral provisions contained in each derivative agreement, from the perspective of both the Company and its counterparties. No credit valuation adjustment was made in determining the fair value of interest rate and/or currency derivatives for the periods ended September 30, 2018 and December 31, 2017.

The Company performs quarterly reviews of the independent third party pricing data. These reviews may consist of a review of the daily change in the prices provided by the independent pricing vendor which exceed established tolerances or comparisons to executed transaction prices, utilizing the Manager's pricing group. The Manager's pricing group, which functions independently from its portfolio management personnel, reviews the price differences or changes in price by comparing the vendor price to alternate sources including other independent pricing services or broker quotations. If the price change or difference cannot be corroborated, the Manager's pricing group consults with the portfolio management team for market color in reviewing such pricing data as warranted. To the extent that the Manager has information, typically in the form of broker quotations that would indicate that a price received from the independent pricing service is outside of a tolerance range, the Manager generally challenges the independent pricing service price.

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

| | Three months ended September 30, 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| $ in thousands | Agency MBS | Non-Agency MBS | Other Securities | Residential Whole-Loans | Residential Bridge Loans | Commercial Loans | Securitized commercial loans | Securitized debt |
| Beginning balance | $75,043 | $ 16,307 | $ 8,955 | $ 335,149 | $236,359 | $70,717 | $1,309,195 | $ 2,870 |
| Transfers into Level III from Level II | — | 57,275 | 9,708 | — | — | — | — | — |
| Transfers from Level III into Level II | (51,976) | — | (8,697) | — | — | — | — | — |
| Purchases | 107,034 | — | — | 372,348 | 70,465 | 94,313 | — | — |
| Principal repayments | (42) | (14) | (285) | (21,258) | (70,341) | (20,638) | (117,100) | — |
| Total net gains / losses included in net income | | | | | | | | |
| Other than temporary impairment | (384) | (142) | — | — | — | — | — | — |
| Unrealized gains/(losses), net on assets(1) | (1,007) | (95) | (15) | (1,469) | (1,103) | (575) | 282 | — |
| Unrealized (gains)/losses, net on liabilities(2) | — | — | — | — | — | — | — | (330) |
| Premium and discount amortization, net | (1,335) | (544) | 42 | (307) | (633) | 134 | (1,329) | 66 |
| Ending balance | $127,333 | $ 72,787 | $ 9,708 | $ 684,463 | $234,747 | $ 143,951 | $1,191,048 | $ 2,606 |
| | | | | | | | | |
| Unrealized gains/(losses), net on assets held at the end of the period(1) | $(668) | $ (94) | $— | $ (1,231) | $(844) | $(618) | $282 | $— |
| Unrealized gains/(losses), net on liabilities held at the end of the period(2) | $— | $— | $— | $— | $— | $— | $— | $ 330 |

| | Three months ended September 30, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| $ in thousands | Agency MBS | Non-Agency MBS | Other Securities | Residential Whole-Loans | Securitized commercial loan | Securitized debt | Derivative liability |
| Beginning balance | $— | $ 14,326 | $ 22,405 | $ 203,540 | $ 24,875 | $ 10,945 | $ 329 |
| Transfers into Level III from Level II | — | — | 9,470 | — | — | — | — |
| Transfers from Level III into Level II | — | — | (23,852) | — | — | — | — |
| Purchases | 2,009 | — | — | — | — | — | — |
| Sales and settlements | — | — | — | — | — | — | (53) |
| Principal repayments | — | (388) | — | (11,264) | (59) | (26) | — |
| Total net gains / losses included in net income | | | 0 | | | | |
| | — | — | — | — | — | — | 53 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Realized (gains)/losses, net on liabilities | | | | | | | |
| Other than temporary impairment | — | — | (121) | — | — | — | — |
| Unrealized gains/(losses), net on assets(1) | — | 291 | 1,094 | (575) | 136 | — | — |
| Unrealized (gains)/losses, net on liabilities(2) | — | — | — | — | — | 60 | (329) |
| Premium and discount amortization, net | — | 33 | 474 | (262) | — | — | — |
| Ending balance | $ 2,009 | $ 14,262 | $ 9,470 | $ 191,439 | $ 24,952 | $ 10,979 | $ — |
| Unrealized gains/(losses), net on assets held at the end of the period(1) | $ — | $ 291 | $ — | $ (356) | $ 136 | $ — | $ — |
| Unrealized gains/(losses), net on liabilities held at the end of the period(2) | $ — | $ — | $ — | $ — | $ — | $ (60) | $ — |

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| $ in thousands | Nine months ended September 30, 2018 Agency MBS | Non-Agency MBS | Other Securities | Residential Whole-Loans | Residential Bridge Loans | Commercial Loans | Securitized commercial loans | Securitized debt |
|---|---|---|---|---|---|---|---|---|
| Beginning balance | $ 17,217 | $ 8,735 | $ 9,239 | $ 237,423 | $ 64,526 | $ — | $ 24,876 | $ 10,945 |
| Transfers into Level III from Level II | 22,794 | 57,275 | 9,708 | — | — | — | — | — |
| Transfers from Level III into Level II | (16,805) | — | (8,697) | — | — | — | — | (10,899) |
| Purchases | 109,002 | 8,602 | — | 486,354 | 221,619 | 144,035 | 1,353,019 | — |
| Sales and settlements | — | — | — | — | — | — | — | 12 |
| Principal repayments | (53) | (14) | (604) | (36,092) | (49,503) | — | (196,007) | (44) |
| Total net gains / losses included in net income | | | | | | | | |
| Other than temporary impairment | (590) | (191) | — | — | — | — | — | — |
| Unrealized gains/(losses), net on assets(1) | (1,447) | (149) | (68) | (2,644) | (1,217) | (159) | 11,152 | — |
| Unrealized (gains)/losses, net on liabilities(2) | — | — | — | — | — | — | — | 2,502 |
| Premium and discount amortization, net | (2,785) | (1,471) | 130 | (578) | (678) | 75 | (1,992) | 90 |
| Ending balance | $ 127,333 | $ 72,787 | $ 9,708 | $ 684,463 | $ 234,747 | $ 143,951 | $ 1,191,048 | $ 2,606 |
| Unrealized gains/(losses), net on assets held at the end of the period(1) | $ (1,089) | $ (148) | $ — | $ (2,101) | $ (832) | $ (159) | $ 11,152 | $ — |
| Unrealized gains/(losses), net on liabilities held at the end of the period(2) | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ (2,504) |

| $ in thousands | Nine months ended September 30, 2017 Agency MBS | Non-Agency MBS | Other Securities | Residential Whole-Loans | Securitized commercial loan | Securitized debt | Derivative liability |
|---|---|---|---|---|---|---|---|
| Beginning balance | $ 73,059 | $ 75,576 | $ 31,356 | $ 192,136 | $ 24,225 | $ 10,659 | $ 1,673 |
| Transfers into Level III from Level II | — | 15,610 | 9,470 | — | — | — | — |
| Transfers from Level III into Level II | (73,715) | (7,434) | (33,080) | — | — | — | — |
| Purchases | 2,009 | — | — | 33,718 | — | — | — |
| Sales and settlements | — | (60,132) | — | — | — | — | (552) |
| Principal repayments | — | (2,463) | (172) | (33,718) | (59) | (26) | — |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total net gains / losses included in net income | | | | | | | |
| Realized gains/(losses), net on assets | — | 2,623 | — | — | — | — | — |
| Realized (gains)/losses, net on liabilities | — | — | — | — | — | — | 552 |
| Other than temporary impairment | — | — | (1,823) | — | — | — | — |
| Unrealized gains/(losses), net on assets(1) | 636 | (8,715) | 1,550 | 97 | 786 | — | — |
| Unrealized (gains)/losses, net on liabilities(2) | — | — | — | — | — | 346 | (1,673) |
| Premium and discount amortization, net | 20 | (803) | 2,169 | (794) | — | — | — |
| Ending balance | $2,009 | $ 14,262 | $9,470 | $ 191,439 | $ 24,952 | $ 10,979 | $ — |
| Unrealized gains/(losses), net on assets held at the end of the period(1) | $— | $ 684 | $72 | $ 347 | $ 786 | $— | $ — |
| Unrealized gains/(losses), net on liabilities held at the end of the period(2) | $— | $ — | $— | $ — | $ — | $ (346) | $ — |

(1) Gains and losses are included in "Unrealized gain (loss), net" in the Consolidated Statements of Operations.
(2) Gains and losses on securitized debt and derivative liability are included in "Unrealized gain (loss), net" and "Gain (loss) on derivative instruments, net" in the Consolidated Statements of Operations, respectively.

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Transfers between hierarchy levels during operations for the three and nine months ended September 30, 2018 and September 30, 2017 were based on the availability of sufficient observable inputs. Movements from Level II to Level III was based on information received from a third party pricing service which, along with the back-testing of historical sales transactions performed by the Manager, which did not provide sufficient observable data to meet Level II versus Level III criteria, resulting in the movement from Level II to Level III. Movements form Level III to Level II was based on information received from a third party pricing service which, along with the back-testing of historical sales transactions performed by the Manager, which provided the sufficient observable data for the movement from Level III to Level II. The Company did not have transfers between either Level I and Level II or Level I and Level III for the three and nine months ended September 30, 2018 and September 30, 2017.

Other Fair Value Disclosures

Certain Residential Bridge Loans, repurchase agreement borrowings and convertible senior unsecured notes are not carried at fair value in the consolidated financial statements. The following table presents the carrying value and estimated fair value of the Company’s financial instruments that are not carried at fair value as of September 30, 2018 and December 31, 2017 in the consolidated financial statements (dollars in thousands):

| | September 30, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| Assets | | | | |
| Residential Bridge Loans | $14,724 | $14,479 | $42,147 | $42,881 |
| Total | $14,724 | $14,479 | $42,147 | $42,881 |
| | | | | |
| Liabilities | | | | |
| Borrowings under repurchase agreements | $3,469,319 | $3,591,751 | $3,251,686 | $3,257,956 |
| Convertible senior unsecured notes | 109,731 | 115,385 | 108,743 | 114,819 |
| Total | $3,579,050 | $3,707,136 | $3,360,429 | $3,372,775 |

"Due from counterparties" and "Due to counterparties" in the Company’s Consolidated Balance Sheets are reflected at cost which approximates fair value.

Residential Bridge Loans

The fair values of the Residential Bridge Loans are based upon prices obtained from an independent third party pricing service that specializes in loan valuation, utilizing a valuation model that is calibrated to recent loan trade execution. Their valuation methodology uses a discounted cash flow model and incorporates commonly used market pricing methods, including LTV debt to income, maturity, interest rates, collateral location, and unpaid principal balance, prepayment penalties, FICO scores, lien position and times late. Due to the inherent uncertainty of such valuation, the fair values established for residential bridge loans held by the Company may differ from the fair values that would have been established if a readily available market existed for these loans. Accordingly, the Company's loans are classified as Level III.

Borrowings under repurchase agreements

The fair values of the borrowings under repurchase agreements are based on a net present value technique. This method discounts future estimated cash flows using rates the Company determined best estimates current market interest rates that would be offered for loans with similar characteristics and credit quality. The use of different market assumptions or estimation methodologies could have a material effect on the fair value amounts. This fair value measurement is based on observable inputs, and as such, are classified as Level II.

Convertible senior unsecured notes

The fair value of the convertible senior unsecured notes is based on quoted market prices. Accordingly, the Company's convertible senior unsecured notes are classified as Level I.

Note 4 – Mortgage-Backed Securities and other securities

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The following tables present certain information about the Company's investment portfolio at September 30, 2018 and December 31, 2017 (dollars in thousands):

| | September 30, 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Principal Balance | Unamortized Premium (Discount), net | Discount Designated as Credit Reserve and OTTI | Amortized Cost | Unrealized Gain | Unrealized Loss | Estimated Fair Value | Net Weighted Average Coupon | |
| Agency RMBS | $389,756 | $ 13,133 | $ — | $402,889 | $ — | $ (17,881) | $385,008 | 3.6 % | |
| Agency RMBS Interest-Only Strips (2) | N/A | N/A | N/A | 12,377 | 724 | (898) | 12,203 | 2.3 % | (1) |
| Agency RMBS Interest-Only Strips, accounted for as derivatives (1) (2) | N/A | N/A | N/A | N/A | N/A | N/A | 8,006 | 2.8 % | (1) |
| Subtotal Agency RMBS | 389,756 | 13,133 | — | 415,266 | 724 | (18,779) | 405,217 | 3.2 % | |
| Agency CMBS | 2,124,942 | 4,970 | — | 2,129,912 | 563 | (64,400) | 2,066,075 | 3.2 % | |
| Agency CMBS Interest-Only Strips accounted for as derivatives(1) (2) | N/A | N/A | N/A | N/A | N/A | N/A | 4,241 | 0.4 % | (1) |
| Subtotal Agency CMBS | 2,124,942 | 4,970 | — | 2,129,912 | 563 | (64,400) | 2,070,316 | 3.0 % | |
| Total Agency MBS | 2,514,698 | 18,103 | — | 2,545,178 | 1,287 | (83,179) | 2,475,533 | 3.0 % | |
| | | | | | | | | | |
| Non-Agency RMBS | 113,606 | 5,568 | (39,585) | 79,589 | 4,344 | (583) | 83,350 | 4.4 % | |
| Non-Agency RMBS Interest- Only Strips (1) | N/A | N/A | N/A | 15,677 | — | (164) | 15,513 | 0.5 % | (1) |
| Subtotal Non-Agency RMBS | 113,606 | 5,568 | (39,585) | 95,266 | 4,344 | (747) | 98,863 | 1.0 % | |
| Non-Agency CMBS | 322,255 | (29,014) | (24,976) | 268,265 | 3,959 | (5,377) | 266,847 | 5.9 % | |
| Total Non-Agency MBS | 435,861 | (23,446) | (64,561) | 363,531 | 8,303 | (6,124) | 365,710 | 2.2 % | |
| | | | | | | | | | |
| Other securities (3) | 71,420 | 2,116 | (9,891) | 82,349 | 10,247 | (68) | 92,528 | 9.0 % | |
| Total | $3,021,979 | $ (3,227) | $ (74,452) | $2,991,058 | $ 19,837 | $ (89,371) | $2,933,771 | 2.9 % | |

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| | December 31, 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Principal Balance | Unamortized Premium (Discount), net | Discount Designated as Credit Reserve and OTTI | Amortized Cost | Unrealized Gain | Unrealized Loss | Estimated Fair Value | Net Weighted Average Coupon |
| Agency RMBS | $641,044 | $28,876 | $— | $669,920 | $4,571 | $(2,314) | $672,177 | 3.9 % |
| Agency RMBS Interest-Only Strips (1) | N/A | N/A | N/A | 14,750 | 878 | (191) | 15,437 | 2.9 % (1) |
| Agency RMBS Interest-Only Strips, accounted for as derivatives (1) (2) | N/A | N/A | N/A | N/A | N/A | N/A | 10,419 | 2.9 % (1) |
| Subtotal Agency RMBS | 641,044 | 28,876 | — | 684,670 | 5,449 | (2,505) | 698,033 | 3.6 % |
| Agency CMBS | 2,145,139 | 2,142 | — | 2,147,281 | 16,913 | (9,394) | 2,154,800 | 2.9 % |
| Agency CMBS Interest-Only Strips(1) | N/A | N/A | N/A | — | 10 | — | 10 | 3.2 % (1) |
| Agency CMBS Interest-Only Strips accounted for as derivatives (1) (2) | N/A | N/A | N/A | N/A | N/A | N/A | 5,757 | 0.5 % (1) |
| Subtotal Agency CMBS | 2,145,139 | 2,142 | — | 2,147,281 | 16,923 | (9,394) | 2,160,567 | 2.7 % |
| Total Agency MBS | 2,786,183 | 31,018 | — | 2,831,951 | 22,372 | (11,899) | 2,858,600 | 3.0 % |
| Non-Agency RMBS | 119,748 | 5,263 | (39,491) | 85,520 | 5,473 | (161) | 90,832 | 3.8 % |
| Non-Agency RMBS Interest- Only Strips (1) | N/A | N/A | N/A | 8,738 | — | (16) | 8,722 | 0.9 % (1) |
| Subtotal Non-Agency RMBS | 119,748 | 5,263 | (39,491) | 94,258 | 5,473 | (177) | 99,554 | 1.8 % |
| Non-Agency CMBS | 379,183 | (59,129) | (28,020) | 292,034 | 1,702 | (15,132) | 278,604 | 4.8 % |
| Total Non-Agency MBS | 498,931 | (53,866) | (67,511) | 386,292 | 7,175 | (15,309) | 378,158 | 3.3 % |
| Other securities (3) | 86,305 | 6,300 | (5,404) | 110,091 | 12,161 | (187) | 122,065 | 7.8 % |
| Total | $3,371,419 | $(16,548) | $(72,915) | $3,328,334 | $41,708 | $(27,395) | $3,358,823 | 3.1 % |

(1) IOs and IIOs have no principal balances and bear interest based on a notional balance. The notional balance is used solely to determine interest distributions on interest-only class of securities. At September 30, 2018, the notional balance for Agency RMBS IOs and IIOs, Non-Agency RMBS IOs and IIOs, Agency RMBS IOs and IIOs, accounted for as derivatives and Agency CMBS IOs and IIOs, accounted for as derivatives was $166.4 million, $822.0 million, $96.2 million and $173.9 million, respectively. At December 31, 2017, the notional balance for Agency RMBS IOs and IIOs, Non-Agency RMBS IOs and IIOs, Agency RMBS IOs and IIOs, accounted for as derivatives, Agency CMBS IOs and IIOs, accounted for as derivatives and Agency CMBS IOs and IIOs was $165.5 million, $278.4 million, $122.0 million, $192.5 million and $3.3 million, respectively.

(2)

Interest on these securities is reported as a component of "Gain (loss) on derivative instruments, net" in the Consolidated Statements of Operations.

(3) Other securities include residual interests in asset-backed securities which have no principal balance and an amortized cost of approximately $18.7 million and $22.9 million, as of September 30, 2018 and December 31, 2017, respectively.

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As of September 30, 2018 and December 31, 2017 the weighted average expected remaining term of the MBS and other securities investment portfolio was 9.0 years and 8.6 years, respectively.

The following tables present the changes in the components of the Company's purchase discount and amortizable premium on its Non-Agency RMBS, Non-Agency CMBS and other securities for the three and nine months ended September 30, 2018 and September 30, 2017 (dollars in thousands):

| | Three months ended September 30, 2018 | | | Three months ended September 30, 2017 | | |
|---|---|---|---|---|---|---|
| | Discount Designated as Credit Reserve and OTTI | Accretable Discount[1] | Amortizable Premium[1] | Discount Designated as Credit Reserve and OTTI | Accretable Discount[1] | Amortizable Premium[1] |
| Balance at beginning of period | $(78,837) | $(68,677) | $21,723 | $(49,830) | $(76,778) | $15,186 |
| Accretion of discount | — | 1,314 | — | — | 2,588 | — |
| Amortization of premium | — | — | (97) | — | — | (87) |
| Realized credit losses | 3,305 | — | — | 25 | — | — |
| Purchases | — | — | — | — | — | — |
| Sales | 2,334 | 25,624 | (400) | 187 | 1,931 | (18) |
| Net impairment losses recognized in earnings | (2,071) | — | — | (2,345) | — | — |
| Transfers/release of credit reserve[2] | 817 | 8 | (825) | (866) | 953 | (87) |
| Balance at end of period | $(74,452) | $(41,731) | $20,401 | $(52,829) | $(71,306) | $14,994 |

| | Nine months ended September 30, 2018 | | | Nine months ended September 30, 2017 | | |
|---|---|---|---|---|---|---|
| | Discount Designated as Credit Reserve and OTTI | Accretable Discount[1] | Amortizable Premium[1] | Discount Designated as Credit Reserve and OTTI | Accretable Discount[1] | Amortizable Premium[1] |
| Balance at beginning of period | $(72,915) | $(68,438) | $20,872 | $(130,484) | $(109,822) | $44,527 |
| Accretion of discount | — | 6,483 | — | — | 8,542 | — |
| Amortization of premium | — | — | (461) | — | — | (776) |
| Realized credit losses | 5,526 | — | — | 1,854 | — | — |
| Purchases | (7,182) | (6,473) | 435 | (1,724) | (668) | 1,522 |
| Sales | 5,673 | 29,352 | (1,084) | 89,628 | 32,016 | (31,060) |
| Net impairment losses recognized in earnings | (7,570) | — | — | (12,696) | — | — |
| Transfers/release of credit reserve[2] | 2,016 | (2,655) | 639 | 593 | (1,374) | 781 |
| Balance at end of period | $(74,452) | $(41,731) | $20,401 | $(52,829) | $(71,306) | $14,994 |

(1) Together with coupon interest, accretable purchase discount and amortizable premium is recognized as interest income over the life of the security.

(2) Subsequent reductions of a security's non-accretable discount results in a corresponding reduction in its amortizable premium.

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The following tables present the fair value and contractual maturities of the Company's investment securities at September 30, 2018 and December 31, 2017 (dollars in thousands):

| | September 30, 2018 | | | | |
|---|---|---|---|---|---|
| | < or equal to 10 years | > 10 years and < or equal to 20 years | > 20 years and < or equal to 30 years | > 30 years | Total |
| Agency RMBS | $— | $ — | $ 57,572 | $327,436 | $385,008 |
| Agency RMBS Interest-Only Strips | 3,937 | 2,436 | 5,830 | — | 12,203 |
| Agency RMBS Interest-Only Strips, accounted for as derivatives | 1,223 | 4,104 | 2,679 | — | 8,006 |
| Agency CMBS | 1,507,428 | 558,647 | — | — | 2,066,075 |
| Agency CMBS Interest-Only Strips accounted for as derivatives | — | — | — | 4,241 | 4,241 |
| Subtotal Agency | 1,512,588 | 565,187 | 66,081 | 331,677 | 2,475,533 |
| | | | | | |
| Non-Agency RMBS | — | 24,752 | 16,757 | 41,841 | 83,350 |
| Non-Agency RMBS Interest- Only Strips | — | — | 7,900 | 7,613 | 15,513 |
| Non-Agency CMBS | 28,752 | 80,180 | 104,617 | 53,298 | 266,847 |
| Subtotal Non-Agency | 28,752 | 104,932 | 129,274 | 102,752 | 365,710 |
| | | | | | |
| Other securities | 3,782 | 59,908 | — | 28,838 | 92,528 |
| Total | $1,545,122 | $ 730,027 | $ 195,355 | $463,267 | $2,933,771 |

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | < or equal to 10 years | > 10 years and < or equal to 20 years | > 20 years and < or equal to 30 years | > 30 years | Total |
| Agency RMBS | $— | $ 56,228 | $ 239,197 | $376,752 | $672,177 |
| Agency RMBS Interest-Only Strips | 3,920 | 4,591 | 6,926 | — | 15,437 |
| Agency RMBS Interest-Only Strips, accounted for as derivatives | 1,686 | 5,139 | 3,594 | — | 10,419 |
| Agency CMBS | 1,599,620 | 555,180 | — | — | 2,154,800 |
| Agency CMBS Interest-Only Strips | 10 | — | — | — | 10 |
| Agency CMBS Interest-Only Strips accounted for as derivatives | — | — | — | 5,757 | 5,757 |
| Subtotal Agency | 1,605,236 | 621,138 | 249,717 | 382,509 | 2,858,600 |
| | | | | | |
| Non-Agency RMBS | 13 | 51,092 | 4,184 | 35,543 | 90,832 |
| Non-Agency RMBS Interest- Only Strips | — | — | — | 8,722 | 8,722 |
| Non-Agency CMBS | — | 60,583 | 139,209 | 78,812 | 278,604 |
| Subtotal Non-Agency | 13 | 111,675 | 143,393 | 123,077 | 378,158 |
| | | | | | |
| Other securities | — | 99,062 | — | 23,003 | 122,065 |
| Total | $1,605,249 | $ 831,875 | $ 393,110 | $528,589 | $3,358,823 |

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The following tables present the gross unrealized losses and estimated fair value of the Company's MBS and other securities by length of time that such securities have been in a continuous unrealized loss position at September 30, 2018 and December 31, 2017 (dollars in thousands):

| | September 30, 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Less than 12 Months | | | 12 Months or More | | | Total | | |
| | Fair Value | Unrealized Losses | Number of Securities | Fair Value | Unrealized Losses | Number of Securities | Fair Value | Unrealized Losses | Number of Securities |
| Agency RMBS | $115,378 | $(3,131) | 8 | $269,630 | $(14,750) | 2 | $385,008 | $(17,881) | 10 |
| Agency RMBS Interest-Only Strips | 3,588 | (394) | 9 | 2,753 | (504) | 6 | 6,341 | (898) | 15 |
| Agency CMBS | 1,135,925 | (32,175) | 76 | 516,838 | (32,225) | 37 | 1,652,763 | (64,400) | 113 |
| Subtotal Agency | 1,254,891 | (35,700) | 93 | 789,221 | (47,479) | 45 | 2,044,112 | (83,179) | 138 |
| | | | | | | | | | |
| Non-Agency RMBS | 29,798 | (583) | 5 | — | — | — | 29,798 | (583) | 5 |
| Non-Agency RMBS Interest-Only Strips | 8,003 | (164) | 2 | — | — | — | 8,003 | (164) | 2 |
| Non-Agency CMBS | 70,410 | (894) | 15 | 57,263 | (4,483) | 12 | 127,673 | (5,377) | 27 |
| Subtotal Non-Agency | 108,211 | (1,641) | 22 | 57,263 | (4,483) | 12 | 165,474 | (6,124) | 34 |
| | | | | | | | | | |
| Other securities | 8,697 | (68) | 1 | — | — | — | 8,697 | (68) | 1 |
| Total | $1,371,799 | $(37,409) | 116 | $846,484 | $(51,962) | 57 | $2,218,283 | $(89,371) | 173 |

| | December 31, 2017 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Less than 12 Months | | | 12 Months or More | | | Total | | |
| | Fair Value | Unrealized Losses | Number of Securities | Fair Value | Unrealized Losses | Number of Securities | Fair Value | Unrealized Losses | Number of Securities |
| Agency RMBS | $330,259 | $(2,179) | 11 | $1,632 | $(135) | 5 | $331,891 | $(2,314) | 16 |
| Agency RMBS Interest-Only Strips | 3,095 | (142) | 6 | 1,703 | (49) | 3 | 4,798 | (191) | 9 |
| Agency CMBS | 955,559 | (9,394) | 57 | — | — | — | 955,559 | (9,394) | 57 |
| Subtotal Agency | 1,288,913 | (11,715) | 74 | 3,335 | (184) | 8 | 1,292,248 | (11,899) | 82 |
| | | | | | | | | | |
| Non-Agency RMBS | 28,508 | (161) | 3 | — | — | — | 28,508 | (161) | 3 |
| Non-Agency RMBS Interest-Only Strips | 8,722 | (16) | 3 | — | — | — | 8,722 | (16) | 3 |
| Non-Agency CMBS | 69,661 | (1,753) | 15 | 119,729 | (13,379) | 35 | 189,390 | (15,132) | 50 |
| Subtotal Non-Agency | 106,891 | (1,930) | 21 | 119,729 | (13,379) | 35 | 226,620 | (15,309) | 56 |
| | | | | | | | | | |
| Other securities | 23,800 | (187) | 3 | — | — | — | 23,800 | (187) | 3 |
| Total | $1,419,604 | $(13,832) | 98 | $123,064 | $(13,563) | 43 | $1,542,668 | $(27,395) | 141 |

The Company identified two securities with an unpaid principal balance of $4.1 million which it intended to sell that were in an unrealized loss position held at September 30, 2018, and as a result, the Company recognized an impairment charge of approximately $161 thousand on Non-Agency CMBS which is included in "Other than temporary impairment" in the Company's Consolidated Statements of Operations.

Generally, the Company records Other Than Temporary Impairment ("OTTI") when the credit quality of the underlying collateral deteriorates and or the scheduled payments are faster than previously projected.  The credit deterioration could be as a result of, but not limited to, increased projected realized losses, foreclosures, delinquencies and the likelihood of the borrower being able to make payments in the future.  Generally, a prepayment occurs when a loan has a higher interest rate relative to current interest rates

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and lenders are willing to extend credit at the lower current interest rate or the underlying collateral for the loan is sold or transferred. Refer to Note 2 "Summary of Significant Accounting Policies - Mortgage-Backed Securities and Other Securities."

The following table presents the OTTI the Company recorded on its securities portfolio (dollars in thousands):

| | Three months ended September 30, 2018 | Three months ended September 30, 2017 | Nine months ended September 30, 2018 | Nine months ended September 30, 2017 |
|---|---|---|---|---|
| Agency RMBS [(1)] | $ 320 | $ 4,760 | $ 663 | $ 5,420 |
| Non-Agency RMBS | 159 | — | 269 | — |
| Non-Agency CMBS | 2,054 | 2,344 | 7,491 | 12,658 |
| Other securities | — | 121 | — | 1,823 |
| Total | $ 2,533 | $ 7,225 | $ 8,423 | $ 19,901 |

(1) Normally, unrealized losses on Agency securities (excluding Agency IO's) with the explicit guarantee of principal and interest by the governmental sponsored entity are not credit losses but rather due to changes in interest rates and prepayment expectations. These securities would not be considered other than temporarily impaired provided the Company did not intend to sell the security. For the three and nine months ended September 30, 2018 and September 30, 2017, $0, $0, $4.7 million and $4.7 million, respectively, of OTTI related to Agency RMBS securities the Company intended to sell.

The following tables present components of interest income on the Company's MBS and other securities for the three and nine months ended September 30, 2018 and September 30, 2017, respectively (dollars in thousands):

| | For the three months ended September 30, 2018 | | | For the three months ended September 30, 2017 | | |
|---|---|---|---|---|---|---|
| | Coupon Interest | Net (Premium Amortization/Amortization Basis) Discount Amortization | Interest Income | Coupon Interest | Net (Premium Amortization/Amortization Basis) Discount Amortization | Interest Income |
| Agency RMBS | $4,551 | $ (1,138) | $3,413 | $8,886 | $ (2,995) | $5,891 |
| Agency CMBS | 13,812 | (298) | 13,514 | 11,071 | 110 | 11,181 |
| Non-Agency RMBS | 2,139 | (536) | 1,603 | 571 | 372 | 943 |
| Non-Agency CMBS | 5,379 | 1,469 | 6,848 | 4,242 | 2,139 | 6,381 |
| Other securities | 3,674 | (1,660) | 2,014 | 2,160 | 464 | 2,624 |
| Total | $29,555 | $ (2,163) | $27,392 | $26,930 | $ 90 | $27,020 |

| | Nine months ended September 30, 2018 | | | Nine months ended September 30, 2017 | | |
|---|---|---|---|---|---|---|
| | Coupon Interest | Net (Premium Amortization/Amortization Basis) Discount Amortization | Interest Income | Coupon Interest | Net (Premium Amortization/Amortization Basis) Discount Amortization | Interest Income |
| Agency RMBS | $17,471 | $ (4,112) | $13,359 | $30,513 | $ (10,662) | $19,851 |
| Agency CMBS | 45,753 | (266) | 45,487 | 24,408 | 717 | 25,125 |
| Non-Agency RMBS | 5,616 | (685) | 4,931 | 4,482 | 303 | 4,785 |
| Non-Agency CMBS | 15,362 | 5,873 | 21,235 | 14,675 | 6,572 | 21,247 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Other securities | 11,610 | (4,825) | 6,785 | 5,300 | 2,112 | 7,412 |
| Total | $95,812 | $ (4,015) | $91,797 | $79,378 | $ (958) | $78,420 |

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The following tables present the sales and realized gain (loss) of the Company’s MBS and other securities for the three and nine months ended September 30, 2018 and September 30, 2017, respectively (dollars in thousands):

| | For the three months ended September 30, 2018 | | | | For the three months ended September 30, 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Proceeds | Gross Gains | Gross Losses | Net Gain (Loss) | Proceeds | Gross Gains | Gross Losses | Net Gain (Loss) |
| Agency RMBS[1] | $— | $ — | $ — | $— | $(2,906 ) | $ (3 ) | $ 51 | $ 48 |
| Agency CMBS | 641,677 | — | (25,640 ) | (25,640 ) | — | — | — | — |
| Non-Agency CMBS | 73,848 | 2,411 | (2,712 ) | (301 ) | 10,597 | 1,641 | (278 ) | 1,363 |
| Other securities | 13,712 | 1,712 | — | 1,712 | 10,419 | 419 | — | 419 |
| Total | $729,237 | $ 4,123 | $ (28,352 ) | $(24,229) | $18,110 | $ 2,057 | $ (227 ) | $ 1,830 |

(1) For the three months ended September 30, 2017 reflects a reclassification of proceeds from a sale on the trade date to reflect subsequent Agency RMBS paydowns.

| | Nine months ended September 30, 2018 | | | | Nine months ended September 30, 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Proceeds | Gross Gains | Gross Losses | Net Gain (Loss) | Proceeds | Gross Gains | Gross Losses | Net Gain (Loss) |
| Agency RMBS[1] | $209,581 | $ 18 | $ (4,531 ) | $(4,513 ) | $862,245 | $ 4,376 | $ (7,314 ) | $(2,938 ) |
| Agency CMBS | 768,544 | — | (30,656 ) | (30,656 ) | — | — | — | — |
| Non-Agency RMBS[2] | 51,958 | 3,114 | — | 3,114 | 243,811 | 24,389 | (2,242 ) | 22,147 |
| Non-Agency CMBS | 80,554 | 2,472 | (3,148 ) | (676 ) | 45,634 | 2,377 | (1,351 ) | 1,026 |
| Other securities | 35,469 | 3,469 | — | 3,469 | 33,365 | 419 | (54 ) | 365 |
| Total | $1,146,106 | $ 9,073 | $ (38,335 ) | $(29,262) | $1,185,055 | $ 31,561 | $ (10,961 ) | $20,600 |

(1) For the nine months ended September 30, 2017, excludes proceeds for Agency RMBS Interest-Only Strips, accounted for as derivatives, of approximately $2.6 million and gross realized gains of $432 thousand, respectively.

(2) For the nine months ended September 30, 2017, excludes proceeds for Non-Agency RMBS Interest-Only Strips, accounted for as derivatives, of approximately $2.2 million, gross realized gains of $274 thousand and gross realized losses of $180 thousand, respectively.

Unconsolidated CMBS VIEs

The Company’s economic interests held in unconsolidated CMBS VIEs are limited in nature to those of a passive holder of CMBS issued by securitization trusts; the Company was not involved in the design or creation of the securitization trusts. The Company evaluates its CMBS holdings, for potential consolidation of the securitized trust, in which it owns the most subordinate tranche or a portion of the controlling class. As of September 30, 2018, the Company held seven variable interest in CMBS VIEs and had three variable interests in CMBS VIE's as of December 31, 2017, in which it either owned the most subordinate class or a portion of the controlling class. The Company determined it was not the primary beneficiary and accordingly, the CMBS VIEs were not consolidated in the Company’s consolidated financial statements. As of September 30, 2018 and December 31, 2017, the Company’s maximum exposure to loss from these variable interests did not exceed the carrying value of these investments of $116.1 million and $62.1 million. These investments are classified in "Non-Agency mortgage-backed securities, at fair value" in the Company’s Consolidated Balance Sheets. Further, as of September 30, 2018 and December 31, 2017, the Company did not guarantee any obligations of unconsolidated entities or enter into any commitment or intent to provide funding to any such entities.

Note 5 — Residential Whole-Loans and Bridge Loans

Residential Whole-Loan Trust

The consolidated financial statements include the consolidation of Revolving Mortgage Investment Trust 2015-1QR2 ("RMI 2015 Trust") since it met the definition of a VIE and the Company determined that it was the primary beneficiary of the trust because it was involved in the design of the trust, has oversight rights on defaulted assets and has other significant decision making powers. In addition, the Company has the obligation to absorb losses to the extent of its ownership interest and the right to receive benefits from the trust that could potentially be significant to the trust.  RMI 2015 Trust has issued a trust certificate that is wholly owned by the Company and represents the entire beneficial interest in pools of Non-QM Residential Whole-Loans and the Commercial Loan held by the trust. As of September 30, 2018, the Company financed the trust certificate with $334.9

million of repurchase agreement borrowings, which is a liability held outside the trust. The Company classifies the underlying Residential Whole-Loans owned by the trust in "Residential Whole-Loans, at fair value" and the Commercial Loan in "Commercial Loans, at fair value" in the Consolidated Balance Sheets and has eliminated the intercompany trust certificate in consolidation. Refer to Note 6 - "Commercial Loans" for details on the commercial real estate mortgage loan.

In August 2018, the Company formed Revolving Mortgage Investment Trust 2018-RCR ("RCR Trust") to acquire conforming Residential Whole-Loans. The Company determined that RCR Trust was a VIE and that the Company was the primary beneficiary of the trust because it was involved in the design of the trust of the trust, has oversight rights on defaulted assets and has other significant decision making powers. In addition, the Company has the obligation to absorb losses to the extent of its ownership interest and the right to receive benefits from the trust that could potentially be significant to the trust. As of September 30, 2018, the Company financed the trust certificate with $258.1 million of repurchase agreement borrowings, which is a liability held outside the trust. The Company classifies the underlying conforming mortgages owned by the trust in "Residential Whole-Loans" in the Consolidated Balance Sheets. The Company has eliminated the intercompany trust certificate in consolidation.

In September 2018, the Company formed Revolving Mortgage Investment Trust 2018-RNR ("RNR Trust") to acquire Non-QM Residential Whole-Loans. The Company determined that RNR Trust was a VIE and that the Company was the primary beneficiary because it was involved in the design of the trust, has oversight rights on defaulted assets and has other significant decision making powers. In addition, the Company has the obligation to absorb losses to the extent of its ownership interest and the right to receive benefits from the trust that could potentially be significant to the trust. As of September 30, 2018, the Company financed the trust certificate with $15.3 million of repurchase agreement borrowings, which is a liability held outside the trust. The Company classifies the underlying Non-QM Residential Whole-Loans in "Residential Whole-Loans" in the Consolidated Balance Sheets. The Company has eliminated the intercompany trust certificate in consolidation.

Residential Bridge Loan Trust

In February 2017, The Company formed Revolving Mortgage Investment Trust 2017-BRQ1 ("RMI 2017 Trust") and acquired the trust certificate, which represents the beneficial interest in pools of Residential Bridge Loans and certain Residential Whole-Loans held by the trust. Residential Bridge Loans are mortgage loans secured by residences, typically short-term. The Company determined that RMI Trust was a VIE and that the Company was the primary beneficiary because it was involved in the design of the trust, has oversight rights on defaulted assets and has other significant decision making powers. In addition, the Company has the obligation to absorb losses to the extent of its ownership interest and the right to receive benefits from the trust that could potentially be significant to the trust. As of September 30, 2018, the Company financed the trust certificate with $219.7 million of repurchase agreement borrowings, which is a liability held outside the trust. The Company classifies both the underlying Residential Bridge Loans carried at amortized cost and the Residential Bridge Loans that it elected the fair value option in "Residential Bridge Loans" and the Residential Whole-Loans in "Residential Whole-Loans" in the Consolidated Balance Sheets. The Company has eliminated the intercompany trust certificate in consolidation.

Consolidated Residential Whole-Loan and Residential Bridge Loan Trusts

The Company assesses modifications to VIEs on an ongoing basis to determine if a significant reconsideration event has occurred that would change the Company’s initial consolidation assessment. The three consolidated Residential Whole-Loan trusts collectively hold 1,936 Residential Whole-Loans and one commercial loan and the consolidated Bridge Loan Trust holds 673 Residential Bridge Loans and 13 Residential Whole-Loans as of September 30, 2018.

The following table presents a summary of the assets and liabilities of the consolidated residential whole-loan trusts, residential bridge loan trust included in the Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017 (dollars in thousands):

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Residential Whole-Loans, at fair value ($684,463 and $237,423 pledged as collateral, at fair value, respectively) | $ 684,463 | $ 237,423 |
| Residential Bridge Loans ($234,747 and $64,526 at fair value and $249,471 and $106,673 pledged as collateral, respectively) | 249,471 | 106,673 |
| Commercial loan, at fair value | 29,831 | — |
| Investment related receivable | 33,430 | 7,665 |
| Interest receivable | 8,874 | 3,197 |
| Other assets | 203 | — |
| Total assets | $ 1,006,272 | $ 354,958 |
| Accounts payable and accrued expenses | 722 | 188 |
| Other liabilities | 393 | — |
| Total liabilities | $ 1,115 | $ 188 |

The Company's risk with respect to its investment in each residential loan trust is limited to its direct ownership in the trust. The Residential Whole-Loans, Residential Bridge Loans and Commercial Loan held by the consolidated trusts are held solely to satisfy the liabilities of the trust, and creditors of the trust have no recourse to the general credit of the Company. The Company is not contractually required and has not provided any additional financial support to the trusts for the three and nine months ended September 30, 2018 and September 30, 2017.

The following table presents the components of the carrying value of Residential Whole-Loans and Residential Bridge Loans as of September 30, 2018 and December 31, 2017 (dollars in thousands):

| | Residential Whole-Loans, at Fair Value | | Residential Bridge Loans, at Fair Value(1) | | Residential Bridge Loans, at Amortized Cost(1) | |
|---|---|---|---|---|---|---|
| | September 30, 2018 | December 31, 2017 | September 30, 2018 | December 31, 2017 | September 30, 2018 | December 31, 2017 |
| Principal balance | $674,763 | $ 232,270 | $234,445 | $63,802 | $14,734 | $42,066 |
| Unamortized premium | 10,592 | 2,021 | 1,426 | 293 | 28 | 122 |
| Unamortized discount | (2,499) | (1,190) | (434) | (128) | (38) | (41) |
| Amortized cost | 682,856 | 233,101 | 235,437 | 63,967 | 14,724 | 42,147 |
| Gross unrealized gains | 5,506 | 4,463 | 525 | 655 | N/A | N/A |
| Gross unrealized losses | (3,899) | (141) | (1,215) | (96) | N/A | N/A |
| Fair value | $684,463 | $ 237,423 | $234,747 | $64,526 | N/A | N/A |

(1) These loans are classified in "Residential Bridge Loans" in the Consolidated Balance Sheets.

Residential Whole-Loans

The Residential Whole-Loans have low LTV's and are comprised of 1,034 non-qualifying adjustable rate mortgages, 902 conforming fixed rate mortgages and 13 investor fixed rate mortgages. The following tables present certain information about the Company's Residential Whole-Loan investment portfolio at September 30, 2018 and December 31, 2017 (dollars in thousands):

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September 30, 2018

| | | | Weighted Average | | | | |
|---|---|---|---|---|---|---|---|
| Current Coupon Rate | Number of Loans | Principal Balance | Original LTV | Original FICO Score(1) | Expected Life (years) | Contractual Maturity (years) | Coupon Rate |
| 3.01 – 4.00% | 69 | $22,732 | 61.4% | 738 | 7.5 | 29.3 | 3.9 % |
| 4.01– 5.00% | 1,159 | 405,934 | 62.2% | 734 | 3.6 | 28.8 | 4.7 % |
| 5.01 – 6.00% | 708 | 238,961 | 63.2% | 709 | 2.8 | 28.0 | 5.4 % |
| 6.01 – 7.00% | 11 | 6,685 | 64.9% | 748 | 1.4 | 25.4 | 6.3 % |
| 7.01 - 8.00% | 1 | 357 | 70.0% | 777 | 1.9 | 29.3 | 7.2 % |
| 8.01 - 9.00% | 1 | 94 | 70.0% | 689 | 1.9 | 29.3 | 8.4 % |
| Total | 1,949 | $674,763 | 62.6% | 727 | 3.4 | 28.5 | 4.9 % |

(1) The original FICO score is not available for 240 loans with a principal balance of approximately $81.6 million at September 30, 2018. The Company has excluded these loans from the weighted average computations.

December 31, 2017

| | | | Weighted Average | | | | |
|---|---|---|---|---|---|---|---|
| Current Coupon Rate | Number of Loans | Principal Balance | Original LTV | Original FICO Score(1) | Expected Life (years) | Contractual Maturity (years) | Coupon Rate |
| 3.01 – 4.00% | 142 | $55,593 | 55.5% | 751 | 1.7 | 29.1 | 3.9 % |
| 4.01– 5.00% | 338 | 125,860 | 56.9% | 725 | 1.4 | 26.5 | 4.5 % |
| 5.01 – 6.00% | 132 | 48,553 | 58.2% | 728 | 1.6 | 27.0 | 5.2 % |
| 6.01 – 7.00% | 4 | 2,264 | 71.1% | 758 | 1.3 | 20.5 | 6.3 % |
| Total | 616 | $232,270 | 57.0% | 734 | 1.5 | 27.1 | 4.5 % |

(1) The original FICO score is not available for 141 loans with a principal balance of approximately $56.5 million at December 31, 2017. The Company has excluded these loans from the weighted average computations.

The following table presents the various states across the United States in which the collateral securing the Company's Residential Whole-Loans at September 30, 2018 and December 31, 2017, based on principal balance, is located (dollars in thousands):

| September 30, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|
| State | State Concentration | Principal Balance | State | State Concentration | Principal Balance |
| California | 68.8 % | $ 463,638 | California | 62.2 % | $ 144,321 |
| New York | 15.6 % | 105,435 | New York | 24.4 % | 56,631 |
| Georgia | 2.9 % | 19,324 | Georgia | 4.3 % | 10,061 |
| Washington | 2.2 % | 14,886 | Washington | 4.0 % | 9,244 |
| Massachusetts | 1.3 % | 8,504 | Massachusetts | 3.9 % | 9,114 |
| Other | 9.2 % | 62,976 | Other | 1.2 % | 2,899 |
| Total | 100.0 % | $ 674,763 | Total | 100.0 % | $ 232,270 |

Residential Bridge Loans

The Residential Bridge Loans are comprised of short-term non-owner occupied fixed rate loans secured by single or multi-unit residential properties, with LTVs generally not to exceed 85%. The following tables present certain information about the Company’s Residential Bridge Loan investment portfolio at September 30, 2018 and December 31, 2017 (dollars in thousands):

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September 30, 2018

| | | | Weighted Average | | |
|---|---|---|---|---|---|
| Current Coupon Rate | Number of Loans | Principal Balance | Original LTV | Contractual Maturity (months) | Coupon Rate |
| 6.01 – 7.00% | 14 | $5,264 | 61.8% | 2.6 | 6.7 % |
| 7.01 – 8.00% | 127 | 57,820 | 72.9% | 6.5 | 7.7 % |
| 8.01 – 9.00% | 213 | 94,873 | 70.2% | 5.4 | 8.7 % |
| 9.01 – 10.00% | 189 | 59,927 | 72.3% | 5.5 | 9.7 % |
| 10.01 – 11.00% | 71 | 16,651 | 71.3% | 5.0 | 10.6 % |
| 11.01 – 12.00% | 37 | 9,121 | 63.5% | 6.1 | 11.4 % |
| 12.01 – 13.00% | 9 | 1,866 | 73.3% | 6.8 | 12.7 % |
| 13.01 – 14.00% | 1 | 88 | 65.0% | 7.0 | 14.0 % |
| 17.01 – 18.00% | 12 | 3,569 | 74.0% | 4.3 | 18.0 % |
| Total | 673 | $249,179 | 71.1% | 5.6 | 9.1 % |

December 31, 2017

| | | | Weighted Average | | |
|---|---|---|---|---|---|
| Current Coupon Rate | Number of Loans | Principal Balance | Original LTV | Contractual Maturity (months) | Coupon Rate |
| 5.01 - 6.00% | 9 | $4,016 | 64.5% | 10.8 | 5.9 % |
| 6.01 - 7.00% | 64 | 18,420 | 67.8% | 10.6 | 6.7 % |
| 7.01 – 8.00% | 98 | 25,608 | 66.4% | 9.5 | 7.6 % |
| 8.01 – 9.00% | 56 | 19,728 | 70.3% | 11.9 | 8.9 % |
| 9.01 – 10.00% | 67 | 25,001 | 73.3% | 6.8 | 9.7 % |
| 10.01 – 11.00% | 36 | 10,656 | 75.4% | 5.0 | 10.8 % |
| 11.01 – 12.00% | 2 | 919 | 89.8% | 8.2 | 11.4 % |
| 17.01 – 18.00% | 8 | 1,520 | 73.8% | 5.9 | 18.0 % |
| Total | 340 | $105,868 | 70.1% | 9.0 | 8.6 % |

The following table presents the U.S. states in which the collateral securing the Company’s Residential Bridge Loans at September 30, 2018 and December 31, 2017, based on principal balance, is located (dollars in thousands):

| September 30, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|
| State | Concentration | Principal Balance | State | Concentration | Principal Balance |
| California | 48.2 % | $ 119,784 | California | 48.2 % | $ 51,080 |
| New York | 9.5 % | 23,791 | Florida | 13.4 % | 14,199 |
| Florida | 6.6 % | 16,354 | Washington | 6.3 % | 6,645 |
| New Jersey | 5.5 % | 13,723 | New York | 4.4 % | 4,703 |
| Texas | 4.8 % | 11,964 | Texas | 4.4 % | 4,660 |
| Other | 25.4 % | 63,563 | Other | 23.3 % | 24,581 |
| Total | 100.0 % | $ 249,179 | Total | 100.0 % | $ 105,868 |

Non-performing Loans

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Residential Whole-Loans

As of September 30, 2018, there was one Residential Whole-Loan in non-accrual status with a current unpaid principal balance of $806 thousand and a fair value of $787 thousand. This nonperforming loan represents approximately 0.1% of the total outstanding principal balance. No allowance and provision for credit losses was recorded for this loan as of and for the three and nine months ended September 30, 2018 since the Company elected the fair value option. The Company stopped accruing interest income for this loan when it became contractually 90 days delinquent.

As of December 31, 2017, there was one Residential Whole-Loan in non-accrual status with a current unpaid principal balance of $579 thousand and a fair value of $570 thousand. This nonperforming loan represents approximately 0.2% of the total outstanding principal balance. No allowance for credit losses for this loan as of December 31, 2017 and no provision for credit losses for the three and nine months ended September 30, 2017 was recorded since the Company elected the fair value option. The Company stopped accruing interest income for this loan when it became contractually 90 days delinquent.

Residential Bridge Loans

As of September 30, 2018, there were 11 Residential Bridge Loans carried at amortized cost in non-accrual status with an unpaid principal balance of approximately $4.2 million and 4 Residential Bridge Loans carried at fair value in non-accrual status with an unpaid principal balance of approximately $727 thousand. These nonperforming loans represent approximately 2.0% of the total outstanding principal balance. These loans are collateral dependent with a weighted average original LTV of 74%. No allowance and provision for credit losses was recorded for loans carried at amortized costs as of and for the three and nine months ended September 30, 2018 since the fair value of the collateral balance less the cost to sell was in excess of the outstanding principal and interest balances. No allowance and provision for credit losses was recorded for loans carried at fair value as of and for the three and nine months ended September 30, 2018 since the Company elected the fair value option. The Company stopped accruing interest income for this loan when it became contractually 90 days delinquent.

As of December 31, 2017, there were 9 Residential Bridge Loans carried at amortized cost in non-accrual status with an unpaid principal balance of approximately $1.8 million. These nonperforming loans represent approximately 1.7% of the total outstanding principal balance. These loans are collateral dependent with a weighted average original LTV of 74%. No allowance for credit losses as of as December 31, 2017 and no provision for credit losses for the three and nine months ended September 30, 2017 was recorded since the fair value of the collateral balance less the cost to sell was in excess of the outstanding principal and interest balances.

Note 6 — Commercial Loans

Securitized Commercial Loans

Securitized commercial loans is comprised of commercial loans from consolidated third party sponsored CMBS VIE's. At September 30, 2018, the Company had variable interests in two CMBS VIEs, CMSC Trust 2015 - Longhouse MZ and RETL 2018- RVP, that it determined it was the primary beneficiary and was required to consolidate. The commercial loans that serve as collateral for the securitized debt issued by these VIE's can only be used to settle the securitized debt. Refer to Note 7 - "Financings" for details on the associated securitized debt. The Company assesses modifications to VIEs on an ongoing basis to determine if a significant reconsideration event has occurred that would change the Company’s initial consolidation assessment.

CMSC Trust 2015 - Longhouse MZ

In November 2015, the Company acquired a $14.0 million interest in the trust certificate issued by CMSC Trust 2015 - Longhouse MZ ("CMSC Trust"), with an outstanding balance of $13.8 million and a fair value of $13.8 million at September 30, 2018. The Company determined that CMSC Trust was a VIE and that the Company was the primary beneficiary because it was involved in certain aspects of the design of the trust, has certain oversight rights on defaulted assets and has other significant decision making powers. In addition, the Company has the obligation to absorb losses to the extent of its ownership interest and the right to receive benefits from the trust that the Company believes could potentially be significant to the trust. As the primary beneficiary, the Company was required to consolidate CMSC Trust and accordingly its $13.8 million investment in CMSC Trust was eliminated in consolidation. The CMSC Trust holds a $24.6 million mezzanine loan collateralized by interests in commercial real estate.  The mezzanine loan serves as collateral for the $24.6 million of trust certificates issued. Refer to Note 7 - "Financings" for details on the associated securitized debt.

RETL 2018-RVP

In March 2018, the Company acquired a $67.8 million interest in the trust certificate issued by RETL 2018-RVP (“RETL Trust”), which represents the 5% eligible horizontal residual interest under the Credit Risk Retention Rules of Section 15G of the Exchange Act. Under the credit risk retention rules, the Company must retain its investment for five years and is limited in its ability to finance and hedge its investment. The trust certificate's pass-through rate is one month LIBOR plus 9.5%. The outstanding balance and the fair value of the Company's interest in the trust were $58.0 million and $58.2 million, respectively, at September 30, 2018. The Company determined that RETL Trust was a VIE and that the Company was the primary beneficiary because the Manager was involved in certain aspects of the design of the trust and the Company together with other related party entities own more than 50% of the controlling class. The owner of 50% or more of the controlling class has certain oversight rights on defaulted assets and has other significant decision making powers. In addition, the Company has the obligation to absorb losses to the extent of its ownership interest from the trust that the Company believes could potentially be significant to the trust. As the primary beneficiary, the Company was required to consolidate RETL and accordingly its investment in RETL was eliminated in consolidation. The RETL Trust holds a commercial loan collateralized by first mortgages, deeds of trusts and interests in commercial real estate. The outstanding principal balance on this commercial loan is $1.15 billion as of September 30, 2018. The loan's stated maturity date is February 9, 2021 (subject to the borrower's option to extend the initial stated maturity date for two successive one-year terms) and bears an interest rate of one month LIBOR plus 3.15%. The commercial loan serves as collateral for the $1.15 billion of securitized debt issued. Refer to Note 7 - "Financings" for details on the associated securitized debt.

Commercial Loans

In March 2018, the Company acquired a $20.0 million interest-only mezzanine loan secured by a partnership interest in an entity that owns a hotel. The mezzanine loan has a maturity date of December 9, 2019 with three one-year extension options and bears an interest rate of one month LIBOR plus 6.5%.

In June 2018, the Company acquired a $30.0 million interest-only commercial loan. The loan is secured by a hotel. The loan has a maturity date of June 9, 2020 with a one-year extension option and bears an interest rate of one month LIBOR plus 4.5%. On August 3, 2018 the loan was transfered into our Residential Whole Loan Trust RMI 2015 Trust.

Commercial Loan Trust

Revolving Small Balance Commercial Trust 2018-1

In March 2018, the Company formed the Revolving Small Balance Commercial Trust 2018-1 ("RSBC Trust") to acquire commercial real estate mortgage loans. In March 2018, RSBC Trust acquired a $20.6 million interest-only first lien commercial mortgage loan ("SBC-Loan 1") collateralized by three assisted care living facilities. The loan matures on March 6, 2019 and bears an interest rate of one month LIBOR plus 4.75%. In August 2018, SBC-Loan 1 was paid in full.

In July 2018, RSBC Trust acquired a $45.2 million interest-only commercial real estate mortgage loan ("SBC-Loan 2") secured by skilled nursing facilities. SBC-Loan 2 matures on July 6, 2020 with two extension options of one year each and bears an interest rate of one month LIBOR plus 4.25% subject to a LIBOR floor of 1.25%.

In September 2018, RSBC Trust acquired a $49.6 million interest-only commercial real estate mortgage loan ("SBC-Loan 3") secured by assisted care living facilities. SBC-Loan 3 matures on September 6, 2021 with a one extension option of one year and bears an interest rate of one month LIBOR plus 5.30%, subject to a LIBOR floor of 1.90% and a LIBOR cap of 3.50%.

The Company determined that the wholly owned RSBC Trust was a VIE and that the Company was the primary beneficiary because it was involved in the design of the trust and holds significant decision making powers. In addition, the Company has the obligation to absorb losses to the extent of its ownership interest and the right to receive benefits from the trust that could potentially be significant to the trust. As of September 30, 2018, the Company financed the trust certificate with $61.6 million of repurchase agreement borrowings, which is a liability held outside the trust.

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Consolidated Securitized Commercial Loan Trusts and Commercial Loan Trust

The Company assesses modifications to VIEs on an ongoing basis to determine if a significant reconsideration event has occurred that would change the Company's initial consolidation assessment. The three consolidated trusts, CMSC Trust, RETL Trust and RSBC Trust collectively hold four commercial loans as of September 30, 2018.

The following table presents a summary of the assets and liabilities of the three consolidated trusts included in the Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017 (dollars in thousands):

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Restricted cash | $ 100,138 | $ — |
| Securitized commercial loans, at fair value | 1,191,048 | 24,876 |
| Commercial Loans, at fair value | 93,846 | — |
| Interest receivable | 3,544 | 161 |
| Total assets | $ 1,388,576 | $ 25,037 |
| Securitized debt, at fair value | $ 1,119,089 | $ 10,945 |
| Interest payable | 2,487 | 70 |
| Accounts payable and accrued expenses | 15 | 1 |
| Other liabilities | 100,138 | — |
| Total liabilities | $ 1,221,729 | $ 11,016 |

The Company's risk with respect to its investment in each commercial loan trust is limited to its direct ownership in the trust. The commercial loans held by the consolidated trusts are held solely to satisfy the liabilities of the trust, and creditors of the trust have no recourse to the general credit of the Company. The assets of a consolidated trust can only be used to satisfy the obligations of that trust. The Company is not contractually required and has not provided any additional financial support to the trusts for the three and nine months ended September 30, 2018 and September 30, 2017.

The following table presents the components of the carrying value of the commercial real estate loans as of September 30, 2018 and December 31, 2017 (dollars in thousands):

| | CMSC Trust Securitized Commercial Loan, at Fair Value | | RETL Trust Securitized Commercial Loan, at Fair Value | | RSBC Trust Commercial Loans, at Fair Value | | Commercial Loans, at Fair Value | |
|---|---|---|---|---|---|---|---|---|
| | September 30, 2018 | December 31, 2017 | September 30, 2018 | December 31, 2017 | September 30, 2018 | December 31, 2017 | September 30, 2018 | December 31, 2017 |
| Principal balance | $24,556 | $ 24,846 | $1,154,283 | $ — | $ 94,787 | $ — | $ 50,000 | $ — |
| Unamortized premium | — | — | 1,027 | — | — | — | — | — |
| Unamortized discount | — | — | — | — | (445) | — | (232) | — |
| Amortized cost | 24,556 | 24,846 | 1,155,310 | — | 94,342 | — | 49,768 | — |
| Gross unrealized gains | 86 | 30 | 11,096 | — | — | — | 380 | — |
| Gross unrealized losses | — | — | — | — | (496) | — | (43) | — |
| Fair value | $24,642 | $ 24,876 | $1,166,406 | $ — | $ 93,846 | $ — | $ 50,105 | $ — |

Note 7— Financings

Repurchase Agreements

The Company primarily finances its investment acquisitions with repurchase agreements. The repurchase agreements bear interest at a contractually agreed-upon rate and typically have terms ranging from one month to six months.  The Company's

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repurchase agreement borrowings are accounted for as secured borrowings when the Company maintains effective control of the financed assets. Under the repurchase agreements, the respective counterparties retain the right to determine the fair value of the underlying collateral. A reduction in the value of pledged assets requires the Company to post additional securities as collateral, pay down borrowings or establish cash margin accounts with the counterparties in order to re-establish the agreed-upon collateral requirements, and is referred to as a margin call. The inability of the Company to post adequate collateral for a margin call by a counterparty, in a timeframe as short as the close of the same business day, could result in a condition of default under the Company's repurchase agreements, thereby enabling the counterparty to liquidate the collateral pledged by the Company, which may have a material adverse effect on the Company's financial position, results of operations and cash flows.

Certain of the repurchase agreements provide the counterparty with the right to terminate the agreement if the Company does not maintain certain equity and leverage metrics, the most restrictive of which include a limit on leverage based on the composition of the Company's portfolio. For all the repurchase agreements with outstanding borrowings, the Company was in compliance with the terms of such financial tests as of September 30, 2018.

As of September 30, 2018, the Company had master repurchase agreements with 28 counterparties. As of September 30, 2018, the Company had borrowings under repurchase agreements with 16 counterparties. The following table summarizes certain characteristics of the Company's repurchase agreements at September 30, 2018 and December 31, 2017 (dollars in thousands):

| | September 30, 2018 | | | | December 31, 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| Securities Pledged | Repurchase Agreement Borrowings | Weighted Average Interest Rate on Borrowings Outstanding at end of period | | Weighted Average Remaining Maturity (days) | Repurchase Agreement Borrowings | Weighted Average Interest Rate on Borrowings Outstanding at end of period | | Weighted Average Remaining Maturity (days) |
| Agency RMBS | $393,486 | 2.39 | % | 60 | $665,919 | 1.62 | % | 61 |
| Agency CMBS | 1,833,352 | 2.36 | % | 62 | 2,035,222 | 1.53 | % | 53 |
| Non-Agency RMBS | 71,117 | 3.70 | % | 31 | 46,530 | 2.76 | % | 41 |
| Non-Agency CMBS (1) | 212,282 | 3.79 | % | 48 | 154,325 | 2.98 | % | 40 |
| Residential Whole-Loans (2) | 585,178 | 3.65 | % | 35 | 189,270 | 3.66 | % | 8 |
| Residential Bridge Loans (2) | 216,917 | 4.37 | % | 26 | 100,183 | 4.05 | % | 59 |
| Commercial loans (2) | 87,567 | 4.33 | % | 27 | — | — | % | — |
| Securitized commercial loans (2) | 7,599 | 3.99 | % | 12 | — | — | % | — |
| Other securities | 61,821 | 3.86 | % | 29 | 60,237 | 2.94 | % | 23 |
| Borrowings under repurchase agreements | $3,469,319 | 2.90 | % | 52 | $3,251,686 | 1.86 | % | 51 |

(1) Includes approximately $22.6 million of repurchase agreement borrowings related to securities sold in September 2018 that was paid off when the sale settled in October 2018.

(2) Repurchase agreement borrowings on loans owned are through trust certificates. The trust certificates are eliminated upon consolidation.

At September 30, 2018 and December 31, 2017, repurchase agreements collateralized by investments had the following remaining maturities:

| (dollars in thousands) | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Overnight | $ — | $ — |
| 1 to 29 days | 1,494,121 | 1,387,599 |
| 30 to 59 days | 332,521 | 665,656 |
| 60 to 89 days | 1,531,084 | 871,819 |
| 90 to 119 days | 111,593 | — |
| Greater than or equal to 120 days | — | 326,612 |
| Total | $ 3,469,319 | $ 3,251,686 |

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At September 30, 2018, the following table reflects amounts of collateral at risk under its repurchase agreements greater than 10% of the Company's equity with any counterparty (dollars in thousands):

| Counterparty | September 30, 2018 Amount of Collateral at Risk, at fair value | Weighted Average Remaining Maturity (days) | Percentage of Stockholders' Equity |
|---|---|---|---|
| Credit Suisse AG, Cayman Islands Branch | $88,584 | 29 | 16.5 % |
| Nomura Securities International Inc. | 72,697 | 29 | 13.6 % |
| UBS AG, London Branch | 65,095 | 33 | 12.2 % |
| Citigroup Global Markets Inc. | 56,038 | 80 | 10.5 % |

Collateral for Borrowings under Repurchase Agreements

The following table summarizes the Company's collateral positions, with respect to its borrowings under repurchase agreements at September 30, 2018 and December 31, 2017 (dollars in thousands):

| | September 30, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Assets Pledged | Accrued Interest | Assets Pledged and Accrued Interest | Assets Pledged | Accrued Interest | Assets Pledged and Accrued Interest |
| Assets pledged for borrowings under repurchase agreements: | | | | | | |
| Agency RMBS, at fair value | $403,339 | $1,608 | $ 404,947 | $690,255 | $2,601 | $ 692,856 |
| Agency CMBS, at fair value | 1,922,520 | 5,391 | 1,927,911 | 2,143,340 | 5,454 | 2,148,794 |
| Non-Agency RMBS, at fair value | 98,863 | 718 | 99,581 | 58,127 | 160 | 58,287 |
| Non-Agency CMBS, at fair value(3) | 286,728 | 1,223 | 287,951 | 208,062 | 1,100 | 209,162 |
| Residential Whole-Loans, at fair value (1) | 684,463 | 4,778 | 689,241 | 237,423 | 1,754 | 239,177 |
| Residential Bridge Loans (1) | 249,471 | 3,975 | 253,446 | 106,673 | 1,443 | 108,116 |
| Commercial Loans, at fair value (1) | 123,677 | 789 | 124,466 | — | — | — |
| Securitized commercial loans, at fair value (1) | 13,800 | 85 | 13,885 | — | — | — |
| Other securities, at fair value | 92,391 | 179 | 92,570 | 89,823 | 105 | 89,928 |
| Cash (2) | 18,625 | — | 18,625 | 23,591 | — | 23,591 |
| Total | $3,893,877 | $18,746 | $ 3,912,623 | $3,557,294 | $12,617 | $ 3,569,911 |

(1) Loans owned through trust certificates are pledged as collateral. The trust certificates are eliminated upon consolidation.
(2) Cash posted as collateral is included in "Due from counterparties" in the Company's Consolidated Balance Sheets.
(3) Assets pledge included $35 million of investment related receivable related to the unsettled sale of Non-Agency CMBS.

A reduction in the value of pledged assets typically results in the repurchase agreement counterparties initiating a margin call. At September 30, 2018 and December 31, 2017, investments held by counterparties as security for repurchase agreements totaled approximately $3.9 billion and approximately $3.5 billion, respectively. Cash collateral held by counterparties at September 30, 2018 and December 31, 2017 was approximately $18.6 million and approximately $23.6 million, respectively. Cash posted by repurchase agreement counterparties at September 30, 2018 and December 31, 2017, was $700 thousand and approximately $1.5 million, respectively. In addition, at September 30, 2018 and December 31, 2017, the Company held securities with a fair value of $168 thousand and

$306 thousand, respectively, received as collateral from its repurchase agreement counterparties to satisfy margin requirements. The Company has the ability to repledge collateral received from its repurchase counterparties.

Convertible Senior Unsecured Notes

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In October 2017, the Company issued $115.0 million aggregate principal amount of 6.75% convertible senior unsecured notes, which included the underwriter's option to purchase $15.0 million aggregate principal amount of the notes for net proceeds of $111.1 million. The notes mature on October 1, 2022, unless earlier converted, redeemed or repurchased by the holders pursuant to their terms, and are not redeemable by the Company except during the final three months prior to maturity.

The notes are convertible into, at the Company's election, cash, shares of the Company's common stock or a combination of both, subject to the satisfaction of certain conditions and during specified periods. The conversion rate is subject to adjustment upon the occurrence of certain specified events and the holders may require the Company to repurchase all or any portion of their notes for cash equal to 100% of the principal amount of the notes, plus accrued and unpaid interest, if the Company undergoes a fundamental change as specified in the agreement. The initial conversion rate was 83.1947 shares of common stock per $1,000 principal amount of notes and represented a conversion price of $12.02 per share of common stock.

Securitized Debt

CMSC Trust 2015 - Longhouse MZ

CMSC Trust issued $25.0 million in commercial pass-through certificates. The outstanding balance of the trust certificates was $24.6 million at September 30, 2018, with a fair value of $24.6 million. The trust certificates bear a fixed interest rate of 8.9% and mature on July 6, 2020. The Company owns $13.8 million of the trust certificates which was eliminated in consolidation and the remaining $10.8 million is held by related parties and is carried at a fair value of $10.8 million.

RETL 2018-RVP

The following table summarizes RETL Trust's commercial mortgage pass-through certificates at September 30, 2018 (dollars in thousands):

| Classes | Principal Balance | Coupon | Fair Value | Contractual Maturity |
|---|---|---|---|---|
| Class A | $448,033 | 3.3% | $449,570 | 2/15/2021 |
| Class B | 136,120 | 3.9% | 136,800 | 2/15/2021 |
| Class C | 117,908 | 4.2% | 118,718 | 2/15/2021 |
| Class D | 104,228 | 4.9% | 105,141 | 2/15/2021 |
| Class E | 141,507 | 6.7% | 143,456 | 2/15/2021 |
| Class F | 137,060 | 8.2% | 138,948 | 2/15/2021 |
| Class G | 11,457 | 9.7% | 11,592 | 2/15/2021 |
| Class HRR | 57,971 | 11.7% | 58,156 | 2/15/2021 |
| Class X-CP(1) | N/A | 2.6% | 1,420 | 3/11/2019 |
| Class X-EXT(1) | N/A | —% | 2,606 | 2/15/2021 |
| | $1,154,284 | | $1,166,407 | |

(1) Class X-CP and Class X-EXT are interest-only classes with a notional balance of $104.2 million each.

The Company owns the HRR certificates which are eliminated in consolidation. Of the remaining outstanding principal balance of $1.1 billion, excluding the interest-only securities, of trust certificates, $298.5 million is owned by related parties and $797.9 million owned by third parties. The securitized debt of the RETL Trust can only be settled with the commercial loan that serves as collateral for the securitized debt and is non-recourse to the Company.

Note 8 — Derivative Instruments

The Company’s derivatives may include interest rate swaps, options, futures contracts, TBAs, Agency and Non-Agency Interest-Only Strips that are classified as derivatives, credit default swaps and total return swaps.

The following table summarizes the Company’s derivative instruments at September 30, 2018 and December 31, 2017 (dollars in thousands):