

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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|                                                                                            |                                                           |
|--------------------------------------------------------------------------------------------|-----------------------------------------------------------|
| <b>Maryland</b><br>(State or other jurisdiction of<br>incorporation or organization)       | <b>27-0186273</b><br>(IRS Employer<br>Identification No.) |
| <b>6101 Condor Drive, Moorpark, California</b><br>(Address of principal executive offices) | <b>93021</b><br>(Zip Code)                                |
| <b>(818) 224-7442</b><br>(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.

|                                                              |                                      |
|--------------------------------------------------------------|--------------------------------------|
| <b>Class</b>                                                 | <b>Outstanding at August 6, 2013</b> |
| <b>Common Shares of Beneficial Interest, \$0.01par value</b> | <b>59,150,090</b>                    |

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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,<br>2013    | December 31,<br>2012 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|----------------------|
| <b>ASSETS</b>                                                                                                                                                                  |                     |                      |
| 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               |
| <b>Total assets</b>                                                                                                                                                            | <b>\$ 3,443,384</b> | <b>\$ 2,559,663</b>  |
| <b>LIABILITIES</b>                                                                                                                                                             |                     |                      |
| 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                |
| <b>Total liabilities</b>                                                                                                                                                       | <b>2,199,203</b>    | <b>1,358,327</b>     |
| Commitments and contingencies                                                                                                                                                  |                     |                      |
| <b>SHAREHOLDERS' EQUITY</b>                                                                                                                                                    |                     |                      |

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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<br>June 30, |                  | Six months ended<br>June 30, |                  |
|-----------------------------------------------------------------------------------------------------|---------------------------|------------------|------------------------------|------------------|
|                                                                                                     | 2013                      | 2012             | 2013                         | 2012             |
| <b>Net Investment Income</b>                                                                        |                           |                  |                              |                  |
| 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           |
| <b>Interest income:</b>                                                                             |                           |                  |                              |                  |
| 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               |
| <b>Net investment income</b>                                                                        | <b>129,697</b>            | <b>64,406</b>    | <b>248,749</b>               | <b>111,055</b>   |
| <b>Expenses</b>                                                                                     |                           |                  |                              |                  |
| 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            |
| <b>Total expenses</b>                                                                               | <b>61,788</b>             | <b>26,431</b>    | <b>124,905</b>               | <b>48,505</b>    |
| <b>Income before provision for income taxes</b>                                                     | <b>67,909</b>             | <b>37,975</b>    | <b>123,844</b>               | <b>62,550</b>    |
| Provision for income taxes                                                                          | 13,412                    | 8,406            | 16,051                       | 13,923           |
| <b>Net income</b>                                                                                   | <b>\$ 54,497</b>          | <b>\$ 29,569</b> | <b>\$ 107,793</b>            | <b>\$ 48,627</b> |
| <b>Earnings per share</b>                                                                           |                           |                  |                              |                  |
| Basic                                                                                               | \$ 0.92                   | \$ 0.80          | \$ 1.81                      | \$ 1.46          |

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|                                            |    |        |    |        |    |        |    |        |
|--------------------------------------------|----|--------|----|--------|----|--------|----|--------|
| Diluted                                    | \$ | 0.86   | \$ | 0.79   | \$ | 1.75   | \$ | 1.46   |
| <b>Weighted-average shares outstanding</b> |    |        |    |        |    |        |    |        |
| Basic                                      |    | 59,035 |    | 36,922 |    | 58,981 |    | 32,999 |
| Diluted                                    |    | 65,104 |    | 37,208 |    | 62,217 |    | 33,253 |
| <b>Dividends declared per share</b>        | \$ | 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<br>of<br>shares | Par<br>value | Additional<br>paid-in<br>capital | Retained<br>earnings | Total        |
|------------------------------------------|------------------------|--------------|----------------------------------|----------------------|--------------|
| <b>Balance at December 31, 2011</b>      | 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)      |
| <b>Balance at June 30, 2012</b>          | 41,466,369             | \$ 415       | \$ 767,506                       | \$ 37,752            | \$ 805,673   |
| <b>Balance at December 31, 2012</b>      | 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)        |
| <b>Balance at June 30, 2013</b>          | 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)**

|                                                                                                                                                       | <b>Six months ended June 30,</b> |             |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|-------------|
|                                                                                                                                                       | <b>2013</b>                      | <b>2012</b> |
| <b>Cash flows from operating activities:</b>                                                                                                          |                                  |             |
| 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)   |
| <b>Cash flows from investing activities</b>                                                                                                           |                                  |             |
| 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)       |
| <b>Net cash provided by financing activities</b>                                                  | <b>484,524</b> | <b>416,311</b> |
| <br>Net (decrease) increase in cash                                                               | <br>(6,114)    | <br>13,381     |
| Cash at beginning of period                                                                       | 33,756         | 14,589         |
| <br>Cash at end of period                                                                         | <br>\$ 27,642  | <br>\$ 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,<br>2013 | 2012     | Six months ended June 30,<br>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 MSRs, PLS is generally required to transfer and convey to one of the Company's wholly-owned subsidiaries without cost to the Company, 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. 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,<br>2013 | Quarter ended June 30,<br>2012 | Six months ended June 30,<br>2013 | Six months ended June 30,<br>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,<br>2013           | Quarter ended June 30,<br>2012 | Six months ended June 30,<br>2013 | Six months ended June 30,<br>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                                     | 59,035                                   | 36,922                         | 58,981                            | 32,999                            |
| 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                                     | 59,035                                   | 36,922                         | 58,981                            | 32,999                            |
| 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,<br>2013 | Quarter ended June 30,<br>2012 | Six months ended June 30,<br>2013 | Six months ended June 30,<br>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 MSRs. 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<br>amounts<br>of<br>recognized<br>assets | Gross<br>amounts<br>offset<br>in the<br>balance<br>sheet | Net<br>amounts<br>of assets<br>presented<br>in the<br>balance<br>sheet<br>(in thousands) | Gross<br>amounts<br>of<br>recognized<br>assets | Gross<br>amounts<br>offset<br>in the<br>balance<br>sheet | Net<br>amounts<br>of assets<br>presented<br>in the<br>balance<br>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                                                              |

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### 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 |             |            | Gross amounts not offset in |                |             |            |           |
|                                | the                         |             |            | the                         |                |             |            |           |
|                                | balance sheet               |             |            | balance sheet               |                |             |            |           |
|                                | Net amount                  |             | Cash       |                             | Net amount     |             | Cash       |           |
|                                | of assets                   |             | collateral | Net                         | of assets      |             | collateral | Net       |
|                                | in the balance              | Financial   | received   | amount                      | in the balance | Financial   | received   | amount    |
|                                | sheet                       | instruments |            | (in thousands)              | sheet          | instruments |            |           |
| 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.

|                                                    | <b>June 30, 2013</b>                                                          |                                  |                                          | <b>December 31, 2012</b>                                                      |                                  |                                        |
|----------------------------------------------------|-------------------------------------------------------------------------------|----------------------------------|------------------------------------------|-------------------------------------------------------------------------------|----------------------------------|----------------------------------------|
|                                                    | <b>Gross amounts<br/>not offset in the<br/>consolidated<br/>balance sheet</b> |                                  |                                          | <b>Gross amounts<br/>not offset in the<br/>consolidated<br/>balance sheet</b> |                                  |                                        |
|                                                    | <b>Net<br/>liabilities<br/>in the balance<br/>sheet</b>                       | <b>Financial<br/>instruments</b> | <b>Cash<br/>collateral<br/>pledged</b>   | <b>Net<br/>liabilities<br/>in the balance<br/>sheet</b>                       | <b>Financial<br/>instruments</b> | <b>Cash<br/>collateral<br/>pledged</b> |
|                                                    |                                                                               |                                  | <b>Net<br/>amount<br/>(in thousands)</b> |                                                                               |                                  | <b>Net<br/>amount</b>                  |
| Citibank                                           | \$ 619,976                                                                    | \$ (619,976)                     | \$                                       | \$ 474,625                                                                    | \$ (474,625)                     | \$                                     |
| Credit Suisse First Boston<br>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:

|                                                                |           | June 30, 2013  |              |  |              |
|----------------------------------------------------------------|-----------|----------------|--------------|--|--------------|
|                                                                | Level 1   | Level 2        | Level 3      |  | Total        |
|                                                                |           | (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 |                                                              |                                                   |                                              |              |
|---------------------------------------------------------------------------------------------------|----------------------------------|--------------------------------------------------------------|---------------------------------------------------|----------------------------------------------|--------------|
|                                                                                                   | Mortgage<br>loans at fair value  | Mortgage<br>loans under<br>forward<br>purchase<br>agreements | Mortgage<br>servicing<br>rights<br>(in thousands) | Net interest<br>rate lock<br>commitments (1) | Total        |
| 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        |
| <b>Assets:</b>                                                                                        |                                  |                              |                                                                 |                           |              |
| 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<br>loans at fair<br>value | Mortgage<br>loans under<br>forward<br>purchase<br>agreements | Mortgage<br>servicing<br>rights<br>(in thousands) | Net interest<br>rate lock<br>commitments (1) | Total        |
| <b>Assets:</b>                                                                                    |                                    |                                                              |                                                   |                                              |              |
| 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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|                                                                                                       | Six Months ended June 30, 2012 |            |                                                                                   |                                 |              |
|-------------------------------------------------------------------------------------------------------|--------------------------------|------------|-----------------------------------------------------------------------------------|---------------------------------|--------------|
|                                                                                                       |                                |            | Mortgage<br>loans<br>under<br>forward<br>purchase<br>agreements<br>(in thousands) | Mortgage<br>servicing<br>rights | Total        |
| <b>Assets:</b>                                                                                        |                                |            |                                                                                   |                                 |              |
| Balance, December 31, 2011                                                                            | \$ 72,813                      | \$ 696,266 | \$ 129,310                                                                        | \$ 749                          | \$ 899,138   |
| Purchases                                                                                             |                                | 260,595    | 1,070                                                                             | 20                              | 261,685      |
| Repayments                                                                                            | (20,890)                       | (84,564)   | (14,040)                                                                          |                                 | (119,494)    |
| Sales                                                                                                 |                                |            |                                                                                   | (30)                            | (30)         |
| Accrual of unearned discounts                                                                         | 363                            |            |                                                                                   |                                 | 363          |
| Capitalization of interest                                                                            |                                | 13,016     |                                                                                   |                                 | 13,016       |
| Sales                                                                                                 |                                |            |                                                                                   |                                 |              |
| Servicing received as proceeds from sales of mortgage loans                                           |                                |            |                                                                                   | 1,088                           | 1,088        |
| Changes in fair value included in income arising from:                                                |                                |            |                                                                                   |                                 |              |
| Changes in instrument-specific credit risk                                                            |                                | 17,307     | 705                                                                               |                                 | 18,012       |
| Other factors                                                                                         | 875                            | 11,828     | 8,483                                                                             | (542)                           | 20,644       |
|                                                                                                       | 875                            | 29,135     | 9,188                                                                             | (542)                           | 38,656       |
| Transfer of mortgage loans to REO                                                                     |                                | (45,686)   |                                                                                   |                                 | (45,686)     |
| Transfer from mortgage loans acquired for sale                                                        |                                | 18         |                                                                                   |                                 | 18           |
| Transfer of mortgage loans under forward purchase agreements to REO under forward purchase agreements |                                |            | (7,473)                                                                           |                                 | (7,473)      |
| Transfer of mortgage loans under forward purchase agreements to mortgage loans                        |                                | 101,174    | (101,174)                                                                         |                                 |              |
| 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     | \$ 838                         | \$ 17,888  | \$ 1,635                                                                          | \$ (542)                        | \$ 19,819    |
| Accumulated changes in fair value relating to assets still held at June 30, 2012                      | \$ (1,777)                     | \$ 75,797  | \$ 1,523                                                                          |                                 |              |

|                                                                                                               | Securities<br>sold under<br>agreements to<br>repurchase<br>(in thousands) |
|---------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|
| <b>Liabilities:</b>                                                                                           |                                                                           |
| Balance, December 31, 2011                                                                                    | \$ 115,493                                                                |
| Changes in fair value included in income                                                                      |                                                                           |
| Sales                                                                                                         | 706,966                                                                   |
| Repurchases                                                                                                   | (665,170)                                                                 |
| Balance, June 30, 2012                                                                                        | \$ 157,289                                                                |
| Changes in fair value recognized during the period relating to liabilities still outstanding at June 30, 2012 | \$                                                                        |

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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<br>Principal<br>amount due<br>upon maturity<br>(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<br>amount due<br>upon maturity<br>(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<br>Quarter ended June 30, 2013 |                    |                                                                               |                               |            |
|----------------------------------------------------------------|----------------------------------------------------------------------------------------|--------------------|-------------------------------------------------------------------------------|-------------------------------|------------|
|                                                                | Net gain<br>(loss)<br>on<br>investments                                                | Interest<br>income | Net loss<br>on<br>mortgage<br>loans<br>acquired<br>for sale<br>(in thousands) | Net loan<br>servicing<br>fees | Total      |
| 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<br>Quarter ended June 30, 2012 |                                                                               |                    |                               |                               |           |
|----------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|--------------------|-------------------------------|-------------------------------|-----------|
|                                                                                        | Net gain<br>on<br>mortgage<br>loans<br>acquired<br>for sale<br>(in thousands) | Interest<br>income | Net gain<br>on<br>investments | Net loan<br>servicing<br>fees | Total     |
| <b>Assets:</b>                                                                         |                                                                               |                    |                               |                               |           |
| 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 |
| <b>Liabilities:</b>                                                                    |                                                                               |                    |                               |                               |           |
| Securities sold under agreements to repurchase at fair value                           | \$                                                                            | \$                 | \$                            | \$                            | \$        |
|                                                                                        | \$                                                                            | \$                 | \$                            | \$                            | \$        |

| Changes in fair value included in current period income<br>Six months ended June 30, 2013 |                                                                                         |                    |                               |                               |           |
|-------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|--------------------|-------------------------------|-------------------------------|-----------|
|                                                                                           | Net gain<br>(loss)<br>on<br>mortgage<br>loans<br>acquired<br>for sale<br>(in thousands) | Interest<br>income | Net gain<br>on<br>investments | Net loan<br>servicing<br>fees | Total     |
| <b>Assets:</b>                                                                            |                                                                                         |                    |                               |                               |           |
| 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<br>Six months ended June 30, 2012 |                               |                    |                                                                               |                               |           |
|-------------------------------------------------------------------------------------------|-------------------------------|--------------------|-------------------------------------------------------------------------------|-------------------------------|-----------|
|                                                                                           | Net gain<br>on<br>investments | Interest<br>income | Net gain<br>on<br>mortgage<br>loans<br>acquired<br>for sale<br>(in thousands) | Net loan<br>servicing<br>fees | Total     |
| <b>Assets:</b>                                                                            |                               |                    |                                                                               |                               |           |
| 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 |
| <b>Liabilities:</b>                                                                       |                               |                    |                                                                               |                               |           |
| 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                                                      |         |         |                           |            |
|--------------------------------------------------------------------|---------|---------|---------------------------|------------|
|                                                                    | Level 1 | Level 2 | Level 3<br>(in thousands) | Total      |
| <b>Assets:</b>                                                     |         |         |                           |            |
| 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 |
| <b>December 31, 2012</b>                                           |         |         |                           |            |
|                                                                    | Level 1 | Level 2 | Level 3<br>(in thousands) | Total      |
| <b>Assets:</b>                                                     |         |         |                           |            |
| 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,<br>2013                  | Quarter ended June 30,<br>2012 | Six months ended June 30,<br>2013 | Six months ended June 30,<br>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<br>(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<br>(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           |           |            |           |
|                                              | Range<br>(Weighted average) |           |            |           |                |           |            |           |
|                                              | Amortized cost              |           | Fair value |           | 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)    |





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| Key Inputs                                   | Six months ended June 30, |           |                             |        |                |           |            |         |
|----------------------------------------------|---------------------------|-----------|-----------------------------|--------|----------------|-----------|------------|---------|
|                                              | 2013                      |           |                             |        | 2012           |           |            |         |
|                                              |                           |           | Range<br>(Weighted average) |        |                |           |            |         |
|                                              | 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  |             |
|----------------------------------------------|-------------------------------------------------------------------------------------|-------------|--------------------|-------------|
|                                              | Range                                                                               |             | Range              |             |
|                                              | (Weighted average)                                                                  |             | (Weighted average) |             |
|                                              | Amortized cost                                                                      | Fair value  | Amortized cost     | Fair value  |
|                                              | (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<br>(in thousands) | Fair value        | Unpaid principal balance |
| 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 MSRs. The Company is exposed to loss in value of its MSRs when interest rates decrease. Beginning in the fourth quarter of 2012, the Company has included MSRs 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                                         | Notional amount | June 30, 2013     |                        | Notional amount | December 31 2012  |                        |
|----------------------------------------------------|-----------------|-------------------|------------------------|-----------------|-------------------|------------------------|
|                                                    |                 | Fair value        | Fair value             |                 | Fair value        | 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,<br>beginning<br>of period | Additions  | Dispositions/<br>expirations | Balance,<br>end<br>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,<br>beginning<br>of period | Additions | Dispositions/<br>expirations | Balance,<br>end<br>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,<br>beginning<br>of period | Additions<br>(in thousands) | Dispositions/<br>expirations | Balance,<br>end of<br>period |
|---------------------------------------|------------------------------------|-----------------------------|------------------------------|------------------------------|
| <b>Six months ended June 30, 2013</b> |                                    |                             |                              |                              |
| 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,<br>beginning<br>of period | Additions<br>(in thousands) | Dispositions/<br>expirations | Balance,<br>end of<br>period |
|---------------------------------------|------------------------------------|-----------------------------|------------------------------|------------------------------|
| <b>Six months ended June 30, 2012</b> |                                    |                             |                              |                              |
| 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<br>Florida<br>New Jersey<br>New Jersey<br>Maryland | New York<br>Florida<br>New Jersey |

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### 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,<br>2013 | Quarter ended June 30,<br>2012 | Six months ended June 30,<br>2013 | Six months ended June 30,<br>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,<br>2013 | Quarter ended June 30,<br>2012 | Six months ended June 30,<br>2013 | Six months ended June 30,<br>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.



**Table of Contents****Note 15 Mortgage Servicing Rights**

*Carried at Fair Value:*

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

|                                                                              | Quarter ended June 30,<br>2013 | 2012     | Six months ended June 30,<br>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,<br>2013 | 2012      | Six months ended June 30,<br>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<br>amortization<br>(in thousands) |
|---------------------------------|-------------------------------------------------|
| 2014                            | \$ 24,167                                       |
| 2015                            | 23,175                                          |
| 2016                            | 21,614                                          |
| 2017                            | 20,246                                          |
| 2018                            | 18,701                                          |
| Thereafter                      | 121,009                                         |
| <b>Total</b>                    | <b>\$ 228,912</b>                               |

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,<br>2013 | Quarter ended June 30,<br>2012 | Six months ended June 30,<br>2013 | Six months ended June 30,<br>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,<br>2013 | Quarter ended June 30,<br>2012 | Six months ended June 30,<br>2013 | Six months ended June 30,<br>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                        |                                   |

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### 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,<br>2013 | Quarter ended June 30,<br>2012 | Six months ended June 30,<br>2013 | Six months ended June 30,<br>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<br>(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<br>(in<br>thousands) | Weighted-average<br>maturity of advances<br>under repurchase agreements | Facility<br>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:

|                                                                                      | Quarter ended June 30,<br>2013 | 2012       | Six months ended June 30,<br>2013 | 2012       |
|--------------------------------------------------------------------------------------|--------------------------------|------------|-----------------------------------|------------|
|                                                                                      | (dollar amounts in thousands)  |            |                                   |            |
| Period end:                                                                          |                                |            |                                   |            |
| 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<br>(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<br>(in thousands) | Facility<br>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<br>June 30,<br>2013 |           | Six months ended<br>June 30,<br>2013 |           |
|-------------------------------------------------------------------------------------------------------------------------|-----------------------------------|-----------|--------------------------------------|-----------|
|                                                                                                                         | 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<br>(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,<br>2013 | Quarter ended June 30,<br>2012 | Six months ended June 30,<br>2013 | Six months ended June 30,<br>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<br>(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 Offering<sup>SM</sup> Sales Agreement with Merrill Lynch, Pierce, Fenner & Smith Incorporated. Pursuant to the Controlled Equity Offering Sales Agreement and the ATM Equity Offering<sup>SM</sup> 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 Agreement<sup>SM</sup>. The Company has not sold any common shares under the Controlled Equity Offering Sales Agreement or the ATM Equity Offering<sup>SM</sup> 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,<br>2013 | Quarter ended June 30,<br>2012 | Six months ended June 30,<br>2013 | Six months ended June 30,<br>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 MSRs 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                         |

**Table of Contents****Note 26 Net Loan Servicing Fees**

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

|                                                                                                    | Quarter ended June 30,<br>2013 | Quarter ended June 30,<br>2012 | Six months ended June 30,<br>2013 | Six months ended June 30,<br>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<br>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.

**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         |
| <b>Number of units:</b>                         |                        |              |                           |              |
| 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      |
| <b>Weighted Average Grant Date Fair Value:</b>  |                        |              |                           |              |
| 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 |
| <b>Period end:</b>                              |                        |              |                           |              |
| 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<br>June 30, |          | Six months ended<br>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,<br>2013 |         | Quarter ended June 30,<br>2012 |         | Six months ended June 30,<br>2013 |         | Six months ended June 30,<br>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<br>June 30, |          | Six months ended<br>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,<br>2013 | December 31,<br>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,<br>2013 | December 31,<br>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<br>lending | Investment<br>activities | Intersegment<br>elimination & other<br>(in thousands) | Total        |
|-----------------------------------------------------------------------------------------------------|--------------------------|--------------------------|-------------------------------------------------------|--------------|
| <b>Revenues:</b>                                                                                    |                          |                          |                                                       |              |
| 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      |
| <b>Expenses:</b>                                                                                    |                          |                          |                                                       |              |
| 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 |
| <b>Quarter ended June 30, 2012</b>                                                                  |                          |                          |                                                       |              |
|                                                                                                     | Correspondent<br>lending | Investment<br>activities | Intersegment<br>elimination & other<br>(in thousands) | Total        |
| <b>Revenues:</b>                                                                                    |                          |                          |                                                       |              |
| 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       |
| <b>Expenses:</b>                                                                                    |                          |                          |                                                       |              |
| 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<br>lending | Investment<br>activities | Intersegment<br>elimination & other<br>(in thousands) | Total        |
|-----------------------------------------------------------------------------------------------------|--------------------------|--------------------------|-------------------------------------------------------|--------------|
| <b>Revenues:</b>                                                                                    |                          |                          |                                                       |              |
| 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      |
| <b>Expenses:</b>                                                                                    |                          |                          |                                                       |              |
| 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<br>lending | Investment<br>activities | Intersegment<br>elimination & other<br>(in thousands) | Total        |
|-----------------------------------------------------------------------------------------------------|--------------------------|--------------------------|-------------------------------------------------------|--------------|
| <b>Revenues:</b>                                                                                    |                          |                          |                                                       |              |
| 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      |
| <b>Expenses:</b>                                                                                    |                          |                          |                                                       |              |
| 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.

**Table of Contents****Note 30 Supplemental Cash Flow Information**

|                                                                                                                                   | Six months ended<br>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 MSRs 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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### Results of Operations

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

|                                                          | Quarter ended June 30,<br>2013           | Quarter ended June 30,<br>2012 | Six months ended June 30,<br>2013 | Six months ended June 30,<br>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<br>June 30, |           | Six months ended<br>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    |
|  | \$ 73,228 | \$ 32,148 | \$ 117,330 | \$ 39,554 |

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

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:

|                                                                   | Quarter ended June 30, 2013          |           |                                                 |                                 |                              |                    |                                        |
|-------------------------------------------------------------------|--------------------------------------|-----------|-------------------------------------------------|---------------------------------|------------------------------|--------------------|----------------------------------------|
|                                                                   | Net gain<br>(loss) on<br>investments | Coupon    | Interest income/expense<br>Discount/<br>fees(1) | Total<br>(dollars in thousands) | Total<br>revenue/<br>expense | Average<br>balance | Annualized %<br>Interest<br>yield/cost |
| 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<br>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                                       | \$ 26,797                       | \$ 118,069                   | \$ 2,344,381       | 4.52%                                  |
| Liabilities:                                                      |                                      |           |                                                 |                                 |                              |                    |                                        |
| Assets sold under agreements to repurchase:                       |                                      |           |                                                 |                                 |                              |                    |                                        |
| Mortgage loans at fair value                                      | \$                                   | \$ 3,501  | \$ 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<br>receivable            |                                      |           | 125                                             | 125                             | 125                          |                    |                                        |
| Borrowings under forward purchase<br>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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|                                                                | Quarter ended June 30, 2012          |           |                                                 |           |                              |                    |                                        |
|----------------------------------------------------------------|--------------------------------------|-----------|-------------------------------------------------|-----------|------------------------------|--------------------|----------------------------------------|
|                                                                | Net gain<br>(loss) on<br>investments | Coupon    | Interest income/expense<br>Discount/<br>fees(1) | Total     | Total<br>revenue/<br>expense | Average<br>balance | Annualized %<br>Interest<br>yield/cost |
|                                                                | (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<br>(loss) on<br>investments | Coupon    | Interest income/expense<br>Discount/<br>fees(1) | Six months ended June 30, 2013<br>Total<br>(dollars in thousands) | Total<br>revenue/<br>expense | Average<br>balance | Annualized %<br>interest<br>yield/cost |
|----------------------------------------------------------------|--------------------------------------|-----------|-------------------------------------------------|-------------------------------------------------------------------|------------------------------|--------------------|----------------------------------------|
| 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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|                                                                | Six months ended June 30, 2012       |           |                                                 |           |                              |                    |                                        |
|----------------------------------------------------------------|--------------------------------------|-----------|-------------------------------------------------|-----------|------------------------------|--------------------|----------------------------------------|
|                                                                | Net gain<br>(loss) on<br>investments | Coupon    | Interest income/expense<br>Discount/<br>fees(1) | Total     | Total<br>revenue/<br>expense | Average<br>balance | Annualized %<br>interest<br>yield/cost |
|                                                                | (dollars in thousands)               |           |                                                 |           |                              |                    |                                        |
| 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,<br>2013 | Quarter ended June 30,<br>2012 | Six months ended June 30,<br>2013 | Six months ended June 30,<br>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 in loan sale transactions and we recognize a liability for potential losses relating to representations and warranties created in the loan sale 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              |       |                   |       |
|                                        | (Weighted average) |       |                   |       |
| Key Inputs                             |                    |       |                   |       |
| 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,<br>2013 | Quarter ended June 30,<br>2012 | Six months ended June 30,<br>2013 | Six months ended June 30,<br>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,<br>2013 | Quarter ended June 30,<br>2012 | Six months ended June 30,<br>2013 | Six months ended June 30,<br>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,<br>beginning<br>of period | Additions<br>(in thousands) | Dispositions/<br>expirations | Balance,<br>end<br>of period |
|------------------------------------|------------------------------------|-----------------------------|------------------------------|------------------------------|
| <b>Quarter ended June 30, 2013</b> |                                    |                             |                              |                              |
| 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,<br>beginning<br>of period | Additions<br>(in thousands) | Dispositions/<br>expirations | Balance,<br>end<br>of period |
|---------------------------------------|------------------------------------|-----------------------------|------------------------------|------------------------------|
| <b>Six months ended June 30, 2013</b> |                                    |                             |                              |                              |
| 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,<br>2013 | Quarter ended June 30,<br>2012 | Six months ended June 30,<br>2013 | Six months ended June 30,<br>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,<br>2013 |                           | 2012                  |                           | Six months ended June 30,<br>2013 |                           | 2012                  |                           |
|----------------------------------------------------------------------------|--------------------------------|---------------------------|-----------------------|---------------------------|-----------------------------------|---------------------------|-----------------------|---------------------------|
|                                                                            | Number<br>of<br>loans          | Balance<br>of<br>loans(2) | Number<br>of<br>loans | Balance<br>of<br>loans(2) | Number<br>of<br>loans             | Balance<br>of<br>loans(2) | Number<br>of<br>loans | Balance<br>of<br>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,<br>2013 |                       | 2012                   |                       | Six months ended June 30,<br>2013 |                       | 2012                   |                       |
|-------------------------|--------------------------------|-----------------------|------------------------|-----------------------|-----------------------------------|-----------------------|------------------------|-----------------------|
|                         | Before<br>Modification         | After<br>Modification | Before<br>Modification | After<br>Modification | Before<br>Modification            | After<br>Modification | Before<br>Modification | After<br>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.



**Table of Contents***Interest Income*

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<br>vs.<br>Quarter ended June 30, 2012<br>Increase (decrease)<br>due to changes in |           |                                   | Six months ended June 30, 2013<br>vs.<br>Six months ended June 30, 2012<br>Increase (decrease)<br>due to changes in |           |                 |
|----------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|-----------|-----------------------------------|---------------------------------------------------------------------------------------------------------------------|-----------|-----------------|
|                                                                | Rate                                                                                                          | Volume    | Total<br>change<br>(in thousands) | Rate                                                                                                                | Volume    | Total<br>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,<br>2013 | Quarter ended June 30,<br>2012 | Six months ended June 30,<br>2013 | Six months ended June 30,<br>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 MSR. 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,<br>2013 | Quarter ended June 30,<br>2012 | Six months ended June 30,<br>2013 | Six months ended June 30,<br>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:                                                                                 |                                |                                |                                   |                                   |
| Amortization                                                                                   | (6,265)                        | (654)                          | (11,232)                          | (902)                             |
| Reversal of (provision for) impairment of MSR carried at lower of amortized cost or fair value | 1,222                          | (1,518)                        | 3,708                             | (1,624)                           |
| Change in fair value of MSR 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 |
|-------------------------------------------------|---------------|---------------|

|                                              |    |    |
|----------------------------------------------|----|----|
| 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  |             |
|----------------------------------------------|-------------------------------------------------------------------------------------|------------|--------------------|-------------|
|                                              | Range                                                                               |            | Range              |             |
|                                              | (Weighted average)                                                                  |            | (Weighted average) |             |
|                                              | Amortized cost                                                                      | Fair value | Amortized cost     | Fair value  |
|                                              | (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,<br>2013 | Quarter ended June 30,<br>2012 | Six months ended June 30,<br>2013 | Six months ended June 30,<br>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<br>vs.<br>Quarter ended June 30, 2012<br>Increase (decrease)<br>due to changes in |          |                         | Six months ended June 30, 2013<br>vs.<br>Six months ended June 30, 2012<br>Increase (decrease)<br>due to changes in |          |          |
|------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|----------|-------------------------|---------------------------------------------------------------------------------------------------------------------|----------|----------|
|                                                      | Rate                                                                                                          | Volume   | Total<br>(in thousands) | Rate                                                                                                                | Volume   | Total    |
| 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,<br>2013 | Quarter ended June 30,<br>2012 | Six months ended June 30,<br>2013 | Six months ended June 30,<br>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,<br>2013 | Quarter ended June 30,<br>2012 | Six months ended June 30,<br>2013 | Six months ended June 30,<br>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<br>net<br>income | GAAP/Tax<br>differences | Distribution of taxable income      |                         |           |
|--------------------------------------------------------|----------------------------|-------------------------|-------------------------------------|-------------------------|-----------|
|                                                        |                            |                         | Taxable<br>income<br>(in thousands) | Taxable<br>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,<br>2013    | December 31,<br>2012 |
|----------------------------------------------------|---------------------|----------------------|
|                                                    | (in thousands)      |                      |
| <b>Assets</b>                                      |                     |                      |
| Cash                                               | \$ 27,642           | \$ 33,756            |
| <b>Investments:</b>                                |                     |                      |
| 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              |
| <b>Total assets</b>                                | <b>\$ 3,443,384</b> | <b>\$ 2,559,663</b>  |
| <b>Liabilities</b>                                 |                     |                      |
| <b>Assets sold under agreements to repurchase:</b> |                     |                      |
| 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              |
| <b>Total liabilities</b>                           | <b>2,199,203</b>    | <b>1,358,327</b>     |
| Shareholders' equity                               | 1,244,181           | 1,201,336            |
| <b>Total liabilities and shareholders' equity</b>  | <b>\$ 3,443,384</b> | <b>\$ 2,559,663</b>  |

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,<br>2013 | Quarter ended June 30,<br>2012 | Six months ended June 30,<br>2013 | Six months ended June 30,<br>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,<br>2013 | Quarter ended June 30,<br>2012 | Six months ended June 30,<br>2013 | Six months ended June 30,<br>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.

**Table of Contents****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 |              |
|---------------------|----------------|--------------|-------------------|--------------|
|                     | Fair values    |              | Fair values       |              |
|                     | Loan           | Collateral   | Loan              | Collateral   |
|                     | (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):

|                       | 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 type             | (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%             |

|               | 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 |
| Lien position | (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%             |                        |         |                   |                     |         |                   |
| Other               | 8,435                  | 2%      | 4.24%             | 2,442               | 0%      | 5.64%             | 50,801                 | 12%     | 4.58%             | 222,138             | 28%     | 6.35%             |
|                     |                        |         |                   |                     |         |                   | 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%             |                        |         |                   |                     |         |                   |
|                     |                        | 0%      | 0.00%             |                     | 0%      | 0.00%             | 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                | Fair value          | % total | Average   | Fair value        | % total | Average                | Fair value          | % total | Average   |
|                         |                  |         | note rate              |                     |         | note rate |                   |         | note rate              |                     |         | 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                | Fair value          | % total | Average   | Fair value        | % total | Average                | Fair value          | % total | Average   |
|                            |                  |         | note rate              |                     |         | note rate |                   |         | note rate              |                     |         | 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<br>(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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### Real Estate Acquired in Settlement of Loans

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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|                          | December 31, 2012     |                  | Acquisitions for the quarter ended   |                  |                                 |                  | March 31, 2012 |                  |
|--------------------------|-----------------------|------------------|--------------------------------------|------------------|---------------------------------|------------------|----------------|------------------|
|                          | At<br>Purchase        | June 30,<br>2013 | September 30, 2012<br>At<br>Purchase | June 30,<br>2013 | June 30, 2012<br>At<br>Purchase | June 30,<br>2013 | At<br>Purchase | June 30,<br>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%             |

|                          | December 31, 2011     |                  | Acquisitions for the quarter ended   |                  |                                 |                  | March 31, 2011 |                  |
|--------------------------|-----------------------|------------------|--------------------------------------|------------------|---------------------------------|------------------|----------------|------------------|
|                          | At<br>Purchase        | June 30,<br>2013 | September 30, 2011<br>At<br>Purchase | June 30,<br>2013 | June 30, 2011<br>At<br>Purchase | June 30,<br>2013 | At<br>Purchase | June 30,<br>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 MSRs, 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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Our investing activities include the purchase of long-term assets which are not presently cash flowing or are at risk of interruption of cash flows in the near future. Furthermore, much of the investment income we recognize is in the form of valuation adjustments we record recognizing our estimates of the net appreciation in value of the assets as we work with borrowers to either modify their loans or acquire the property securing their loans in settlement thereof. Accordingly, the cash associated with a substantial portion of our revenues is often realized as part of the proceeds of the liquidation of the assets, either through payoff or sale of the mortgage loan or through acquisition and sale of the property securing the loans, many months after we record the revenues.

The following table illustrates the net gain (loss) in value that we accumulated over the period during which we owned the liquidated assets, as compared to the proceeds actually received and the additional net gain (loss) realized upon liquidation of such assets:

|                | Quarter ended June 30, |                               |                |                         |                               |                |
|----------------|------------------------|-------------------------------|----------------|-------------------------|-------------------------------|----------------|
|                | Proceeds               | 2013                          | Gain on        |                         | 2012                          | Gain on        |
|                |                        | Accumulated gains (losses)(1) | liquidation(2) | Proceeds (in thousands) | Accumulated gains (losses)(1) | liquidation(2) |
| Mortgage loans | \$ 68,442              | \$ 10,699                     | \$ 8,039       | \$ 52,426               | \$ 5,671                      | \$ 6,493       |
| REO            | 30,993                 | (6,255)                       | (2,936)        | 41,736                  | (431)                         | 5,794          |
|                | \$ 99,435              | \$ 4,444                      | \$ 5,103       | \$ 94,162               | \$ 5,240                      | \$ 12,287      |

|                | Six months ended June 30, |                               |                        |            |                               |                        |
|----------------|---------------------------|-------------------------------|------------------------|------------|-------------------------------|------------------------|
|                | Proceeds                  | 2013                          | Gain on liquidation(2) | Proceeds   | 2012                          | Gain on liquidation(2) |
|                |                           | Accumulated gains (losses)(1) |                        |            | Accumulated gains (losses)(1) |                        |
|                |                           |                               | (in thousands)         |            |                               |                        |
| Mortgage loans | \$ 125,790                | \$ 17,706                     | \$ 16,404              | \$ 93,110  | \$ 9,726                      | \$ 11,340              |
| REO            | 63,017                    | (12,866)                      | (5,708)                | 75,300     | (659)                         | 12,493                 |
|                | \$ 188,807                | \$ 4,840                      | \$ 10,696              | \$ 168,410 | \$ 9,067                      | \$ 23,833              |

(1) Represents valuation gains and losses recognized during the period we held the respective asset but excludes the gain or loss recorded upon sale or repayment of the respective asset.

(2) Represents the gain or loss recognized as of the date of sale or repayment of the respective asset.

The amounts included in accumulated gains and gain on liquidation do not include the cost of managing the liquidated assets. The primary expenses incurred at a loan level in managing our portfolio of distressed assets are servicing and activity fees. We do not allocate other costs of managing our assets at a loan level. Rather, they include the amount of accumulated valuation gains and losses recognized throughout the holding period which may be substantial depending on the collection status of the loan at acquisition and on our success in working with the borrower to resolve the source of distress in the loan and in the case of REO, includes direct transaction costs incurred in the sale of the property. Accordingly, the preceding amounts do not represent periodic earnings on a cash basis and the amount of gain will have accumulated over varying periods depending on the holding periods and liquidation speed for individual assets.

Net cash provided by financing activities was \$484.5 million for the six months ended June 30, 2013, during which we increased borrowings through the issuance of long-term debt in the form of exchangeable senior notes with a maturity date of May 1, 2020 and through increased borrowings in the form of sales of assets under agreements to repurchase, primarily for the purpose of financing growth in our inventory of mortgage loans acquired for sale, mortgage loans at fair value and recording of MSRs through our sale activity. As discussed below in *Liquidity and Capital Resources*, our Manager continues to evaluate and pursue additional sources of financing to provide us with future investing capacity.

We do not raise equity or enter into borrowings for the purpose of financing the payment of dividends. We believe that our cash flows from the liquidation of our investments, which include accumulated gains recorded during the periods we hold those investments, along with our cash earnings, are adequate to fund our operating expenses and dividend payment requirements. However, as our business continues to grow, we

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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.

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### 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:



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                |                |                |                         |
|---------------------------------------------------|--------------|---------------------------------------|----------------|----------------|-------------------------|
|                                                   |              | Less than<br>1 year<br>(in thousands) | 1 - 3<br>years | 3 - 5<br>years | More<br>than<br>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<br>(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%        |

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### Mortgage Servicing Rights

The following tables summarize the estimated change in fair value of MSR accounts 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 accounts 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

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### **Item 6. Exhibits**

| <b>Exhibit Number</b> | <b>Exhibit Description</b>                                                                                                                                                                                                                                                                                                                                                                 |
|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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**

| <b>Number</b> | <b>Exhibit Description</b>                                                                                                                                                                                                                                                                                                                                         |
|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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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| <b>Exhibit Number</b> | <b>Exhibit Description</b>                                                                                                                                                                                                                                                                                                                                  |
|-----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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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| <b>Exhibit Number</b> | <b>Exhibit Description</b>                                                                                                                                                                                                                                                                                                                                                                 |
|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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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| <b>Exhibit Number</b> | <b>Exhibit Description</b>                                                                                                                                                                                                                                                                                                                                                           |
|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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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| <b>Exhibit Number</b> | <b>Exhibit Description</b>                                                                                                                                                                                                                                                                                                           |
|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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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| <b>Exhibit Number</b> | <b>Exhibit Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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**

| <b>Exhibit Number</b> | <b>Exhibit Description</b>                                                                                                                                                                                                                                                                                                                                                                 |
|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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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### **Exhibit**

| <b>Number</b> | <b>Exhibit Description</b>                                                                                                                                                                                                                                                                                                                                         |
|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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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| <b>Exhibit Number</b> | <b>Exhibit Description</b>                                                                                                                                                                                                                                                                                                                                  |
|-----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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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| <b>Exhibit Number</b> | <b>Exhibit Description</b>                                                                                                                                                                                                                                                                                                                                                                 |
|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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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| <b>Exhibit Number</b> | <b>Exhibit Description</b>                                                                                                                                                                                                                                                                                                                                                           |
|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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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| <b>Exhibit Number</b> | <b>Exhibit Description</b>                                                                                                                                                                                                                                                                                                           |
|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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).                                               |



## **Table of Contents**

| <b>Exhibit Number</b> | <b>Exhibit Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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.