

PennyMac Mortgage Investment Trust
Form 10-Q
August 09, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

Or

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

For the transition period from _____ to _____

Commission file number: 001-34416

PennyMac Mortgage Investment Trust

(Exact name of registrant as specified in its charter)

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Maryland (State or other jurisdiction of incorporation or organization)	27-0186273 (IRS Employer Identification No.)
6101 Condor Drive, Moorpark, California (Address of principal executive offices)	93021 (Zip Code)
(818) 224-7442 (Registrant's telephone number, including area code)	

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

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

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

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

Class	Outstanding at August 6, 2013
Common Shares of Beneficial Interest, \$0.01 par value	59,150,090

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PENNYMAC MORTGAGE INVESTMENT TRUST

FORM 10-Q

June 30, 2013

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

(in thousands, except per share data)

	June 30, 2013	December 31, 2012
ASSETS		
Cash	\$ 27,642	\$ 33,756
Short-term investments	73,236	39,017
Mortgage loans acquired for sale at fair value (includes \$1,305,009 and \$972,079 pledged to secure mortgage loans acquired for sale sold under agreements to repurchase)	1,309,830	975,184
Mortgage loans at fair value (includes \$1,260,652 and \$956,583 pledged to secure mortgage loans sold under agreements to repurchase)	1,309,765	1,189,971
Mortgage loans under forward purchase agreements at fair value, pledged to secure borrowings under forward purchase agreements	242,531	
Real estate acquired in settlement of loans (includes \$52,384 and \$23,834 pledged to secure real estate acquired in settlement of loans sold under agreements to repurchase)	88,682	88,078
Real estate acquired in settlement of loans under forward purchase agreements, pledged to secure forward purchase agreements	89	
Mortgage servicing rights at lower of amortized cost or fair value	225,073	125,430
Mortgage servicing rights at fair value	1,828	1,346
Principal and interest collections receivable	29,708	29,204
Interest receivable	4,296	3,029
Derivative assets	51,940	23,706
Servicing advances	39,672	32,191
Due from Private National Mortgage Acceptance Company, LLC and subsidiaries	3,063	4,829
Other assets	36,029	13,922
Total assets	\$ 3,443,384	\$ 2,559,663
LIABILITIES		
Assets sold under agreements to repurchase:		
Mortgage loans acquired for sale at fair value	\$ 1,243,949	\$ 894,906
Mortgage loans at fair value	313,862	353,805
Real estate acquired in settlement of loans	8,085	7,391
Borrowings under forward purchase agreements	244,047	
Exchangeable senior notes	250,000	
Derivative liabilities	26,619	967
Accounts payable and accrued liabilities	31,387	42,402
Due to Private National Mortgage Acceptance Company, LLC and subsidiaries	16,725	12,216
Underwriting fees payable	5,457	5,883
Income taxes payable	51,404	36,316
Recourse liability	7,668	4,441
Total liabilities	2,199,203	1,358,327
Commitments and contingencies		
SHAREHOLDERS EQUITY		

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Common shares of beneficial interest authorized, 500,000,000 common shares of \$0.01 par value; issued and outstanding, 59,077,496 and 58,904,456 common shares, respectively	591	589
Additional paid-in capital	1,132,157	1,129,858
Retained earnings	111,433	70,889
Total shareholders equity	1,244,181	1,201,336
Total liabilities and shareholders equity	\$ 3,443,384	\$ 2,559,663

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

Table of Contents**PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

(in thousands, except per share data)

	Quarter ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Net Investment Income				
Net gain on mortgage loans acquired for sale	\$ 44,438	\$ 18,046	\$ 73,717	\$ 31,416
Net gain (loss) on investments:				
Mortgage-backed securities		706		1,063
Mortgage loans	46,834	27,286	110,814	38,417
	46,834	27,992	110,814	39,480
Interest income:				
Short-term investments	57	47	88	78
Mortgage-backed securities		1,011		1,585
Mortgage loans	26,604	14,944	43,424	30,764
Other	136		160	
	26,797	16,002	43,672	32,427
Loan origination fees	4,752	594	10,225	2,044
Results of real estate acquired in settlement of loans	(1,929)	2,571	(5,182)	6,288
Net loan servicing fees	7,892	(855)	13,903	(658)
Other	913	56	1,600	58
Net investment income	129,697	64,406	248,749	111,055
Expenses				
Loan fulfillment fees payable to Private National Mortgage Acceptance Company, LLC and subsidiaries	22,054	7,715	50,298	13,839
Interest	14,144	6,703	25,380	13,377
Loan servicing fees payable to Private National Mortgage Acceptance Company, LLC and subsidiaries	8,787	4,438	16,513	8,563
Management fees payable to Private National Mortgage Acceptance Company, LLC and subsidiaries	8,455	2,488	14,947	4,292
Professional services	1,339	1,186	3,723	1,628
Compensation	1,438	1,744	3,527	3,045
Other	5,571	2,157	10,517	3,761
Total expenses	61,788	26,431	124,905	48,505
Income before provision for income taxes	67,909	37,975	123,844	62,550
Provision for income taxes	13,412	8,406	16,051	13,923
Net income	\$ 54,497	\$ 29,569	\$ 107,793	\$ 48,627
Earnings per share				
Basic	\$ 0.92	\$ 0.80	\$ 1.81	\$ 1.46

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Diluted	\$	0.86	\$	0.79	\$	1.75	\$	1.46
Weighted-average shares outstanding								
Basic		59,035		36,922		58,981		32,999
Diluted		65,104		37,208		62,217		33,253
Dividends declared per share	\$	0.57	\$	0.55	\$	1.14	\$	1.10

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

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PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (UNAUDITED)

(in thousands, except per share data)

	Number of shares	Par value	Additional paid-in capital	Retained earnings	Total
Balance at December 31, 2011	28,404,554	\$ 284	\$ 518,272	\$ 27,461	\$ 546,017
Net income				48,627	48,627
Share-based compensation	88,399		2,192		2,192
Cash dividends, \$1.10 per share				(38,336)	(38,336)
Proceeds from offerings of common shares	12,973,416	131	248,266		248,397
Underwriting and offering costs			(1,224)		(1,224)
Balance at June 30, 2012	41,466,369	\$ 415	\$ 767,506	\$ 37,752	\$ 805,673
Balance at December 31, 2012	58,904,456	\$ 589	\$ 1,129,858	\$ 70,889	\$ 1,201,336
Net income				107,793	107,793
Share-based compensation	173,040	2	2,468		2,470
Cash dividends, \$1.14 per share				(67,249)	(67,249)
Underwriting and offering costs			(169)		(169)
Balance at June 30, 2013	59,077,496	\$ 591	\$ 1,132,157	\$ 111,433	\$ 1,244,181

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

Table of Contents**PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)****(in thousands)**

	Six months ended June 30,	
	2013	2012
Cash flows from operating activities:		
Net income	\$ 107,793	\$ 48,627
Adjustments to reconcile net income to net cash used by operating activities:		
Net gain on mortgage loans acquired for sale at fair value	(73,717)	(31,417)
Net gain on mortgage-backed securities at fair value		(1,063)
Net gain on mortgage loans at fair value	(110,814)	(38,417)
Accrual of unearned discounts on mortgage-backed securities at fair value and capitalization of interest and advances on mortgage loans at fair value	(11,814)	(13,249)
Results of real estate acquired in settlement of loans	5,182	(6,288)
Change in fair value, amortization and impairment of mortgage servicing rights	9,321	3,011
Amortization of credit facility commitment fees and debt issuance costs	4,036	1,268
Accrual of costs related to forward purchase agreements	251	3,255
Share-based compensation expense	2,471	2,192
Purchases of mortgage loans acquired for sale at fair value	(17,759,140)	(5,370,540)
Sales of mortgage loans acquired for sale at fair value to nonaffiliates	9,044,480	2,680,649
Sales of mortgage loans acquired for sale at fair value to Private National Mortgage Acceptance Company, LLC and subsidiaries	8,282,163	2,458,243
Increase in principal and interest collections receivable	(504)	(13,247)
Decrease in principal and interest collections receivable under forward purchase agreements		2,295
Increase in interest receivable	(1,267)	(1,511)
Increase (decrease) in due to Private National Mortgage Acceptance Company, LLC and subsidiaries	1,766	(7,967)
Decrease (increase) in other assets	50,631	(6,112)
(Decrease) increase in accounts payable and accrued liabilities	(11,016)	4,698
Increase in payable to Private National Mortgage Acceptance Company, LLC and subsidiaries	4,509	9,425
Increase in income taxes payable	15,088	8,578
Net cash used by operating activities	(440,581)	(267,570)
Cash flows from investing activities		
Net increase in short-term investments	(34,219)	(2,021)
Repayment of United States Treasury security		50,000
Purchases of mortgage-backed securities at fair value		(112,211)
Repayments of mortgage-backed securities at fair value		21,257
Purchases of mortgage loans at fair value	(200,486)	(260,595)
Repayments of mortgage loans at fair value	135,242	84,564
Repayments of mortgage loans under forward purchase agreements at fair value		14,040
Purchase of real estate acquired in settlement of loans		(48)
Sales of real estate acquired in settlement of loans	63,017	65,386
Sales of real estate acquired in settlement of loans under forward purchase agreements		9,914
Purchases of mortgage servicing rights	(185)	(29)
Sales of mortgage servicing rights		104
Increase in margin deposits and restricted cash	(13,426)	(5,721)
Net cash used by investing activities	(50,057)	(135,360)
Cash flows from financing activities		

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Sales of securities under agreements to repurchase		706,966
Repurchases of securities sold under agreements to repurchase		(665,170)
Sales of mortgage loans acquired for sale at fair value under agreements to repurchase	16,490,809	4,960,026
Repurchases of mortgage loans acquired for sale at fair value sold under agreements to repurchase	(16,141,766)	(4,754,684)
Sales of mortgage loans at fair value under agreements to repurchase	350,661	165,395
Repurchases of mortgage loans at fair value sold under agreements to repurchase	(374,254)	(55,122)
Repayments of note payable secured by mortgage loans at fair value		(2,044)
Sales of real estate acquired in settlement of loans financed under agreement to repurchase		10,753
Repayments of borrowings under forward purchase agreements		(140,307)
Repurchases of real estate acquired in settlement of loans financed under agreement to repurchase	(15,656)	(18,338)
Proceeds from issuance of common shares		248,397
Payment of common share underwriting and offering costs	(169)	(1,224)
Payment of underwriting fees payable	(427)	
Issuance of exchangeable senior notes	250,000	
Payment of exchangeable senior notes issuance costs	(7,425)	
Payments of dividends	(67,249)	(38,337)
Net cash provided by financing activities	484,524	416,311
Net (decrease) increase in cash	(6,114)	13,381
Cash at beginning of period	33,756	14,589
Cash at end of period	\$ 27,642	\$ 27,970

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

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PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 Organization and Basis of Presentation

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

The *Company* operates in two segments: correspondent lending and investment activities:

The correspondent lending segment represents the *Company*'s operations aimed at serving as an intermediary between mortgage lenders and the capital markets by purchasing, pooling and reselling newly originated prime credit quality mortgage loans either directly or in the form of mortgage backed securities (*MBS*), using the services of PNMAC Capital Management, LLC (*PCM* or the *Manager*) and PennyMac Loan Services, LLC (*PLS* or the *Servicer*).

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

The investment activities segment represents the *Company*'s investments in distressed mortgage loans, real estate acquired in settlement of loans (*REO*), *MBS* and mortgage servicing rights (*MSRs*). The *Company* seeks to maximize the value of the distressed mortgage loans that it acquires through proprietary loan modification programs, special servicing or other initiatives focused on keeping borrowers in their homes. Where this is not possible, such as in the case of many nonperforming mortgage loans, the *Company* seeks to effect property resolution in a timely, orderly and economically efficient manner, including through the use of resolution alternatives to foreclosure.

The *Company* is externally managed by *PCM*, an investment adviser registered with the Securities and Exchange Commission (the *SEC*) that specializes in and focuses on residential mortgage loans. Under the terms of a management agreement, *PCM* is paid a management fee with a base component and a performance incentive component. Determination of the amount of management fees is discussed in Note 3 *Transactions with Related Parties*.

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

The *Company* conducts substantially all of its operations and makes substantially all of its investments through its subsidiary, PennyMac Operating Partnership, L.P. (the *Operating Partnership*), and the *Operating Partnership*'s subsidiaries. A subsidiary of the *Company* is the sole general partner, and the *Company* is the sole limited partner, of the *Operating Partnership*.

The accompanying consolidated financial statements have been prepared in compliance with accounting principles generally accepted in the United States (*U.S. GAAP*) for interim financial information and with the *SEC*'s instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, these financial statements and notes do not include all of the information required by *U.S. GAAP* for complete financial statements. The interim consolidated information should be read together with the *Company*'s Annual Report on Form 10-K for the year ended December 31, 2012 (the *Annual Report*).

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

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In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the periods ended June 30, 2013 are not necessarily indicative of the results for the year ending December 31, 2013.

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Note 2 Concentration of Risks

As discussed in Note 1 *Organization and Basis of Presentation* above, PMT's operations and investing activities are centered in real estate-related assets, a substantial portion of which are distressed at acquisition. Because of the Company's investment strategy, many of the mortgage loans in its targeted asset class are purchased at discounts reflecting their distressed state or perceived higher risk of default, as well as a greater likelihood of collateral documentation deficiencies. Before acquiring loans or other assets, PCM validates key information provided by the sellers that is necessary to determine the value of the acquired asset. A substantial portion of the distressed loans purchased by the Company has been acquired from or through one or more subsidiaries of Citigroup Inc. Because of the Company's investment focus, PMT is exposed, to a greater extent than traditional mortgage investors, to the risks that borrowers may be in economic distress and/or may have become unemployed, bankrupt or otherwise unable or unwilling to make payments when due, and to the effects of fluctuations in the residential real estate market on the performance of its investments. Factors influencing these risks include, but are not limited to:

changes in the overall economy and unemployment rates and residential real estate values in the markets where the properties securing the Company's mortgage loans are located;

PCM's ability to identify and the Company's loan servicers' ability to execute optimal resolutions of problem mortgage loans;

the accuracy of valuation information obtained during the Company's due diligence activities;

PCM's ability to effectively model, and to develop appropriate model assumptions that properly anticipate, future outcomes;

the level of government support for problem loan resolution and the effect of current and future proposed and enacted legislative and regulatory changes on the Company's ability to effect cures or resolutions to distressed loans; and

regulatory, judicial and legislative support of the foreclosure process, and the resulting effect on the Company's ability to acquire and liquidate the real estate securing its portfolio of distressed mortgage loans in a timely manner or at all.

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

On July 12, 2011, December 20, 2011, June 14, 2013 and June 28, 2013, the Company entered into forward purchase agreements with Citigroup Global Markets Realty Corp. ("CGM"), a subsidiary of Citigroup Inc., to purchase certain nonperforming residential mortgage loans and residential real property acquired in settlement of loans (collectively, the "CGM Assets"). The CGM Assets were acquired by CGM from unaffiliated money center banks. The commitment under the forward purchase agreement dated July 12, 2011 was settled during the quarter ended June 30, 2012. The commitment under the forward purchase agreement dated December 20, 2011 was settled during the quarter ended September 30, 2012. The commitments under the forward purchase agreements dated June 14, 2013 and June 28, 2013 have not yet settled and have maturity dates of June 16, 2014 and June 30, 2014, respectively.

The CGM Assets are included on the Company's consolidated balance sheet as *Mortgage loans under forward purchase agreements at fair value* and *Real estate acquired in settlement of loans under forward purchase agreements* and the related liabilities are included as *Borrowings under forward purchase agreements*. The CGM Assets are held by CGM within a separate trust entity deemed a variable interest entity. The Company's interests in the CGM Assets are deemed to be contractually segregated from all other interests in the trust. When assets are contractually segregated, they are often referred to as a "silo." For these transactions, the silo consists of the CGM Assets and its related liability. The Company directs all of the activities that drive the economic results of the CGM Assets. All of the changes in the fair value and cash flows of the CGM Assets are attributable solely to the Company, and such cash flows can only be used to settle the related liability.

As a result of consolidating the silo, the Company's consolidated statements of income and cash flows for the periods presented include the following amounts related to the silo:

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	Quarter ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(in thousands)			
Net income:				
Net gain on mortgage loans	\$ (690)	\$ 2,488	\$ (690)	\$ 9,188
Interest income on mortgage loans	\$ 814	\$ 348	\$ 814	\$ 850
Interest expense	\$ 251	\$ 781	\$ 251	\$ 2,296
Loan servicing fees	\$	\$ 521	\$	\$ 960
Cash flows:				
Repayments of mortgage loans	\$	\$ 5,340	\$	\$ 14,040
Repayments of borrowings under forward purchase agreements	\$	\$ 113,178	\$	\$ 140,307

The Company has no other variable interests in the trust entity or other exposure to the creditors of the trust entity that could expose the Company to loss.

The following tables present the fair value of mortgage loans and REO purchased (including purchases under forward purchase agreements) for the Company's investment portfolio, and the portion thereof representing assets purchased from or through one or more subsidiaries of Citigroup Inc., for the periods presented:

	Quarter ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(in thousands)			
Investment portfolio purchases:				
Loans	\$ 243,109	\$ 261,379	\$ 443,582	\$ 261,665
REO	89	243	89	296
	\$ 243,198	\$ 261,622	\$ 443,671	\$ 261,961
Investment portfolio purchases above through one or more subsidiaries of Citigroup Inc.:				
Loans	\$ 242,886	\$ 260,309	\$ 443,183	\$ 260,595
REO	89	195	89	248
	\$ 242,975	\$ 260,504	\$ 443,272	\$ 260,843

Note 3 Transactions with Related Parties*Management Fees*

Before February 1, 2013, under a management agreement, PMT paid PCM a base management fee. The management agreement also provided for a performance incentive, which was calculated at 1.5% per year of shareholders' equity. The performance incentive fee was calculated at 20% per year of the amount by which core earnings, on a rolling four-quarter basis and before the incentive fee, exceeded an 8% hurdle rate as defined in the management agreement. The Company did not pay a performance incentive fee prior to February 1, 2013.

Effective February 1, 2013, the management agreement was amended to provide that:

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

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

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

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

Net income is defined as net income or loss computed in accordance with U.S. GAAP and certain other non-cash charges determined after discussions between the Company's Manager and our independent trustees and after approval by a majority of our independent trustees.

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

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

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

Following is a summary of the base management and performance incentive fees recorded by the Company for the periods presented:

	Quarter ended June 30, 2013	2012	Six months ended June 30, 2013	2012
	(in thousands)			
Base management fee	\$ 4,575	\$ 2,488	\$ 8,940	\$ 4,292
Performance incentive fee	3,880		6,007	
Total management fee incurred during the period	\$ 8,455	\$ 2,488	\$ 14,947	\$ 4,292

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

Mortgage Loan Servicing

The Company, through its Operating Partnership, has a loan servicing agreement with PLS. Before February 1, 2013, the servicing fee rates were based on the risk characteristics of the mortgage loans serviced and total servicing compensation was established at levels that management believed were competitive with those charged by other servicers or specialty servicers, as applicable.

Servicing fee rates for nonperforming loans ranged between 50 and 100 basis points per year on the unpaid principal balance of the mortgage loans serviced on the Company's behalf. PLS was also entitled to certain customary market-based fees and charges, including boarding and deboarding fees, liquidation and disposition fees, assumption, modification and origination fees and late charges, as well as interest on funds on deposit in custodial accounts. In the event PLS either effected a refinancing of a loan on the Company's behalf and not through a third party lender and the resulting loan was readily saleable, or originated a loan to facilitate the disposition of real estate that the Company had acquired in settlement of a loan, PLS was entitled to receive from the Company market-based fees and compensation.

For mortgage loans serviced by the Company as a result of acquisitions and sales with servicing rights retained in connection with the Company's correspondent lending business, PLS was entitled to base subservicing fees and other customary market-based fees and charges as described above.

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Effective February 1, 2013, the servicing agreement was amended to provide for servicing fees payable to PLS that changed from being based on a percentage of the loan's unpaid principal balance to fixed per-loan monthly amounts based on the delinquency, bankruptcy and/or foreclosure status of the serviced loan or the REO. PLS also remains entitled to market-based fees and charges including boarding and deboarding, liquidation and disposition fees, assumption, modification and origination fees and late charges relating to loans it services for the Company.

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The base servicing fees for distressed whole loans are calculated based on a monthly per-loan dollar amount, with the actual dollar amount for each loan based on the delinquency, bankruptcy and/or foreclosure status of such loan or the related underlying real estate. Presently, the base servicing fees for distressed whole loans range from \$30 per month for current loans up to \$125 per month for loans that are severely delinquent and in foreclosure.

The base servicing fees for loans subserviced by PLS on the Company's behalf are also calculated through a monthly per-loan dollar amount, with the actual dollar amount for each loan based on whether the mortgage loan is a fixed-rate or adjustable-rate loan. The base servicing fees for loans subserviced on the Company's behalf are \$7.50 per month for fixed-rate loans and \$8.50 per month for adjustable rate mortgage loans. To the extent that these loans become delinquent, PLS is entitled to an additional servicing fee per loan falling within a range of \$10 to \$75 per month based on the delinquency, bankruptcy and foreclosure status of the loan or the related underlying real estate. PLS is also entitled to customary ancillary income and certain market-based fees and charges, including boarding and deboarding fees, liquidation and disposition fees, assumption, modification and origination fees.

PLS is required to provide a range of services and activities significantly greater in scope than the services provided in connection with a customary servicing arrangement because the Company does not have any employees or infrastructure. For these services, PLS receives a supplemental fee of \$25 per month for each distressed whole loan and \$3.25 per month for each subserviced loan. PLS is entitled to reimbursement for all customary, good faith reasonable and necessary out-of-pocket expenses incurred in performance of its servicing obligations.

PLS, on behalf of PMT, currently participates in the U.S. Department of the Treasury and U.S. Department of Housing and Urban Development's (HUD) Home Affordable Modification Program (HAMP) (and other similar mortgage loan modification programs), which establishes standard loan modification guidelines for at risk homeowners and provides incentive payments to certain participants, including loan servicers, for achieving modifications and successfully remaining in the program. The loan servicing agreement entitles PLS to retain any incentive payments made to it and to which it is entitled under HAMP; provided, however, that with respect to any such incentive payments paid to PLS under HAMP in connection with a mortgage loan modification for which the Company previously paid PLS a modification fee, PLS shall reimburse the Company an amount equal to the incentive payments. Following is a summary of mortgage loan servicing fees payable to PLS for the periods presented:

	Quarter ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(in thousands)			
Loan servicing fees to PLS:				
Base	\$ 6,150	\$ 3,110	\$ 11,866	\$ 6,138
Activity-based	2,637	1,328	4,647	2,425
	\$ 8,787	\$ 4,438	\$ 16,513	\$ 8,563

The term of the servicing agreement, as amended, expires on February 1, 2017, subject to automatic renewal for additional 18-month periods, unless terminated earlier in accordance with the terms of the servicing agreement.

Correspondent Lending

Before February 1, 2013, the Company paid PLS a fulfillment fee of 50 basis points of the unpaid principal balance of mortgage loans sold to non-affiliates where the Company is approved or licensed to sell to such non-affiliate. Effective February 1, 2013, the mortgage banking and warehouse services agreement provides for a fulfillment fee paid to PLS based on the type of mortgage loan that the Company acquires. The fulfillment fee is equal to a percentage of the unpaid principal balance of mortgage loans purchased by the Company, with the addition of potential fee rate discounts applicable to the Company's monthly purchase volume in excess of designated thresholds. PLS has also agreed to provide such services exclusively for the Company's benefit, and PLS and its affiliates are prohibited from providing such services for any other third party.

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PLS is entitled to a fulfillment fee based on the type of mortgage loan that the Company acquires and equal to a percentage of the unpaid principal balance of such mortgage loan. Presently, the applicable percentages are (i) 0.50% for conventional mortgage loans, (ii) 0.88% for loans underwritten in accordance with the Ginnie Mae Mortgage-Backed Securities Guide, (iii) 0.80% for the U.S. Department of the Treasury and HUD's Home Affordable Refinance Program (HARP) mortgage loans with a loan-to-value ratio of 105% or less, (iv) 1.20% for HARP mortgage loans with a loan-to-value ratio of greater than 105%, and (v) 0.50% for all other mortgage loans not contemplated above. At this time, the Company does not hold the Ginnie Mae approval required to issue

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securities guaranteed by Ginnie Mae MBS and act as a servicer. Accordingly, under the mortgage banking and warehouse services agreement, PLS currently purchases loans underwritten in accordance with the Ginnie Mae Mortgage-Backed Securities Guide as is and without recourse of any kind from us at our cost less an administrative fee plus accrued interest and a sourcing fee of three basis points.

In the event that the Company purchases mortgage loans with an aggregate unpaid principal balance in any month greater than \$2.5 billion and less than \$5 billion, PLS has agreed to discount the amount of such fulfillment fees by reimbursing PMT an amount equal to the product of (i) 0.025%, (ii) the amount of unpaid principal balance in excess of \$2.5 billion and (iii) the percentage of the aggregate unpaid principal balance relating to mortgage loans for which PLS collected fulfillment fees in such month. In the event the Company purchases mortgage loans with an aggregate unpaid principal balance in any month greater than \$5 billion, PLS has agreed to further discount the amount of fulfillment fees by reimbursing us an amount equal to the product of (i) 0.05%, (ii) the amount of unpaid principal balance in excess of \$5 billion and (iii) the percentage of the aggregate unpaid principal balance relating to mortgage loans for which PLS collected fulfillment fees in such month.

In consideration for the mortgage banking services provided by PLS with respect to the Company's acquisition of mortgage loans under PLS's early purchase program, PLS is entitled to fees accruing (i) at a rate equal to \$25,000 per year, and (ii) in the amount of \$50 for each mortgage loan the Company acquires. In consideration for the warehouse services provided by PLS with respect to mortgage loans that the Company finances for its warehouse lending clients, with respect to each facility, PLS is entitled to fees accruing (i) at a rate equal to \$25,000 per year, and (ii) in the amount of \$50 for each mortgage loan that the Company finances thereunder. Where we have entered into both an early purchase agreement and a warehouse lending agreement with the same client, PLS shall only be entitled to one \$25,000 per annum fee and, with respect to any mortgage loan that becomes subject to both such agreements, only one \$50 per loan fee.

The term of our mortgage banking and warehouse services agreement expires on February 1, 2017, subject to automatic renewal for additional 18-month periods, unless terminated earlier in accordance with the terms of the agreement.

Following is a summary of correspondent lending activity between the Company and PLS for the periods presented:

	Quarter ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(in thousands)			
Sourcing fees received	\$ 1,349	\$ 461	\$ 2,359	\$ 701
Fulfillment fees expense	\$ 22,054	\$ 7,715	\$ 50,298	\$ 13,839
Unpaid principal balance of loans fulfilled	\$ 4,323,885	\$ 1,537,636	\$ 9,110,711	\$ 2,336,843
Fair value of loans source to PLS	\$ 4,733,767	\$ 1,620,123	\$ 8,282,163	\$ 2,458,243
At period end:				
Mortgage loans included in mortgage loans acquired for sale pending sale to PLS at period end	\$ 290,567	\$ 102,176	\$ 290,567	\$ 102,176

Investment Activities

Pursuant to the terms of a mortgage servicing rights (MSR) recapture agreement, effective February 1, 2013, if PLS refinances through its retail lending business loans for which the Company previously held the MSR, PLS is generally required to transfer and convey to one of the Company's wholly-owned subsidiaries without cost to the Company, the MSR with respect to new mortgage loans originated in those refinancings (or, under certain circumstances, other mortgage loans) that have an aggregate unpaid principal balance that is not less than 30% of the aggregate unpaid principal balance of all the loans so originated. MSR recapture amounts are shown in Note 24 *Net loan servicing fees*. The MSR recapture agreement expires, unless terminated earlier in accordance with the agreement, on February 1, 2017, subject to automatic renewal for additional 18-month periods.

Pursuant to a spread acquisition and MSR servicing agreement, PMT may acquire from PLS the rights to receive certain excess servicing spread arising from MSRs acquired by PLS, in which case PLS generally would be required to service or subservice the related mortgage loans. The terms of each transaction under the spread acquisition and MSR servicing agreement will be subject to the terms of such agreement as modified and supplemented by the terms of a confirmation executed in connection with such transaction.

Other Transactions

In connection with the initial public offering of PMT's common shares (IPO) on August 4, 2009, the Company entered into an agreement with PCM pursuant to which the Company agreed to reimburse PCM for the \$2.9 million payment that it made to the IPO

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underwriters (the Conditional Reimbursement) if the Company satisfied certain performance measures over a specified period of time. Effective February 1, 2013, the Company amended the terms of the reimbursement agreement to provide for the reimbursement of PCM of the Conditional Reimbursement if the Company is required to pay PCM performance incentive fees under the management agreement at a rate of \$10 in reimbursement for every \$100 of performance incentive fees earned. The reimbursement of the Conditional Reimbursement is subject to a maximum reimbursement in any particular 12-month period of \$1.0 million and the maximum amount that may be reimbursed under the agreement is \$2.9 million. The reimbursement agreement also provides for the payment to the underwriters in such offering of the payment that the Company agreed to make to them at the time of the offering if the Company satisfied certain performance measures over a specified period of time. As PCM earns performance incentive fees under the management agreement, such underwriters will be paid at a rate of \$20 of payments for every \$100 of performance incentive fees earned by PCM. The payment to the underwriters is subject to a maximum reimbursement in any particular 12-month period of \$2.0 million and the maximum amount that may be paid under the agreement is \$5.9 million.

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

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

	Quarter ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(in thousands)			
Reimbursement of expenses incurred on PMT's behalf	\$ 585	\$ 2,055	\$ 1,834	\$ 3,261
Reimbursement of common overhead incurred by PCM and its affiliates	3,201	882	5,807	1,268
	\$ 3,786	\$ 2,937	\$ 7,641	\$ 4,529
Payments and settlements during the period (1)	\$ 32,616	\$ 11,014	\$ 65,290	\$ 16,859

(1) Payments and settlements include payments for management fees and correspondent lending activities itemized in the preceding tables and netting settlements made pursuant to master netting agreements between the Company and PCM and its affiliates. Amounts due to affiliates are summarized below as of the dates presented:

	June 30, 2013	December 31, 2012
	(in thousands)	
Underwriting fees payable	\$ 2,519	\$ 2,941
Management fees	8,455	4,499
Servicing fees expense	4,319	3,670
Allocated expenses	1,432	1,106
	\$ 16,725	\$ 12,216

Amounts due from affiliates totaling \$3.1 million and \$4.8 million at June 30, 2013 and December 31, 2012, respectively, represent amounts receivable pursuant to loan sales to PLS and reimbursable expenses paid on the affiliates' behalf by the Company.

PCM's parent company, Private National Mortgage Acceptance Company, LLC, held 75,000 of the Company's common shares of beneficial interest at both June 30, 2013 and December 31, 2012.

Note 4 Earnings Per Share

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Basic earnings per share is determined using net income divided by the weighted-average common shares outstanding during the period. Diluted earnings per share is determined by dividing net income attributable to common shareholders, which adds back to net income the interest expense, net of applicable income taxes, on exchangeable senior notes for periods presented, by the weighted-average common shares outstanding, assuming all potentially dilutive common shares were issued. In periods in which the Company records a loss, potentially dilutive common shares are excluded from the diluted loss per share calculation, as their effect on loss per share is anti-dilutive.

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The Company grants restricted share units which entitle the recipients to receive dividend equivalents during the vesting period on a basis equivalent to the dividends paid to holders of common shares. For purposes of calculating earnings per share, unvested share-based compensation awards containing non-forfeitable rights to receive dividends or dividend equivalents (collectively, "dividends") are classified as participating securities and are included in the basic earnings per share calculation using the two-class method. Under the two-class method, all earnings (distributed and undistributed) are allocated to each class of common shares and participating securities, based on their respective rights to receive dividends.

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

	Quarter ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(in thousands, except per share amounts)			
Basic earnings per share:				
Net income	\$ 54,497	\$ 29,569	\$ 107,793	\$ 48,627
Effect of participating securities share-based compensation instruments	(444)	(213)	(961)	(424)
Net income attributable to common shareholders	\$ 54,053	\$ 29,356	\$ 106,832	\$ 48,203
Weighted-average shares outstanding				
Basic earnings per share	\$ 0.92	\$ 0.80	\$ 1.81	\$ 1.46
Diluted earnings per share:				
Net income	\$ 54,497	\$ 29,569	\$ 107,793	\$ 48,627
Interest on exchangeable senior notes, net of income taxes	1,382		1,382	
Net income available to diluted shareholders	\$ 55,879	\$ 29,569	\$ 109,175	\$ 48,627
Weighted-average shares outstanding				
Dilutive potential common shares:				
Shares issuable pursuant to conversion of exchangeable senior notes	5,709		2,870	
Shares issuable under share-based compensation plan	360	286	366	254
Diluted weighted-average number of common shares outstanding	65,104	37,208	62,217	33,253
Diluted earnings per common share	\$ 0.86	\$ 0.79	\$ 1.75	\$ 1.46

Note 5 Loan Sales

The Company purchases and sells mortgage loans into the secondary mortgage market without recourse for credit losses. However the Company maintains continuing involvement with the loans in the form of servicing arrangements and the potential liability under representations and warranties it makes to purchasers and insurers of the loans.

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The following table summarizes cash flows between the Company and transferees upon sale of loans in transactions whereby the Company maintains continuing involvement with the mortgage loans as well as unpaid principal balance information at period end:

	Quarter ended June 30, 2013	2012	Six months ended June 30, 2013	2012
	(in thousands)			
Cash flows:				
Proceeds from sales	\$ 3,960,798	\$ 1,819,393	\$ 9,074,367	\$ 2,912,297
Service fees received	\$ 21,712	\$ 1,757	\$ 38,677	\$ 2,409
Period-end information:				
Unpaid principal balance of loans outstanding	\$ 19,850,609	\$ 2,932,967		
Delinquencies:				
30-89 days	\$ 44,436	\$ 3,897		
90 or more days or in foreclosure or bankruptcy	\$ 5,648	\$ 175		

Note 6 Netting of Financial Instruments

The Company uses derivative instruments to manage exposure to interest rate risk created by the commitments it makes to correspondent lenders to purchase loans at specified interest rates, also called interest rate lock commitments (IRLCs), mortgage loans acquired for sale at fair value and MSR. All derivative financial instruments are recorded on the balance sheet at fair value. The Company has elected to net derivative asset and liability positions, and cash collateral obtained (or posted) by (or to) its counterparties when subject to a master netting arrangement. In the event of default, all counterparties are subject to legally enforceable master netting agreements. The derivatives that are not subject to a master netting arrangement are IRLCs. As of June 30, 2013 and December 31, 2012, the Company did not enter into reverse repurchase agreements or securities lending transactions that are required to be disclosed in the following table.

Offsetting of Derivative Assets

	June 30, 2013			December 31, 2012		
	Gross amounts of recognized assets	Gross amounts offset in the balance sheet	Net amounts of assets presented in the balance sheet (in thousands)	Gross amounts of recognized assets	Gross amounts offset in the balance sheet	Net amounts of assets presented in the balance sheet
Derivatives:						
MBS put options	\$ 9,214	\$	\$ 9,214	\$ 977	\$	\$ 977
MBS call options	1,776		1,776			
Forward purchase contracts	16,249		16,249	2,617		2,617
Forward sale contracts	158,274		158,274	3,458		3,458
Netting		(140,026)	(140,026)		(2,825)	(2,825)
Total derivatives, subject to a master netting arrangement	185,513	(140,026)	45,487	7,052	(2,825)	4,227
Total derivatives, not subject to a master netting arrangement	6,453		6,453	19,479		19,479
Total	\$ 191,966	\$(140,026)	\$ 51,940	\$ 26,531	\$(2,825)	\$ 23,706

Table of Contents*Derivative Assets and Collateral Held by Counterparty*

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

	June 30, 2013				December 31, 2012			
	Gross amounts not offset in the balance sheet				Gross amounts not offset in the balance sheet			
	Net amount of assets in the balance sheet	Financial instruments	Cash collateral received	Net amount	Net amount of assets in the balance sheet	Financial instruments	Cash collateral received	Net amount
	(in thousands)							
Interest rate lock commitments	\$ 6,453	\$	\$	\$ 6,453	\$ 19,479			\$ 19,479
Bank of America, N.A.	17,418			17,418	1,219			1,219
Daiwa Capital Markets	6,789			6,789				
Barclays	4,620			4,620	15			15
Citibank	4,577			4,577	1,009			1,009
Fannie Mae Capital Markets	3,835			3,835				
Jefferies & Co	2,012			2,012	21			21
Credit Suisse First Boston Mortgage Capital LLC	1,720			1,720	820			820
Morgan Stanley Bank, N.A.					316			316
Wells Fargo	1,433			1,433	99			99
Cantor Fitzgerald LP	742			742	581			581
Other	2,341			2,341	147			147
Total	\$ 51,940	\$	\$	\$ 51,940	\$ 23,706	\$	\$	\$ 23,706

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Offsetting of Derivative Liabilities and Financial Liabilities

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

	June 30, 2013			December 31, 2012		
	Gross amounts of recognized liabilities	Gross amounts offset in the balance sheet	Net amounts of liabilities presented in the balance sheet (in thousands)	Gross amounts of recognized liabilities	Gross amounts offset in the balance sheet	Net amounts of liabilities presented in the balance sheet
Derivatives:						
Forward purchase contracts	\$ 72,016	\$	\$ 72,016	\$ 1,741	\$	\$ 1,741
Forward sale contracts	10,724		10,724	4,520		4,520
Netting		(79,541)	(79,541)		(5,294)	(5,294)
Total derivatives, subject to a master netting arrangement	82,740	(79,541)	3,199	6,261	(5,294)	967
Total derivatives, not subject to a master netting arrangement	23,420		23,420			
Total derivatives	106,160	(79,541)	26,619	6,261	(5,294)	967
Assets sold under agreements to repurchase:						
Mortgage loans acquired for sale at fair value	1,243,949		1,243,949	894,906		894,906
Mortgage loans at fair value	313,862		313,862	353,805		353,805
Real estate acquired in settlement of loans	8,085		8,085	7,391		7,391
Total assets sold under agreements to repurchase	1,565,896		1,565,896	1,256,102		1,256,102
Total	\$ 1,672,056	\$ (79,541)	\$ 1,592,515	\$ 1,262,363	\$ (5,294)	\$ 1,257,069

Table of Contents*Derivative Liabilities, Financial Liabilities and Collateral Held by Counterparty*

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

	June 30, 2013			December 31, 2012				
	Gross amounts not offset in the consolidated balance sheet			Gross amounts not offset in the consolidated balance sheet				
	Net liabilities in the balance sheet	Financial instruments	Cash collateral pledged	Net amount (in thousands)	Net liabilities in the balance sheet	Financial instruments	Cash collateral pledged	Net amount
Citibank	\$ 619,976	\$ (619,976)	\$	\$	\$ 474,625	\$ (474,625)	\$	\$
Credit Suisse First Boston Mortgage Capital LLC	580,848	(580,848)			243,525	(243,525)		
Bank of America, N.A.	447,063	(447,063)			256,711	(256,711)		
Morgan Stanley Bank, N.A.	135,993	(135,922)		71	155,321	(155,321)		
Barclays	26,134	(26,134)			79,253	(78,780)		473
Interest rate lock commitments	23,420			23,420				
Wells Fargo Bank, N.A.					47,140	(47,140)		
Bank of NY Mellon	2,667			2,667				
Other	461			461	494			494
Total	\$ 1,836,562	\$ (1,809,943)	\$	\$ 26,619	\$ 1,257,069	\$ (1,256,102)	\$	\$ 967

Note 7 Fair Value

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

Fair Value Accounting Elections

Management identified all of its non-cash financial assets, including short-term investments and mortgage loans, as well as its MSR's relating to loans with initial interest rates of more than 4.5% that were acquired as a result of its correspondent lending operations, to be accounted for at estimated fair value so such changes in fair value will be reflected in income as they occur and more timely reflect the results of the Company's performance.

For MSR's relating to mortgage loans with initial interest rates of less than or equal to 4.5% that were acquired as a result of the Company's correspondent lending operations, management has concluded that such assets present different risks to the Company than MSR's relating to mortgage loans with initial interest rates of more than 4.5% and therefore require a different risk management approach. Management's risk management efforts relating to these assets are aimed at moderating the effects of non-interest rate risks on fair value, such as the effect of changes in home prices on the assets' values. Management has identified these assets for accounting at the lower of amortized cost or fair value.

The Company's risk management efforts in connection with MSR's relating to mortgage loans with initial interest rates of more than 4.5% are generally aimed at moderating the effects of changes in interest rates on the assets' values. During the six month period ended June 30, 2013, a portion of the IRLCs, the fair value of which typically increases when prepayment speeds increase, were used to mitigate the effect of changes in fair value of the servicing assets, which typically decreases as prepayment speeds increase.

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For loans sold under agreements to repurchase, REO financed through agreements to repurchase and borrowings under forward purchase agreements, management has determined that historical cost accounting is more appropriate because under this method debt issuance costs are amortized over the term of the debt, thereby matching the debt issuance cost to the periods benefiting from the usage of the debt.

Table of Contents**Financial Statement Items Measured at Fair Value on a Recurring Basis**

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

	Level 1	June 30, 2013		Total
		Level 2	Level 3	
	(in thousands)			
Assets:				
Short-term investments	\$ 73,236	\$	\$	\$ 73,236
Mortgage loans acquired for sale at fair value		1,309,830		1,309,830
Mortgage loans at fair value			1,309,765	1,309,765
Mortgage loans under forward purchase agreements at fair value			242,531	242,531
Mortgage servicing rights at fair value			1,828	1,828
Derivative assets:				
Interest rate lock commitments			6,453	6,453
MBS put options		9,214		9,214
MBS call options		1,776		1,776
Forward purchase contracts		16,249		16,249
Forward sales contracts		158,274		158,274
Total derivative assets before netting		185,513	6,453	191,966
Netting (1)		(140,026)		(140,026)
Total derivative assets before netting		45,487	6,453	51,940
	\$ 73,236	\$ 1,355,317	\$ 1,560,577	\$ 2,989,130
Liabilities:				
Derivative liabilities:				
Interest rate lock commitments			23,420	23,420
Forward purchase contracts		72,016		72,016
Forward sales contracts		10,724		10,724
Total derivative liabilities before netting		82,740	23,420	106,160
Netting (1)		(79,541)		(79,541)
Total derivative liabilities	\$	\$ 3,199	\$ 23,420	\$ 26,619

- (1) Derivatives are reported net of cash collateral received and paid and, to the extent that the criteria of the accounting guidance covering the offsetting of amounts related to certain contracts are met, positions with the same counterparty are netted as part of a legally enforceable master netting agreement.

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	December 31, 2012			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets:				
Short-term investments	\$ 39,017	\$	\$	\$ 39,017
Mortgage loans acquired for sale at fair value		975,184		975,184
Mortgage loans at fair value			1,189,971	1,189,971
Mortgage servicing rights at fair value			1,346	1,346
Derivative assets:				
Interest rate lock commitments			19,479	19,479
MBS put options		977		977
Forward purchase contracts		2,617		2,617
Forward sales contracts		3,458		3,458
Total derivative assets before netting		7,052	19,479	26,531
Netting (1)				(2,825)
Total derivative assets		7,052	19,479	23,706
	\$ 39,017	\$ 982,236	\$ 1,210,796	\$ 2,229,224
Liabilities:				
Derivative liabilities:				
Forward purchase contracts		1,741		1,741
Forward sales contracts		4,520		4,520
Total derivative liabilities before netting		6,261		6,261
Netting (1)				(5,294)
Total derivative liabilities	\$	\$ 6,261	\$	\$ 967

- (1) Derivatives are reported net of cash collateral received and paid and, to the extent that the criteria of the accounting guidance covering the offsetting of amounts related to certain contracts are met, positions with the same counterparty are netted as part of a legally enforceable master netting agreement.

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The Company's MBS, mortgage loans at fair value, mortgage loans under forward purchase agreements, MSRs, IRLCs and securities sold under agreements to repurchase were measured using Level 3 inputs on a recurring basis. The following is a summary of changes in those items for the periods presented:

	Three months ended June 30, 2013				Total
	Mortgage loans at fair value	Mortgage loans under forward purchase agreements	Mortgage servicing rights (in thousands)	Net interest rate lock commitments (1)	
Assets:					
Balance, March 31, 2013	\$ 1,366,922	\$	\$ 1,305	\$ 11,052	\$ 1,379,279
Purchases	13	243,309	186		243,508
Repayments	(73,820)				(73,820)
Interest rate lock commitments issued, net				22,240	22,240
Capitalization of interest	6,584				6,584
Servicing received as proceeds from sales of mortgage loans			77		77
Changes in fair value included in income arising from:					
Changes in instrument-specific credit risk	11,050				11,050
Other factors	36,473	(689)	260	(20,678)	15,366
	47,523	(689)	260	(20,678)	26,416
Transfers of mortgage loans to REO	(37,457)	(89)			(37,546)
Transfers of interest rate lock commitments (asset) liability to mortgage loans acquired for sale				(29,581)	(29,581)
Balance, June 30, 2013	\$ 1,309,765	\$ 242,531	\$ 1,828	\$ (16,967)	\$ 1,537,157
Changes in fair value recognized during the period relating to assets still held at June 30, 2013					
	\$ 33,292	\$	\$ 260	\$ (16,967)	\$ 16,585
Accumulated changes in fair value relating to assets still held at June 30, 2013	\$ 165,960	\$ (688)		\$ (16,967)	

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

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	Three Months ended June 30, 2012				
	Mortgage- backed securities	Mortgage loans at fair value	Mortgage loans under forward purchase agreements (in thousands)	Mortgage servicing rights	Total
Assets:					
Balance, March 31, 2012	\$ 62,425	\$ 667,542	\$ 105,030	\$ 1,188	\$ 836,185
Purchases		260,683	784		261,467
Repayments	(9,804)	(49,865)	(5,340)		(65,009)
Sales				(30)	(30)
Addition of unpaid interest, impound advances and fees to unpaid balance of mortgage loans		4,416			4,416
Accrual of unearned discounts	29				29
Servicing received as proceeds from sales of mortgage loans				568	568
Changes in fair value included in income arising from:					
Changes in instrument-specific credit risk		8,227	312		8,539
Other factors	511	16,571	2,177	(441)	18,818
	511	24,798	2,489	(441)	27,357
Transfer of mortgage loans to REO		(21,485)			(21,485)
Transfer of mortgage loans under forward purchase agreements to REO under forward purchase agreements			(2,217)		(2,217)
Transfer of mortgage loans under forward purchase agreements to mortgage loans		83,865	(83,865)		
Balance, June 30, 2012	\$ 53,161	\$ 969,954	\$ 16,881	\$ 1,285	\$ 1,041,281
Changes in fair value recognized during the period relating to assets still held at June 30, 2012					
	\$ 511	\$ 15,845	\$ 1,044	\$ (441)	\$ 16,959
Accumulated changes in fair value relating to assets still held at June 30, 2012					
	\$ (1,777)	\$ 75,797	\$ 1,523		

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	Six months ended June 30, 2013				
	Mortgage loans at fair value	Mortgage loans under forward purchase agreements	Mortgage servicing rights (in thousands)	Net interest rate lock commitments (1)	Total
Assets:					
Balance, December 31, 2012	\$ 1,189,971	\$	\$ 1,346	\$ 19,479	\$ 1,210,796
Purchases	200,486	243,309	186		443,981
Repayments	(135,242)				(135,242)
Interest rate lock commitments issued, net				57,654	57,654
Capitalization of interest	11,814				11,814
Servicing received as proceeds from sales of mortgage loans			104		104
Changes in fair value included in income arising from:					
Changes in instrument-specific credit risk	19,495				19,495
Other factors	92,008	(689)	192	(20,678)	70,833
	111,503	(689)	192	(20,678)	90,328
Transfers of mortgage loans to REO	(68,767)	(89)			(68,856)
Transfers of interest rate lock commitments (asset) liability to mortgage loans acquired for sale				(73,422)	(73,422)
Balance, June 30, 2013	\$ 1,309,765	\$ 242,531	\$ 1,828	\$ (16,967)	\$ 1,537,157
Changes in fair value recognized during the period relating to assets still held at June 30, 2013					
	\$ 77,771	\$	\$ 192	\$ (16,967)	\$ 60,996
Accumulated changes in fair value relating to assets still held at June 30, 2013	\$ 165,960	\$ (688)		\$ (16,967)	

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

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Following are the fair values and related principal amounts due upon maturity of mortgage loans accounted for under the fair value option (including mortgage loans acquired for sale, mortgage loans at fair value and mortgage loans under forward purchase agreements at fair value):

	Fair value	June 30, 2013 Principal amount due upon maturity (in thousands)	Difference
Mortgage loans acquired for sale:			
Current through 89 days delinquent	\$ 1,309,830	\$ 1,317,135	\$ (7,305)
90 or more days delinquent (1)			
	1,309,830	1,317,135	(7,305)
Other mortgage loans at fair value:			
Current through 89 days delinquent	\$ 506,964	768,666	(261,702)
90 or more days delinquent (1)	1,045,332	1,816,434	(771,102)
	1,552,296	2,585,100	(1,032,804)
	\$ 2,862,126	\$ 3,902,235	\$ (1,040,109)

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		December 31, 2012	
	Fair value	Principal amount due upon maturity (in thousands)	Difference
Mortgage loans acquired for sale:			
Current through 89 days delinquent	\$ 975,184	\$ 931,787	\$ 43,397
90 or more days delinquent (1)			
	975,184	931,787	43,397
Other mortgage loans at fair value:			
Current through 89 days delinquent	\$ 404,016	640,722	(236,706)
90 or more days delinquent (1)	785,955	1,483,311	(697,356)
	1,189,971	2,124,033	(934,062)
	\$ 2,165,155	\$ 3,055,820	\$ (890,665)

(1) Loans delinquent 90 or more days are placed on nonaccrual status and previously accrued interest is reversed. Following are the changes in fair value included in current period income by consolidated statement of income line item for financial statement items accounted for under the fair value option:

	Changes in fair value included in current period income				Total
	Quarter ended June 30, 2013				
	Net gain (loss) on investments	Interest income	Net loss on mortgage loans acquired for sale (in thousands)	Net loan servicing fees	
Assets:					
Short-term investments	\$	\$	\$	\$	\$
Mortgage-backed securities at fair value					
Mortgage loans acquired for sale at fair value			(56,951)		(56,951)
Mortgage loans at fair value	47,523				47,523
Mortgage loans under forward purchase agreements at fair value	(689)				(689)
Mortgage servicing rights at fair value				260	260
	\$ 46,834	\$	\$ (56,951)	\$ 260	\$ (9,857)

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	Changes in fair value included in current period income Quarter ended June 30, 2012				
	Net gain on investments	Interest income	Net gain on mortgage loans acquired for sale (in thousands)	Net loan servicing fees	Total
Assets:					
Short-term investments	\$	\$	\$	\$	\$
Mortgage-backed securities at fair value	706	(101)			605
Mortgage loans acquired for sale at fair value			18,046		18,046
Mortgage loans at fair value	24,798				24,798
Mortgage loans under forward purchase agreements at fair value	2,488				2,488
Mortgage servicing rights at fair value				(441)	(441)
	\$ 27,992	\$ (101)	\$ 18,046	\$ (441)	\$ 45,496
Liabilities:					
Securities sold under agreements to repurchase at fair value	\$	\$	\$	\$	\$
	\$	\$	\$	\$	\$

	Changes in fair value included in current period income Six months ended June 30, 2013				
	Net gain (loss) on investments	Interest income	Net loss on mortgage loans acquired for sale (in thousands)	Net loan servicing fees	Total
Assets:					
Short-term investments	\$	\$	\$	\$	\$
Mortgage-backed securities at fair value					
Mortgage loans acquired for sale at fair value			(32,180)		(32,180)
Mortgage loans at fair value	111,503				111,503
Mortgage loans under forward purchase agreements at fair value	(689)				(689)
Mortgage servicing rights at fair value				192	192
	\$ 110,814	\$	\$ (32,180)	\$ 192	\$ 78,826

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	Changes in fair value included in current period income Six months ended June 30, 2012				Total
	Net gain on investments	Interest income	Net gain on mortgage loans acquired for sale (in thousands)	Net loan servicing fees	
Assets:					
Short-term investments	\$	\$	\$	\$	\$
Mortgage-backed securities at fair value	1,063	233			1,296
Mortgage loans acquired for sale at fair value			31,416		31,416
Mortgage loans at fair value	29,229				29,229
Mortgage loans under forward purchase agreements at fair value	9,188				9,188
Mortgage servicing rights at fair value				(542)	(542)
	\$ 39,480	\$ 233	\$ 31,416	\$ (542)	\$ 70,587
Liabilities:					
Securities sold under agreements to repurchase at fair value	\$	\$	\$	\$	\$
	\$	\$	\$	\$	\$

Financial Statement Items Measured at Fair Value on a Nonrecurring Basis

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

	June 30, 2013			Total
	Level 1	Level 2	Level 3 (in thousands)	
Assets:				
Real estate asset acquired in settlement of loans	\$	\$	\$ 42,493	\$ 42,493
Mortgage servicing assets at lower of amortized cost or fair value			149,000	149,000
	\$	\$	\$ 191,493	\$ 191,493

	December 31, 2012			Total
	Level 1	Level 2	Level 3 (in thousands)	
Assets:				
Real estate asset acquired in settlement of loans	\$	\$	\$ 56,156	\$ 56,156
Mortgage servicing rights at lower of amortized cost or fair value			86,215	86,215
	\$	\$	\$ 142,371	\$ 142,371

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The following table summarizes the total gains (losses) on assets measured at estimated fair values on a nonrecurring basis:

	Net gains (losses) recognized during the period			
	Quarter ended June 30, 2013	2012	Six months ended June 30, 2013	2012
	(in thousands)			
Real estate asset acquired in settlement of loans	\$ (4,095)	\$ (2,963)	\$ (6,594)	\$ (5,273)
Real estate asset acquired in settlement of loans under forward purchase agreements				
Mortgage servicing assets at lower of amortized cost or fair value	1,222	(1,518)	3,708	(1,624)
	\$ (2,873)	\$ (4,481)	\$ (2,886)	\$ (6,897)

Real Estate Acquired in Settlement of Loans

The Company measures its investment in REO at the respective properties' estimated fair values less cost to sell on a nonrecurring basis. The initial carrying value of the REO is established as the lesser of (a) either the fair value of the loan at the date of transfer, (b) the fair value of the real estate less estimated costs to sell as of the date of transfer or (c) the purchase price of the property. REO may be subsequently revalued due to the Company receiving greater access to the property, the property being held for an extended period or management receiving indications that the property's value may not be supported by developing market conditions. Any subsequent change in fair value to a level that is less than or equal to the value at which the property was initially recorded is recognized in *Results of real estate acquired in settlement of loans* in the consolidated statements of income.

Mortgage Servicing Rights at Lower of Amortized Cost or Fair Value

The Company evaluates its MSR at lower of amortized cost or fair value for impairment with reference to the asset's fair value. For purposes of performing its MSR impairment evaluation, the Company stratifies its MSR at lower of amortized cost or fair value based on the interest rates borne by the mortgage loans underlying the MSR. Mortgage loans are grouped into note rate pools of 50 basis point ranges for fixed-rate mortgage loans with note rates between 3% and 4.5% and a single pool for note rates below 3%. MSR relating to adjustable rate mortgage loans with initial interest rates of 4.5% or less are evaluated in a single pool. If the fair value of MSR in any of the note rate pools is below the carrying value of the MSR for that pool reduced by the existing valuation allowance, those MSR are impaired.

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

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

Fair Value of Financial Instruments Carried at Amortized Cost

The Company's cash balances as well as its borrowings secured by its inventory of mortgage loans acquired for sale and by its investments in nonperforming loans and REO in the form of repurchase agreements are carried at amortized cost.

Management has concluded that the estimated fair values of *Cash*, *Mortgage loans acquired for sale at fair value sold under agreements to repurchase*, *Mortgage loans at fair value sold under agreements to repurchase*, *Real estate acquired in settlement of loans financed under agreements to repurchase* and *Borrowings under forward purchase agreements* approximate the agreements' carrying values due to the immediate realizability of cash at its carrying amount and to the borrowing agreements' short terms and variable interest rates.

As discussed in Note 20, the Company, during the quarter, issued *Exchangeable Senior Notes*, which are carried at amortized cost. The fair value of the Exchangeable Senior Notes at June 30, 2013 was \$238.6 million.

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Cash is measured using Level 1 inputs. The Company's borrowings carried at amortized cost do not have active markets or observable inputs and the fair value is measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation. The Company has classified these financial instruments as Level 3 financial statement items as of June 30, 2013 due to the lack of current market activity and the Company's reliance on unobservable inputs to estimate these instruments' fair value.

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Valuation Techniques and Assumptions

Most of the Company's assets are carried at fair value with changes in fair value recognized in current period income. A substantial portion of those assets are Level 3 financial statement items which require the use of significant unobservable inputs in the estimation of the assets' values. Unobservable inputs reflect the Company's own assumptions about the factors that market participants use in pricing an asset or liability, and are based on the best information available under the circumstances.

The Manager has assigned the responsibility for estimating the fair values of Level 3 financial statement items to its Financial Analysis and Valuation group (the FAV group), which is responsible for valuing and monitoring the Company's investment portfolios and maintenance of its valuation policies and procedures.

The FAV group reports to the Manager's senior management valuation committee, which oversees and approves the valuations. The valuation committee includes the chief executive, financial, investment and credit officers of the Manager. The FAV group monitors the models used for valuation of the Company's Level 3 financial statement items, including the models' performance versus actual results and reports those results to the valuation committee. The results developed in the FAV group's monitoring activities are used to calibrate subsequent projections used for valuation.

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

The following describes the valuation techniques and assumptions used in estimating the fair values of Level 2 and Level 3 financial statement items:

Mortgage Loans

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

Mortgage loans that are saleable into active markets, comprised of the Company's mortgage loans acquired for sale at fair value, are categorized as Level 2 financial statement items and their fair values are estimated using their quoted market or contracted price or market price equivalent.

Loans that are not saleable into active markets, comprised of the Company's mortgage loans at fair value and mortgage loans under forward purchase agreements at fair value, are categorized as Level 3 financial statement items, and their fair values are estimated using a discounted cash flow approach. Inputs to the discounted cash flow model include current interest rates, loan amount, payment status and property type, and forecasts of future interest rates, home prices, prepayment speeds, default speeds and loss severities. The valuation process includes the computation by stratum of loan population and a review for reasonableness of various measures such as weighted average life, projected prepayment and default speeds, and projected default and loss percentages. The FAV group computes the effect on the valuation of changes in input variables such as interest rates, home prices, and delinquency status to assess the reasonableness of changes in the loan valuation. The results of the estimates of fair value of Level 3 mortgage loans are reported to PCM's valuation committee as part of its review and approval of monthly valuation results.

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

The significant unobservable inputs used in the fair value measurement of the Company's mortgage loans at fair value and mortgage loans under forward purchase agreements at fair value are discount rate, home price projections, voluntary prepayment speeds and default speeds. Significant changes in any of those inputs in isolation could result in a significant change to the loans' fair value measurement. Increases in home price projections are generally accompanied by an increase in voluntary prepayment speeds.

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

Key Inputs	Range (Weighted Average)			
	June 30, 2013		December 31, 2012	
<i>Mortgage loans at fair value</i>				
Discount rate	8.3%	19.0%	8.8%	20.7%
	(12.4%)		(13.1%)	
Twelve-month projected housing price index change	3.7%	6.0%	0.4%	1.5%
	(4.8%)		(1.1%)	
Prepayment speed(1)	0.0%	4.4%	0.4%	4.4%
	(2.4%)		(2.2%)	
Total prepayment speed (2)	0.0%	33.3%	5.9%	31.2%
	(21.7%)		(20.6%)	
<i>Mortgage loans under forward purchase agreements</i>				
Discount rate	9.5%	13.4%		
	(12.6%)			
Twelve-month projected housing price index change	4.5%	5.6%		
	(5.2%)			
Prepayment speed (1)	1.1%	2.4%		
	(1.7%)			
Total prepayment speed (2)	13.1%	31.4%		
	(25.3%)			

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

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

Derivative Financial Instruments

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

The significant unobservable inputs used in the fair value measurement of the Company's IRLCs are the pull-through rate and the MSR component of the Company's estimate of the value of the mortgage loans it has committed to purchase. Significant changes in the pull-through rate and the MSR component of the IRLCs, in isolation, could result in a significant change in fair value measurement. The financial effects of changes in these assumptions are generally inversely correlated as increasing interest rates have a positive effect on the fair value of the MSR component of IRLC value, but increase the pull-through rate for loans that have decreased in fair value in comparison to the agreed-upon purchase price.

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

Key Inputs	Range (Weighted average)	
	June 30, 2013	December 31, 2012
Pull-through rate	55.3% - 98.0%	44.2% - 98.0%
	(87.6%)	(80.6%)
MSR value expressed as:		
Servicing fee multiple	1.6 - 5.2	1.8 - 4.8
	(4.5)	(4.5)
Percentage of unpaid principal balance	0.4% - 1.3%	0.4% - 1.2%
	(1.1%)	(1.1%)

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The Company estimates the fair value of commitments to sell loans based on quoted MBS prices. The Company estimates the fair value of the interest rate options and futures it purchases and sells based on observed interest rate volatilities in the MBS market. The Company estimates the fair value of its MBS interest rate swaptions based on quoted market prices.

Real Estate Acquired in Settlement of Loans

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

REO values are reviewed by PCM's staff appraisers when the Company obtains multiple indications of value and there is a significant discrepancy between the values received. PCM's staff appraisers will attempt to resolve the discrepancy between the indications of value. In circumstances where the appraisers are not able to generate adequate data to support a value conclusion, the staff appraisers will order an additional appraisal to resolve the property's value.

Mortgage Servicing Rights

MSRs are categorized as Level 3 financial statement items. The Company uses a discounted cash flow approach to estimate the fair value of MSRs. The key assumptions used in the estimation of the fair value of MSRs include prepayment and default rates of the underlying loans, the applicable discount rate, and cost to service loans. The key assumptions used in the Company's discounted cash flow model are based on market factors which management believes are consistent with assumptions and data used by market participants valuing similar MSRs. The results of the estimates of fair value of MSRs are reported to PCM's valuation committee as part of their review and approval of monthly valuation results.

The significant unobservable inputs used in the fair value measurement of the Company's MSRs are pricing spreads, prepayment speeds (or life) and annual per-loan cost of servicing. Significant changes to any of those inputs in isolation could result in a significant change in the MSR fair value measurement. Changes in these key assumptions are not necessarily directly related.

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

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

Key Inputs	Quarter ended June 30,							
	2013				2012			
	Amortized cost		Fair value		Amortized cost		Fair value	
	Range (Weighted average)							
Unpaid principal balance of underlying loans	\$	3,840,110	\$	27,346	\$	1,486,109	\$	56,193
Average servicing fee rate (in basis points)		28		27		25		25
Pricing spread (1)		5.4% 13.5%		6.6% 11.9%		7.5% 22.8%		7.5% 14.3%
		(6.5%)		(7.5%)		(8.2%)		(8.5%)
Life (in years)		2.6 - 6.9		6.3 - 6.9		2.5 - 6.4		2.5 - 6.4
		(6.4)		(6.8)		(6.4)		(6.3)
Annual total prepayment speed (2)		8.5% 23.6%		8.8% 13.6%		7.9% 36.9%		7.9% 36.9%
		(9.1%)		(9.3%)		(9.0%)		(9.7%)
Annual per-loan cost of servicing		\$68 \$140		\$68 \$68		\$68 \$140		\$68 \$140
		(\$68)		(\$68)		(\$68)		(\$70)

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Key Inputs	Six months ended June 30,							
	2013				2012			
	Amortized cost		Fair value		Amortized cost		Fair value	
Unpaid principal balance of underlying loans	\$ 8,843,667		\$ 29,946		\$ 2,504,900		\$ 106,033	
Average servicing fee rate (in basis points)	26		27		25		25	
Pricing spread (1)	5.4%	14.4%	6.6%	14.4%	7.5%	22.8%	7.5%	14.6%
	(6.8%)		(7.6%)		(7.9%)		(8.4%)	
Life (in years)	2.6 - 6.9		2.8 - 6.9		2.5 - 6.7		2.5 - 6.7	
	(6.4)		(6.7)		(6.4)		(6.1)	
Annual total prepayment speed (2)	8.5%	23.6%	8.8%	27.0%	7.8%	36.9%	7.8%	39.9%
	(9.1%)		(9.7%)		(8.6%)		(10.8%)	
Annual per-loan cost of servicing	\$68 \$140		\$68 \$68		\$68 \$140		\$68 \$140	
	(\$68)		(\$68)		(\$68)		(\$77)	

- (1) Pricing spread represents a margin that is applied to a reference interest rate's forward rate curve to develop periodic discount rates. The Company applies a pricing spread to the United States Dollar LIBOR curve for purposes of discounting cash flows relating to MSRs acquired as proceeds from the sale of mortgage loans.
- (2) Prepayment speed is measured using CPR.

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Following is a quantitative summary of key inputs used in the valuation of MSRs, and the effect on the estimated fair value from adverse changes in those assumptions (weighted averages are based upon unpaid principal balance or fair value where applicable):

Key Inputs	June 30, 2013		December 31, 2012	
	Amortized cost		Amortized cost	
	Fair value		Fair value	
	Range (Weighted average)			
	(Carrying value, unpaid principal balance and effect on value amounts in thousands)			
Carrying value	\$ 225,073	\$ 1,828	\$ 125,430	\$ 1,346
Unpaid principal balance of underlying loans	\$ 19,672,990	\$ 177,619	\$ 11,986,957	\$ 181,783
Average servicing fee rate (in basis points)	26	27	26	27
Weighted average coupon rate	3.63%	4.64%	3.70%	4.79%
Pricing spread (1)	5.4% 18.5%	6.4% 14.4%	7.5% 16.5%	7.5% 16.5%
	(6.0%)	(8.0%)	(7.7%)	(7.7%)
Effect on value of 5% adverse change	\$ (4,073)	\$ (30)	\$ (2,052)	\$ (21)
Effect on value of 10% adverse change	\$ (8,021)	\$ (59)	\$ (4,041)	\$ (40)
Effect on value of 20% adverse change	\$ (15,563)	\$ (115)	\$ (7,845)	\$ (78)
Average life (in years)	2.7 - 6.9	3.2 - 6.9	1.7 - 6.3	1.4 - 6.3
	(6.4)	(6.7)	(6.3)	(6.0)
Prepayment speed (2)	8.5% 33.0%	8.8% 29.5%	10.3% 47.8%	10.3% 65.9%
	(9.1%)	(10.9%)	(10.3%)	(13.2%)
Effect on value of 5% adverse change	\$ (5,218)	\$ (46)	\$ (3,026)	\$ (52)
Effect on value of 10% adverse change	\$ (10,253)	\$ (91)	\$ (5,937)	\$ (100)
Effect on value of 20% adverse change	\$ (19,811)	\$ (175)	\$ (11,436)	\$ (190)
Annual per-loan cost of servicing	\$ 68 \$140	\$ 68 \$140	\$ 68 \$140	\$ 68 \$140
	(\$68)	(\$72)	(\$68)	(\$74)
Effect on value of 5% adverse change	\$ (1,414)	\$ (16)	\$ (778)	\$ (12)
Effect on value of 10% adverse change	\$ (2,829)	\$ (31)	\$ (1,556)	\$ (24)
Effect on value of 20% adverse change	\$ (5,658)	\$ (63)	\$ (3,112)	\$ (48)

(1) Pricing spread represents a margin that is applied to a reference interest rate's forward rate curve to develop periodic discount rates. The Company applies a pricing spread to the United States Dollar LIBOR curve for purposes of discounting cash flows relating to MSRs acquired as proceeds from the sale of mortgage loans and purchased MSRs not backed by pools of distressed mortgage loans.

(2) Prepayment speed is measured using CPR.

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

Securities Sold Under Agreements to Repurchase

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

Note 8 Short-Term Investments

The Company's short-term investments are comprised of money market accounts and unrestricted balances maintained in excess of minimum required amounts, deposited with U.S. commercial banks.

Table of Contents**Note 9 Mortgage Loans Acquired for Sale at Fair Value**

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

<u>Loan Type</u>	June 30, 2013		December 31, 2012	
	Fair value	Unpaid principal balance	Fair value	Unpaid principal balance
	(in thousands)			
Government insured or guaranteed	\$ 290,567	\$ 280,533	\$ 153,326	\$ 144,619
Conventional:				
Agency-eligible	908,837	922,090	820,492	785,830
Jumbo loans	110,426	114,511	1,366	1,338
	\$ 1,309,830	\$ 1,317,134	\$ 975,184	\$ 931,787
Loans pledged to secure loans sold under agreements to repurchase	\$ 1,305,009		\$ 972,079	

The Company is not approved by Ginnie Mae as an issuer of Ginnie Mae-guaranteed securities which are backed by government-insured or guaranteed mortgage loans. As discussed in Note 3 *Transactions with Related Parties*, the Company transfers government insured or guaranteed mortgage loans that it purchases from correspondent lenders to PLS, which is a Ginnie Mae-approved issuer, and earns a sourcing fee of three basis points on the unpaid principal balance plus accrued interest of each such loan.

Note 10 Derivative Financial Instruments

The Company is exposed to price risk relative to its mortgage loans acquired for sale as well as to the IRLCs it issues to correspondent lenders. The Company bears price risk from the time an IRLC is issued to a correspondent lender to the time the purchased mortgage loan is sold. During this period, the Company is exposed to losses if mortgage interest rates increase, because the value of the purchase commitment or mortgage loan acquired for sale decreases.

The Company engages in interest rate risk management activities in an effort to reduce the variability of earnings caused by changes in interest rates. To manage this price risk resulting from interest rate risk, the Company uses derivative financial instruments acquired with the intention of moderating the risk that changes in market interest rates will result in unfavorable changes in the value of the Company's IRLCs and inventory of mortgage loans acquired for sale.

The Company is also exposed to risk relative to the fair value of its MSR. The Company is exposed to loss in value of its MSR when interest rates decrease. Beginning in the fourth quarter of 2012, the Company has included MSR in its hedging activities.

The Company does not use derivative financial instruments for purposes other than in support of its risk management activities. The Company records all derivative financial instruments at fair value and records changes in fair value in current period income.

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

Instrument	June 30, 2013			December 31 2012		
	Notional amount	Fair value		Notional amount	Fair value	
		Derivative assets	Derivative liabilities		Derivative assets	Derivative liabilities
(in thousands)						
Derivatives not designated as hedging instruments:						
Free-standing derivatives (economic hedges):						
Interest rate lock commitments	1,607,351	\$ 6,453	\$ 23,420	1,694,739	\$ 19,479	\$
Forward purchase contracts	5,411,784	16,249	72,016	2,206,539	2,617	1,741
Forward sales contracts	7,728,066	158,274	10,724	4,266,983	3,458	4,520
MBS put options	460,000	9,214		495,000	977	
MBS call options	725,000	1,776				
Total derivative instruments before netting		191,966	106,160		26,531	6,261
Netting		(140,026)	(79,541)		(2,825)	(5,294)
Total		\$ 51,940	\$ 26,619		\$ 23,706	\$ 967
Margin deposits with derivatives counterparties		\$ 60,484			\$ 2,469	

The following table summarizes the notional amount activity for derivative contracts used to hedge the Company's IRLCs, inventory of mortgage loans acquired for sale and Agency MBS:

Period/Instrument	Balance, beginning of period	Additions	Dispositions/ expirations	Balance, end of period
	(in thousands)			
Quarter ended June 30, 2013				
MBS put options	225,000	1,545,000	(1,310,000)	460,000
MBS call options	350,000	1,000,000	(625,000)	725,000
Forward purchase contracts	1,890,960	15,323,298	(11,802,474)	5,411,784
Forward sales contracts	3,224,190	20,418,956	(15,915,080)	7,728,066
Period/Instrument	Balance, beginning of period	Additions	Dispositions/ expirations	Balance, end of period
(in thousands)				
Quarter ended June 30, 2012				
MBS put options	70,000	335,000	(160,000)	245,000
MBS call options	20,000	125,000	(110,000)	35,000
Forward purchase contracts	762,324	2,765,419	(2,698,336)	829,407
Forward sales contracts	1,215,280	5,395,675	(4,476,984)	2,133,971

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Period/Instrument	Balance, beginning of period	Additions (in thousands)	Dispositions/ expirations	Balance, end of period
Six months ended June 30, 2013				
MBS put options	495,000	3,025,000	(3,060,000)	460,000
MBS call options		1,900,000	(1,175,000)	725,000
Forward purchase contracts	2,206,539	27,765,642	(24,560,397)	5,411,784
Forward sales contracts	4,266,983	38,269,229	(34,808,146)	7,728,066

Period/Instrument	Balance, beginning of period	Additions (in thousands)	Dispositions/ expirations	Balance, end of period
Six months ended June 30, 2012				
MBS put options	28,000	432,500	(215,500)	245,000
MBS call options	5,000	150,000	(120,000)	35,000
Forward purchase contracts	398,400	4,146,702	(3,715,695)	829,407
Forward sales contracts	756,691	8,231,499	(6,854,219)	2,133,971

The Company recorded net gains (losses) on derivative financial instruments used to hedge the Company's IRLCs and inventory of mortgage loans totaling \$129.1 million and \$(17.0) million for the quarters ended June 30, 2013 and 2012, respectively. The Company recorded net gains (losses) on derivative financial instruments used to hedge the Company's IRLCs and inventory of mortgage loans totaling \$140.1 million and \$(16.4) million for the six months ended June 30, 2013 and 2012, respectively. Derivative gains and losses are included in *Net gains on mortgage loans acquired for sale* in the Company's consolidated statements of income.

The Company did not record any net gains or losses on derivative financial instruments used as economic hedges of MSR for the quarter ended June 30, 2013. The Company recorded net losses on derivative financial instruments used as economic hedges of MSR totaling \$2.0 million for the six months ended June 30, 2013. The derivative losses are included in *Net loan servicing fees* in the Company's consolidated statements of income. The Company had no similar economic hedges in place for the quarter and six months ended June 30, 2012.

Note 11 Mortgage Loans at Fair Value

Mortgage loans at fair value are comprised of mortgage loans not acquired for resale. Such loans may be sold at a later date pursuant to a management determination that such a sale represents the most advantageous liquidation strategy for the identified loan.

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

Loan Type	June 30, 2013		December 31, 2012	
	Fair value	Unpaid principal balance	Fair value	Unpaid principal balance
(in thousands)				
Nonperforming loans	\$ 848,560	\$ 1,497,997	\$ 785,955	\$ 1,483,311
Performing loans:				
Fixed	235,284	357,338	201,212	322,005
ARM/hybrid	140,385	187,110	134,196	195,381
Interest rate step-up	85,392	145,699	68,475	123,117
Balloon	144	216	133	219
	461,205	690,363	404,016	640,722
	\$ 1,309,765	\$ 2,188,360	\$ 1,189,971	\$ 2,124,033
Mortgage loans at fair value pledged to secure borrowings at period end:				
Sales of loans under agreements to repurchase	\$ 1,251,399		\$ 947,522	
Mortgage loans held in a consolidated subsidiary whose stock is pledged to secure financings of such loans				
	\$ 1,162		\$ 1,538	

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

Concentration	June 30, 2013	December 31, 2012
Portion of mortgage loans originated between 2005 and 2007	74%	77%
Percentage of fair value of mortgage loans with unpaid-principal-balance-to-current-property-value in excess of 100%	63%	68%
Percentage of mortgage loans secured by California real estate	19%	18%
Additional states contributing 5% or more of mortgage loans	New York Florida New Jersey Maryland	New York Florida New Jersey

Table of Contents**Note 12 Mortgage Loans Under Forward Purchase Agreements at Fair Value**

Mortgage loans under forward purchase agreements at fair value are comprised of mortgage loans not acquired for resale. Such loans may be sold at a later date pursuant to a management determination that such a sale represents the most advantageous liquidation strategy for the identified loan.

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

Loan Type	June 30, 2013		December 31, 2012	
	Fair value	Unpaid principal balance (in thousands)	Fair value	Unpaid principal balance
Nonperforming loans	\$ 196,772	\$ 318,437	\$	\$
Performing loans:				
Fixed	22,881	38,058		
ARM/hybrid	22,878	40,245		
	45,759	78,303		
	\$ 242,531	\$ 396,740	\$	\$

Following is a summary of certain concentrations of credit risk in the portfolio of mortgage loans under forward purchase agreements at fair value:

Concentration	June 30, 2013	December 31, 2012
Portion of mortgage loans originated between 2005 and 2007	74%	
Percentage of fair value of mortgage loans with unpaid-principal-balance-to current-property-value in excess of 100%	66%	
Percentage of mortgage loans secured by California real estate	24%	
Additional states contributing 5% or more of mortgage loans	New Jersey	
	Washington	
	New York	
	Maryland	

At June 30, 2013, the entire balance of mortgage loans under forward purchase agreements was subject to borrowings under forward purchase agreements.

Table of Contents**Note 13 Real Estate Acquired in Settlement of Loans**

Following is a summary of the activity in REO:

	Quarter ended June 30, 2013	2012	Six months ended June 30, 2013	2012
	(in thousands)			
Balance at beginning of period	\$ 84,487	\$ 81,209	\$ 88,078	\$ 80,570
Purchases		49		49
Transfers from mortgage loans at fair value and advances	37,117	23,023	68,803	48,442
Transfers from REO under forward purchase agreements		21,032		21,032
Results of REO:				
Valuation adjustments, net	(4,978)	(3,021)	(11,067)	(5,622)
Gain on sale, net	3,049	5,438	5,885	10,036
	(1,929)	2,417	(5,182)	4,414
Sale proceeds	(30,993)	(38,609)	(63,017)	(65,386)
Balance at period end	\$ 88,682	\$ 89,121	\$ 88,682	\$ 89,121
At period end:				
REO pledged to secure agreements to repurchase	\$ 9,253	\$ 3,526	\$ 9,253	\$ 3,526
REO held in a consolidated subsidiary whose stock is pledged to secure financings of such properties	\$ 43,131	\$ 41,853	\$ 43,131	\$ 41,853

Note 14 Real Estate Acquired in Settlement of Loans Under Forward Purchase Agreements

Following is a summary of the activity in REO under forward purchase agreements for the periods presented:

	Quarter ended June 30, 2013	2012	Six months ended June 30, 2013	2012
	(in thousands)			
Balance at beginning of period	\$	\$ 23,661	\$	\$ 22,979
Purchases		195		248
Transfers from mortgage loans under forward purchase agreements at fair value and advances	89	946	89	6,642
Transfers to REO		(21,032)		(21,032)
Results of REO under forward purchase agreements:				
Valuation adjustments, net		(202)		(583)
Gain on sale, net		356		2,457
		154		1,874
Sale proceeds		(3,127)		(9,914)
Balance at period end	\$ 89	\$ 797	\$ 89	\$ 797

At June 30, 2013, the entire balance of real estate acquired in settlement of loans under forward purchase agreements was subject to borrowings under forward purchase agreements.

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Carried at Fair Value:

The activity in MSR's carried at fair value is as follows:

	Quarter ended June 30, 2013	2012	Six months ended June 30, 2013	2012
	(in thousands)			
Balance at beginning of period	\$ 1,305	\$ 1,188	\$ 1,346	\$ 749
Additions:				
Purchases	186		186	20
MSR's resulting from loan sales	77	568	104	1,088
Total additions	263	568	290	1,108
Change in fair value:				
Due to changes in valuation inputs or assumptions used in valuation model(1)	312	(417)	302	(481)
Other changes in fair value(2)	(52)	25	(110)	(12)
	260	(392)	192	(493)
Sales		(79)		(79)
Balance at period end	\$ 1,828	\$ 1,285	\$ 1,828	\$ 1,285

(1) Principally reflects changes in discount rates and prepayment speed assumptions, primarily due to changes in interest rates.

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

Carried at Lower of Amortized Cost or Fair Value:

The activity in MSR's carried at amortized cost is summarized below:

	Quarter ended June 30, 2013	2012	Six months ended June 30, 2013	2012
	(in thousands)			
Mortgage Servicing Rights:				
Balance at beginning of period	\$ 184,197	\$ 17,452	\$ 132,977	\$ 5,282
MSR's resulting from loan sales	50,978	16,392	107,167	28,801
Purchases				9
Sales		(19)		(19)
Amortization	(6,263)	(654)	(11,232)	(902)
Application of valuation allowance to write down MSR's with other-than temporary impairment				
Balance before valuation allowance at period end	228,912	33,171	228,912	33,171
Valuation Allowance for Impairment of Mortgage Servicing Rights:				
Balance at beginning of period	(5,061)	(106)	(7,547)	
Reversals (additions)	1,222	(1,518)	3,708	(1,624)

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Application of valuation allowance to write down MSR's with other-than temporary impairment

Balance at period end	(3,839)	(1,624)	(3,839)	(1,624)
Mortgage Servicing Rights, net	\$ 225,073	\$ 31,547	\$ 225,073	\$ 31,547
Estimated Fair Value of MSR's at period end	\$ 242,104	\$ 31,580	\$ 242,104	\$ 31,580

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The following table summarizes the Company's estimate of amortization of its existing MSR's carried at amortized cost. This projection was developed using the assumptions made by management in its June 30, 2013 valuation of MSR's. The assumptions underlying the following estimate will change as market conditions and portfolio composition and behavior change, causing both actual and projected amortization levels to change over time. Therefore, the following estimates will change in a manner and amount not presently determinable by management.

12-month period ending June 30,	Estimated MSR amortization (in thousands)
2014	\$ 24,167
2015	23,175
2016	21,614
2017	20,246
2018	18,701
Thereafter	121,009
Total	\$ 228,912

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

	Quarter ended June 30, 2013	2012	Six months ended June 30, 2013	2012
	(in thousands)			
Contractual servicing fees	\$ 11,534	\$ 1,758	\$ 20,471	\$ 2,410

Note 16 Securities Sold Under Agreements to Repurchase at Fair Value

As of and during the quarter and six months ended June 30, 2013, the Company had no securities sold under agreements to repurchase outstanding. Following is a summary of financial information relating to securities sold under agreements to repurchase at fair value as of and for the quarter ended:

	Quarter ended June 30, 2013	2012	Six months ended June 30, 2013	2012
	(dollar amounts in thousands)			
Period end:				
Balance	\$ 157,289		\$ 157,289	
Weighted-average interest rate		0.60%		0.60%
Fair value of securities securing agreements to repurchase	\$ 167,446		\$ 167,446	
During the period:				
Weighted-average interest rate		0.59%		0.69%
Average balance of securities sold under agreements to repurchase	\$ 154,233		\$ 111,631	
Total interest expense	\$ 231		\$ 389	
Maximum daily amount outstanding	\$ 160,334		\$ 160,334	

Table of Contents**Note 17 Mortgage Loans Acquired for Sale Sold Under Agreements to Repurchase**

Following is a summary of financial information relating to mortgage loans acquired for sale sold under agreements to repurchase:

	Quarter ended June 30, 2013	Quarter ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
	(dollar amounts in thousands)			
Period end:				
Balance	\$ 1,243,949	\$ 418,019	\$ 1,243,949	\$ 418,019
Unused amount(1)	\$ 706,051	\$ 231,981	\$ 706,051	\$ 231,981
Weighted-average interest rate	2.07%	2.51%	2.07%	2.51%
Fair value of mortgage loans acquired for sale securing agreements to repurchase	\$ 1,305,009	\$ 459,616	\$ 1,305,009	\$ 459,616
During the period:				
Weighted-average interest rate during the period (2)	2.05%	2.16%	2.16%	2.14%
Average balance of loans sold under agreements to repurchase	\$ 966,165	\$ 242,732	\$ 870,821	\$ 210,298
Total interest expense	\$ 6,652	\$ 1,909	\$ 12,827	\$ 3,274
Maximum daily amount outstanding	\$ 1,489,070	\$ 418,027	\$ 1,489,070	\$ 418,027

- (1) The amount the Company is able to borrow under loan repurchase agreements is tied to the fair value of unencumbered mortgage loans eligible to secure those agreements and the Company's ability to fund the agreements' margin requirements relating to the collateral sold.
- (2) Weighted-average interest rate during the periods excludes the effect of amortization of debt issuance costs of \$1.5 million and \$3.1 million during the quarter and six months ended June 30, 2013, respectively, and \$584,000 and \$1.0 million during the quarter and six months ended June 30, 2012, respectively.

Following is a summary of maturities of outstanding advances under repurchase agreements by maturity date:

Remaining maturity at June 30, 2013	Balance (in thousands)
Within 30 days	\$ 77,377
Over 30 to 90 days	1,070,443
Over 90 days to 180 days	96,129
Over 180 days to 1 year	
	\$ 1,243,949

Weighted average maturity (in months) 2.51

The Company is subject to margin calls during the period the agreements are outstanding and therefore may be required to repay a portion of the borrowings before the respective agreements mature if the value (as determined by the applicable lender) of the mortgage loans securing those agreements decreases. The Company had \$19.8 million and \$4.1 million on deposit with its loan repurchase agreement counterparties at June 30, 2013 and December 31, 2012, respectively. Margin deposits are included in *Other assets* in the consolidated balance sheets.

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The amount at risk (the fair value of the assets pledged plus the related margin deposit, less the amount advanced by the counterparty and interest payable) relating to the Company's mortgage loans acquired for sale sold under agreements to repurchase is summarized by counterparty below as of June 30, 2013:

Counterparty	Amount at risk (in thousands)	Weighted-average maturity of advances under repurchase agreements	Facility maturity
Citibank, N.A.	\$ 13,233	July 25, 2013	July 25, 2013
Credit Suisse First Boston Mortgage Capital LLC	\$ 26,933	October 8, 2013	October 31, 2014(1)
Bank of America, N.A.	\$ 33,487	September 24, 2013	January 2, 2014
Morgan Stanley Bank, N.A.	\$ 3,918	August 18, 2013	November 19, 2013
Barclays Bank PLC	\$ 1,928	July 1, 2013	July 1, 2013

(1) The earlier to occur of October 31, 2014 or the rolling maturity date that is 364 days from any particular date of determination.

Note 18 Mortgage Loans at Fair Value Sold Under Agreements to Repurchase

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

Period end:	Quarter ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(dollar amounts in thousands)			
Balance	\$ 313,862	\$ 412,495	\$ 313,862	\$ 412,495
Unused amount (1)	\$ 436,138	\$ 237,506	\$ 436,138	\$ 237,506
Weighted-average interest rate	3.50%	3.96%	3.50%	3.96%
Fair value of mortgage loans at fair value and REO securing agreements to repurchase	\$ 1,260,652	\$ 831,124	\$ 1,260,652	\$ 831,124
During the period:				
Weighted-average interest rate (2)	3.35%	4.27%	3.39%	4.30%
Average balance of loans sold under agreements to repurchase	\$ 414,053	\$ 321,932	\$ 428,025	\$ 303,875
Total interest expense	\$ 3,985	\$ 3,473	\$ 8,343	\$ 6,611
Maximum daily amount outstanding	\$ 606,183	\$ 417,292	\$ 606,183	\$ 417,292

- (1) The amount the Company is able to borrow under loan repurchase agreements is tied to the fair value of unencumbered mortgage loans eligible to secure those agreements and the Company's ability to fund the agreements' margin requirements relating to the collateral sold.
- (2) Weighted-average interest rate during the periods excludes the effect of amortization of debt issuance costs of \$484,000 and \$1,047,315 during the quarter and six months ended June 30, 2013, respectively, and \$547,000 and \$1,579,245 during the quarter and six months ended June 30, 2012, respectively.

Following is a summary of maturities of repurchase agreements by maturity date:

Remaining Maturity at June 30, 2013	Balance (in thousands)
Within 30 days	\$ 227,166
Over 30 to 90 days	

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Over 90 days to 180 days	
Over 180 days to 1 year	86,696
	\$ 313,862
Weighted average maturity (in months)	5.1

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The Company is subject to margin calls during the period the agreements are outstanding and therefore may be required to repay a portion of the borrowings before the respective agreements mature if the value (as determined by the applicable lender) of the loans securing those agreements decreases. The Company had no margin deposits as of June 30, 2013 and as of December 31, 2012, the Company had \$379,000 on deposit with its loan repurchase agreement counterparties. Margin deposits are included in *Other assets* in the consolidated balance sheets.

The amount at risk (the fair value of the assets pledged plus the related margin deposit, less the amount advanced by the counterparty and interest payable) relating to the Company's mortgage loans at fair value sold under agreements to repurchase is summarized by counterparty below as of June 30, 2013:

Counterparty	Amount at risk (in thousands)	Facility maturity
Citibank, N.A.	\$ 753,278	July 25, 2013
Credit Suisse First Boston Mortgage Capital LLC	\$ 192,838	October 31, 2014(1)

(1) The earlier to occur of October 31, 2014 or the rolling maturity date that is 364 days from any particular date of determination.

Note 19 Real Estate Acquired in Settlement of Loans Financed Under Agreements to Repurchase

Following is a summary of financial information relating to REO financed under agreements to repurchase:

	Quarter ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(dollar amounts in thousands)			
Period end:				
Balance	\$ 8,085	\$ 19,909	\$ 8,085	\$ 19,909
Unused amount(1)	\$ 91,915	\$ 80,091	\$ 91,915	\$ 80,091
Weighted-average interest rate	3.95%	3.95%	3.95%	3.95%
Fair value of loans and REO held in a consolidated subsidiary whose stock is pledged to secure agreements to repurchase	\$ 44,293	\$ 42,938	\$ 44,293	\$ 42,938
During the period:				
Weighted-average interest rate(2)	4.02%	4.19%	4.11%	4.20%
Average balance of REO sold under agreements to repurchase	\$ 5,131	\$ 17,408	\$ 5,164	\$ 20,999
Total interest expense	\$ 177	\$ 309	\$ 357	\$ 696
Maximum daily amount outstanding	\$ 13,703	\$ 21,744	\$ 13,703	\$ 27,494

- (1) The amount the Company is able to borrow under repurchase agreements is subject to a sublimit of the commitment amount available pursuant to the repurchase facility for mortgage loans at fair value. The facility is tied to the fair value of unencumbered REO eligible for contribution to the subsidiary, whose stock is pledged to secure those agreements, and the Company's ability to fund the agreements' margin requirements relating to the collateral so contributed.
- (2) Weighted-average interest rate during the period excludes the effect of amortization of debt issuance costs of \$125,000 and \$250,000 during the quarter and six months ended June 30, 2013, respectively, and \$125,000 and \$250,000 during the quarter and six months ended June 30, 2012, respectively.

The repurchase agreement collateralized by REO has a remaining term of approximately 12 months at June 30, 2013.

The Company is subject to margin calls during the period the agreements are outstanding and therefore may be required to repay a portion of the borrowings before the respective agreements mature if the value (as determined by the applicable lender) of the REOs decreases. The Company had no margin deposits as of June 30, 2013 and December 31, 2012.

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The amount at risk (the fair value of the assets pledged plus the related margin deposit, less the amount advanced by the counterparty and interest payable) relating to the Company's REO held in a consolidated subsidiary, whose stock is pledged to secure agreements to repurchase is summarized by counterparty below as of June 30, 2013:

Counterparty	Amount at risk (in thousands)	Facility maturity
Credit Suisse First Boston Mortgage Capital LLC	\$ 36,199	October 31, 2014(1)

(1) The earlier to occur of October 31, 2014 or the rolling maturity date that is 364 days from any particular date of determination.

Note 20 Exchangeable Senior Notes

On April 30, 2013, PennyMac Corp. (PMC) issued in a private offering \$250 million aggregate principal amount of its Exchangeable Senior Notes due 2020 (the Notes). The Notes bear interest at a rate of 5.375% per year, payable semiannually. The exchange rate initially equals 33.5149 common shares per \$1,000 principal amount of the Notes (equivalent to an initial exchange price of approximately \$29.84 per common share). The exchange rate will be subject to adjustment upon the occurrence of certain events, but will not be adjusted for any accrued and unpaid interest. The Notes will mature May 1, 2020, unless repurchased or exchanged in accordance with their terms before such date.

The Notes are fully and unconditionally guaranteed by the Company and exchangeable for the Company's common shares at any time until the close of business on the second scheduled trading day immediately preceding the maturity date.

The net proceeds from the Notes are intended to be used to fund the business and investment activities of the Company, which may include the acquisition of distressed mortgage loans or other investments; the funding of the continued growth of its correspondent lending business, including the purchase of jumbo loans; the repayment of other indebtedness; and for general corporate purposes.

Following is financial information relating to the Notes:

	Quarter ended June 30, 2013	2012	Six months ended June 30, 2013	2012
	(dollar amounts in thousands)			
Period end:				
Balance	\$ 250,000	\$	\$ 250,000	\$
Weighted-average interest rate	5.38%	0.00%	5.38%	0.00%
During the period:				
Average balance	\$ 170,330	\$	\$ 85,635	\$
Maximum daily amount outstanding	\$ 250,000	\$	\$ 250,000	\$
Interest expense (1)	\$ 2,384	\$	\$ 2,384	\$

(1) Total interest expense includes amortization of debt issuance costs of \$144,000 during the quarter and six months ended June 30, 2013. Unamortized debt issuance costs totaled \$7.3 million at June 30, 2013.

Table of Contents**Note 21 Borrowings under Forward Purchase Agreements**

Following is a summary of financial information relating to borrowings under forward purchase agreements:

	Quarter ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(dollar amounts in thousands)			
Period end:				
Balance	\$ 244,047	\$ 16,693	\$ 244,047	\$ 16,693
Weighted-average interest rate	3.00%	4.24%	3.00%	4.24%
Fair value of underlying loans and REO	\$ 242,621	\$ 17,468	\$ 242,621	\$ 17,468
During the period:				
Weighted-average interest rate	3.00%	3.87%	3.00%	4.01%
Average balance	\$ 33,097	\$ 79,761	\$ 16,640	\$ 113,136
Interest expense	\$ 251	\$ 781	\$ 251	\$ 2,296

Note 22 Recourse liability

The Company's agreements with Fannie Mae and Freddie Mac include representations and warranties related to the loans the Company sells to those Agencies. The representations and warranties require adherence to Agency origination and underwriting guidelines, including but not limited to the validity of the lien securing the loan, property eligibility, borrower credit, income and asset requirements, and compliance with applicable federal, state and local law.

In the event of a breach of its representations and warranties, the Company may be required to either repurchase the mortgage loans with the identified defects or indemnify the investor or insurer. In such cases, the Company bears any subsequent credit loss on the mortgage loans. The Company's credit loss may be reduced by any recourse it has to correspondent lenders that, in turn, had sold such mortgage loans to the Company and breached similar or other representations and warranties. In such event, the Company has the right to seek a recovery of related repurchase losses from that originator.

The Company records a provision for losses relating to the representations and warranties it makes as part of its loan sale transactions. The method used to estimate the liability for representations and warranties is a function of estimated future defaults, loan repurchase rates, the potential severity of loss in the event of defaults and the probability of reimbursement by the correspondent loan seller. The Company establishes a liability at the time loans are sold and continually updates its liability estimate.

Following is a summary of the Company's *Recourse liability* in the consolidated balance sheets:

	Quarter ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Balance, beginning of period	\$ 6,231	\$ 631	\$ 4,441	\$ 205
Provisions for losses	1,437	618	3,227	1,044
Incurred losses				
Balance, end of period	\$ 7,668	\$ 1,249	\$ 7,668	\$ 1,249

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Following is a summary of the Company's repurchase activity:

	Quarter ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(in thousands)			
During the period:				
Unpaid balance of mortgage loans repurchased	\$ 292	\$	\$ 1,208	\$
Unpaid principal balance of repurchased mortgage loans repurchased by correspondent lenders	\$ 394	\$	\$ 1,104	\$
At period end:				
Unpaid balance of mortgage loans subject to pending claims for repurchase	\$ 824	\$	\$ 824	\$
Unpaid principal balance of mortgage loans subject to representations and warranties	\$ 19,829,437	\$ 3,019,360	\$ 19,829,437	\$ 3,019,360

The Company's representations and warranties are generally not subject to stated limits of exposure. However, management believes that the current unpaid principal balance of loans sold by the Company to date represents the maximum exposure to repurchases related to representations and warranties. The level of the liability for representations and warranties is difficult to estimate and requires considerable management judgment. The level of mortgage loan repurchase losses is dependent on economic factors, investor demand strategies, and other external conditions that will change over the lives of the underlying loans. However, management believes the amount and range of reasonably possible losses in relation to the recorded liability is not material to the Company's financial condition or results of operations.

Note 23 Commitments and Contingencies

From time to time, the Company may be involved in various proceedings, claims and legal actions arising in the ordinary course of business. As of June 30, 2013, the Company was not involved in any such proceedings, claims or legal actions that in management's view would have a material adverse effect on the Company.

Mortgage Loan Commitments

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

	June 30, 2013 (in thousands)
Commitments to purchase mortgage loans :	
Correspondent lending	\$ 1,607,351
Other mortgage loans	\$ 319,067

Note 24 Shareholders' Equity

On May 11, 2012, the Company issued and sold 10,000,000 common shares in an underwritten public offering and received \$193.5 million of proceeds, after the underwriting discount and estimated offering expenses and the reimbursement of certain expenses. On May 17, 2012, the Company issued and sold an additional 287,706 common shares pursuant to the exercise of an option to purchase additional shares by the public offering's underwriters and received \$5.4 million of net proceeds after the underwriting discount and reimbursement of certain expenses. Proceeds from the issuance of these shares were used to fund a portion of the purchase price of portfolios of residential mortgage whole loans, to fund the continued growth of the correspondent lending business, to acquire additional mortgage loans or other investments, including those under existing forward purchase agreements, and for general corporate purposes.

During the six months ended June 30, 2012, the Company sold common shares under a Controlled Equity Offering Sales Agreement with Cantor Fitzgerald & Co. and under an ATM Equity OfferingSM Sales Agreement with Merrill Lynch, Pierce, Fenner & Smith Incorporated. Pursuant to the Controlled Equity Offering Sales Agreement and the ATM Equity OfferingSM Sales Agreement, the Company sold 2,685,710 of its common shares at a weighted average price of \$18.43 per share, providing net proceeds to the Company of \$48.5 million, net of sales commissions. The sales agents received a total of approximately \$967,000, which represents an average commission of approximately 2.0% of the gross sales price. Proceeds from the issuance of these shares were used to fund a portion of the purchase price of portfolios of residential mortgage whole

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loans, to fund the continued growth of the correspondent lending business, and for general corporate purposes.

At June 30, 2013, the Company had no availability for issuance under our Controlled Equity Offering Sales Agreement and approximately \$197.5 million available for issuance under our ATM Equity Offering Sales AgreementSM. The Company has not sold any common shares under the Controlled Equity Offering Sales Agreement or the ATM Equity OfferingSM Sales Agreement during the six months ended June 30, 2013.

As more fully described in the Company's Annual Report, certain of the underwriting costs incurred in the Company's IPO were paid on PMT's behalf by PCM and a portion of the underwriting discount was deferred by agreement with the underwriters of the offering. On February 1, 2013, the Company entered into an Amended and Restated Underwriting Fee Reimbursement Agreement ("Reimbursement Agreement"), by and among the Company, the Operating Partnership and PCM. The Reimbursement Agreement

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provides that, to the extent the Company is required to pay PCM performance incentive fees under the management agreement, the Company will reimburse PCM for underwriting costs it paid on the offering date at a rate of \$10 in reimbursement for every \$100 of performance incentive fees earned. The reimbursement is subject to a maximum reimbursement in any particular 12-month period of \$980,422, and the maximum amount that may be reimbursed under the agreement is \$2.9 million.

The Reimbursement Agreement also provides for the payment to the IPO underwriters of the amount that the Company agreed to make to them at the time of the IPO if the Company satisfied certain performance measures over a specified period of time. As PCM earns performance incentive fees under the management agreement, the IPO underwriters will be paid at a rate of \$20 of payments for every \$100 of performance incentive fees earned by PCM. The payment to the underwriters is subject to a maximum reimbursement in any particular 12-month period of \$1,960,844 and the maximum amount that may be paid under the agreement is \$5.9 million. The reimbursement agreement expires on February 1, 2019. Management has concluded that these amounts are likely to be paid and has recognized a liability for reimbursement to PCM and payment of the underwriting discount as a reduction of additional paid-in capital.

Note 25 Net Gain on Mortgage Loans Acquired For Sale

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

	Quarter ended June 30, 2013	2012	Six months ended June 30, 2013	2012
	(in thousands)			
Cash gain (loss):				
Sales proceeds	\$ (71,706)	\$ 5,396	\$ (98,952)	\$ 5,944
Hedging activities	32,092	(14,923)	45,705	(15,726)
	(39,614)	(9,527)	(53,247)	(9,782)
Non cash gain:				
Change in fair value of IRLCs	(28,020)	8,625	(36,446)	7,161
Receipt of MSR in loan sale transactions	51,055	16,960	107,271	29,889
Provision for losses relating to representations and warranties provided in loan sales	(1,437)	(618)	(3,227)	(1,044)
Change in fair value relating to loans and hedging derivatives held at period end:				
Mortgage loans	(34,572)	4,644	(36,994)	5,825
Hedging derivatives	97,026	(2,038)	96,360	(633)
	62,454	2,606	59,366	5,192
	\$ 44,438	\$ 18,046	\$ 73,717	\$ 31,416

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Net loan servicing fees is summarized for the periods presented below:

	Quarter ended June 30, 2013	Quarter ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
	(in thousands)			
Servicing fees (1)	\$ 12,307	\$ 1,758	\$ 22,724	\$ 2,410
MSR recapture fee receivable from PLS	368		498	
Effect of MSR's:				
Amortization	(6,265)	(654)	(11,232)	(902)
Reversal of (provision for) impairment of MSR's carried at lower of amortized cost or fair value	1,222	(1,518)	3,708	(1,624)
Change in fair value of MSR's carried at fair value	260	(441)	193	(542)
Losses on hedging derivatives			(1,988)	
	(4,783)	(2,613)	(9,319)	(3,068)
Net loan servicing fees	\$ 7,892	\$ (855)	\$ 13,903	\$ (658)

(1) Includes contractually specified servicing and ancillary fees.

Note 27 Share-Based Compensation Plans

The Company has adopted an equity incentive plan which provides for the issuance of equity based awards, including share options, restricted shares, restricted share units, unrestricted common share awards, LTIP units (a special class of partnership interests in the Operating Partnership) and other awards based on PMT's shares that may be made by the Company directly to its officers and trustees, and the members, officers, trustees, directors and employees of PCM, PLS, or their affiliates and to PCM, PLS and other entities that provide services to PMT and the employees of such other entities. The equity incentive plan is administered by the Company's compensation committee, pursuant to authority delegated by the board of trustees, which has the authority to make awards to the eligible participants referenced above, and to determine what form the awards will take, and the terms and conditions of the awards.

The Company's equity incentive plan allows for grants of equity-based awards up to an aggregate of 8% of PMT's issued and outstanding shares on a diluted basis at the time of the award.

The shares underlying award grants will again be available for award under the equity incentive plan if:

any shares subject to an award granted under the equity incentive plan are forfeited, cancelled, exchanged or surrendered;

an award terminates or expires without a distribution of shares to the participant; or

shares are surrendered or withheld by PMT as payment of either the exercise price of an award and/or withholding taxes for an award.

Restricted share units have been awarded to trustees and officers of the Company and to employees of PCM and PLS at no cost to the grantees. Such awards generally vest over a one- to four-year period. Each share option awarded under the equity incentive plan will have a term of no longer than ten years, and will have an exercise price that is no less than 100% of the fair value of the Company's shares on the date of grant of the award.

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The Company's estimate of value included assumed grantee forfeiture rates of 15% per year, except for certain of PMT's officers and its board of trustees, for which no turnover was assumed.

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The table below summarizes restricted share unit activity and compensation expense:

	Quarter ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Number of units:				
Outstanding at beginning of period	577,064	403,389	665,617	491,809
Granted	250,948	350,000	250,948	350,000
Vested	(87,154)	(400)	(172,923)	(87,899)
Canceled		(1,500)	(2,784)	(2,421)
Outstanding at end of period	740,858	751,489	740,858	751,489
Weighted Average Grant Date Fair Value:				
Outstanding at beginning of period	\$ 15.89	\$ 11.54	\$ 15.92	\$ 12.57
Granted	\$ 23.91	\$ 18.91	\$ 23.91	\$ 18.91
Vested	\$ 18.91	\$ 14.97	\$ 17.59	\$ 17.26
Expired or canceled	\$	\$ 17.88	\$ 14.81	\$ 17.88
Outstanding at end of period	\$ 18.25	\$ 14.96	\$ 18.25	\$ 14.96
Compensation expense recorded during the period	\$ 1,252,000	\$ 1,376,000	\$ 3,033,000	\$ 2,327,000
Period end:				
Units available for future awards(1)	4,045,000	2,619,000	4,045,000	2,619,000
Unamortized compensation cost	\$ 8,092,000	\$ 7,622,000	\$ 8,092,000	\$ 7,622,000

(1) Based on shares outstanding as of June 30, 2013. Total units available for future awards may be adjusted in accordance with the equity incentive plan based on future issuances of PMT's shares as described above.

As of June 30, 2013, 674,622 restricted share units with a weighted average grant date fair value of \$20.40 per share unit are expected to vest over their average remaining vesting period of 31 months. The grant date fair values of share unit awards are based on the market value of the Company's stock at the date of grant.

Note 28 Income Taxes

The Company has elected to be taxed as a REIT for U.S. federal income tax purposes under Sections 856 through 860 of the Internal Revenue Code. Therefore, PMT generally will not be subject to corporate federal or state income tax to the extent that qualifying distributions are made to shareholders and the Company meets REIT requirements including certain asset, income, distribution and share ownership tests. The Company believes that it has met the distribution requirements, as it has declared dividends sufficient to distribute substantially all of its taxable income. Taxable income will generally differ from net income. The primary differences between net income and the REIT taxable income (before deduction for qualifying distributions) are the taxable income of the taxable REIT subsidiary (TRS) after tax adjustments related to mortgage servicing rights and the method of determining the income or loss related to valuation of the mortgage loans owned by the qualified REIT subsidiary (QRS).

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

The Company had elected to treat two of its subsidiaries as TRSs. In the quarter ended September 30, 2012, the Company revoked the election to treat its wholly owned subsidiary that is the sole general partner of the Operating Partnership as a TRS. As a result, beginning September 1, 2012, one subsidiary, PMC, is treated as a TRS. Income from a TRS is only included as a component of REIT taxable income to the extent that the TRS makes dividend distributions of income to the REIT. No such dividend distributions have been made to date. A TRS is subject to corporate federal and state income tax. Accordingly, a provision for income taxes for PMC and, for the periods for which TRS treatment had been elected, the sole general partner of the Operating Partnership is included in the consolidated statements of income.

The Company files U.S. federal and state income tax returns for both the REIT and TRSs. These returns for 2009 and forward are subject to examination. No returns are currently under examination.

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The following table details the Company's income tax expense (benefit) which relates primarily to the TRSs:

	Quarter ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
(in thousands)				
Current (benefit) expense:				
Federal	\$ (21)	\$ 2,100	\$ (10,746)	\$ 2,806
State	(466)	730	(2,955)	975
Total current expense	(487)	2,830	(13,701)	3,781
Deferred expense:				
Federal	9,913	4,138	22,591	7,527
State	3,986	1,438	7,161	2,615
Total deferred expense	13,899	5,576	29,752	10,142
Total provision for income taxes	\$ 13,412	\$ 8,406	\$ 16,051	\$ 13,923

The provision for deferred income taxes for the quarters ended June 30, 2013 and June 30, 2012 primarily relates to mortgage servicing rights the Company received pursuant to sales of mortgage loans with servicing rights retained and a net unrealized valuation loss on REO as detailed below.

The following table is a reconciliation of the Company's provision for income taxes at statutory rates to the provision for income taxes at the Company's effective rate:

	Quarter ended June 30,				Six months ended June 30,			
	2013		2012		2013		2012	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
(dollars in thousands)								
Federal income tax expense at statutory tax rate	\$ 23,768	35.0%	\$ 13,292	35.0%	\$ 43,345	35.0%	\$ 21,893	35.0%
Effect of non-taxable REIT income	(12,707)	(18.7)%	(6,300)	(16.6)%	(30,198)	(24.4)%	(10,290)	(16.4)%
State income taxes, net of federal benefit	2,288	3.3%	1,408	3.7%	2,734	2.3%	2,333	3.7%
Other	63	0.1%	6	0.0%	170	0.1%	(13)	0.0%
Valuation allowance		0.0%		0.0%		0.0%		0.0%
Provision for income taxes	\$ 13,412	19.7%	\$ 8,406	22.1%	\$ 16,051	13.0%	\$ 13,923	22.3%

The Company's components of the provision for deferred income taxes are as follows:

	Quarter ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
(in thousands)				
Real estate valuation loss	\$ 577	\$ (289)	\$ 798	\$ (677)
Mortgage servicing rights	17,299	6,125	39,799	11,257
Net operating loss carryforward	(3,372)		(9,487)	

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Other	(605)	(260)	(1,358)	(438)
Valuation allowance				
Total provision for deferred income taxes	\$ 13,899	\$ 5,576	\$ 29,752	\$ 10,142

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The components of income taxes payable are as follows:

	June 30, 2013	December 31, 2012
	(in thousands)	
Taxes currently receivable	\$ 20,038	\$ 5,374
Deferred income taxes payable	(71,442)	(41,690)
Income taxes payable	\$ (51,404)	\$ (36,316)

The tax effects of temporary differences that gave rise to deferred income tax assets and liabilities are presented below:

	June 30, 2013	December 31, 2012
	(in thousands)	
Deferred income tax assets:		
REO valuation loss	\$ 7,601	\$ 8,399
Net operating loss carryforward	9,487	
Other	3,225	1,867
Gross deferred tax assets	20,313	10,266
Deferred income tax liabilities:		
Mortgage servicing rights	(91,755)	(51,956)
Gross deferred tax liabilities	(91,755)	(51,956)
Net deferred income tax liability	\$ (71,442)	\$ (41,690)

The net deferred income tax liability is recorded in *Income taxes payable* in the consolidated balance sheets as of June 30, 2013 and December 31, 2012.

The Company recorded a deferred tax asset of \$9.4 million during the six months ended June 30, 2013, reflecting the benefit of net operating loss carryforwards that generally expire in 2033. At June 30, 2013 and December 31, 2012, the Company had no unrecognized tax benefits and does not anticipate any increase in unrecognized tax benefits. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is the Company's policy to record such accruals in the Company's income tax accounts. No such accruals existed at June 30, 2013 and December 31, 2012.

Note 29 Segments and Related Information

The Company has two business segments: correspondent lending and investment activities.

The correspondent lending segment represents the Company's operations aimed at serving as an intermediary between mortgage originators, particularly mortgage lenders, and the capital markets by purchasing, pooling and reselling the loans either directly or in the form of MBS, using the operations of the Manager and the Servicer.

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The investment activities segment represents the Company's investments in distressed mortgage loans, REO, MBS and MSRs. Management seeks to maximize the value of the mortgage loans acquired by the Company through proprietary loan modification programs, special servicing and other initiatives focused on keeping borrowers in their homes. Where this is not possible, such as in the case of many nonperforming mortgage loans, the Company seeks to effect property resolution in a timely, orderly and economically efficient manner. The Company also invests in mortgage-related securities and other mortgage-related real estate and financial assets.

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Financial highlights by operating segment are summarized below:

Quarter ended June 30, 2013	Correspondent lending	Investment activities	Intersegment elimination & other (in thousands)	Total
Revenues:				
Net gain on mortgage loans acquired for sale	\$ 44,438	\$	\$	\$ 44,438
Net gain on investments		46,834		46,834
Interest	9,291	19,260	(1,754)	26,797
Other	4,752	6,876		11,628
	58,481	72,970	(1,754)	129,697
Expenses:				
Loan fulfillment fees payable to Private National Mortgage Acceptance Company, LLC and subsidiaries	22,054			22,054
Interest	7,536	8,362	(1,754)	14,144
Loan servicing fees payable to Private National Mortgage Acceptance Company, LLC and subsidiaries	201	8,586		8,787
Other	587	16,216		16,803
	30,378	33,164	(1,754)	61,788
Pre-tax income	\$ 28,103	\$ 39,806	\$	\$ 67,909
Total assets at period end	\$ 1,384,084	\$ 2,260,883	\$ (201,583)	\$ 3,443,384
Quarter ended June 30, 2012	Correspondent lending	Investment activities	Intersegment elimination & other (in thousands)	Total
Revenues:				
Net gain on mortgage loans acquired for sale	\$ 18,046	\$	\$	\$ 18,046
Net gain on investments		27,992		27,992
Interest income	3,178	12,881	(57)	16,002
Other	583	1,783		2,366
	21,807	42,656	(57)	64,406
Expenses:				
Loan fulfillment fees payable to Private National Mortgage Acceptance Company, LLC and subsidiaries	7,715			7,715
Interest	1,689	5,071	(57)	6,703
Loan servicing fees payable to Private National Mortgage Acceptance Company, LLC and subsidiaries	30	4,408		4,438
Other	356	7,219		7,575
	9,790	16,698	(57)	26,431
Pre-tax income	\$ 12,017	\$ 25,958	\$	\$ 37,975
Total assets at period end	\$ 483,574	\$ 1,413,554	\$ (6,382)	\$ 1,890,746

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Six months ended June 30, 2013	Correspondent lending	Investment activities	Intersegment elimination & other (in thousands)	Total
Revenues:				
Net gain on mortgage loans acquired for sale	\$ 73,717	\$	\$	\$ 73,717
Net gain on investments		110,814		110,814
Interest	15,615	29,852	(1,795)	43,672
Other	10,225	10,321		20,546
	99,557	150,987	(1,795)	248,749
Expenses:				
Loan fulfillment fees payable to Private National Mortgage Acceptance Company, LLC and subsidiaries	47,014		3,284 (1)	50,298
Interest	13,183	13,992	(1,795)	25,380
Loan servicing fees payable to Private National Mortgage Acceptance Company, LLC and subsidiaries	351	16,162		16,513
Other	2,026	30,688		32,714
	62,574	60,842	1,489	124,905
Pre-tax income	\$ 36,983	\$ 90,145	\$ (3,284)	\$ 123,844
Total assets at period end	\$ 1,384,084	\$ 2,260,883	\$ (201,583)	\$ 3,443,384

- (1) Corporate absorption of fulfillment fees for transition adjustment related to the amended and restated management agreement effective February 1, 2013.

Six months ended June 30, 2012	Correspondent lending	Investment activities	Intersegment elimination & other (in thousands)	Total
Revenues:				
Net gain on mortgage loans acquired for sale	\$ 31,416	\$	\$	\$ 31,416
Net gain on investments		39,480		39,480
Interest income	5,970	26,530	(73)	32,427
Other	2,044	5,688		7,732
	39,430	71,698	(73)	111,055
Expenses:				
Loan fulfillment fees payable to Private National Mortgage Acceptance Company, LLC and subsidiaries	13,839			13,839
Interest	2,632	10,818	(73)	13,377
Loan servicing fees payable to Private National Mortgage Acceptance Company, LLC and subsidiaries	77	8,486		8,563
Other	564	12,162		12,726
	17,112	31,466	(73)	48,505
Pre-tax income	\$ 22,318	\$ 40,232	\$	\$ 62,550
Total assets at period end	\$ 483,574	\$ 1,413,554	\$ (6,382)	\$ 1,890,746

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The accounting policies of the reportable segments are the same as those described in Note 3 *Significant Accounting Policies* to the Company's Annual Report.

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	Six months ended June 30,	
	2013	2012
	(in thousands)	
Cash paid for interest	\$ 25,543	\$ 12,998
Cash paid for income taxes	\$ 962	\$ 5,345
Non-cash investing activities:		
Transfer of mortgage loans to REO	\$ 68,627	\$ 48,442
Purchase of mortgage loans financed through forward purchase agreements	\$ 243,096	\$ 1,070
Transfer of mortgage loans under forward purchase agreements to mortgage loans, at fair value	\$	\$ 101,174
Transfer of mortgage loans under forward purchase agreements to REO under forward purchase agreements	\$	\$ 6,642
Receipt of MSR as proceeds from sales of loans	\$ 107,272	\$ 29,888
Purchase of REO financed through forward purchase agreements	\$ 89	\$ 248
Transfer of REO under forward purchase agreements to REO	\$	\$ 21,032
Non-cash financing activities:		
Purchase of mortgage loans financed through forward purchase agreements	\$ 243,096	\$ 1,070
Purchase of REO financed through forward purchase agreements	\$ 89	\$ 248
Transfer of note payable secured by mortgage loans to mortgage loans sold under agreements to repurchase	\$	\$ 26,573
Transfer of mortgage loans at fair value financed through agreements to repurchase to REO financed under agreements to repurchase	\$ 16,350	\$

Note 31 Regulatory Net Worth Requirement

PMC is a seller-servicer for Fannie Mae and Freddie Mac. To retain its status as an approved seller-servicer, PMC is required to meet Fannie Mae's and Freddie Mac's capital standards, which require PMC to maintain a minimum net worth of \$2.5 million for both Agencies. Management believes PMC complies with Fannie Mae's and Freddie Mac's net worth requirement as of June 30, 2013.

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Note 32 Subsequent Events

Management has evaluated all events and transactions through the date the Company issued these consolidated financial statements. During this period:

On July 24, 2013, PCM committed to purchase on the Company's behalf a pool of nonperforming mortgage loans with an aggregate unpaid principal balance of \$502 million. The pending transaction is subject to continuing due diligence and customary closing conditions. There can be no assurance that the committed amounts will ultimately be acquired or that the transaction will be completed at all.

On July 25, 2013, the Company, through PMC and PennyMac Mortgage Investment Trust Holdings I, LLC (PMITH), entered into amendments to (i) its master repurchase agreement, dated December 9, 2010, by and among Citibank, N.A. (Citi), PMC, PMITH and PLS (the Citi NPL Agreement), and (ii) its master repurchase agreement, dated May 24, 2012, by and among Citi, PMC and PLS (the Citi Repo Agreement and, together with the Citi NPL Agreement, the Citi Agreements). Under the terms of the amendments, the maturity date of each Citi Agreement was extended to July 24, 2014, and the maximum aggregate purchase price provided for in each Citi Agreement was increased to \$1 billion, the available amount of which is reduced under each Citi Agreement by any outstanding repurchase amounts under the other Citi Agreement; provided, however, that the aggregate purchase prices of distressed loans outstanding at any time under the Citi NPL Agreement may not exceed \$850 million. All other terms and conditions of the Citi Agreements remain the same in all material respects.

On July 26, 2013, the Company settled a commitment to purchase a pool of nonperforming mortgage loans with an aggregate unpaid principal balance totaling approximately \$494 million.

On August 2, 2013, the Company settled a commitment to purchase a pool of jumbo mortgage loans with an aggregate unpaid principal balance totaling approximately \$393 million (the Jumbo Pool).

On August 2, 2013, the Company financed the Jumbo Pool under that certain Master Repurchase Agreement, dated as of March 29, 2012, by and among Credit Suisse First Boston Mortgage Capital, LLC (Credit Suisse), PMITH, the Company and the Operating Partnership (the CS Repurchase Agreement). Credit Suisse agreed to finance the Jumbo Pool in accordance with the terms of the CS Repurchase Agreement; provided, however, that the aggregate purchase price of the Jumbo Pool, during the term of the financing, will not be counted for purposes of determining the maximum available purchase price under the CS Repurchase Agreement or under that certain Amended and Restated Master Repurchase Agreement, dated as of June 1, 2013, by and among Credit Suisse, PMC, the Company and the Operating Partnership. The aggregate unpaid principal balance of the mortgage loans in the Jumbo Pool was approximately \$393 million at the time of financing, and the maturity date with respect to such loans is October 15, 2013. All other terms and conditions of the CS Repurchase Agreement remain the same in all material respects.

On August 6, 2013, the Company's board of trustees declared a cash dividend of \$0.57 per share payable on August 30, 2013 to holders of record of the Company's common shares as of August 19, 2013.

All agreements to repurchase assets that matured between June 30, 2013 and the date of this Report were extended or renewed.

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

We are a specialty finance company that invests primarily in residential mortgage loans and mortgage-related assets. Our objective is to provide attractive risk-adjusted returns to our investors over the long-term, principally through dividends and secondarily through capital appreciation. We intend to achieve this objective largely by investing in distressed mortgage assets and acquiring, pooling and selling newly originated prime credit quality residential mortgage loans (correspondent lending).

Changes in the mortgage market have significantly reduced the outlets for sales of newly originated mortgage loans by mortgage lenders who have traditionally sold their loans to larger mortgage companies and banks who, in turn, sold those loans to Agencies and other investors or into securitizations. We believe that these changes are due in part to banks' anticipation of regulatory changes to loan and securitization-related capital requirements, along with a focus on retail lending; and that the changes provide us with the opportunity to act as a link between loan originators and the Agency and securitization markets.

During the quarter and the six months ended June 30, 2013, we purchased loans with fair values totaling \$8.9 billion and \$17.8 billion, respectively, in furtherance of our correspondent lending business. To the extent that we purchase loans that are insured by the U.S. Department of Housing and Urban Development (HUD), through the Federal Housing Administration (FHA) or insured or guaranteed by the Veterans Administration, we and PLS have agreed that PLS will fulfill and purchase such loans, as PLS is a Ginnie Mae approved issuer and servicer and we are not. This arrangement has enabled us to compete with other correspondent lenders that purchase both government and conventional loans. We receive a sourcing fee from PLS of three basis points on the unpaid principal balance of each loan that we sell to PLS under such arrangement, and earn interest income on the loan for the time period we hold the loan prior to the sale to PLS. We received sourcing fees totaling \$1.3 million and \$2.4 million relating to \$4.7 billion and \$8.3 billion of fair value loans we sold to PLS for the quarter and six months ended June 30, 2013, respectively, compared to \$461,000 and \$701,000 relating to \$1.6 billion and \$2.5 billion of loans at fair value that we sold to PLS for the quarter and six months ended June 30, 2012, respectively.

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

We seek to maximize the value of the distressed mortgage loans that we acquire using means that are appropriate for the particular loan, including both proprietary and nonproprietary loan modification programs (such as the U.S. Department of the Treasury and HUD's Home Affordable Modification Program (HAMP)), special servicing and other initiatives focused on avoiding foreclosure, when possible. When we are unable to effect a cure for a mortgage delinquency, our objective is to effect timely acquisition and/or liquidation of the property securing the loan through the use, in part, of short sales and deed-in-lieu of foreclosure programs. During the quarter and six months ended June 30, 2013, we acquired distressed mortgage loans with fair values totaling \$243.2 million and \$443.7 million, respectively, and we received proceeds from liquidation, payoffs and sales from our portfolio of distressed mortgage loans and REO totaling \$104.8 million and \$198.3 million, respectively.

We supplement these activities through participation in other mortgage-related activities, which are in various states of analysis, planning or implementation, including:

Acquisition of MSR or excess servicing spread from MSRs from financial institutions. We believe that MSR investments may allow us to earn attractive current returns and to leverage the loan servicing and origination capabilities of PLS to improve the assets' value. We also intend to continue to retain the MSRs that we receive as a portion of the proceeds from our sale or securitization of mortgage loans through our correspondent lending operation. Pursuant to the terms of the MSR recapture agreement entered into with PLS effective February 1, 2013, if PLS refinances loans for which we previously created and held the MSRs through our correspondent lending activities, PLS is generally required to transfer and convey to us, without cost to us, the MSRs with respect to new mortgage loans originated in those refinancings (or, under certain circumstances, other mortgage loans) that have an aggregate unpaid principal balance that is not less than 30% of the aggregate unpaid principal balance of all the loans so originated.

To the extent that we transfer correspondent lending loans into private label securitizations in the future, we may retain a portion of the securities created in the securitization transaction.

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Acquisition of REIT-eligible mortgage-backed or mortgage-related securities.

Providing inventory financing of mortgage loans for mortgage lenders. We believe this activity may result in attractive investment assets and will supplement and make our correspondent lending business more attractive to lenders from which we acquire newly originated loans.

We are externally managed by PCM, an investment adviser that specializes in and focuses on, residential mortgage loans. Most of our mortgage loan portfolio is serviced by PLS, an affiliate of PCM.

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We conduct substantially all of our operations, and make substantially all of our investments, through our Operating Partnership and its subsidiaries. We are the sole limited partner and one of our subsidiaries is the sole general partner of our Operating Partnership.

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

Observations on Current Market Opportunities

The U.S. economy continues its pattern of modest growth as reflected in recent economic data. During the second quarter of 2013, real U.S. gross domestic product expanded at an annual rate of 1.7% compared to revised 1.1% and 1.2% annual rates for the first quarter of 2013 and second quarter of 2012, respectively. Modest economic growth continued to affect unemployment rates during the second quarter of 2013. The national unemployment rate was 7.6% at June 30, 2013 and compares to a revised seasonally adjusted rate of 8.2% at June 30, 2012 and 7.6% at March 31, 2013. Delinquency rates on residential real estate loans remain elevated compared to historical rates. As reported by the Federal Reserve, during the first quarter of 2013, the delinquency rate on residential real estate loans held by commercial banks was 9.7%, a reduction from 10.5% during the second quarter of 2012.

Residential real estate activity appears to be improving. The seasonally adjusted annual rate of existing home sales for June 2013 was 15.2% higher than for June 2012 and the national median existing home price for all housing types was \$214,200, a 13.5% increase from June 2012. On a national level, foreclosure filings during the second quarter of 2013 decreased by 23% as compared to the second quarter of 2012. Foreclosure activity across the country is expected to remain above historical average levels through the remainder of 2013 and beyond.

Thirty-year fixed rate mortgage interest rates ranged from a high of 4.07% to a low of 3.45% during the second quarter of 2013 (Source: the Federal Home Loan Mortgage Corporation's Weekly Primary Mortgage Market Survey). During the first six months of 2013, mortgage interest rates have ranged from a high of 4.46% to a low of 3.34%. During the second quarter of 2012, interest rates for the thirty-year fixed rate mortgage ranged from a high of 3.98% to a low of 3.66%.

Mortgage lenders originated an estimated \$495.0 billion of home loans during the second quarter of 2013, down 1.0 percent from the first three months of the year. That pushed year-to-date production volume to slightly less than \$1 trillion, and put the market 14.4 percent ahead of the pace set during the first six months of 2012 (Source: Inside Mortgage Finance). However, mortgage originations are forecast to decline, with current industry estimates for the second half of 2013 totally \$500 billion.

The potential market opportunity in non-agency jumbo mortgage loans continues to be significant. The first half of 2013 prime jumbo MBS issuance surpassed the total for all of 2012 with a total of securitization deal unpaid principal balance of \$7.9 billion. Investor appetite for non-agency MBS is steady and borrower demand is stable as low rates and improving home values drive origination activity. We believe that the Federal Housing Finance Agency (FHFA) will execute upon its stated goal to reduce the role of Fannie Mae and Freddie Mac in mortgage finance, and part of that goal will be to reduce agency conforming limits to pre-crisis levels. This would open a significant portion of the jumbo market to non agency securitization and move the market one step closer to normalization. During the six months ended June 30, 2013, we acquired approximately \$115.5 million in unpaid principal balance of jumbo loans compared to \$10.8 million in unpaid principal balance during all of 2012.

The Manager continues to see substantial volumes of distressed residential mortgage loan sales (sales of loan pools that consist of either nonperforming loans, troubled but performing loans or a combination thereof) offered for sale by a limited number of sellers. During the second quarter of 2013, our Manager reviewed 36 mortgage loan pools with unpaid principal balances totaling approximately \$11.1 billion and one pool of real estate acquired in settlement of loans totaling approximately \$108 million. This compares to our Manager's review of 27 mortgage loan pools with unpaid principal balances totaling approximately \$2.5 billion and one pool of real estate acquired in settlement of loans totaling approximately \$30 million during the second quarter of 2012. We acquired distressed mortgage loans with fair values totaling \$243.1 million during the quarter ended June 30, 2013. During the second quarter of 2012 we made acquisitions of distressed mortgage loans totaling \$138 million.

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The following is a summary of our key performance measures for the periods presented:

	Quarter ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(in thousands, except per share amounts)			
Net investment income	\$ 129,697	\$ 64,406	\$ 248,749	\$ 111,055
Pre-tax income by segment (1):				
Correspondent lending	\$ 29,857	\$ 12,017	\$ 38,737	\$ 22,318
Investment activities	38,052	25,958	88,391	40,232
Intersegment elimination and other			(3,284)	
	\$ 67,909	\$ 37,975	\$ 123,844	\$ 62,550
Net income	\$ 54,497	\$ 29,569	\$ 107,793	\$ 48,627
Earnings per share:				
Basic	\$ 0.92	\$ 0.80	\$ 1.81	\$ 1.46
Diluted	\$ 0.86	\$ 0.79	\$ 1.75	\$ 1.46
Dividends per share:				
Declared	\$ 0.57	\$ 0.55	\$ 1.14	\$ 1.10
Paid	\$ 0.57	\$ 0.55	\$ 1.14	\$ 1.10
Correspondent lending:				
Purchases of mortgage loans for sale	\$ 8,909,988	\$ 3,512,393	\$ 17,759,140	\$ 5,370,540
Proceeds from sales of mortgage loans acquired for sale:				
Cash:				
Sales to nonaffiliated investors	\$ 3,909,743	\$ 1,587,745	\$ 9,044,479	\$ 2,680,649
Sales of government-insured and guaranteed loans to PLS	4,733,767	1,620,123	8,282,164	2,458,243
	\$ 8,643,510	\$ 3,207,868	\$ 17,326,643	\$ 5,138,892
MSRs	51,055	16,960	29,888	29,889
	\$ 8,694,565	\$ 3,224,828	\$ 17,356,531	\$ 5,168,781
Investment activities:				
Distressed mortgage loans and REO:				
Purchases	\$ 243,198	\$ 260,304	\$ 443,671	\$ 260,643
Cash proceeds from liquidation activities	\$ 104,814	\$ 105,458	\$ 198,259	\$ 173,904
MBS:				
Purchases	\$	\$	\$	\$ 112,211
Cash proceeds from repayment and sales	\$	\$ 10,171	\$	\$ 21,257
Share prices during the period:				
High	\$ 26.07	\$ 20.29	\$ 28.73	\$ 20.29
Low	\$ 19.17	\$ 17.49	\$ 19.17	\$ 16.75
At period end	\$ 22.95	\$ 19.73	\$ 24.24	\$ 19.73
At period end:				
Total assets	\$ 3,443,384	\$ 1,890,745	\$ 3,443,384	\$ 1,890,745
Book value per share	\$ 21.06	\$ 19.43	\$ 21.06	\$ 19.43

During the quarter and six months ended June 30, 2013, we recorded net income of \$54.5 million and \$107.8 million, or \$0.86 and \$1.75 per diluted share, respectively. Our net income for the quarter and six months ended June 30, 2013 reflects net gains on our investments in financial instruments totaling \$91.3 million and \$184.5 million (comprised of net gain on investments and net gain on mortgage loans acquired for sale), including \$38.8 million and \$94.4 million of valuation gains on mortgage loans at fair value and mortgage loans under forward purchase agreements at fair value. These gains were supplemented by \$26.8 million and \$43.7 million of interest income. During the quarter and six months ended June 30, 2013, we purchased \$8.9 billion and \$17.8 billion, respectively, in fair value of newly originated mortgage loans. We recognized gains on such loans totaling approximately \$44.4 million and \$73.7 million, respectively. At June 30, 2013, we held mortgage loans acquired for sale with fair values totaling \$1.3 billion, including \$290.6 million that were pending sale to PLS.

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During the quarter and six months ended June 30, 2012, we recorded net income of \$29.6 million and \$48.6 million, or \$0.79 and \$1.46 per diluted share, respectively. Our net income for the quarter and six months ended June 30, 2012 reflects net gains on our investments in financial instruments totaling \$46.0 million and \$70.9 million (comprised of net gain on investments and net gain on mortgage loans acquired for sale), including \$21.6 million and \$28.3 million of valuation gains on MBS and mortgage loans excluding mortgage loans acquired for sale, supplemented by \$16.0 million and \$32.4 million of interest income, respectively. During the quarter and six months ended June 30, 2012, we purchased \$3.5 billion and \$5.4 billion, respectively, in fair value of newly originated mortgage loans. We recognized gains on such loans totaling approximately \$18.0 million and \$31.4 million, respectively. At June 30, 2012, we held mortgage loans acquired for sale with fair values totaling \$460.4 million, including \$102.2 million that were pending sale to PLS.

Our net income increased during the quarter and six months ended June 30, 2013 as compared to the quarter ended June 30, 2012 due to growth in both our correspondent lending and investment activities segments. During the quarter and six months ended June 30, 2013, we sold \$8.7 billion and \$17.3 billion in fair value of mortgage loans and issued \$10.0 billion and \$18.7 billion of IRLCs, an increase of \$5.4 billion or 117.4% and \$11.0 billion or 157.1%, respectively, from the quarter ended June 30, 2012. As a result of these increases, our gain on mortgage loans acquired for sale increased \$26.4 million or 146% and \$42.3 million or 135%, respectively. In our investment activities, our average investment portfolio was approximately \$1.3 billion during the quarter and six months ended June 30, 2013, an increase of \$276.4 million or 27% and \$308.7 million or 33% from the quarter and six months ended June 30, 2012. We recognized interest income and net gain on investments totaling approximately \$64.1 million and \$138.7 million during the quarter and six months ended June 30, 2013, increases of \$23.3 million or 57% and \$72.8 million or 110%, respectively, from the quarter ended June 30, 2012.

Net Investment Income

During the quarter and six months ended June 30, 2013, we recorded net investment income of \$129.7 million and \$248.7 million, respectively, comprised primarily of net gains on investments in financial instruments of \$91.3 million and \$184.5 million supplemented by \$26.8 million and \$43.7 million of interest income, \$4.8 million and \$10.2 million of loan origination fees and \$7.9 million and \$13.9 million of net loan servicing fees, partially offset by \$1.9 million and \$5.2 million from results of REO, respectively. This compares to net investment income of \$64.4 million and \$111.1 million recognized during the quarter and six months ended June 30, 2012, comprised primarily of net gains on investments in financial instruments of \$46.0 million and \$70.9 million supplemented by \$16.0 million and \$32.4 million of interest income and \$2.6 million and \$6.3 million from results of REO and negative net loan servicing fees of \$855,000 and \$658,000, respectively.

Net investment income includes noncash fair value adjustments. Because we have elected to record our mortgage loan investments and our mortgage loan investments under forward purchase agreements at fair value, a substantial portion of the income we record with respect to such loans results from changes in fair value. Net investment income also includes noncash fair value adjustments related to mortgage loans acquired for sale, IRLCs, forward purchase and sale contracts and MBS put and call options.

The fair value adjustments related to our mortgage loan investments, including mortgage loan investments under forward purchase agreements, are included in *Net gain (loss) on investments Mortgage loans*. The fair value adjustments related to mortgage loans acquired for sale, IRLCs, forward purchase and sale contracts and MBS put and call options are included in *Net gain on mortgage loans acquired for sale*. The amounts of fair value adjustments included for the periods indicated are as follows:

	Quarter ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(in thousands)			
Net gain or loss on investments mortgage loans				
Mortgage loans	\$ 39,571	\$ 19,161	\$ 95,187	\$ 20,026
Mortgage loans under forward purchase agreements	(777)	1,756	(777)	7,175
	38,794	20,917	94,410	27,201
Net gain on mortgage loans acquired for sale				
Mortgage loans acquired for sale	(34,572)	4,644	(36,994)	5,825
IRLCs	(28,020)	8,625	(36,446)	7,161
Hedging derivatives	97,026	(2,038)	96,360	(633)

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34,434	11,231	22,920	12,353
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\$ 73,228	\$ 32,148	\$ 117,330	\$ 39,554
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Cash is generated when mortgage loan investments and mortgage loans under forward purchase agreements are monetized through payoffs or sales, when payment of principal and interest occur on such loans, generally after they are modified, or when the property securing a mortgage loan that has been settled through acquisition of the property has been sold. We receive proceeds on the sale of mortgage loans acquired for sale that include both cash and our estimate of the value of MSRs and we recognize a liability for potential losses relating to representations and warranties created in the loan sales transactions. Cash flows relating to hedging instruments are generally produced when the instruments mature or when we effectively cancel the transactions through an offsetting trade.

During the quarter and six months ended June 30, 2013, we received proceeds from liquidation of mortgage loan investments of \$68.4 million and \$125.8 million, respectively. For these liquidations, we had recorded \$10.7 million and \$17.7 million, respectively, of accumulated valuation gains during the period we held the assets and recorded additional gains of \$8.0 million and \$16.4 million, respectively, when the assets were liquidated.

During the quarter and six months ended June 30, 2012, we received proceeds from liquidations of mortgage loan investments of \$52.4 million and \$93.1 million, respectively. For these liquidations, we had recorded \$5.7 million and \$9.7 million, respectively, of accumulated valuation gains during the period we held the assets and recorded additional gains of \$6.5 million and \$11.3 million, respectively, when the assets were liquidated.

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The growth in net investment income reflects the growth in the distressed loan portfolio and correspondent lending activities.

Net investment income on financial instruments is summarized below for the periods presented:

	Net gain (loss) on investments	Quarter ended June 30, 2013			Total revenue/ expense	Average balance	Annualized % Interest yield/cost
		Coupon	Interest income/expense Discount/ fees(1)	Total			
(dollars in thousands)							
Assets:							
Correspondent lending:							
Mortgage loans acquired for sale at fair value	\$ 44,438	\$ 9,292	\$ 9,292	\$ 9,292	\$ 53,730	\$ 1,042,735	3.52%
Investment activities:							
Short-term investments		57	57	57	82,450		0.27%
Mortgage loans at fair value	47,523	17,052	17,052	64,575	1,186,186		5.69%
Mortgage loans under forward purchase agreements at fair value	(689)	260	260	(429)	33,010		3.12%
	46,834	17,312	17,312	64,146	1,219,196		5.62%
Total investment activities	46,834	17,369	17,369	64,203	1,301,646		5.34%
Other interest		136	136	136			
	\$ 91,272	\$ 26,797	\$ 26,797	\$ 118,069	\$ 2,344,381		4.52%
Liabilities:							
Assets sold under agreements to repurchase:							
Mortgage loans at fair value	\$ 3,501	\$ 484	\$ 484	\$ 3,985	\$ 3,985	\$ 414,054	3.81%
Mortgage loans acquired for sale at fair value	5,008	1,519	6,527	6,527	966,165		2.67%
Real estate acquired in settlement of loans	52	125	177	177	5,131		13.66%
Senior exchangeable notes	2,240	144	2,384	2,384	170,330		5.54%
Notes payable secured by warehouse notes receivable		125	125	125			
Borrowings under forward purchase agreements	251		251	251	33,096		3.00%
Interest bearing liabilities	11,052	2,397	13,449	13,449	1,588,776		3.39%
Other interest Servicing	695		695	695			
	\$ 11,747	\$ 2,397	\$ 14,144	\$ 14,144	\$ 1,588,776		3.52%

(1) Amounts in this column represent accrual of unearned discounts and amortization of facility commitment fees for liabilities.

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	Net gain (loss) on investments	Quarter ended June 30, 2012			Total revenue/ expense	Average balance	Annualized % Interest yield/cost
		Interest income/ Coupon	Discount/ fees(1)	Total			
(dollars in thousands)							
Assets:							
Correspondent lending:							
Mortgage loans acquired for sale at fair value	\$ 18,046	\$ 3,157	\$	\$ 3,157	\$ 21,203	\$ 261,470	4.78%
Investment activities:							
Short-term investments		10		10	10	71,728	0.06%
Mortgage-backed securities:							
Fannie Mae 30-year fixed	195	920	(130)	790	985	114,301	2.73%
Non-Agency subprime	409	71	95	166	575	49,995	1.32%
Non-Agency Alt-A	94	95	(75)	20	114	6,420	1.23%
Non-Agency prime jumbo	8	26	9	35	43	4,112	3.30%
	706	1,112	(101)	1,011	1,717	174,828	2.29%
Mortgage loans at fair value	24,798	11,439		11,439	36,237	718,173	6.30%
Mortgage loans under forward purchase agreements at fair value	2,488	348		348	2,836	60,490	2.27%
	27,286	11,787		11,787	39,073	778,663	5.99%
Total investment activities	27,992	12,909	(101)	12,808	40,800	1,025,219	5.00%
Other interest		37		37	37		
	\$ 46,038	\$ 16,103	\$ (101)	\$ 16,002	\$ 62,040	\$ 1,286,689	4.92%
Liabilities:							
Assets sold under agreements to repurchase:							
Securities	\$	\$ 232	\$	\$ 232	\$ 232	\$ 154,233	0.59%
Mortgage loans at fair value		1,326	583	1,909	1,909	242,732	3.11%
Mortgage loans acquired for sale at fair value		3,078	394	3,472	3,472	321,932	4.27%
Real estate acquired in acquired in settlement of loans		184	125	309	309	17,408	7.03%
Borrowings under forward purchase agreements		781		781	781	79,761	3.87%
		5,601	1,102	6,703	6,703	816,066	3.25%
Other interest Servicing							
	\$	\$ 5,601	\$ 1,102	\$ 6,703	\$ 6,703	\$ 816,066	3.25%

(1) Amounts in this column represent accrual of unearned discounts and amortization of facility commitment fees for liabilities.

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	Net gain (loss) on investments	Six months ended June 30, 2013			Average balance	Annualized % interest yield/cost
		Coupon	Interest income/expense Discount/ fees(1)	Total		
Assets:						
Correspondent lending:						
Mortgage loans acquired for sale at fair value	\$ 73,717	\$ 15,615	\$	\$ 15,615	\$ 89,332	\$ 937,707 3.33%
Investment activities:						
Short-term investments		88		88	88	73,224 0.24%
Mortgage loans at fair value	111,503	27,549		27,549	139,052	1,160,858 4.75%
Mortgage loans under forward purchase agreements at fair value	(689)	260		260	(429)	16,596 3.12%
	110,814	27,809		27,809	138,623	1,177,454 5.45%
Total investment activities	110,814	27,897		27,897	138,711	1,250,678 4.46%
Other interest		160		160	160	
	\$ 184,531	\$ 43,672	\$	\$ 43,672	\$ 228,203	\$ 2,188,385 3.97%
Liabilities:						
Assets sold under agreements to repurchase:						
Mortgage loans at fair value	\$	\$ 7,295	\$ 1,047	\$ 8,342	\$ 8,342	\$ 428,025 3.88%
Mortgage loans acquired for sale at fair value		9,460	3,117	12,577	12,577	870,821 2.87%
Real estate acquired in acquired in settlement of loans		107	250	357	357	5,164 13.74%
Senior exchangeable notes		2,240	144	2,384	2,384	85,635 5.54%
Notes payable secured by warehouse notes receivable			250	250	250	
Borrowings under forward purchase agreements		251		251	251	16,640 3.00%
		19,353	4,808	24,161	24,161	1,406,285 3.42%
Other interest Servicing		1,219		1,219	1,219	
	\$	\$ 20,572	\$ 4,808	\$ 25,380	\$ 25,380	\$ 1,406,285 3.59%

(1) Amounts in this column represent accrual of unearned discounts and amortization of facility commitment fees for liabilities.

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	Net gain (loss) on investments	Six months ended June 30, 2012			Total revenue/ expense (dollars in thousands)	Average balance	Annualized % interest yield/cost
		Interest income/expense Coupon	Discount/ fees(1)	Total			
Assets:							
Correspondent lending:							
Mortgage loans acquired for sale at fair value	\$ 31,416	\$ 5,948	\$	\$ 5,948	\$ 37,364	\$ 220,882	5.33%
Investment activities:							
Short-term investments		18		18	18	54,635	0.07%
United States Treasury security						4,945	0.00%
Mortgage-backed securities:							
Fannie Mae 30-year fixed	189	920	(130)	790	979	58,422	2.67%
Non-Agency subprime	655	166	378	544	1,199	53,971	1.99%
Non-Agency Alt-A	121	206	(32)	174	295	7,043	4.90%
Non-Agency prime jumbo	98	59	18	77	175	4,623	3.28%
Total mortgage-backed securities	1,063	1,351	234	1,585	2,648	124,059	2.53%
Mortgage loans at fair value	29,229	23,966		23,966	53,195	669,807	7.08%
Mortgage loans under forward purchase agreements at fair value	9,188	850		850	10,038	88,551	1.90%
	38,417	24,816		24,816	63,233	758,358	6.47%
Total investment activities	39,480	26,185	234	26,419	65,899	941,997	5.61%
Other interest		60		60	60		
	\$ 70,896	\$ 32,193	\$ 234	\$ 32,427	\$ 103,323	\$ 1,162,879	5.52%
Liabilities:							
Assets sold under agreements to repurchase:							
Securities	\$	\$ 389	\$	\$ 389	\$ 389	\$ 111,631	0.69%
Mortgage loans at fair value		6,017	593	6,610	6,610	303,875	4.30%
Mortgage loans acquired for sale at fair value		2,273	1,000	3,273	3,273	210,298	3.08%
Real estate acquired in settlement of loans		446	250	696	696	20,999	6.56%
Note payable secured by mortgage loans at fair value		121	(8)	113	113	3,435	6.47%
Borrowings under forward purchase agreements		2,296		2,296	2,296	113,136	4.01%
Interest bearing liabilities		11,542	1,835	13,377	13,377	763,374	3.47%
Other interest Servicing							
	\$	\$ 11,542	\$ 1,835	\$ 13,377	\$ 13,377	\$ 763,374	3.47%

(1) Amounts in this column represent accrual of unearned discounts and amortization of facility commitment fees for liabilities.

Correspondent Lending*Net Gain on Mortgage Loans Acquired for Sale*

During the quarter and six months ended June 30, 2013, we recorded a net gain on mortgage loans acquired for sale of \$44.4 million and \$73.7 million, respectively, which included approximately \$51.1 million and \$107.3 million, respectively, in fair value of MSRs received as part of the proceeds from our correspondent lending loan sales.

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During the quarter and six months ended June 30, 2012, we recorded a net gain on mortgage loans acquired for sale of \$18.0 million and \$31.4 million, respectively, which included approximately \$17.0 million and \$29.9 million, respectively, in fair value of MSRs received as part of the proceeds from our correspondent lending sales.

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Our gains on mortgage loans acquired for sale are summarized below:

	Quarter ended June 30, 2013	2012	Six months ended June 30, 2013	2012
	(in thousands)			
Cash gain (loss):				
Sales proceeds	\$ (71,706)	\$ 5,396	\$ (98,952)	\$ 5,944
Hedging activities	32,092	(14,923)	45,705	(15,726)
	(39,614)	(9,527)	(53,247)	(9,782)
Non cash gain:				
Change in fair value of IRLCs	(28,020)	8,625	(36,446)	7,162
Receipt of MSR in loan sale transactions	51,055	16,960	107,271	29,888
Provision for losses relating to representations and warranties provided in loan sales	(1,437)	(618)	(3,227)	(1,044)
Change in fair value relating to loans and hedging derivatives held at period end:				
Mortgage loans	(34,572)	4,644	(36,994)	5,825
Hedging derivatives	97,026	(2,038)	96,360	(633)
	62,454	2,606	59,366	5,192
	\$ 44,438	\$ 18,046	\$ 73,717	\$ 31,416
Increase (decrease) in gain on mortgage loans acquired for sale due to:				
Change in IRLCs fair value	\$ (36,645)	\$ 8,747	\$ (43,608)	\$ 7,265
Volume of loans sold	26,289	9,351	75,103	24,086
Gain margin	36,748	(92)	10,806	(59)
Total change	\$ 26,392	\$ 18,006	\$ 42,301	\$ 31,292

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

The change in our cash gain on sale from the quarter ended June 30, 2012 to the quarter ended June 30, 2013 reflects the cash losses based on prevailing market conditions during the respective periods. During the quarter and six months ended June 30, 2012, mortgage interest rates were generally decreasing, resulting in larger cash gains. During the quarter and six months ended June 30, 2013, mortgage interest rates were generally increasing, resulting in reduced cash gains. In addition, during the quarter and six months ended June 30, 2013, pricing margins were compressed as compared to the quarter ended June 30, 2012, due to increasing competition in the market for mortgage loans.

We recognize a substantial portion of our gain on mortgage loans held for sale at fair value before we purchase the loan. In the course of our correspondent lending activities, we make contractual commitments to correspondent lenders to purchase loans at specified terms. We call these commitments interest rate lock commitments (IRLCs). We recognize the value of IRLCs at the time we make the commitment to the correspondent lender.

An active, observable market for IRLCs does not exist. Therefore, we estimate the fair value of IRLCs using methods and assumptions we believe that market participants use in pricing IRLCs. We estimate the fair value of an IRLC based on quoted Agency MBS prices, our estimate of the fair value of the MSR we expect to receive in the sale of the loans and the probability that the mortgage loan will be purchased as a percentage of the commitment we have made (the pull-through rate). Changes in our estimate of the probability the loan will fund and changes in interest rates are updated as the mortgage loans move through the purchase process and may result in changes in the estimates of the value of the IRLCs. Such changes are reflected in the change in fair value of IRLCs in our gain on mortgage loans acquired for sale.

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The significant unobservable inputs we use in the fair value measurement of our IRLCs are the pull-through rate and the MSR component of our estimate of the value of the mortgage loans we have committed to purchase. Significant changes in the pull-through rate and the MSR component of the IRLCs, in isolation, could result in a significant change in fair value measurement. The financial effects of changes in these assumptions are generally inversely correlated as increasing interest rates have a positive effect on the fair value of the MSR component of IRLC value, but increase the pull-through rate for loans that have decreased in fair value in comparison to the agreed-upon purchase price.

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

	June 30, 2013		December 31, 2012	
	Range			
Key Inputs	(Weighted average)			
Pull-through rate	55.3%	98.0%	44.2%	98.0%
	(87.6%)		(80.6%)	
MSR value expressed as:				
Servicing fee multiple	1.6 - 5.2		1.8 - 4.8	
	(4.5)		(4.5)	
Percentage of unpaid principal balance	0.4%	1.3%	0.4%	1.2%
	(1.1%)		(1.1%)	

MSRs represent the value of a contract that obligates us to service mortgage loans on behalf of the purchaser of the loan in exchange for servicing fees and the right to collect certain ancillary income from the borrower. We recognize MSRs initially at our estimate of the fair value of the contract to service the loans. As discussed in *Net loan servicing fees*, below, how much of the MSR we realize in cash relies on how our initial estimates of the future cash flows accruing to the MSRs are realized. As economic fundamentals influencing the loans we sell with servicing rights retained change, our estimate of the fair value of MSRs will also change. As a result, we will record changes in fair value as a component of *Net loan servicing fees* for the MSRs we carry at fair value and we may recognize changes in fair value relating to our MSRs carried at the lower of amortized cost or fair value depending on the relationship of the asset's fair value to its carrying value at the measurement date.

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

Key Inputs	Quarter ended June 30,									
	2013					2012				
	Amortized cost		Range (Weighted average)			Amortized cost		Fair value		
Unpaid principal balance of underlying loans	\$3,840,110		\$27,346			\$1,486,109		\$56,193		
Average servicing fee rate (in basis points)	28		27			25		25		
Pricing spread (1)	5.4%	13.5%	6.6%	11.9%	7.5%	22.8%	7.5%	14.3%		
	(6.5%)		(7.5%)			(8.2%)		(8.5%)		
Life (in years)	2.6 - 6.9		6.3 - 6.9			2.5 - 6.4		2.5 - 6.4		
	(6.4)		(6.8)			(6.4)		(6.3)		
Annual total prepayment speed (2)	8.5%	23.6%	8.8%	13.6%	7.9%	36.9%	7.9%	36.9%		
	(9.1%)		(9.3%)			(9.0%)		(9.7%)		
Annual per-loan cost of servicing	\$68	\$140	\$68	\$68	\$68	\$140	\$68	\$140		
	(\$68)		(\$68)			(\$68)		(\$70)		

Key Inputs	Six months ended June 30,									
	2013					2012				
	Amortized cost		Range (Weighted average)			Amortized cost		Fair value		
Unpaid principal balance of underlying loans	\$8,843,667		\$29,946			\$2,504,900		\$106,033		
Average servicing fee rate (in basis points)	26		27			25		25		
Pricing spread (1)	5.4%	14.4%	6.6%	14.4%	7.5%	22.8%	7.5%	14.6%		
	(6.8%)		(7.6%)			(7.9%)		(8.4%)		
Life (in years)	2.6 - 6.9		2.8 - 6.9			2.5 - 6.7		2.5 - 6.7		
	(6.4)		(6.7)			(6.4)		(6.1)		
Annual total prepayment speed (2)	8.5%	23.6%	8.8%	27.0%	7.8%	36.9%	7.8%	39.9%		
	(9.1%)		(9.7%)			(8.6%)		(10.8%)		
Annual per-loan cost of servicing	\$68	\$140	\$68	\$68	\$68	\$140	\$68	\$140		
	(\$68)		(\$68)			(\$68)		(\$77)		

(1) Pricing spread represents a margin that is applied to a reference interest rate's forward rate curve to develop periodic discount rates. The Company applies a pricing spread to the United States Dollar LIBOR curve for purposes of discounting cash flows relating to MSRs acquired as proceeds from the sale of mortgage loans.

(2) Annual total prepayment speed is measured using life total CPR.

We also provide for our estimate of the future losses that we may be required to incur as a result of our breach of representations and warranties provided to the purchasers of the loans we sold. Our agreements with the Agencies include representations and warranties related to the loans we sell to the Agencies. The representations and warranties require adherence to Agency origination and underwriting guidelines, including but not limited to the validity of the lien securing the loan, property eligibility, borrower credit, income and asset requirements, and compliance with applicable federal, state and local law.

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

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

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Following is a summary of our *Recourse liability* in the consolidated balance sheets:

	Quarter ended June 30, 2013	2012	Six months ended June 30, 2013	2012
	(in thousands)			
Balance, beginning of period	\$ 6,231	\$ 631	\$ 4,441	\$ 205
Provisions for losses	1,437	618	3,227	1,044
Incurred losses				
Balance, end of period	\$ 7,668	\$ 1,249	\$ 7,668	\$ 1,249

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

	Quarter ended June 30, 2013	2012	Six months ended June 30, 2013	2012
	(in thousands)			
During the period:				
Unpaid balance of mortgage loans repurchased	\$ 292	\$	\$ 1,208	\$
Unpaid principal balance of repurchased mortgage loans repurchased by correspondent lenders	\$ 394	\$	\$ 1,104	\$
At period end:				
Unpaid balance of mortgage loans subject to pending claims for repurchase	\$ 824	\$	\$ 824	\$
Unpaid principal balance of mortgage loans subject to representations and warranties	\$ 19,829,437	\$ 3,019,360	\$ 19,829,437	\$ 3,019,360

During the quarter and six months ended June 30, 2013, we repurchased mortgage loans with unpaid balances totaling \$292,000 and \$1.2 million respectively, and incurred no losses relating to such repurchases. However, as the outstanding balance of loans we purchase and sell subject to representations and warranties increases and the loans sold season, we expect the level of repurchase activity to increase. As economic fundamentals change, and as investor and Agency evaluation of their loss mitigation strategies (including claims under representations and warranties) change, the level of repurchase activity and ensuing losses will change, which may be material to us.

The level of the recourse liability is difficult to estimate and requires considerable management judgment. The level of mortgage loan repurchase losses is dependent on economic factors, investor loss mitigation strategies, and other external conditions that may change over the lives of the underlying loans. Our representations and warranties are generally not subject to stated limits of exposure. However, we believe that the current unpaid principal balance of loans sold by us to date represents the maximum exposure to repurchases related to representations and warranties. We believe the amount and range of reasonably possible losses in relation to the recorded liability is not material to our financial condition or results of operations.

Our hedging activities relating to correspondent lending primarily involve forward sales of our inventory and commitments to purchase mortgage loans as well as purchases of options to sell and options to purchase MBS. While we held Agency MBS, we hedged the interest rate fluctuations on indebtedness incurred to finance our investment in Agency MBS using interest rate swaption agreements.

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Following is a summary of the notional activity in our hedging derivatives for the periods presented:

Period/Instrument	Balance, beginning of period	Additions (in thousands)	Dispositions/ expirations	Balance, end of period
Quarter ended June 30, 2013				
MBS put options	225,000	1,545,000	(1,310,000)	460,000
MBS call options	350,000	1,000,000	(625,000)	725,000
Forward purchase contracts	1,890,960	15,323,298	(11,802,474)	5,411,784
Forward sales contracts	3,224,190	20,418,956	(15,915,080)	7,728,066

Period/Instrument	Balance, beginning of period	Additions (in thousands)	Dispositions/ expirations	Balance, end of period
Six months ended June 30, 2013				
MBS put options	495,000	3,025,000	(3,060,000)	460,000
MBS call options		1,900,000	(1,175,000)	725,000
Forward purchase contracts	2,206,539	27,765,642	(24,560,397)	5,411,784
Forward sales contracts	4,266,983	38,269,229	(34,808,146)	7,728,066

Investment Activities*Net Gain (Loss) on Investments*

During the quarter and six months ended June 30, 2013, we recognized net gains on investments totaling \$46.8 million and \$110.8 million, respectively. This compares to recognized net gains on investments totaling \$28.0 million and \$39.5 million, respectively, during the quarter and six months ended June 30, 2012, respectively. The increase for the quarter and six months ended June 30, 2013 as compared to the same prior periods is primarily due to valuation gains in our portfolio of mortgage loans, including mortgage loans under forward purchase agreements, reflecting continuing improvements in the performance of the residential real estate market. This appreciation was compounded by growth in our average investment in mortgage loans at fair value. The average portfolio balance of mortgage loans at fair value (including mortgage loans under forward purchase agreements) increased \$440.5 million or 57%, and \$419.1 million or 55%, respectively, during the quarter and six months ended June 30, 2013 as compared to the same prior periods.

Net gains on mortgage loans at fair value and mortgage loans under forward purchase agreements at fair value are summarized below for the periods presented:

	Quarter ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(in thousands)			
Valuation changes:				
Performing loans	\$ 4,700	\$ 2,636	\$ 27,684	\$ 4,348
Nonperforming loans	34,094	18,281	66,726	22,853
	38,794	20,917	94,410	27,201
Payoffs	8,040	6,489	16,404	11,336
Sales		(120)		(120)
	\$ 46,834	\$ 27,286	\$ 110,814	\$ 38,417

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The net gains on mortgage loans arising from valuation changes were due to improvements in observed market demand for performing and re-performing distressed loans, changes in the value of loans as the loans moved through the resolution process and continuing improvement in the performance of the residential real estate market.

Because we have elected to record our mortgage loans and mortgage loans under forward purchase agreements at fair value, a substantial portion of the income we record with respect to such loans results from changes in fair value. Valuation changes amounted to \$38.8 million and \$20.9 million during the quarters ended June 30, 2013 and 2012, respectively, and \$94.4 million and \$27.2 million in the six months ended June 30, 2013 and 2012, respectively.

Cash is generated when mortgage loans and mortgage loans under forward purchase agreements are monetized through payoffs or sales, when payments of principal and interest occur on such loans, generally after they are modified, or when the property securing a mortgage loan that has been settled through acquisition of the property has been sold. During the quarters ended June 30, 2013 and 2012, we received proceeds from liquidation of mortgage loans and REO of \$99.4 million and \$94.2 million; and during the six month periods ended June 30, 2013 and 2012, we received proceeds from liquidation of mortgage loans and REO totaling \$188.8 million and \$168.4 million, respectively. For these liquidations, we had recorded accumulated gains on the liquidated assets during the period we held those assets totalling \$4.4 million and \$5.2 million for the quarters ended June 30, 2013 and 2012, respectively, and \$4.8 million and \$9.1 million for the six month periods ended June 30, 2013 and 2012, respectively, and we recorded additional gains of \$5.1 million and \$12.3 million for the quarters ended June 30, 2013 and 2012, and \$22.3 million and \$10.7 million for the six month periods ended June 30, 2013 and 2012, respectively, when the assets were liquidated.

During the quarters ended June 30, 2013 and 2012, we recognized gains on mortgage loan payoffs as summarized below:

	Quarter ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(dollars in thousands)			
Number of loans	349	232	642	417
Unpaid principal balance	\$ 94,313	\$ 79,590	\$ 174,956	\$ 141,651
Gain recognized at payoff	\$ 8,040	\$ 6,489	\$ 16,404	\$ 11,336

The increase in gains recognized at payoff for the quarter ended June 30, 2013 compared to the quarter ended June 30, 2012 was due to growth in our portfolio of mortgage loans for the quarter ended June 30, 2013 compared to the quarter ended June 30, 2012.

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The following tables present a summary of loan modifications completed for the periods presented:

Modification type(1)	Quarter ended June 30, 2013		2012		Six months ended June 30, 2013		2012	
	Number of loans	Balance of loans(2)	Number of loans	Balance of loans(2)	Number of loans	Balance of loans(2)	Number of loans	Balance of loans(2)
	(dollar amounts in thousands)							
Rate reduction	149	\$ 32,226	83	\$ 21,886	272	\$ 59,131	268	\$ 70,799
Term extension	127	28,816	64	16,494	238	51,396	157	40,926
Capitalization of interest and fees	250	54,442	155	37,204	468	100,627	422	103,259
Principal forbearance	60	16,157	14	4,527	109	25,088	51	15,570
Principal reduction	122	28,056	68	17,489	196	48,397	206	51,538
Total	250	54,442	155	37,204	468	100,627	422	103,259
Defaults of mortgage loans modified in the prior year		\$ 2,796		\$ 828		\$ 7,134		\$ 1,818
As a percentage of balance of loans before modification		10%		7%		9%		11%
Defaults during the period of mortgage loans modified since acquisition(3)		\$ 11,060		\$ 3,913		\$ 20,983		\$ 5,673
As a percentage of balance of loans before modification		6%		5%		11%		7%
Repayments and sales of mortgage loans modified in the prior year		\$ 6,438		\$ 1,043		\$ 17,997		\$ 2,238
As a percentage of balance of loans before modification		18%		7%		18%		12%

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

(2) Before modification.

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

The following table summarizes the average impact of the modifications noted above to the terms of the loans modified for the periods presented:

Category	Quarter ended June 30, 2013		2012		Six months ended June 30, 2013		2012	
	Before Modification	After Modification	Before Modification	After Modification	Before Modification	After Modification	Before Modification	After Modification
	(Dollar amounts in thousands)							
Loan balance	\$ 218	\$ 197	\$ 240	\$ 226	\$ 215	\$ 197	\$ 245	\$ 226
Remaining term (months)	311	447	306	366	312	445	309	365
Interest rate	5.89%	4.18%	6.35%	4.29%	5.93%	4.17%	6.56%	4.04%
Forbearance principal	\$ 7	\$ 7	\$ 4	\$ 4	\$ 6	\$ 6	\$ 7	\$ 7

Defaults on mortgage loans modified in the prior year period as a percentage of the balance of mortgage loans before modification were comparable between periods presented. We believe that the rate of default on the loans modified in the prior year period represents acceptable performance from our loan modification program.

During the quarter and six months ended June 30, 2012, we recognized a net valuation gain on MBS totaling \$706,000 and \$1.1 million, respectively. We sold our portfolio of MBS during the quarter ended September 30, 2012 and have not reinvested in such assets through June 30, 2013.

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The effects of changes in the composition of our investments on our interest income during the periods presented are summarized below:

	Quarter ended June 30, 2013 vs. Quarter ended June 30, 2012 Increase (decrease) due to changes in			Six months ended June 30, 2013 vs. Six months ended June 30, 2012 Increase (decrease) due to changes in		
	Rate	Volume	Total change (in thousands)	Rate	Volume	Total change
Correspondent lending:						
Mortgage loans acquired for sale at fair value	\$ (1,026)	\$ 7,161	\$ 6,135	\$ (2,994)	\$ 12,661	\$ 9,667
Investment activities:						
Money market investment	45	2	47	62	8	70
Mortgage backed securities:						
FNMA conventional		(790)	(790)		(790)	(790)
Non-agency subprime		(166)	(166)		(544)	(544)
Non-agency Alt-A		(20)	(20)		(174)	(174)
Non-agency prime jumbo		(35)	(35)		(77)	(77)
Total mortgage backed securities		(1,011)	(1,011)		(1,585)	(1,585)
Mortgage loans at fair value	(1,209)	6,822	5,613	(9,772)	13,355	3,583
Mortgage loans under forward purchase agreements at fair value	103	(191)	(88)	349	(939)	(590)
Total investment activities	(1,061)	6,633	5,572	(9,361)	12,424	3,063
Other interest		99	99		100	100
	\$ (2,087)	\$ 12,882	\$ 10,795	\$ (12,355)	\$ 23,600	\$ 11,245

In the quarter and six months ended June 30, 2013, we earned interest income of \$26.8 million and \$43.7 million, respectively, compared to \$16.0 million and \$32.4 million for the quarter and six months ended June 30, 2012.

We earned interest income of \$1.0 million and \$1.6 million, respectively, on our portfolio of MBS during the quarter and six months ended June 30, 2012. As noted above, we sold this portfolio during the quarter ended September 30, 2012 and therefore had no income relating to such securities during the quarter and six months ended June 30, 2013.

In the quarter and six months ended June 30, 2013, we recognized interest income on mortgage loans at fair value and mortgage loans under forward purchase agreements at fair value of \$17.3 million and \$27.8 million, respectively, which compares to \$11.8 million and \$24.8 million, respectively, in the quarter and six months ended June 30, 2012. The increases in interest income are due primarily to growth in the average balance of our mortgage loan portfolio of \$440.5 million and \$419.1 million, or 57% and 55%, respectively, for the quarter and six months ended June 30, 2013 when compared to the same period in 2012. During the quarter and six months ended June 30, 2013, we recognized annualized interest on mortgage loans at fair value and mortgage loans under forward purchase agreements at fair value of 5.99% and 5.45%, respectively, on our portfolio of mortgage loans at fair value as measured by the portfolio's average fair value. This compares to 5.99% and 6.47% for the quarter and six months ended June 30, 2012. The decrease in yield during the quarter and six months ended June 30, 2013 as compared to the same period in 2012 is due primarily to the decrease in the weighted average coupon of performing mortgage loans and the increase in the proportion on nonperforming loans in our portfolio. At June 30, 2013, our investment in performing mortgage loans had a weighted average coupon of 4.10% compared to 4.33% at June 30, 2012.

At June 30, 2013, approximately 67% of the fair value of our mortgage loan portfolio was nonperforming, as compared to 59% at June 30, 2012. We do not accrue interest on nonperforming loans and generally do not recognize revenues during the period we hold REO. We calculate the

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yield on our mortgage loan portfolio based on the portfolio's average fair value, which most closely reflects our investment in the mortgage loans. Accordingly, the yield we realize is substantially higher than would be recorded based on the loans' unpaid balances as we purchase our mortgage loans at substantial discounts to their unpaid principal balances.

The revenue benefits of nonperforming loans and REO generally take longer to realize than those of performing loans due to the time required to work with borrowers to resolve payment issues through our modification programs and to acquire and liquidate the property securing the mortgage loans. The value and returns we realize from these assets are determined by our ability to cure the borrowers' defaults, or when curing of borrower defaults is not a viable solution, by our ability to effectively manage the liquidation process. As a participant in HAMP, we are required to comply with the process specified by the HAMP program before liquidating a loan, and this may extend the liquidation process. At June 30, 2013, we held \$1.0 billion in fair value of nonperforming loans and \$89 million in carrying value of REO.

Table of Contents*Results of Real Estate Acquired in Settlement of Loans*

Results of REO includes the gains or losses we record upon sale of the properties as well as valuation adjustments we record during the period we hold those properties. During the quarter and six months ended June 30, 2013, we recorded net losses of \$1.9 million and \$5.2 million in *Results of real estate acquired in settlement of loans* as compared to net gains totaling \$2.6 million and \$6.3 million, respectively, for the quarter and six months ended June 30, 2012.

Results of REO are summarized below:

	Quarter ended June 30, 2013	2012	Six months ended June 30, 2013	2012
	(in thousands)			
Valuation adjustments, net	\$ (4,980)	\$ (3,223)	\$ (11,069)	\$ (6,205)
Gain on sale, net	3,049	5,794	5,885	12,493
	(1,931)	2,571	(5,184)	6,288

The shift in results of REO from a gain during the quarter and six months ended June 30, 2012 to a loss during the quarter and six months ended June 30, 2013 was primarily due to valuation adjustments on a few large REO properties.

Net Loan Servicing Fees

When we sell mortgage loans, we generally enter into a contract to service the mortgage loans and recognize the value of such contracts as MSRs. Under these contracts, we perform loan servicing functions in exchange for fees and the right to other compensation. The servicing functions typically performed include, among other responsibilities, collecting and remitting loan payments; responding to borrower inquiries; accounting for principal and interest, holding custodial (impound) funds for payment of property taxes and insurance premiums; counseling delinquent mortgagors; and supervising foreclosures and property dispositions.

Net loan servicing fees are summarized below:

	Quarter ended June 30, 2013	2012	Six months ended June 30, 2013	2012
	(in thousands)			
Servicing fees(1)	\$ 12,307	\$ 1,758	\$ 22,724	\$ 2,410
MSR recapture fee receivable from PLS	368		498	
Effect of MSRs:				
Amortization	(6,265)	(654)	(11,232)	(902)
Reversal of (provision for) impairment of MSRs carried at lower of amortized cost or fair value	1,222	(1,518)	3,708	(1,624)
Change in fair value of MSRs carried at fair value	260	(441)	193	(542)
Losses on hedging derivatives			(1,988)	
	(4,783)	(2,613)	(9,319)	(3,068)
Net loan servicing fees	\$ 7,892	\$ (855)	\$ 13,903	\$ (658)

(1) Includes contractually specified servicing and ancillary fees.

Our servicing fees increased \$10.5 million and \$20.3 million, respectively, during the quarter and six months ended June 30, 2013 compared to the same periods ended June 30, 2012 due to the growth in our mortgage loan servicing portfolio. Correspondent lending activity presently the

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primary source of our mortgage loan servicing portfolio began to increase in the fourth quarter of 2011. As a result, our mortgage loan servicing portfolio during the quarter and six months ended June 30, 2012 was much smaller than during the quarter and six months ended June 30, 2013.

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Effective February 1, 2013, we entered into an MSR recapture agreement that requires PLS to transfer to us the MSRs with respect to new mortgage loans originated in refinancing transactions where PLS refinances a mortgage loan for which we previously held the MSRs. PLS is generally required to transfer MSRs relating to such mortgage loans (or, under certain circumstances, other mortgage loans) that have an aggregate unpaid principal balance that is not less than 30% of the aggregate unpaid principal balance of all the loans so originated. We recognized approximately \$368,000 and \$498,000, respectively, of such income during the quarter and six months ended June 30, 2013.

Amortization, impairment and changes in fair value of MSRs have a significant effect on net loan servicing fees, driven primarily by our monthly re-estimation of the fair value of MSRs. As our investment in MSRs grows, we expect that the effect of amortization, impairment and changes in fair value will have an increasing influence on our net income. The fair value of MSRs is difficult to determine because MSRs are not actively traded in standalone markets. Considerable judgment is required to estimate the fair values of these assets and the exercise of such judgment can significantly affect our income.

Our MSR valuation process combines the use of a discounted cash flow model and analysis of current market data to arrive at an estimate of fair value at each balance sheet date. The cash flow and prepayment assumptions used in the Manager's discounted cash flow model are based on market factors and include the historical performance of its MSRs, which the Manager believes are consistent with assumptions and data used by market participants valuing similar MSRs. The key assumptions used in the valuation of MSRs include mortgage prepayment speeds and discount rates. These variables can, and generally do, change from period to period as market conditions change. Therefore our estimate of the fair value of MSRs changes from period to period. PCM's valuation committee reviews and approves the fair value estimates of our MSRs.

We account for MSRs at either our estimate of the asset's fair value with changes in fair value recorded in current period earnings or using the amortization method carried at the lower of estimated amortized cost or fair value based on whether we view the underlying mortgages as being sensitive to prepayments resulting from changing market interest rates. We have identified an initial mortgage interest rate of 4.5% as the threshold for whether such mortgage loans are sensitive to changes in interest rates:

Our risk management efforts in connection with MSRs relating to mortgage loans with initial interest rates of more than 4.5% are aimed at moderating the effects of changes in interest rates on the assets' values.

For MSRs relating to mortgage loans with initial interest rates of less than or equal to 4.5% that were acquired as a result of our correspondent lending operations, we have concluded that such assets present different risks than MSRs relating to mortgage loans with initial interest rates of more than 4.5% and therefore require a different risk management approach. Our risk management efforts relating to these assets are aimed at moderating the effects of non-interest rate risks on fair value, such as the effect of changes in home prices on the assets' values. We have identified these assets for accounting using the amortization method.

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

Basis of Accounting	June 30, 2013	December 31, 2012
	(in thousands)	
Fair value	\$ 1,828	\$ 1,346
Lower of amortized cost or fair value:		
Amortized cost	\$ 228,912	\$ 132,977
Valuation allowance	(3,839)	(7,547)
Carrying value	\$ 225,073	\$ 125,430
Fair value	\$ 242,104	\$ 129,995
Total MSR:		
Carrying value	\$ 226,901	\$ 126,776
Fair value	\$ 243,932	\$ 131,341

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Unpaid balance of mortgage loans underlying MSR	\$ 19,850,609	\$ 12,168,940
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Average servicing fee rate (in basis points)		
Amortization cost	26	26
Fair value	27	27

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Key assumptions used in determining the fair value of MSRs and estimates of the sensitivity of MSR values to changes in these assumptions as of the dates presented are as follows:

Key Inputs	June 30, 2013				December 31, 2012			
	Amortized cost		Fair value		Amortized cost		Fair value	
	Range (Weighted average) (Carrying value, unpaid principal balance and effect on value amounts in thousands)							
Carrying value	\$225,073		\$1,828		\$125,430		\$1,346	
Unpaid principal balance of underlying loans	\$19,672,990		\$177,619		\$11,986,957		\$181,783	
Average servicing fee rate (in basis points)	26		27		26		27	
Weighted average coupon rate	3.63%		4.64%		3.70%		4.79%	
Pricing spread (1)	5.4%	18.5%	6.4%	14.4%	7.5%	16.5%	7.5%	16.5%
	(6.0%)		(8.0%)		(7.7%)		(7.7%)	
Effect on value of 5% adverse change	\$(4,073)		\$(30)		\$(2,052)		\$(21)	
Effect on value of 10% adverse change	\$(8,021)		\$(59)		\$(4,041)		\$(40)	
Effect on value of 20% adverse change	\$(15,563)		\$(115)		\$(7,845)		\$(78)	
Average life (in years)	2.7	6.9	3.2	6.9	1.7	6.3	1.4	6.3
	(6.4)		(6.7)		(6.3)		(6.0)	
Prepayment speed (2)	8.5%	33.0%	8.8%	29.5%	10.3%	47.8%	10.3%	65.9%
	(9.1%)		(10.9%)		(10.3%)		(13.2%)	
Effect on value of 5% adverse change	\$(5,218)		\$(46)		\$(3,026)		\$(52)	
Effect on value of 10% adverse change	\$(10,253)		\$(91)		\$(5,937)		\$(100)	
Effect on value of 20% adverse change	\$(19,811)		\$(175)		\$(11,436)		\$(190)	
Annual per-loan cost of servicing	\$68	\$140	\$68	\$140	\$68	\$140	\$68	\$140
	(\$68)		(\$72)		(\$68)		(\$74)	
Effect on value of 5% adverse change	\$(1,414)		\$(16)		\$(778)		\$(12)	
Effect on value of 10% adverse change	\$(2,829)		\$(31)		\$(1,556)		\$(24)	
Effect on value of 20% adverse change	\$(5,658)		\$(63)		\$(3,112)		\$(48)	

(1) Pricing spread represents a margin that is applied to a reference interest rate's forward rate curve to develop periodic discount rates. The Company applies a pricing spread to the United States Dollar LIBOR curve for purposes of discounting cash flows relating to MSRs acquired as proceeds from the sale of mortgage loans and purchased MSRs not backed by pools of distressed mortgage loans.

(2) Prepayment speed is measured using life total CPR.

Significant changes to any of the key assumptions shown above in isolation could result in a significant change in the MSR fair value measurement. Changes in these key assumptions are not necessarily directly related. The preceding sensitivity analyses are limited in that they were performed as of a particular point in time; only contemplate the movements in the indicated variables; do not incorporate changes in the variables in relation to other variables; are subject to the accuracy of various models and inputs used; and do not take into account other factors that would affect our overall financial performance in such scenarios, including operational adjustments made by the Manager to account for changing circumstances. For these reasons, the preceding estimates should not be viewed as earnings forecasts.

Table of Contents**Expenses**

Our expenses are summarized below for the periods presented:

	Quarter ended June 30, 2013	2012	Six months ended June 30, 2013	2012
	(in thousands)			
Loan fulfillment fees payable to Private National Mortgage Acceptance Company, LLC and subsidiaries	\$ 22,054	\$ 7,715	\$ 50,298	\$ 13,839
Interest	14,144	6,703	25,380	13,377
Loan servicing payable to Private National Mortgage Acceptance Company, LLC and subsidiaries	8,787	4,438	16,513	8,563
Management fees payable to Private National Mortgage Acceptance Company, LLC and subsidiaries	8,455	2,488	14,947	4,292
Professional services	1,339	1,186	3,723	1,628
Compensation	1,438	1,744	3,527	3,045
Other	5,571	2,157	10,517	3,761
	\$ 61,788	\$ 26,431	\$ 124,905	\$ 48,505

Increased expenses during the quarter and six months ended June 30, 2013 compared to the same period in 2012 were primarily a result of the substantial growth in our correspondent lending activities, the growth in the Company's investment portfolio and the use of borrowings to finance that growth.

Loan fulfillment fees represent fees we pay to PLS for the services it performs on our behalf in connection with our acquisition, packaging and sale of mortgage loans. The fee is calculated as a percentage of the unpaid principal balance of the mortgage loans purchased. The increases of \$14.3 million and \$36.5 million during the quarter and six months ended June 30, 2013 compared to the same periods in 2012 are due to the substantial growth in the volume of Agency-eligible and jumbo mortgage loans we purchased in our correspondent lending activities.

The effects of changes in the composition of our borrowings on our interest expense during the periods presented are summarized below:

	Quarter ended June 30, 2013			Six months ended June 30, 2013		
	vs.			vs.		
	Quarter ended June 30, 2012			Six months ended June 30, 2012		
	Increase (decrease)			Increase (decrease)		
	due to changes in			due to changes in		
	Rate	Volume	Total	Rate	Volume	Total
	(in thousands)					
Assets sold under agreements to repurchase:						
Securities	\$	\$ (232)	\$ (232)	\$	\$ (389)	\$ (389)
Mortgage loans at fair value	500	1,576	2,076	(716)	2,448	1,732
Mortgage loans acquired for sale at fair value	(1,706)	4,761	3,055	(235)	9,539	9,304
Real estate acquired in settlement of loans	174	(306)	(132)	421	(760)	(339)
Borrowings under forward purchase agreement	(147)	(383)	(530)	(467)	(1,578)	(2,045)
Senior exchangeable notes		2,384	2,384		2,384	2,384
Note payable secured by warehouse notes receivable		125	125		250	250
Note payable secured by mortgage loans at fair value					(113)	(113)
	(1,179)	7,925	6,746	(997)	11,781	10,784
Other interest servicing		695	695		1,219	1,219

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\$ (1,179) \$ 8,620 \$ 7,441 \$ (997) \$ 13,000 \$ 12,003

During the quarter and six months ended June 30, 2013, we incurred interest expense totaling \$14.1 million and \$25.4 million, respectively, as compared to \$6.7 million and \$13.4 million during the quarter and six months ended June 30, 2012. Our interest cost on interest bearing liabilities was 3.39% and 3.42%, respectively, for the quarter and six months ended June 30, 2013 as compared to 3.25% and 3.47%, respectively, for the quarter and six months ended June 30, 2012. The increase in interest expense reflects our increased use of borrowings in support of growth of our balance sheet throughout 2012 and 2013 along with the addition of \$250.0 million in exchangeable senior notes during the quarter ended June 30, 2013.

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Loan servicing expenses grew from \$4.4 million and \$8.6 million, respectively, in the quarter and six months ended June 30, 2012 to \$8.8 million and \$16.5 million, respectively, in the quarter and six months ended June 30, 2013 as our average investment in mortgage loans increased by 57% and 55%, respectively, from the quarter and six months ended June 30, 2012. Included in loan servicing fees were activity-based fees of which the amount increased by \$3.7 million and \$5.9 million, respectively, generally relating to the increase in loan liquidation activities.

Loan servicing fees payable to Private National Mortgage Acceptance Company, LLC and subsidiaries are summarized below for the periods presented:

	Quarter ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(in thousands)			
Servicing fees				
Base	\$ 6,150	\$ 3,110	\$ 11,866	\$ 6,138
Activity-based	2,637	1,328	4,647	2,425
	\$ 8,787	\$ 4,438	\$ 16,513	\$ 8,563

The components of our management fee payable to Private National Mortgage Acceptance Company, LLC and subsidiaries are summarized below:

	Quarter ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(in thousands)			
Base management fee	\$ 4,575	\$ 2,488	\$ 8,940	\$ 4,292
Performance incentive fee	3,880		6,007	
Total management fee incurred during the period	\$ 8,455	\$ 2,488	\$ 14,947	\$ 4,292

Management fees increased by \$6.0 million and \$10.7 million, respectively, in the quarter and six months ended June 30, 2013 compared to the same period in 2012, due to the combined effect of growth in shareholders' equity on the base management fee we pay to PCM combined with recognition of performance incentive fees in 2013 which we did not incur in 2012. Effective February 1, 2013, the management agreement was amended to adjust the basis on which both the base management fee and performance incentive fee are determined. Specifically, we amended:

The base management fee rate from 1.5% per year of shareholders' equity to a base management fee schedule based with tiered management fee rates beginning with a rate of 1.5% per year of shareholders' equity for the first \$2.0 billion of shareholders' equity and reduced rates as the balance of shareholders' equity increases. Our shareholders' equity did not reach a level that would have resulted in a reduced base management fee rate.

The definition of net income for purposes of determining the performance incentive fee to net income as determined in compliance with U.S. GAAP. Previously, net income for purposes of determining the performance incentive fee began with net income as determined in compliance with U.S. GAAP and made adjustments for non-cash gains and losses included in our income. Partly as a result of this change, we recognized \$3.9 million and \$6.0 million in performance incentive fees during the quarter and six months ended June 30, 2013.

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

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Professional services expense increased during the six months ended June 30, 2013 as compared to the quarter ended June 30, 2012 due to the heightened level of mortgage investment acquisition activity during the quarter ended March 31, 2013, which requires support in the form of due diligence and legal consultations.

Other expense items increased commensurately with increased business activity and asset growth.

Income Taxes

We had elected to treat two of our subsidiaries as TRSs. In the quarter ended September 30, 2012, we revoked the election to treat our wholly owned subsidiary that is the sole general partner of our Operating Partnership as a TRS. As a result, beginning September 1, 2012 only PMC is treated as a TRS. Income from a TRS is only included as a component of REIT taxable income to the extent that the TRS makes dividend distributions of income to the REIT.

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No such dividend distributions have been made to date. A TRS is subject to corporate federal and state income tax. Accordingly, a provision for income taxes for PMC and, for the period for which TRS treatment had been elected, the sole general partner of our Operating Partnership is included in the accompanying *Consolidated Statements of Income*.

In general, cash dividends declared by us will be considered ordinary income to shareholders for income tax purposes. Some portion of the dividends may be characterized as capital gain distributions or a return of capital. Of the 2012 distributions, approximately 83% were characterized as ordinary income and 17% were characterized as a return of capital.

Below is a reconciliation of U.S. GAAP net income to estimated taxable income for the six months ended June 30, 2013 and the allocation between the TRS and the REIT:

Six months ended June 30, 2013	U.S. GAAP net income	GAAP/Tax differences	Taxable income (in thousands)	Distribution of taxable income	
				Taxable subsidiaries	REIT
Net gain (loss) on investments	\$ 110,814	\$ (25,313)	\$ 85,501	\$ 44,704	\$ 40,797
Interest income	43,672	61	43,733	21,770	21,963
Net gain on mortgage loans acquired for sale	73,717	(94,656)	(20,939)	(20,939)	
Loan origination fees	10,225		10,225	10,225	
Results of real estate acquired in settlement of loans	(5,182)	(1,793)	(6,975)	(4,180)	(2,795)
Net loan servicing fees	13,903	3,227	17,130	17,130	
Equity in undistributed earnings of subsidiary				(4,677)	4,677
Other	1,600	132	1,732	279	1,453
Net investment income	248,749	(118,342)	130,407	64,312	66,095
Operating expenses	124,905	1,744	126,649	119,814	6,835
State tax deduction (benefit)		(6,002)	(6,002)	(6,016)	14
REIT dividend deduction		59,127	59,127		59,127
Net expense and deductions	124,905	54,869	179,774	113,798	65,976
Income before provision for income taxes	123,844	(173,211)	(49,367)	(49,486)	119
Provision for income taxes	16,051	(29,752)	(13,701)	(13,848)	147
Net income	\$ 107,793	\$ (143,459)	\$ (35,666)	\$ (35,638)	\$ (28)

Table of Contents**Balance Sheet Analysis**

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

	June 30, 2013	December 31, 2012
	(in thousands)	
Assets		
Cash	\$ 27,642	\$ 33,756
Investments:		
Short-term investments	73,236	39,017
Mortgage loans acquired for sale at fair value	1,309,830	975,184
Mortgage loans at fair value	1,552,296	1,189,971
Real estate acquired in settlement of loans	88,771	88,078
Mortgage servicing rights	226,901	126,776
	3,251,034	2,419,026
Other assets	164,708	106,881
Total assets	\$ 3,443,384	\$ 2,559,663
Liabilities		
Assets sold under agreements to repurchase:		
Mortgage loans acquired for sale at fair value	\$ 1,243,949	\$ 894,906
Mortgage loans at fair value	313,862	353,805
Real estate acquired in settlement of loans	8,085	7,391
Borrowings under forward purchase agreements	244,047	
Exchangeable senior notes	250,000	
	2,059,943	1,256,102
Other liabilities	139,260	102,225
Total liabilities	2,199,203	1,358,327
Shareholders' equity	1,244,181	1,201,336
Total liabilities and shareholders' equity	\$ 3,443,384	\$ 2,559,663

Total assets increased by approximately \$883.7 million or 35% during the period from December 31, 2012 through June 30, 2013. Growth in total assets reflects growth of investments totaling \$832 million or 34% from December 31, 2012. We financed our asset growth through additional borrowings of \$803.8 million or 64% compared to December 31, 2012. Net mortgage loan investments (excluding the purchase of correspondent lending loans) increased by \$362.3 million or 30% compared to December 31, 2012. The increase is related to purchases of \$443.2 million and fair valuation changes of \$73.7 million partially offset by repayments of \$135.2 million during the period. The valuation changes resulted from a continuing stabilization in home prices and fair value appreciation of the loans as they progress toward their ultimate resolution. Through our correspondent lending activities, we also purchased newly-originated mortgage loans totaling \$17.8 billion. Our acquisitions are summarized below.

Table of Contents**Asset Acquisitions***Correspondent Lending*

Following is a summary of our correspondent lending acquisitions:

	Quarter ended June 30, 2013	2012	Six months ended June 30, 2013	2012
	(in thousands)			
Fair value of correspondent lending loans purchased:				
Agency eligible	\$ 4,315,652	\$ 1,826,140	\$ 9,220,206	\$ 2,845,879
Government insured or guaranteed	4,480,570	1,683,608	8,417,013	2,516,712
Jumbo	108,486	2,641	116,641	7,945
	\$ 8,904,708	\$ 3,512,389	\$ 17,753,860	\$ 5,370,536
Fair value of correspondent lending loans in inventory at period-end	\$ 1,309,830	\$ 460,419	\$ 1,309,830	\$ 460,419

During the quarter and six months ended June 30, 2013, we purchased for sale \$8.9 billion and \$17.8 billion, respectively, in fair value of correspondent lending loans compared to \$3.5 billion and \$5.4 billion, respectively, in fair value of correspondent lending loans during the quarter and six months ended June 30, 2012. The increase is a result of our growing correspondent seller network relationships as well as the increased mortgage refinance activity due to the low interest rate environment. Our ability to continue the expansion of our correspondent lending business is subject to, among other factors, our ability to obtain additional inventory financing and our ability to fund the portion of the loans not financed, either through cash flows from business activities or the raising of additional equity capital. There can be no assurance that we will be successful in increasing our borrowing capacity or in obtaining the additional equity capital necessary or that we will be able to identify additional sources of mortgage loans.

Investment Portfolio

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

	Quarter ended June 30, 2013	2012	Six months ended June 30, 2013	2012
	(in thousands)			
MBS	\$	\$	\$	\$ 112,383
Distressed mortgage loans (1) (2)				
Performing	43,923	122,242	57,084	122,242
Nonperforming	198,787	138,441	386,099	138,352
	242,710	260,683	443,183	260,594
REO		48		48
MSRs	185	16,960	185	29,918
	\$ 242,895	\$ 277,691	\$ 443,368	\$ 402,943

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

(2)

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All of our distressed asset purchases during the quarter and six months ended June 30, 2013 were acquired from or through one or more subsidiaries of Citigroup Inc.

Our acquisitions during the quarters ended June 30, 2013 and 2012 were financed primarily through the use of borrowings. We continue to identify additional means of increasing our investment portfolio through cash flow from existing investments, borrowings, and transactions that minimize current cash outlays. However, we expect that, over time, our ability to continue our investment activities portfolio growth will depend on our ability to raise additional equity capital.

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Investment Portfolio Composition

Mortgage Loans

The relationship of the fair value of our mortgage loans at fair value (excluding mortgage loans acquired for sale at fair value) to the fair value of the real estate collateral underlying the loans is summarized below:

	June 30, 2013		December 31, 2012	
	Loan	Collateral	Loan	Collateral
	Fair values (in thousands)			
Performing loans	\$ 506,964	\$ 768,291	\$ 404,016	\$ 608,833
Nonperforming loans	1,045,332	1,525,826	785,955	1,179,737
	\$ 1,552,296	\$ 2,294,117	\$ 1,189,971	\$ 1,788,570

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

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

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

Loan type	June 30, 2013						December 31, 2012					
	Performing loans			Nonperforming loans			Performing loans			Nonperforming loans		
	Fair value	% total	Average note rate	Fair value	% total	Average note rate	Fair value	% total	Average note rate	Fair value	% total	Average note rate
	(dollars in thousands)						(dollars in thousands)					
Fixed	\$ 258,165	51%	5.27%	\$ 611,381	58%	6.09%	\$ 201,212	50%	5.01%	\$ 463,657	59%	6.23%
ARM/Hybrid	163,263	32%	3.61%	423,836	41%	5.50%	134,196	33%	3.91%	315,905	40%	5.97%
Interest rate step-up	85,392	17%	2.34%	9,457	1%	2.92%	68,475	17%	2.18%	5,969	1%	2.26%
Balloon	144	0%	2.00%	658	0%	6.26%	133	0%	2.00%	424	0%	8.12%
	\$ 506,964	100%	4.22%	\$ 1,045,332	100%	5.83%	\$ 404,016	100%	4.13%	\$ 785,955	100%	6.10%

Lien position	June 30, 2013						December 31, 2012					
	Performing loans			Nonperforming loans			Performing loans			Nonperforming loans		
	Fair value	% total	Average note rate	Fair value	% total	Average note rate	Fair value	% total	Average note rate	Fair value	% total	Average note rate
	(dollars in thousands)						(dollars in thousands)					
1st lien	\$ 506,567	100%	4.22%	\$ 1,045,291	100%	5.82%	\$ 403,870	100%	4.12%	\$ 785,846	100%	6.09%
2nd lien	397	0%	5.36%	38	0%	10.75%	146	0%	6.80%	109	0%	10.90%
Unsecured		0%	0.39%	3	0%	0.01%		0%	0.00%		0%	0.00%
	\$ 506,964	100%	4.22%	\$ 1,045,332	100%	5.83%	\$ 404,016	100%	4.13%	\$ 785,955	100%	6.10%

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	June 30, 2013						December 31, 2012					
	Performing loans			Nonperforming loans			Performing loans			Nonperforming loans		
	Fair value	% total	Average note rate	Fair value	% total	Average note rate	Fair value	% total	Average note rate	Fair value	% total	Average note rate
Occupancy	(dollars in thousands)						(dollars in thousands)					
Owner occupied	\$ 438,102	86%	4.19%	\$ 748,474	72%	5.69%	\$ 346,301	86%	4.07%	\$ 563,058	72%	6.00%
Investment property	60,427	12%	4.50%	294,416	28%	6.17%	50,801	12%	4.58%	222,138	28%	6.35%
Other	8,435	2%	4.24%	2,442	0%	5.64%	6,914	2%	3.94%	759	0%	4.94%
	\$ 506,964	100%	4.22%	\$ 1,045,332	100%	5.83%	\$ 404,016	100%	4.13%	\$ 785,955	100%	6.10%

	June 30, 2013						December 31, 2012					
	Performing loans			Nonperforming loans			Performing loans			Nonperforming loans		
	Fair value	% total	Average note rate	Fair value	% total	Average note rate	Fair value	% total	Average note rate	Fair value	% total	Average note rate
Loan age	(dollars in thousands)						(dollars in thousands)					
Less than 12 months	\$ 302	0%	4.73%	\$	0%	0.00%	\$ 99	0%	5.56%	\$	0%	5.20%
12 - 35 months	958	0%	4.03%	2,165	0%	4.47%	1,000	0%	2.85%	808	0%	4.97%
36 - 59 months	16,608	4%	4.30%	55,016	5%	6.11%	24,250	6%	4.41%	101,699	13%	6.22%
60 months or more	489,096	96%	4.22%	988,151	95%	5.82%	378,667	94%	4.11%	683,448	87%	6.09%
	\$ 506,964	100%	4.22%	\$ 1,045,332	100%	5.83%	\$ 404,016	100%	4.13%	\$ 785,955	100%	6.10%

	June 30, 2013						December 31, 2012					
	Performing loans			Nonperforming loans			Performing loans			Nonperforming loans		
	Fair value	% total	Average note rate	Fair value	% total	Average note rate	Fair value	% total	Average note rate	Fair value	% total	Average note rate
Origination	(dollars in thousands)						(dollars in thousands)					
FICO score												
Less than 600	\$ 137,106	27%	4.70%	\$ 237,289	23%	6.12%	\$ 94,928	24%	4.78%	\$ 174,955	22%	6.50%
600-649	103,498	20%	4.63%	202,049	19%	6.03%	78,641	19%	4.47%	154,809	20%	6.27%
650-699	116,988	23%	3.96%	272,232	26%	5.82%	101,173	25%	3.91%	212,916	27%	6.07%
700-749	100,165	20%	3.63%	227,228	22%	5.44%	84,145	21%	3.57%	164,304	21%	5.72%
750 or greater	49,207	10%	3.73%	106,534	10%	5.53%	45,129	11%	3.66%	78,971	10%	5.73%
	\$ 506,964	100%	4.22%	\$ 1,045,332	100%	5.83%	\$ 404,016	100%	4.13%	\$ 785,955	100%	6.10%

	June 30, 2013						December 31, 2012					
	Performing loans			Nonperforming loans			Performing loans			Nonperforming loans		
	Fair value	% total	Average note rate	Fair value	% total	Average note rate	Fair value	% total	Average note rate	Fair value	% total	Average note rate
Current loan-value(1)	(dollars in thousands)						(dollars in thousands)					
Less than 80%	\$ 98,925	19%	4.82%	\$ 138,239	13%	5.98%	\$ 69,139	17%	5.14%	\$ 85,294	11%	6.28%
80% - 99.99%	134,373	27%	4.29%	199,340	19%	5.84%	83,571	21%	4.74%	139,272	18%	6.21%
100% - 119.99%	141,985	28%	4.08%	232,725	23%	5.88%	95,313	23%	4.03%	171,569	22%	6.20%
120% or greater	131,681	26%	4.01%	475,028	45%	5.78%	155,993	39%	3.65%	389,820	49%	6.03%
	\$ 506,964	100%	4.22%	\$ 1,045,332	100%	5.83%	\$ 404,016	100%	4.13%	\$ 785,955	100%	6.10%

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Geographic distribution	June 30, 2013						December 31, 2012					
	Performing loans			Nonperforming loans			Performing loans			Nonperforming loans		
	Fair value	% total	Average note rate	Fair value	% total	Average note rate	Fair value	% total	Average note rate	Fair value	% total	Average note rate
	(dollars in thousands)						(dollars in thousands)					
California	\$ 137,155	27%	3.52%	\$ 164,646	16%	4.80%	\$ 112,544	28%	3.45%	\$ 106,667	13%	5.11%
Florida	30,885	6%	4.42%	132,999	13%	6.14%	21,834	5%	3.91%	124,557	16%	6.26%
New York	40,329	8%	3.73%	140,162	13%	6.26%	29,289	7%	3.74%	112,179	14%	6.49%
New Jersey	*	*	*	87,557	8%	5.91%	*	*	*	61,177	8%	6.07%
Other	298,595	59%	4.59%	519,968	50%	6.00%	240,349	60%	4.55%	381,375	49%	6.20%
	\$ 506,964	100%	4.22%	\$ 1,045,332	100%	5.83%	\$ 404,016	100%	4.13%	\$ 785,955	100%	6.10%

Payment status	June 30, 2013						December 31, 2012					
	Performing loans			Nonperforming loans			Performing loans			Nonperforming loans		
	Fair value	% total	Average note rate	Fair value	% total	Average note rate	Fair value	% total	Average note rate	Fair value	% total	Average note rate
	(dollars in thousands)						(dollars in thousands)					
Current	\$ 369,727	73%	4.08%	\$	0%	0.00%	\$ 313,852	78%	3.91%	\$	0%	0.00%
30 days delinquent	85,989	17%	4.51%		0%	0.00%	52,651	13%	4.75%		0%	0.00%
60 days delinquent	51,248	10%	4.66%		0%	0.00%	37,513	9%	4.96%		0%	0.00%
90 days or more delinquent		0%	0.00%	523,558	50%	5.50%		0%	0.00%	326,073	41%	5.82%
In foreclosure		0%	0.00%	521,774	50%	6.16%		0%	0.00%	459,882	59%	6.31%
	\$ 506,964	100%	4.22%	\$ 1,045,332	100%	5.83%	\$ 404,016	100%	4.13%	\$ 785,955	100%	6.10%

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

We believe that our current fair value estimates are representative of fair value at the reporting date. However, the market for distressed mortgage assets is illiquid with very few market participants. Furthermore, our business strategy is to enhance value during the period in which the loans are held. Therefore, any resulting appreciation or depreciation in the fair value of the loans is recorded during such holding period and ultimately realized at the end of the holding period.

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Following is a comparison of the valuation techniques and key inputs we use in the valuation of our mortgage loans measured using Level 3 inputs:

Key Inputs	Range (Weighted Average)			
	June 30, 2013		December 31, 2012	
<i>Mortgage loans at fair value</i>				
Discount rate	8.3%	19.0%	8.8%	20.7%
	(12.4%)		(13.1%)	
Twelve-month projected housing price index change	3.7%	6.0%	0.4%	1.5%
	(4.8%)		(1.1%)	
Prepayment speed(1)	0.0%	4.4%	0.4%	4.4%
	(2.4%)		(2.2%)	
Total prepayment speed (2)	0.0%	33.3%	5.9%	31.2%
	(21.7%)		(20.6%)	
<i>Mortgage loans under forward purchase agreements</i>				
Discount rate	9.5%	13.4%		
	(12.6%)			
Twelve-month projected housing price index change	4.5%	5.6%		
	(5.2%)			
Prepayment speed(1)	1.1%	2.4%		
	(1.7%)			
Total prepayment speed (2)	13.1%	31.4%		
	(25.3%)			

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

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

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

The weighted average discount rate used in the valuation of mortgage loans at fair value decreased from 13.1% at December 31, 2012 to 12.4% at June 30, 2013 as market participant expected returns for similar assets decreased during the period.

The weighted average twelve-month projected housing price index (HPI) change increased from 1.1% at December 31, 2012 to 4.8% at June 30, 2013 due to improvements observed in the residential housing sector increasing the expectation of positive home price appreciation.

The total prepayment speed of our mortgage loans at fair value portfolio increased from 20.6% at December 31, 2012 to 21.7% at June 30, 2013, primarily due to an increase in mortgage loans moving towards resolution.

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Following is a summary of our REO by attribute as of the dates presented:

Property type	June 30, 2013		December 31, 2012	
	Fair value	% total	Fair value	% total
(dollars in thousands)				
1 - 4 dwelling units	\$ 66,544	75%	\$ 66,882	76%
Planned unit development	11,417	13%	9,971	11%
Condominium/Co-op	6,141	7%	7,375	9%
5+ dwelling units	4,670	5%	3,851	4%
	\$ 88,772	100%	\$ 88,079	100%

Geographic distribution	June 30, 2013		December 31, 2012	
	Fair value	% total	Fair value	% total
(dollars in thousands)				
California	\$ 16,794	19%	\$ 26,650	30%
Florida	10,898	12%	8,549	10%
Illinois	5,463	6%	5,045	6%
Connecticut	3,952	4%	4,168	5%
Pennsylvania	5,014	6%	*	*
South Carolina	5,236	6%	*	*
Washington	*	*	2,861	3%
Other	41,415	47%	40,806	46%
	\$ 88,772	100%	\$ 88,079	100%

* Not included in the states representing the largest percentages as of the date presented.

Following is a summary of the status of our portfolio of acquisitions by quarter acquired (excluding acquisitions for the quarter ended June 30, 2013 due to close proximity of current status to quarter-end):

	Acquisitions for the quarter ended	
	At Purchase	June 30, 2013
(dollars in millions)		
Unpaid principal balance	\$ 366.2	\$ 339.6
Pool factor*	1.00	0.93
Collection status:		
Delinquency		
Current	1.6%	6.4%
30 days	1.5%	3.0%
60 days	3.5%	3.5%
over 90 days	82.2%	69.6%
In foreclosure	11.2%	16.1%
REO	0.0%	1.4%

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	Acquisitions for the quarter ended							
	December 31, 2012		September 30, 2012		June 30, 2012		March 31, 2012	
	At	June 30,	At	June 30,	At	June 30,	At	June 30,
	Purchase	2013	Purchase	2013	Purchase	2013	Purchase	2013
	(dollars in millions)							
Unpaid principal balance	\$ 290.3	\$ 269.4	\$ 357.2	\$ 310.3	\$ 402.5	\$ 333.7	\$ 0.0	\$ 0.0
Pool factor*	1.00	0.93	1.00	0.87	1.00	0.83		
Collection status:								
Delinquency								
Current	3.1%	9.3%	0.0%	6.6%	45.0%	50.2%	0.0%	0.0%
30 days	1.3%	2.6%	0.0%	0.4%	4.0%	7.4%	0.0%	0.0%
60 days	5.4%	2.3%	0.1%	0.3%	4.3%	2.0%	0.0%	0.0%
over 90 days	57.8%	42.3%	49.1%	38.4%	31.3%	19.9%	0.0%	0.0%
In foreclosure	32.4%	38.4%	50.8%	46.8%	15.3%	16.7%	0.0%	0.0%
REO	0.0%	5.0%	0.0%	7.6%	0.1%	3.8%	0.0%	0.0%

	Acquisitions for the quarter ended							
	December 31, 2011		September 30, 2011		June 30, 2011		March 31, 2011	
	At	June 30,	At	June 30,	At	June 30,	At	June 30,
	Purchase	2013	Purchase	2013	Purchase	2013	Purchase	2013
	(dollars in millions)							
Unpaid principal balance	\$ 49.0	\$ 40.6	\$ 542.6	\$ 270.0	\$ 259.8	\$ 156.8	\$ 515.1	\$ 276.4
Pool factor*	1.00	0.83	1.00	0.50	1.00	0.60	1.00	0.54
Collection status:								
Delinquency								
Current	0.2%	24.6%	0.6%	14.8%	11.5%	34.6%	2.0%	28.0%
30 days	0.1%	3.9%	1.3%	3.7%	6.5%	6.0%	1.9%	5.3%
60 days	0.2%	5.1%	2.0%	3.1%	5.2%	3.4%	3.9%	2.6%
over 90 days	70.4%	25.5%	22.6%	20.9%	31.2%	18.7%	25.9%	16.5%
In foreclosure	29.0%	34.9%	73.0%	46.0%	43.9%	32.0%	66.3%	40.8%
REO	0.0%	5.9%	0.4%	11.6%	1.7%	5.3%	0.0%	6.7%

* Ratio of unpaid principal balance remaining to unpaid principal balance at acquisition.

Cash Flows

Our cash flows resulted in a net increase in cash of \$27.6 million during the six months ended June 30, 2013. The increase was primarily due to cash provided through our financing activities exceeding cash used in our operating and investing activities. Cash used by operating activities totaled \$440.6 million during the six months ended June 30, 2013 and \$267.6 million during the six months ended June 30, 2012, primarily due to growth in our inventory of mortgage loans acquired for sale.

Net cash used by investing activities was \$50.1 million for the six months ended June 30, 2013. This use of cash reflects the growth of our investment portfolio. We used cash to purchase mortgage loans with fair values of \$200.5 million during the six months ended June 30, 2013. Offsetting this use in cash were cash inflows from repayments of mortgage loans and sales of REO totaling \$135.2 million and \$63.0 million, respectively. During the six months ended June 30, 2012, cash used by investing activities totaled \$135.3 million due to our investments of the proceeds from \$247.2 million of share issuances to support the financing of purchases of \$260.6 million of mortgage loans at fair value and \$112.2 million of MBS.

Approximately 60% of our investments, comprised of short-term investments, non-correspondent lending mortgage loans, REO and MSR, were nonperforming assets as of June 30, 2013. Nonperforming assets include mortgage loans delinquent 90 or more days and REO. Accordingly, we expect that these assets will require a longer period to begin producing cash flow and the timing and amount of cash flows from these assets is less certain than for performing assets. During the six months ended June 30, 2013, we transferred \$68.6 million of mortgage loans to REO and realized cash proceeds from the sales and repayments of mortgage loans at fair values and REO totaling \$135.2 million and \$63.0 million, respectively.

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manage our liquidity in the aggregate and are reinvesting our cash flows in new investments as well as using such cash to fund our dividend requirements.

Table of Contents**Liquidity and Capital Resources**

Our liquidity reflects our ability to meet our current obligations (including the purchase of loans from correspondent lenders, our operating expenses and, when applicable, retirement of, and margin calls relating to, our debt and derivatives positions), make investments as our Manager identifies them and make distributions to our shareholders. We generally need to distribute at least 90% of our taxable income each year (subject to certain adjustments) to our shareholders to qualify as a REIT under the Internal Revenue Code. This distribution requirement limits our ability to retain earnings and thereby replenish or increase capital to support our activities.

We expect our primary sources of liquidity to be proceeds from liquidations from our portfolio of distressed assets, cash earnings on our investments, cash flows from business activities, and proceeds from borrowings and/or additional equity offerings. We do not expect repayments from contractual cash flows from our investments to be a primary source of liquidity as the majority of our distressed asset investments are nonperforming. Our portfolio of distressed mortgage loans was acquired with the expectation that the majority of the cash flows associated with this investment would result from liquidation of the property securing the loan, rather than from scheduled principal payments. Our mortgage loans acquired for sale are generally held by the Company for fifteen days or less, and therefore are not expected to generate significant cash flows from principal repayments.

Our current leverage strategy is to finance our assets where we believe such borrowing is prudent and appropriate. We have made borrowings in the form of borrowings under forward purchase agreements, sales of assets under agreements to repurchase, and a note payable secured by mortgage loans at fair value. To the extent available to us, we expect in the future to obtain long-term financing for assets with estimated future lives of more than one year; this may include term financing and securitization of performing (including newly purchased jumbo mortgage loans), nonperforming and/or re-performing mortgage loans.

Until attractive long-term financing is procured, we will continue to finance our assets on a short-term basis through agreements to repurchase and other secured lending and structured finance facilities, pending the ultimate disposition of the assets, whether through sale, securitization or liquidation. Because our current debt facilities consist solely of short-term borrowings, we expect to renew these facilities in advance of maturity in order to ensure our ongoing liquidity and access to capital or otherwise allow ourselves sufficient time to replace any necessary financing.

We use debt financing, primarily through the use of repurchase agreements and forward purchase agreements, as a means of extending our balance sheet capacity. Our repurchase agreements represent the sales of assets together with agreements for us to buy back the assets at a later date. During the six months ended June 30, 2013, the average balance outstanding under agreements to repurchase mortgage loans and REO totaled \$1.3 billion, and the maximum daily amount outstanding under such agreements totaled \$2.1 billion. The difference between the maximum and average daily amounts outstanding was due to the continuing growth of our investments in these assets. The total facility size of our borrowings was approximately \$3.0 billion at June 30, 2013.

As of June 30, 2013 and December 31, 2012, we financed our investments in mortgage loans at fair value and REO, and our inventory of mortgage loans acquired for sale at fair value, under agreements to repurchase and forward purchase agreements as follows:

	June 30, 2013	December 31, 2012
	(in thousands)	
Assets financed	\$ 2,852,574	\$ 1,944,973
Total assets in classes of assets financed	\$ 2,950,897	\$ 2,253,233
Borrowings	\$ 1,809,943	\$ 1,256,102
Percentage of invested assets pledged	97%	86%
Advance rate against pledged assets	63%	65%

The increase in the percentage of assets pledged at June 30, 2013 was primarily due to growth in our inventory of mortgage loans acquired for sale, which are almost 100% pledged, in relation to the growth in our mortgage loans at fair value, along with the acquisition of mortgage loans under forward purchase agreements during the six months ended June 30, 2013, which are fully pledged to secure the related borrowings. In addition, we undertook a project to increase the pledgeability of the distressed assets we hold. The advance rate against pledged assets decreased between December 31, 2012 and June 30, 2013 due to our use of a portion of the proceeds from our exchangeable senior note offering to pay down our borrowings until such time as we deploy the proceeds to purchase additional investments. At June 30, 2013, we had commitments to purchase distressed mortgage loans totaling \$319.1 million.

As discussed above, all of our repurchase agreements and forward purchase agreements have short-term maturities:

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The transactions relating to mortgage loans under agreements to repurchase mature between September 1, 2013 and the earlier to occur of October 31, 2014 or the rolling maturity date that is 364 days from any date of determination, and provide for sale to major financial institution counterparties based on the estimated fair value of the mortgage loans sold. The agreements provide for terms of approximately one year.

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The transactions relating to REO are secured financings that mature on the earlier to occur of October 31, 2014 or the rolling maturity date that is 364 days from any date of determination, and provide for sale to a major financial institution counterparty at advance rates based on the estimated fair value of the REO.

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

profitability at each of the Company and three of our subsidiaries, the Operating Partnership, PMC and PennyMac Mortgage Investment Trust Holdings I, LLC (PMITH), for at least one (1) of the previous two consecutive fiscal quarters, as of the end of each fiscal quarter, and at our subsidiary, PMC, for both the prior two (2) calendar quarters and the prior three (3) calendar quarters;

a minimum of \$40 million in unrestricted cash and cash equivalents among the Company and/or our subsidiaries; a minimum of \$40 million in unrestricted cash and cash equivalents among the Operating Partnership and its consolidated subsidiaries; a minimum of \$25 million in unrestricted cash and cash equivalents between PMC and PMITH; and a minimum of \$10 million in unrestricted cash and cash equivalents at each of PMC and PMITH;

a minimum tangible net worth for the Company of \$860 million; a minimum tangible net worth for the Operating Partnership of \$700 million; a minimum tangible net worth for PMITH of \$250 million; and a minimum tangible net worth for PMC of \$150 million;

a maximum ratio of total liabilities to tangible net worth of less than 3:1 for the Company, 10:1 for PMC and 5:1 for the Operating Partnership and PMITH;

a maximum ratio of indebtedness related to other than newly originated mortgage loans to tangible net worth of less than 3:1 for PMC; and

at least two warehouse or repurchase facilities that finance amounts and assets similar to those being financed under our existing debt financing agreements.

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

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

positive net income during each calendar quarter;

a minimum in unrestricted cash and cash equivalents of \$20 million;

a minimum tangible net worth of \$90 million; and

a maximum ratio of total liabilities to tangible net worth of 10:1.

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

The transactions relating to mortgage loans and/or equity interests in special purpose entities holding real property under agreements to repurchase contain margin call provisions that, upon notice from the applicable lender at its option, require us to transfer cash or additional mortgage loans or real property, as applicable, in an amount sufficient to eliminate any margin deficit. A margin deficit will generally result from any decline in the market value (as determined by the applicable lender) of the assets subject to an agreement to repurchase. Upon notice from the applicable lender, we will generally be required to satisfy the margin call on the day of such notice or within one business day thereafter, depending on the timing of the notice.

Our Manager continues to explore a variety of additional means of financing our continued growth, including debt financing through bank warehouse lines of credit, additional repurchase agreements, term financing, securitization transactions and additional equity offerings. However, there can be no assurance as to how much additional financing capacity such efforts will produce, what form the financing will take or that such efforts will be successful. Further, counterparty credit sensitivity and collateral documentation requirements have made it difficult to obtain financing for REO, the result of which could place stress on our capital and liquidity positions at certain times during the foreclosure cycles of the related nonperforming loans.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Off-Balance Sheet Arrangements and Guarantees

As of June 30, 2013, we have not entered into any off-balance sheet arrangements or guarantees.

Table of Contents**Contractual Obligations**

As of June 30, 2013, we had on-balance sheet contractual obligations of \$1.8 billion to finance assets under agreements to repurchase with maturities between September 1, 2013 and the earlier to occur of October 31, 2014 or the rolling maturity date that is 364 days from any date of determination, as well as forward purchase agreements with maturities between June 16, 2014 and June 30, 2014. We also had purchase commitments totaling \$1.9 billion relating to both our correspondent lending activities and our investment activities and \$250.0 million in exchangeable senior notes with a maturity date of May 1, 2020.

As of June 30, 2013, we had contractual obligations to purchase mortgage loans for resale totaling approximately \$1.6 billion and mortgage loans at fair value totaling approximately \$319.1 million. Of the \$1.6 billion in commitments to purchase mortgage loans for resale, we recorded IRLCs of \$6.5 million on our balance sheet as assets under the caption *Derivative assets* and \$23.4 million as liabilities under the caption *Derivative liabilities*.

All agreements to repurchase assets that matured between June 30, 2013 and the date of this Report have been renewed, extended or repaid and are described in Note 17 *Mortgage Loans Acquired for Sale Sold Under Agreements to Repurchase*, Note 18 *Mortgage Loans at Fair Value Sold Under Agreements to Repurchase* and Note 19 *Real Estate Acquired in Settlement of Loans Financed Under Agreements to Repurchase* in the accompanying consolidated financial statements.

Payment obligations under these agreements are summarized below:

Contractual Obligations	Total	Payments due by period			More than 5 years
		Less than 1 year (in thousands)	1 - 3 years	3 - 5 years	
Commitments to purchase mortgage loans					
from correspondent lenders	\$ 1,607,351	\$ 1,607,351	\$	\$	\$
Commitments to purchase distressed mortgage loans	319,067	319,067			
Loans sold under agreements to repurchase	1,565,896	1,565,896			
Borrowings under forward purchase agreements	244,047	244,047			
Exchangeable senior notes	250,000				250,000
Total	\$ 3,986,361	\$ 3,736,361	\$	\$	\$ 250,000

The amount at risk (the fair value of the assets pledged plus the related margin deposit, less the amount advanced by the counterparty and interest payable) relating to the Company's assets sold under agreements to repurchase and forward purchase agreements is summarized by counterparty below as of June 30, 2013:

Counterparty	Amount at risk (in thousands)
Citibank, N.A.	\$ 766,511
Credit Suisse First Boston Mortgage Capital LLC.	255,970
Bank of America, N.A.	33,487
Morgan Stanley Bank, N.A.	3,918
Barclays Bank PLC	1,928
	\$ 1,061,814

Management Agreement. We are externally managed and advised by our Manager pursuant to a management agreement, which was amended and restated effective February 1, 2013. Our management agreement requires our Manager to oversee our business affairs in conformity with the

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investment policies that are approved and monitored by our Board. Our Manager is responsible for our day-to-day management and will perform such services and activities related to our assets and operations as may be appropriate.

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

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

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

The performance incentive fee is calculated at a defined annualized percentage of the amount by which net income, on a rolling four-quarter basis and before deducting the incentive fee, exceeds certain levels of return on equity. For the purpose of determining the amount of the performance incentive fee, net income is defined as net income or loss computed in accordance with GAAP and certain other non-cash charges determined after discussions between our Manager and our independent trustees and approval by a majority of our independent trustees. For this purpose, equity is the weighted average of the issue price per common share of all of our public offerings, multiplied by the weighted average number of common shares outstanding (including restricted share units) in the four-quarter period.

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

The high watermark starts at zero and is adjusted quarterly. The quarterly adjustment reflects the amount by which the net income (stated as a percentage of return on equity) in that quarter exceeds or falls short of the lesser of 8% and the Fannie Mae MBS Yield (the target yield) for such quarter. If the net income is lower than the target yield, the high watermark is increased by the difference. If the net income is higher than the target yield, the high watermark is reduced by the difference. Each time a performance incentive fee is earned, the high watermark returns to zero. As a result, the threshold amounts required for our Manager to earn a performance incentive fee are adjusted cumulatively based on the performance of our net income over (or under) the target yield, until the net income in excess of the target yield exceeds the then-current cumulative high watermark amount, and a performance incentive fee is earned. The performance incentive fee may be paid in cash or in our common shares (subject to a limit of no more than 50% paid in common shares), at our option.

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

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

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

The base servicing fees for distressed whole loans are calculated based on a monthly per-loan dollar amount, with the actual dollar amount for each loan based on the delinquency, bankruptcy and/or foreclosure status of such loan or the related underlying real estate. Presently, the base servicing fees for distressed whole loans range from \$30 per month for current loans up to \$125 per month for loans that are severely delinquent and in foreclosure.

The base servicing fees for loans subserviced by our Servicer on our behalf are also calculated through a monthly per-loan dollar amount, with the actual dollar amount for each loan based on whether the mortgage loan is a fixed-rate or adjustable-rate loan. The base servicing fees for

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loans subserviced on our behalf are \$7.50 per month for fixed-rate loans and \$8.50 per month for adjustable-rate mortgage loans. To the extent that these loans become delinquent, our Servicer is entitled to an additional servicing fee per loan

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falling within a range of \$10 to \$75 per month and based on the delinquency, bankruptcy and foreclosure status of the loan or the related underlying real estate. Our Servicer is also entitled to customary ancillary income and certain market-based fees and charges, including boarding and deboarding fees, liquidation and disposition fees, and assumption, modification and origination fees.

Except as otherwise provided in our MSR recapture agreement, when our Servicer effects a refinancing of a loan on our behalf and not through a third-party lender and the resulting loan is readily saleable, or our Servicer originates a loan to facilitate the disposition of the real estate acquired by us in settlement of a loan, our Servicer is entitled to receive from us market-based fees and compensation consistent with pricing and terms our Servicer offers unaffiliated third parties on a retail basis.

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

In addition, because we do not have any employees or infrastructure, our Servicer is required to provide a range of services and activities significantly greater in scope than the services provided in connection with a customary servicing arrangement. For these services, our Servicer receives a supplemental fee of \$25 per month for each distressed whole loan and \$3.25 per month for each other subserviced loan. Our Servicer is entitled to reimbursement for all customary, bona fide reasonable and necessary out-of-pocket expenses incurred by our Servicer in connection with the performance of its servicing obligations.

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

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

In consideration for the mortgage banking services provided by our Servicer with respect to our acquisition of mortgage loans, our Servicer is entitled to a fulfillment fee based on the type of mortgage loan that we acquire and equal to a percentage of the unpaid principal balance of such mortgage loan. Presently, the applicable percentages are (i) 0.50% for conventional mortgage loans, (ii) 0.88% for loans underwritten in accordance with the Ginnie Mae Mortgage-Backed Securities Guide, (iii) 0.80% for HARP mortgage loans with a loan-to-value ratio of 105% or less, (iv) 1.20% for HARP mortgage loans with a loan-to-value ratio of greater than 105%, and (v) 0.50% for all other mortgage loans not contemplated above. At this time, we do not hold the Ginnie Mae approval required to issue Ginnie Mae MBS and act as a servicer. Accordingly, under our MBWS agreement, our Servicer currently purchases loans underwritten in accordance with the Ginnie Mae Mortgage-Backed Securities Guide as is and without recourse of any kind from us at our cost less an administrative fee plus accrued interest and a sourcing fee of three basis points.

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

In consideration for the mortgage banking services provided by our Servicer with respect to our acquisition of mortgage loans under our Servicer's early purchase program, our Servicer is entitled to fees accruing (i) at a rate equal to \$25,000 per annum, and (ii) in the amount of \$50 for each mortgage loan that we acquire. In consideration for the warehouse services provided by our Servicer with respect to mortgage loans that we finance for our warehouse lending clients, with respect to each facility, our Servicer is entitled to fees accruing (i) at a rate equal to \$25,000 per annum, and (ii) in the amount of \$50 for each mortgage loan that we finance thereunder. Where we have entered into both an early purchase agreement and a warehouse lending agreement with the same client, our Servicer shall only be entitled to one \$25,000 per annum fee and, with respect to any mortgage loan that becomes subject to both such agreements, only one \$50 per loan fee.

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

MSR Recapture Agreement. Effective February 1, 2013, we entered into an MSR recapture agreement with our Servicer. Pursuant to the terms of our MSR recapture agreement, if our Servicer refinances via its retail lending business loans for which we previously held the mortgage servicing rights, or MSRs, our Servicer is generally required to transfer and convey to us, without cost to us, the MSRs with respect to new mortgage loans originated in those refinancings (or, under certain circumstances, other mortgage loans) that have an aggregate unpaid principal balance that is not less than 30% of the aggregate unpaid principal balance of all the loans so originated. The initial term of our MSR recapture agreement expires, unless terminated earlier in accordance with the terms of the agreement, on February 1, 2017, subject to automatic renewal for additional 18-month periods, unless terminated in accordance with the terms of the agreement.

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

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

Quantitative and Qualitative Disclosures About Market Risk

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices, real estate values and other market-based risks. The primary market risks that we are exposed to are real estate risk, credit risk, interest rate risk, prepayment risk, inflation risk and market value risk. A substantial portion of our investments are comprised of nonperforming loans. We believe that such assets' fair values respond primarily to changes in the fair value of the real estate securing such loans.

The following table summarizes the estimated change in fair value of our portfolio of mortgage loans at fair value as of June 30, 2013, given several hypothetical (instantaneous) changes in home values from those used in the determination of fair value:

Property value shift	-15%	-10%	-5%	+5%	+10%	+15%
	(dollar amounts in thousands)					
Fair value	\$ 1,391,784	\$ 1,449,007	\$ 1,502,508	\$ 1,598,443	\$ 1,640,788	\$ 1,679,438
Change in fair value:						
\$	\$ (160,512)	\$ (103,289)	\$ (49,788)	\$ 46,147	\$ 88,492	\$ 127,142
%	(10.34)%	(6.65)%	(3.21)%	2.97%	5.70%	8.19%

Table of Contents*Mortgage Servicing Rights*

The following tables summarize the estimated change in fair value of MSR's accounted for using the amortization method as of June 30, 2013, given several shifts in pricing spreads, prepayment speed and annual per-loan cost of servicing:

Pricing spread shift in %	-20%	-10%	-5%	+5%	+10%	+20%
	(dollar amounts in thousands)					
Fair value	\$ 259,765	\$ 250,648	\$ 246,308	\$ 238,030	\$ 234,082	\$ 226,541
Change in fair value:						
\$	\$ 17,661	\$ 8,545	\$ 4,204	\$ (4,073)	\$ (8,021)	\$ (15,563)
%	7.29%	3.53%	1.74%	-1.68%	-3.31%	-6.43%

Prepayment speed shift in %	-20%	-10%	-5%	+5%	+10%	+20%
	(dollar amounts in thousands)					
Fair value	\$ 264,997	\$ 253,125	\$ 247,513	\$ 236,886	\$ 231,851	\$ 222,293
Change in fair value:						
\$	\$ 22,893	\$ 11,021	\$ 5,410	\$ (5,218)	\$ (10,253)	\$ (19,811)
%	9.46%	4.55%	2.23%	-2.16%	-4.23%	-8.18%

Per-loan servicing cost shift in %	-20%	-10%	-5%	+5%	+10%	+20%
	(dollar amounts in thousands)					
Fair value	\$ 247,761	\$ 244,933	\$ 243,518	\$ 240,689	\$ 239,275	\$ 236,446
Change in fair value:						
\$	\$ 5,658	\$ 2,829	\$ 1,414	\$ (1,414)	\$ (2,829)	\$ (5,658)
%	2.34%	1.17%	0.58%	-0.58%	-1.17%	-2.34%

The following tables summarize the estimated change in fair value of MSR's accounted for using the fair value option method as of June 30, 2013, given several shifts in pricing spreads, prepayment speed and annual per-loan cost of servicing:

Pricing spread shift in %	-20%	-10%	-5%	+5%	+10%	+20%
	(dollar amounts in thousands)					
Fair value	\$ 1,957	\$ 1,890	\$ 1,858	\$ 1,797	\$ 1,768	\$ 1,713
Change in fair value:						
\$	\$ 130	\$ 63	\$ 31	\$ (30)	\$ (59)	\$ (115)
%	7.11%	3.44%	1.69%	-1.64%	-3.23%	-6.27%

Prepayment speed shift in %	-20%	-10%	-5%	+5%	+10%	+20%
	(dollar amounts in thousands)					
Fair value	\$ 2,032	\$ 1,926	\$ 1,876	\$ 1,781	\$ 1,737	\$ 1,653
Change in fair value:						
\$	\$ 204	\$ 98	\$ 48	\$ (46)	\$ (91)	\$ (175)
%	11.19%	5.37%	2.63%	-2.53%	-4.96%	-9.55%

Per-loan servicing cost shift in %	-20%	-10%	-5%	+5%	+10%	+20%
	(dollar amounts in thousands)					
Fair value	\$ 1,890	\$ 1,859	\$ 1,843	\$ 1,812	\$ 1,796	\$ 1,765
Change in fair value:						
\$	\$ 63	\$ 31	\$ 16	\$ (16)	\$ (31)	\$ (63)
%	3.44%	1.72%	0.86%	-0.86%	-1.72%	-3.44%

Factors That May Affect Our Future Results

This Report contains certain forward-looking statements that are subject to various risks and uncertainties. Forward-looking statements are generally identifiable by use of forward-looking terminology such as may, will, should, potential, intend, expect, seek, anticipate, approximately, believe, could, project, predict, continue, plan or other similar words or expressions.

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

projections of our revenues, income, earnings per share, capital structure or other financial items;

descriptions of our plans or objectives for future operations, products or services;

forecasts of our future economic performance, interest rates, profit margins and our share of future markets; and

descriptions of assumptions underlying or relating to any of the foregoing expectations regarding the timing of generating any revenues.

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

You should not place undue reliance on any forward-looking statement and should consider the following uncertainties and risks, as well as the risks and uncertainties discussed elsewhere in this Report and as set forth in Item 1A. Risk Factors in our Annual Report.

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

changes in our investment objectives or investment or operational strategies, including any new lines of business or new products and services that may subject us to additional risks;

volatility in our industry, the debt or equity markets, the general economy or the residential finance and real estate markets specifically, whether the result of market events or otherwise;

events or circumstances which undermine confidence in the financial markets or otherwise have a broad impact on financial markets, such as a credit downgrade of U.S. Government obligations, the sudden instability or collapse of large depository institutions or other significant corporations, terrorist attacks, natural or man-made disasters, or threatened or actual armed conflicts;

changes in general business, economic, market, employment and political conditions, or in consumer confidence and spending habits from those expected;

continued declines in residential real estate and significant changes in U.S. housing prices or activity in the U.S. housing market;

the availability of, and level of competition for, attractive risk-adjusted investment opportunities in residential mortgage loans and mortgage-related assets that satisfy our investment objectives;

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the inherent difficulty in winning bids to acquire distressed loans or correspondent loans, and our success in doing so;

the concentration of credit risks to which we are exposed;

the degree and nature of our competition;

changes in personnel and lack of availability of qualified personnel;

our dependence on PCM and PLS, potential conflicts of interest with such entities, and the performance of such entities;

the availability, terms and deployment of short-term and long-term capital;

the adequacy of our cash reserves and working capital;

our ability to match the interest rates and maturities of our assets with our financing;

the timing and amount of cash flows, if any, from our investments;

unanticipated increases in financing and other costs, including a rise in interest rates;

the performance, financial condition and liquidity of borrowers;

incomplete or inaccurate information or documentation provided by customers or counterparties, or adverse changes in the financial condition of our customers and counterparties;

the quality and enforceability of the collateral documentation evidencing our ownership and rights in the assets in which we invest;

increased rates of delinquency, default and/or decreased recovery rates on our investments;

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our ability to foreclose on our investments in a timely manner or at all;

increased prepayments of the mortgages and other loans underlying our MBS, MSRs and other investments;

the degree to which our hedging strategies may or may not protect us from interest rate volatility;

the effect of the accuracy of or changes in the estimates we make about uncertainties and contingencies when measuring and reporting upon our financial condition and results of operations;

our failure to maintain appropriate internal controls over financial reporting;

our ability to obtain and/or maintain licenses and other approvals in those jurisdictions where required to conduct our business;

our ability to comply with various federal, state and local laws that govern our business;

developments in the secondary markets for our mortgage loan products;

legislative and regulatory changes that impact the mortgage loan industry or housing market;

changes in regulations or the occurrence of other events that impact the business, operation or prospects of GSEs or government agencies such as the FHA or Veterans Administration;

the Dodd-Frank Wall Street Reform and Consumer Protection Act and its implementing regulations and regulatory agencies, and any other legislative and regulatory changes that impact the business, operations or governance of mortgage lenders and/or publicly-traded companies;

the creation of the Consumer Financial Protection Bureau (CFPB), its recently issued and future rules and the enforcement thereof by the CFPB;

changes in government support of homeownership;

changes in government or government-sponsored home affordability programs;

changes in governmental regulations, accounting treatment, tax rates and similar matters (including changes to laws governing the taxation of REITs or the exclusions from registration as an investment company);

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limitations imposed on our business and our ability to satisfy complex rules for us to qualify as a REIT for U.S. federal income tax purposes and qualify for an exclusion from the Investment Company Act of 1940 and the ability of certain of our subsidiaries to qualify as REITs or of our subsidiaries to qualify as TRSs for U.S. federal income tax purposes, and our ability and the ability of our subsidiaries to operate effectively within the limitations imposed by these rules;

estimates relating to our ability to make distributions to our shareholders in the future;

the effect of public opinion on our reputation; and

the occurrence of natural disasters or other events or circumstances that could impact our operations.

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

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

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

In response to this Item 3, the information set forth on pages 90 through 91 is incorporated herein by reference.

Item 4. *Controls and Procedures*

Disclosure Controls and Procedures

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

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

Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended June 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

From time to time, we may be involved in various legal proceedings, claims and actions arising in the ordinary course of business. As of June 30, 2013, we were not involved in any such legal proceedings, claims or actions that management believes would be reasonably likely to have a material adverse effect on us.

Item 1A. *Risk Factors*

There are no material changes from the risk factors set forth under Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the SEC on February 28, 2013.

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

None

Item 3. *Defaults Upon Senior Securities*

None

Item 4. *Mine Safety Disclosures*

Not applicable

Item 5. *Other Information*

None

Table of Contents**Item 6. Exhibits**

Exhibit Number	Exhibit Description
3.1	Declaration of Trust of PennyMac Mortgage Investment Trust, as amended and restated (incorporated by reference to Exhibit 3.1 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
3.2	Bylaws of PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 3.2 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
4.1	Specimen Common Share Certificate of PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 4.1 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
4.2	Indenture for Senior Debt Securities, dated as of April 30, 2013, among PennyMac Corp., PennyMac Mortgage Investment Trust and The Bank of New York Mellon Trust Company, N.A. (incorporated by reference to Exhibit 4.1 of our Current Report on Form 8-K filed on April 30, 2013).
4.3	First Supplemental Indenture, dated as of April 30, 2013, among PennyMac Corp., PennyMac Mortgage Investment Trust and The Bank of New York Mellon Trust Company, N.A. (incorporated by reference to Exhibit 4.2 of our Current Report on Form 8-K filed on April 30, 2013).
4.4	Form of 5.375% Exchangeable Senior Notes due 2020 (included in Exhibit 4.3).
10.1	Amended and Restated Limited Partnership Agreement of PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.2 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
10.2	Registration Rights Agreement, dated as of August 4, 2009, among PennyMac Mortgage Investment Trust, Stanford L. Kurland, David A. Spector, BlackRock Holdco II, Inc., Highfields Capital Investments LLC and Private National Mortgage Acceptance Company, LLC (incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
10.3	Underwriting Fee Reimbursement Agreement, dated as of August 4, 2009, among PennyMac Mortgage Investment Trust, PennyMac Operating Partnership, L.P. and PNMAC Capital Management, LLC (incorporated by reference to Exhibit 10.7 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
10.4	Amended and Restated Underwriting Fee Reimbursement Agreement, dated as of February 1, 2013, by and among PennyMac Mortgage Investment Trust, PennyMac Operating Partnership, L.P. and PNMAC Capital Management, LLC (incorporated by reference to Exhibit 1.6 of our Current Report on Form 8-K filed on February 7, 2013).
10.5	Management Agreement, dated as of August 4, 2009, among PennyMac Mortgage Investment Trust, PennyMac Operating Partnership, L.P. and PNMAC Capital Management, LLC (incorporated by reference to Exhibit 10.3 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
10.6	Amendment No. 1 to Management Agreement, dated March 3, 2010, among PennyMac Mortgage Investment Trust, PennyMac Operating Partnership, L.P. and PNMAC Capital Management, LLC (incorporated by reference to Exhibit 10.4 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010).
10.7	Amendment No. 2 to Management Agreement, dated May 16, 2012, among PennyMac Mortgage Investment Trust, PennyMac Operating Partnership, L.P. and PNMAC Capital Management, LLC (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on May 22, 2012).
10.8	Amended and Restated Management Agreement, dated as of February 1, 2013, among PennyMac Mortgage Investment Trust, PennyMac Operating Partnership, L.P. and PNMAC Capital Management, LLC (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on February 7, 2013).
10.9	Flow Servicing Agreement, dated as of August 4, 2009, between PennyMac Operating Partnership, L.P. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.4 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
10.10	Amendment No. 1 to Flow Servicing Agreement, dated as of March 3, 2010, between PennyMac Operating Partnership, L.P. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.6 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010).

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- 10.11 Amendment No. 2 to Flow Servicing Agreement, dated as of March 8, 2011, between PennyMac Operating Partnership, L.P. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.8 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011).
- 10.12 Amendment No. 3 to Flow Servicing Agreement, dated as of May 17, 2011, by and between PennyMac Operating Partnership, L.P. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.9 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2011).
- 10.13 Amended and Restated Flow Servicing Agreement, dated as of February 1, 2013, between PennyMac Operating Partnership, L.P. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on February 7, 2013).

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Exhibit

Number	Exhibit Description
10.14	Second Amended and Restated Flow Servicing Agreement, dated as of March 1, 2013, between PennyMac Operating Partnership, L.P. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.14 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
10.15	PennyMac Mortgage Investment Trust 2009 Equity Incentive Plan (incorporated by reference to Exhibit 10.5 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
10.16	Form of Restricted Share Unit Award Agreement under the PennyMac Mortgage Investment Trust 2009 Equity Incentive Plan (incorporated by reference to Exhibit 10.8 to Amendment No. 3 to the Company's Registration Statement on Form S-11, filed with the SEC on July 24, 2009).
10.17	Master Repurchase Agreement, dated as of November 2, 2010, among PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.11 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010).
10.18	Amendment Number One to Master Repurchase Agreement, dated as of August 18, 2011, among PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.13 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).
10.19	Amendment Number Two to Master Repurchase Agreement, dated as of September 28, 2011, among PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.14 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).
10.20	Amendment Number Three to Master Repurchase Agreement, dated as of December 30, 2011, among PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.15 of our Annual Report on Form 10-K for the year ended December 31, 2011).
10.21	Amendment Number Four to Master Repurchase Agreement, dated as of December 28, 2012, among PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.17 of our Annual Report on Form 10-K for the year ended December 31, 2012).
10.22	Guaranty Agreement, dated as of November 2, 2010, by PennyMac Mortgage Investment Trust in favor of Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.12 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010).
10.23	Amendment Number One to Guaranty Agreement, dated as of August 18, 2011, by PennyMac Mortgage Investment Trust in favor of Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.16 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).
10.24	Amendment Number Two to Guaranty Agreement, dated as of September 28, 2011, by PennyMac Mortgage Investment Trust in favor of Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.17 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).
10.25	Master Repurchase Agreement, dated as of November 2, 2010, among Credit Suisse First Boston Mortgage Capital, LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.13 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010).
10.26	Amendment Number One to Master Repurchase Agreement, dated as of May 20, 2011, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.15 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2011).
10.27	Amendment Number Two to Master Repurchase Agreement, dated as of July 14, 2011, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.20 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).
10.28	Amendment Number Three to Master Repurchase Agreement, dated as of October 7, 2011, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.21 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).
10.29	Amendment Number Four to Master Repurchase Agreement, dated as of November 1, 2011, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P.

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(incorporated by reference to Exhibit 10.22 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).

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Exhibit Number	Exhibit Description
10.30	Amendment Number Five to Master Repurchase Agreement, dated as of November 30, 2011, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on November 30, 2011).
10.31	Amendment Number Six to Master Repurchase Agreement, dated as of March 29, 2012, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.25 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).
10.32	Amendment Number Seven to Master Repurchase Agreement, dated as of July 25, 2012, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on July 31, 2012).
10.33	Amendment Number Eight to Master Repurchase Agreement, dated as of September 26, 2012, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on October 1, 2012).
10.34	Amendment Number Nine to Master Repurchase Agreement, dated as of October 29, 2012, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on October 29, 2012).
10.35	Amended and Restated Master Repurchase Agreement, dated as of June 1, 2013, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed June 5, 2013).
10.36	Guaranty, dated as of November 2, 2010, by PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. and Credit Suisse First Boston Mortgage Capital, LLC (incorporated by reference to Exhibit 10.14 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010).
10.37	Master Repurchase Agreement, dated as of December 9, 2010, among PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC, and PennyMac Loan Services, LLC, and Citibank, N.A. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on December 15, 2010).
10.38	Amendment Number One to Master Repurchase Agreement, dated as of February 25, 2011, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on March 3, 2011).
10.39	Amendment Number Two to Master Repurchase Agreement, dated as of December 8, 2011, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.28 of our Annual Report on Form 10-K for the year ended December 31, 2011).
10.40	Amendment Number Three to Master Repurchase Agreement, dated as of February 24, 2012, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.30 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).
10.41	Amendment Number Four to Master Repurchase Agreement, dated as of April 13, 2012, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.32 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012).
10.42	Amendment Number Five to Master Repurchase Agreement, dated as of April 20, 2012, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.33 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012).
10.43	Amendment Number Six to Master Repurchase Agreement, dated as of May 31, 2012, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on June 5, 2012).
10.44	Amendment Number Seven to Master Repurchase Agreement, dated as of November 13, 2012, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.39 of our Annual Report on Form 10-K for the year ended December 31, 2012).

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Exhibit Number	Exhibit Description
10.45	Amendment Number Eight to Master Repurchase Agreement, dated as of December 31, 2012, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.40 of our Annual Report on Form 10-K for the year ended December 31, 2012).
10.46	Amendment Number Nine to Master Repurchase Agreement, dated as of March 12, 2013, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on March 13, 2013).
10.47	Amendment Number Ten to Master Repurchase Agreement, dated as of April 19, 2013, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC.
10.48	Amendment Number Eleven to Master Repurchase Agreement, dated as of June 25, 2013, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC.
10.49	Guaranty Agreement, dated as of December 9, 2010, by PennyMac Mortgage Investment Trust in favor of Citibank, N.A. (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on December 15, 2010).
10.50	Master Repurchase Agreement, dated as of June 8, 2011, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on June 14, 2011).
10.51	Amended and Restated Master Repurchase Agreement, dated as of August 25, 2011, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.28 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).
10.52	Amendment No. 1 to Amended and Restated Master Repurchase Agreement, dated as of June 6, 2012, among Credit Suisse First Boston Mortgage Capital, LLC, PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.38 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012).
10.53	Amendment No. 2 to Amended and Restated Master Repurchase Agreement, dated as of March 28, 2013, among Credit Suisse First Boston Mortgage Capital, LLC, PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.50 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
10.54	Amendment No. 3 to Amended and Restated Master Repurchase Agreement, dated as of May 8, 2013, among Credit Suisse First Boston Mortgage Capital, LLC, PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.51 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
10.55	Guaranty, dated as of June 8, 2011, of PennyMac Mortgage Investment Trust in favor of Credit Suisse First Boston Mortgage Capital LLC (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on June 14, 2011).
10.56	Master Loan and Security Agreement, dated as of September 28, 2011, by and between PCNPL Trust and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on October 4, 2011).
10.57	Limited Guaranty Agreement, dated as of September 28, 2011, of PennyMac Mortgage Investment Trust in favor of Wells Fargo Bank, National Association (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on October 4, 2011).
10.58	Master Repurchase Agreement, dated as of November 7, 2011, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on November 14, 2011).
10.59	Amendment No. 1 to Master Repurchase Agreement, dated as of August 17, 2012, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.45 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2012).
10.60	Amendment No. 2 to Master Repurchase Agreement, dated as of January 3, 2013, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on January 7, 2013).

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- 10.61 Amendment No. 3 to Master Repurchase Agreement, dated as of March 28, 2013, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on April 3, 2013).

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Exhibit Number	Exhibit Description
10.62	Guaranty, dated as of November 7, 2011, by PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P., in favor of Bank of America, N.A. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on November 14, 2011).
10.63	Letter Agreement, dated as of July 21, 2011, by and between PennyMac Corp. and Citigroup Global Markets Realty Corp. (incorporated by reference to Exhibit 10.32 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).*
10.64	Amendment Number One, dated as of January 6, 2012, to Letter Agreement, dated as of July 12, 2011, by and between PennyMac Corp. and Citigroup Global Markets Realty Corp. (incorporated by reference to Exhibit 10.40 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).*
10.65	Amendment Number Two, dated as of February 1, 2012, to Letter Agreement, dated as of July 12, 2011, by and between PennyMac Corp. and Citigroup Global Markets Realty Corp. (incorporated by reference to Exhibit 10.41 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).*
10.66	Letter Agreement, dated as of December 20, 2011, by and between PennyMac Corp. and Citigroup Global Markets Realty Corp. (incorporated by reference to Exhibit 10.38 of our Annual Report on Form 10-K for the year ended December 31, 2011).*
10.67	Master Repurchase Agreement, dated as of March 29, 2012, among Credit Suisse First Boston Mortgage Capital, LLC, PennyMac Mortgage Investment Trust Holdings I, LLC, PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on March 29, 2012).
10.68	Amendment Number One to Master Repurchase Agreement, dated as of July 25, 2012, among Credit Suisse First Boston Mortgage Capital, LLC, PennyMac Mortgage Investment Trust Holdings I, LLC, PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on July 31, 2012).
10.69	Amendment Number Two to Master Repurchase Agreement, dated as of September 26, 2012, among Credit Suisse First Boston Mortgage Capital, LLC, PennyMac Mortgage Investment Trust Holdings I, LLC, PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on October 1, 2012).
10.70	Amendment Number Three to Master Repurchase Agreement, dated as of October 29, 2012, among Credit Suisse First Boston Mortgage Capital, LLC, PennyMac Mortgage Investment Trust Holdings I, LLC, PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on October 29, 2012).
10.71	Amendment Number Four to Master Repurchase Agreement, dated as of June 1, 2013, among Credit Suisse First Boston Mortgage Capital, LLC, PennyMac Mortgage Investment Trust Holdings I, LLC, PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K filed on June 5, 2013).
10.72	Guaranty, dated as of March 29, 2012, by PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. in favor of Credit Suisse First Boston Mortgage Capital, LLC (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on March 29, 2012).
10.73	Master Repurchase Agreement, dated as of May 24, 2012, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on May 30, 2012).
10.74	Amendment Number One to Master Repurchase Agreement, dated as of October 15, 2012, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on October 16, 2012).
10.75	Amendment Number Two to Master Repurchase Agreement, dated as of November 13, 2012, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.62 of our Annual Report on Form 10-K for the year ended December 31, 2012).
10.76	Amendment Number Three to Master Repurchase Agreement, dated as of December 31, 2012, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.72 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).

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Exhibit Number	Exhibit Description
10.77	Amendment Number Four to Master Repurchase Agreement, dated as of May 23, 2013, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC.
10.78	Amendment Number Five to Master Repurchase Agreement, dated as of June 25, 2013, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC.
10.79	Guaranty, dated as of May 24, 2012, by PennyMac Mortgage Investment Trust in favor of Citibank, N.A. (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on May 30, 2012).
10.80	Master Repurchase Agreement, dated as of July 2, 2012, among Barclays Bank PLC, PennyMac Corp., PennyMac Loan Services, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on July 10, 2012).
10.81	Amendment No. 1 to Master Repurchase Agreement, dated as of February 1, 2013, among PennyMac Corp., PennyMac Loan Services, LLC, PennyMac Mortgage Investment Trust and Barclays Bank PLC.
10.82	Amendment No. 2 to Master Repurchase Agreement, dated as of June 28, 2013, among PennyMac Corp., PennyMac Loan Services, LLC, PennyMac Mortgage Investment Trust and Barclays Bank PLC.
10.83	Amended and Restated Mortgage Banking Services Agreement, dated as of November 1, 2010, between PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.53 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012).
10.84	Amendment No. 1 to Amended and Restated Mortgage Banking Services Agreement, dated as of July 1, 2011, between PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.54 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012).
10.85	Amendment No. 2 to Amended and Restated Mortgage Banking Services Agreement, dated as of February 29, 2012, between PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.55 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012).
10.86	Amendment No. 3 to Amended and Restated Mortgage Banking Services Agreement, dated as of May 16, 2012, between PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.56 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012).
10.87	Master Repurchase Agreement, dated as of September 28, 2012, among Credit Suisse First Boston Mortgage Capital, LLC, PennyMac Operating Partnership, L.P. and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on October 3, 2012).
10.88	Amendment No. 2 to Master Repurchase Agreement, dated as of May 8, 2013, among Credit Suisse First Boston Mortgage Capital, LLC, PennyMac Operating Partnership, L.P. and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.80 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
10.89	Guaranty, dated as of September 28, 2012, by PennyMac Mortgage Investment Trust in favor of Credit Suisse First Boston Mortgage Capital, LLC (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on October 3, 2012).
10.90	Master Repurchase Agreement, dated as of November 20, 2012, among PennyMac Corp., Morgan Stanley Bank, N.A. and Morgan Stanley Mortgage Capital Holdings LLC (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on November 26, 2012).
10.91	Guaranty, dated as of November 20, 2012, by PennyMac Mortgage Investment Trust in favor of Morgan Stanley Bank, N.A. and Morgan Stanley Mortgage Capital Holdings LLC (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on November 26, 2012).
10.92	Mortgage Banking and Warehouse Services Agreement, dated as of February 1, 2013, by and between PennyMac Loan Services, LLC and PennyMac Corp. (incorporated by reference to Exhibit 1.3 of our Current Report on Form 8-K filed on February 7, 2013).
10.93	Amendment No. 1 to Mortgage Banking and Warehouse Services Agreement, dated as of March 1, 2013, by and between PennyMac Loan Services, LLC and PennyMac Corp. (incorporated by reference to Exhibit 10.85 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).

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Exhibit Number	Exhibit Description
10.94	MSR Recapture Agreement, dated as of February 1, 2013, by and between PennyMac Loan Services, LLC and PennyMac Corp. (incorporated by reference to Exhibit 1.4 of our Current Report on Form 8-K filed on February 7, 2013).
10.95	Master Spread Acquisition and MSR Servicing Agreement, dated as of February 1, 2013, by and between PennyMac Loan Services, LLC and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.5 of our Current Report on Form 8-K filed on February 7, 2013).
10.96	Confidentiality Agreement, dated as of February 6, 2013, between Private National Mortgage Acceptance Company, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 1.7 of our Current Report on Form 8-K filed on February 7, 2013).
10.97	Amended and Restated Confidentiality Agreement, dated as of March 1, 2013, between Private National Mortgage Acceptance Company, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.89 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
10.98	Letter Agreement, dated as of June 14, 2013, between PennyMac Corp. and Citigroup Global Markets Realty Corp.*
10.99	Letter Agreement, dated as of June 28, 2013, between PennyMac Corp. and Citigroup Global Markets Realty Corp.*
31.1	Certification of Stanford L. Kurland pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Anne D. McCallion pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Stanford L. Kurland pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Anne D. McCallion pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012, (ii) the Consolidated Statements of Income for the quarters ended June 30, 2013 and 2012, (iii) the Consolidated Statements of Changes in Shareholders' Equity for the quarters ended June 30, 2013 and 2012, (iv) the Consolidated Statements of Cash Flows for the quarters ended June 30, 2013 and 2012 and (v) the Notes to the Consolidated Financial Statements.

* Certain terms have been redacted pursuant to requests for confidential treatment submitted to the Securities and Exchange Commission concurrently with the filing of this Report.

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SIGNATURES

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

PENNYMAC MORTGAGE INVESTMENT TRUST

(Registrant)

Dated: August 9, 2013

By: */s/ STANFORD L. KURLAND*
Stanford L. Kurland
Chairman of the Board and Chief Executive Officer

Dated: August 9, 2013

By: */s/ ANNE D. MCCALLION*
Anne D. McCallion
Chief Financial Officer

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PENNYMAC MORTGAGE INVESTMENT TRUST

FORM 10-Q

June 30, 2013

INDEX OF EXHIBITS

Exhibit Number	Exhibit Description
3.1	Declaration of Trust of PennyMac Mortgage Investment Trust, as amended and restated (incorporated by reference to Exhibit 3.1 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
3.2	Bylaws of PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 3.2 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
4.1	Specimen Common Share Certificate of PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 4.1 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
4.2	Indenture for Senior Debt Securities, dated as of April 30, 2013, among PennyMac Corp., PennyMac Mortgage Investment Trust and The Bank of New York Mellon Trust Company, N.A. (incorporated by reference to Exhibit 4.1 of our Current Report on Form 8-K filed on April 30, 2013).
4.3	First Supplemental Indenture, dated as of April 30, 2013, among PennyMac Corp., PennyMac Mortgage Investment Trust and The Bank of New York Mellon Trust Company, N.A. (incorporated by reference to Exhibit 4.2 of our Current Report on Form 8-K filed on April 30, 2013).
4.4	Form of 5.375% Exchangeable Senior Notes due 2020 (included in Exhibit 4.3).
10.1	Amended and Restated Limited Partnership Agreement of PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.2 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
10.2	Registration Rights Agreement, dated as of August 4, 2009, among PennyMac Mortgage Investment Trust, Stanford L. Kurland, David A. Spector, BlackRock Holdco II, Inc., Highfields Capital Investments LLC and Private National Mortgage Acceptance Company, LLC (incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
10.3	Underwriting Fee Reimbursement Agreement, dated as of August 4, 2009, among PennyMac Mortgage Investment Trust, PennyMac Operating Partnership, L.P. and PNMAC Capital Management, LLC (incorporated by reference to Exhibit 10.7 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
10.4	Amended and Restated Underwriting Fee Reimbursement Agreement, dated as of February 1, 2013, by and among PennyMac Mortgage Investment Trust, PennyMac Operating Partnership, L.P. and PNMAC Capital Management, LLC (incorporated by reference to Exhibit 1.6 of our Current Report on Form 8-K filed on February 7, 2013).
10.5	Management Agreement, dated as of August 4, 2009, among PennyMac Mortgage Investment Trust, PennyMac Operating Partnership, L.P. and PNMAC Capital Management, LLC (incorporated by reference to Exhibit 10.3 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
10.6	Amendment No. 1 to Management Agreement, dated March 3, 2010, among PennyMac Mortgage Investment Trust, PennyMac Operating Partnership, L.P. and PNMAC Capital Management, LLC (incorporated by reference to Exhibit 10.4 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010).
10.7	Amendment No. 2 to Management Agreement, dated May 16, 2012, among PennyMac Mortgage Investment Trust, PennyMac Operating Partnership, L.P. and PNMAC Capital Management, LLC (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on May 22, 2012).
10.8	Amended and Restated Management Agreement, dated as of February 1, 2013, among PennyMac Mortgage Investment Trust, PennyMac Operating Partnership, L.P. and PNMAC Capital Management, LLC (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on February 7, 2013).

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- 10.9 Flow Servicing Agreement, dated as of August 4, 2009, between PennyMac Operating Partnership, L.P. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.4 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
- 10.10 Amendment No. 1 to Flow Servicing Agreement, dated as of March 3, 2010, between PennyMac Operating Partnership, L.P. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.6 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010).
- 10.11 Amendment No. 2 to Flow Servicing Agreement, dated as of March 8, 2011, between PennyMac Operating Partnership, L.P. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.8 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011).
- 10.12 Amendment No. 3 to Flow Servicing Agreement, dated as of May 17, 2011, by and between PennyMac Operating Partnership, L.P. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.9 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2011).
- 10.13 Amended and Restated Flow Servicing Agreement, dated as of February 1, 2013, between PennyMac Operating Partnership, L.P. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on February 7, 2013).

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Number	Exhibit Description
10.14	Second Amended and Restated Flow Servicing Agreement, dated as of March 1, 2013, between PennyMac Operating Partnership, L.P. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.14 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
10.15	PennyMac Mortgage Investment Trust 2009 Equity Incentive Plan (incorporated by reference to Exhibit 10.5 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
10.16	Form of Restricted Share Unit Award Agreement under the PennyMac Mortgage Investment Trust 2009 Equity Incentive Plan (incorporated by reference to Exhibit 10.8 to Amendment No. 3 to the Company's Registration Statement on Form S-11, filed with the SEC on July 24, 2009).
10.17	Master Repurchase Agreement, dated as of November 2, 2010, among PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.11 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010).
10.18	Amendment Number One to Master Repurchase Agreement, dated as of August 18, 2011, among PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.13 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).
10.19	Amendment Number Two to Master Repurchase Agreement, dated as of September 28, 2011, among PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.14 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).
10.20	Amendment Number Three to Master Repurchase Agreement, dated as of December 30, 2011, among PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.15 of our Annual Report on Form 10-K for the year ended December 31, 2011).
10.21	Amendment Number Four to Master Repurchase Agreement, dated as of December 28, 2012, among PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.17 of our Annual Report on Form 10-K for the year ended December 31, 2012).
10.22	Guaranty Agreement, dated as of November 2, 2010, by PennyMac Mortgage Investment Trust in favor of Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.12 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010).
10.23	Amendment Number One to Guaranty Agreement, dated as of August 18, 2011, by PennyMac Mortgage Investment Trust in favor of Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.16 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).
10.24	Amendment Number Two to Guaranty Agreement, dated as of September 28, 2011, by PennyMac Mortgage Investment Trust in favor of Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.17 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).
10.25	Master Repurchase Agreement, dated as of November 2, 2010, among Credit Suisse First Boston Mortgage Capital, LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.13 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010).
10.26	Amendment Number One to Master Repurchase Agreement, dated as of May 20, 2011, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.15 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2011).
10.27	Amendment Number Two to Master Repurchase Agreement, dated as of July 14, 2011, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.20 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).
10.28	Amendment Number Three to Master Repurchase Agreement, dated as of October 7, 2011, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.21 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).
10.29	Amendment Number Four to Master Repurchase Agreement, dated as of November 1, 2011, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P.

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(incorporated by reference to Exhibit 10.22 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).

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Exhibit Number	Exhibit Description
10.30	Amendment Number Five to Master Repurchase Agreement, dated as of November 30, 2011, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on November 30, 2011).
10.31	Amendment Number Six to Master Repurchase Agreement, dated as of March 29, 2012, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.25 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).
10.32	Amendment Number Seven to Master Repurchase Agreement, dated as of July 25, 2012, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on July 31, 2012).
10.33	Amendment Number Eight to Master Repurchase Agreement, dated as of September 26, 2012, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on October 1, 2012).
10.34	Amendment Number Nine to Master Repurchase Agreement, dated as of October 29, 2012, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on October 29, 2012).
10.35	Amended and Restated Master Repurchase Agreement, dated as of June 1, 2013, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed June 5, 2013).
10.36	Guaranty, dated as of November 2, 2010, by PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. and Credit Suisse First Boston Mortgage Capital, LLC (incorporated by reference to Exhibit 10.14 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010).
10.37	Master Repurchase Agreement, dated as of December 9, 2010, among PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC, and PennyMac Loan Services, LLC, and Citibank, N.A. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on December 15, 2010).
10.38	Amendment Number One to Master Repurchase Agreement, dated as of February 25, 2011, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on March 3, 2011).
10.39	Amendment Number Two to Master Repurchase Agreement, dated as of December 8, 2011, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.28 of our Annual Report on Form 10-K for the year ended December 31, 2011).
10.40	Amendment Number Three to Master Repurchase Agreement, dated as of February 24, 2012, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.30 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).
10.41	Amendment Number Four to Master Repurchase Agreement, dated as of April 13, 2012, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.32 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012).
10.42	Amendment Number Five to Master Repurchase Agreement, dated as of April 20, 2012, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.33 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012).
10.43	Amendment Number Six to Master Repurchase Agreement, dated as of May 31, 2012, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on June 5, 2012).
10.44	Amendment Number Seven to Master Repurchase Agreement, dated as of November 13, 2012, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.39 of our Annual Report on Form 10-K for the year ended December 31, 2012).

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Exhibit Number	Exhibit Description
10.45	Amendment Number Eight to Master Repurchase Agreement, dated as of December 31, 2012, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.40 of our Annual Report on Form 10-K for the year ended December 31, 2012).
10.46	Amendment Number Nine to Master Repurchase Agreement, dated as of March 12, 2013, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on March 13, 2013).
10.47	Amendment Number Ten to Master Repurchase Agreement, dated as of April 19, 2013, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC.
10.48	Amendment Number Eleven to Master Repurchase Agreement, dated as of June 25, 2013, by and among Citibank, N.A. and PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Loan Services, LLC.
10.49	Guaranty Agreement, dated as of December 9, 2010, by PennyMac Mortgage Investment Trust in favor of Citibank, N.A. (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on December 15, 2010).
10.50	Master Repurchase Agreement, dated as of June 8, 2011, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on June 14, 2011).
10.51	Amended and Restated Master Repurchase Agreement, dated as of August 25, 2011, among Credit Suisse First Boston Mortgage Capital LLC, PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.28 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).
10.52	Amendment No. 1 to Amended and Restated Master Repurchase Agreement, dated as of June 6, 2012, among Credit Suisse First Boston Mortgage Capital, LLC, PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.38 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012).
10.53	Amendment No. 2 to Amended and Restated Master Repurchase Agreement, dated as of March 28, 2013, among Credit Suisse First Boston Mortgage Capital, LLC, PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.50 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
10.54	Amendment No. 3 to Amended and Restated Master Repurchase Agreement, dated as of May 8, 2013, among Credit Suisse First Boston Mortgage Capital, LLC, PennyMac Corp., PennyMac Mortgage Investment Trust Holdings I, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.51 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
10.55	Guaranty, dated as of June 8, 2011, of PennyMac Mortgage Investment Trust in favor of Credit Suisse First Boston Mortgage Capital LLC (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on June 14, 2011).
10.56	Master Loan and Security Agreement, dated as of September 28, 2011, by and between PCNPL Trust and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on October 4, 2011).
10.57	Limited Guaranty Agreement, dated as of September 28, 2011, of PennyMac Mortgage Investment Trust in favor of Wells Fargo Bank, National Association (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on October 4, 2011).
10.58	Master Repurchase Agreement, dated as of November 7, 2011, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on November 14, 2011).
10.59	Amendment No. 1 to Master Repurchase Agreement, dated as of August 17, 2012, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.45 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2012).
10.60	Amendment No. 2 to Master Repurchase Agreement, dated as of January 3, 2013, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on January 7, 2013).

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- 10.61 Amendment No. 3 to Master Repurchase Agreement, dated as of March 28, 2013, among Bank of America, N.A., PennyMac Corp., PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on April 3, 2013).

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Exhibit Number	Exhibit Description
10.62	Guaranty, dated as of November 7, 2011, by PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P., in favor of Bank of America, N.A. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on November 14, 2011).
10.63	Letter Agreement, dated as of July 21, 2011, by and between PennyMac Corp. and Citigroup Global Markets Realty Corp. (incorporated by reference to Exhibit 10.32 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).*
10.64	Amendment Number One, dated as of January 6, 2012, to Letter Agreement, dated as of July 12, 2011, by and between PennyMac Corp. and Citigroup Global Markets Realty Corp. (incorporated by reference to Exhibit 10.40 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).*
10.65	Amendment Number Two, dated as of February 1, 2012, to Letter Agreement, dated as of July 12, 2011, by and between PennyMac Corp. and Citigroup Global Markets Realty Corp. (incorporated by reference to Exhibit 10.41 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).*
10.66	Letter Agreement, dated as of December 20, 2011, by and between PennyMac Corp. and Citigroup Global Markets Realty Corp. (incorporated by reference to Exhibit 10.38 of our Annual Report on Form 10-K for the year ended December 31, 2011).*
10.67	Master Repurchase Agreement, dated as of March 29, 2012, among Credit Suisse First Boston Mortgage Capital, LLC, PennyMac Mortgage Investment Trust Holdings I, LLC, PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on March 29, 2012).
10.68	Amendment Number One to Master Repurchase Agreement, dated as of July 25, 2012, among Credit Suisse First Boston Mortgage Capital, LLC, PennyMac Mortgage Investment Trust Holdings I, LLC, PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on July 31, 2012).
10.69	Amendment Number Two to Master Repurchase Agreement, dated as of September 26, 2012, among Credit Suisse First Boston Mortgage Capital, LLC, PennyMac Mortgage Investment Trust Holdings I, LLC, PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on October 1, 2012).
10.70	Amendment Number Three to Master Repurchase Agreement, dated as of October 29, 2012, among Credit Suisse First Boston Mortgage Capital, LLC, PennyMac Mortgage Investment Trust Holdings I, LLC, PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on October 29, 2012).
10.71	Amendment Number Four to Master Repurchase Agreement, dated as of June 1, 2013, among Credit Suisse First Boston Mortgage Capital, LLC, PennyMac Mortgage Investment Trust Holdings I, LLC, PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K filed on June 5, 2013).
10.72	Guaranty, dated as of March 29, 2012, by PennyMac Mortgage Investment Trust and PennyMac Operating Partnership, L.P. in favor of Credit Suisse First Boston Mortgage Capital, LLC (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on March 29, 2012).
10.73	Master Repurchase Agreement, dated as of May 24, 2012, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on May 30, 2012).
10.74	Amendment Number One to Master Repurchase Agreement, dated as of October 15, 2012, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on October 16, 2012).
10.75	Amendment Number Two to Master Repurchase Agreement, dated as of November 13, 2012, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.62 of our Annual Report on Form 10-K for the year ended December 31, 2012).
10.76	Amendment Number Three to Master Repurchase Agreement, dated as of December 31, 2012, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.72 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).

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Exhibit Number	Exhibit Description
10.77	Amendment Number Four to Master Repurchase Agreement, dated as of May 23, 2013, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC.
10.78	Amendment Number Five to Master Repurchase Agreement, dated as of June 25, 2013, among Citibank, N.A., PennyMac Corp. and PennyMac Loan Services, LLC.
10.79	Guaranty, dated as of May 24, 2012, by PennyMac Mortgage Investment Trust in favor of Citibank, N.A. (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on May 30, 2012).
10.80	Master Repurchase Agreement, dated as of July 2, 2012, among Barclays Bank PLC, PennyMac Corp., PennyMac Loan Services, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on July 10, 2012).
10.81	Amendment No. 1 to Master Repurchase Agreement, dated as of February 1, 2013, among PennyMac Corp., PennyMac Loan Services, LLC, PennyMac Mortgage Investment Trust and Barclays Bank PLC.
10.82	Amendment No. 2 to Master Repurchase Agreement, dated as of June 28, 2013, among PennyMac Corp., PennyMac Loan Services, LLC, PennyMac Mortgage Investment Trust and Barclays Bank PLC.
10.83	Amended and Restated Mortgage Banking Services Agreement, dated as of November 1, 2010, between PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.53 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012).
10.84	Amendment No. 1 to Amended and Restated Mortgage Banking Services Agreement, dated as of July 1, 2011, between PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.54 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012).
10.85	Amendment No. 2 to Amended and Restated Mortgage Banking Services Agreement, dated as of February 29, 2012, between PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.55 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012).
10.86	Amendment No. 3 to Amended and Restated Mortgage Banking Services Agreement, dated as of May 16, 2012, between PennyMac Corp. and PennyMac Loan Services, LLC (incorporated by reference to Exhibit 10.56 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012).
10.87	Master Repurchase Agreement, dated as of September 28, 2012, among Credit Suisse First Boston Mortgage Capital, LLC, PennyMac Operating Partnership, L.P. and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on October 3, 2012).
10.88	Amendment No. 2 to Master Repurchase Agreement, dated as of May 8, 2013, among Credit Suisse First Boston Mortgage Capital, LLC, PennyMac Operating Partnership, L.P. and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.80 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
10.89	Guaranty, dated as of September 28, 2012, by PennyMac Mortgage Investment Trust in favor of Credit Suisse First Boston Mortgage Capital, LLC (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on October 3, 2012).
10.90	Master Repurchase Agreement, dated as of November 20, 2012, among PennyMac Corp., Morgan Stanley Bank, N.A. and Morgan Stanley Mortgage Capital Holdings LLC (incorporated by reference to Exhibit 1.1 of our Current Report on Form 8-K filed on November 26, 2012).
10.91	Guaranty, dated as of November 20, 2012, by PennyMac Mortgage Investment Trust in favor of Morgan Stanley Bank, N.A. and Morgan Stanley Mortgage Capital Holdings LLC (incorporated by reference to Exhibit 1.2 of our Current Report on Form 8-K filed on November 26, 2012).
10.92	Mortgage Banking and Warehouse Services Agreement, dated as of February 1, 2013, by and between PennyMac Loan Services, LLC and PennyMac Corp. (incorporated by reference to Exhibit 1.3 of our Current Report on Form 8-K filed on February 7, 2013).
10.93	Amendment No. 1 to Mortgage Banking and Warehouse Services Agreement, dated as of March 1, 2013, by and between PennyMac Loan Services, LLC and PennyMac Corp. (incorporated by reference to Exhibit 10.85 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).

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Exhibit Number	Exhibit Description
10.94	MSR Recapture Agreement, dated as of February 1, 2013, by and between PennyMac Loan Services, LLC and PennyMac Corp. (incorporated by reference to Exhibit 1.4 of our Current Report on Form 8-K filed on February 7, 2013).
10.95	Master Spread Acquisition and MSR Servicing Agreement, dated as of February 1, 2013, by and between PennyMac Loan Services, LLC and PennyMac Operating Partnership, L.P. (incorporated by reference to Exhibit 1.5 of our Current Report on Form 8-K filed on February 7, 2013).
10.96	Confidentiality Agreement, dated as of February 6, 2013, between Private National Mortgage Acceptance Company, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 1.7 of our Current Report on Form 8-K filed on February 7, 2013).
10.97	Amended and Restated Confidentiality Agreement, dated as of March 1, 2013, between Private National Mortgage Acceptance Company, LLC and PennyMac Mortgage Investment Trust (incorporated by reference to Exhibit 10.89 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
10.98	Letter Agreement, dated as of June 14, 2013, between PennyMac Corp. and Citigroup Global Markets Realty Corp.*
10.99	Letter Agreement, dated as of June 28, 2013, between PennyMac Corp. and Citigroup Global Markets Realty Corp.*
31.1	Certification of Stanford L. Kurland pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Anne D. McCallion pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Stanford L. Kurland pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Anne D. McCallion pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012, (ii) the Consolidated Statements of Income for the quarters ended June 30, 2013 and 2012, (iii) the Consolidated Statements of Changes in Shareholders' Equity for the quarters ended June 30, 2013 and 2012, (iv) the Consolidated Statements of Cash Flows for the quarters ended June 30, 2013 and 2012 and (v) the Notes to the Consolidated Financial Statements.

* Certain terms have been redacted pursuant to requests for confidential treatment submitted to the Securities and Exchange Commission concurrently with the filing of this Report.