NEW YORK MORTGAGE TRUST INC
Form 10-Q
August 07, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2014

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 001-32216

NEW YORK MORTGAGE TRUST, INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland	**47-0934168**
(State or Other Jurisdiction of	(I.R.S. Employer
Incorporation or Organization)	Identification No.)

275 Madison Avenue, New York, New York 10016

(Address of Principal Executive Office) (Zip Code)

(212) 792-0107

(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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of the registrant’s common stock, par value $0.01 per share, outstanding on August 1, 2014 was 90,684,546.

NEW YORK MORTGAGE TRUST, INC.

FORM 10-Q

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollar amounts in thousands, except per share data)

	June 30, 2014 (unaudited)	**December 31, 2013**
ASSETS		
Investment securities, available for sale, at fair value (including pledged securities of $733,162 and $853,223, respectively)	$889,220	$912,443
Investment securities, available for sale, at fair value held in securitization trusts	104,291	92,578
Residential mortgage loans held in securitization trusts (net)	156,129	163,237
Distressed residential mortgage loans held in securitization trusts (net)	233,078	254,721
Multi-family loans held in securitization trusts, at fair value	8,389,084	8,111,022
Derivative assets	207,306	197,590
Cash and cash equivalents	71,133	31,798
Receivables and other assets	187,823	135,286
Total Assets (1)	$10,238,064	$9,898,675
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Financing arrangements, portfolio investments	$668,428	$791,125
Residential collateralized debt obligations	151,097	158,410
Multi-family collateralized debt obligations, at fair value	8,114,270	7,871,020
Securitized debt	294,312	304,964
Derivative liabilities	3,140	1,432
Payable for securities purchased	204,580	191,592
Accrued expenses and other liabilities (including $684 and $951 to related parties, respectively)	62,989	54,466

Subordinated debentures	45,000	45,000
Total liabilities [(1)]	9,543,816	9,418,009
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, $0.01 par value, 7.75% Series B cumulative redeemable, $25 liquidation preference per share, 3,450,000 shares authorized, 3,000,000 shares issued and outstanding as of June 30, 2014 and December 31, 2013.	72,397	72,397
Common stock, $0.01 par value, 400,000,000 shares authorized, 90,684,546 and 64,102,029 shares issued and outstanding as of June 30, 2014 and December 31, 2013, respectively	907	641
Additional paid-in capital	590,666	404,555
Accumulated other comprehensive income	23,620	3,073
Retained earnings	6,658	-
Total stockholders' equity	694,248	480,666
Total Liabilities and Stockholders' Equity	$10,238,064	$9,898,675

(1) Our condensed consolidated balance sheets include assets and liabilities of consolidated variable interest entities ("VIEs") as the Company is the primary beneficiary of these VIEs. As of June 30, 2014 and December 31, 2013, assets of consolidated VIEs totaled $8,942,214 and $8,665,829, respectively, and the liabilities of consolidated VIEs totaled $8,589,402 and $8,365,345, respectively. See Note 7 for further discussion.

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

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollar amounts in thousands, except per share data)

(unaudited)

	For the Three Months Ended June 30,		**For the Six Months Ended June 30,**	
	2014	**2013**	**2014**	**2013**
INTEREST INCOME:				
Investment securities and other	$14,193	$10,553	$29,157	$21,619
Multi-family loans held in securitization trusts	75,501	54,484	150,445	99,802
Distressed residential mortgage loans	4,858	2,550	9,201	3,989
Residential mortgage loans held in securitization trusts	996	1,229	1,983	2,535
Total interest income	95,548	68,816	190,786	127,945
INTEREST EXPENSE:				
Investment securities and other	1,402	1,818	2,872	3,447
Multi-family collateralized debt obligations	69,110	50,249	137,857	91,908
Residential collateralized debt obligations	228	278	463	576
Securitized debt	4,459	2,104	8,961	4,196
Subordinated debentures	466	468	925	935
Total interest expense	75,665	54,917	151,078	101,062
NET INTEREST INCOME	19,883	13,899	39,708	26,883
OTHER INCOME (EXPENSE):				
Provision for loan losses	(663)	(384)	(1,152)	(667)
Realized gain (loss) on investment securities and related hedges, net	1,325	(8,490)	3,364	(11,652)
Realized gain on distressed residential mortgage loans	418	435	8,643	571
Unrealized (loss) gain on investment securities and related hedges, net	(1,291)	2,057	(3,027)	4,513
Unrealized gain on multi-family loans and debt held in securitization trusts, net	20,019	8,981	24,945	16,032
Other income (including $121, $41, $263 and $60 from related parties, respectively)	203	235	713	502
Total other income	20,011	2,834	33,486	9,299
Base management and incentive fees (including $1,129, $654, $2,219 and $1,321 to related parties, respectively)	3,866	1,687	7,644	3,242

Expenses related to distressed residential mortgage loans	1,217	1,117	2,429	1,566
Other general and administrative expenses (including $0, $162, $80 and $369 to related parties, respectively)	2,494	1,840	5,063	3,771
Total general, administrative and other expenses	7,577	4,644	15,136	8,579
INCOME FROM OPERATIONS BEFORE INCOME TAXES	32,317	12,089	58,058	27,603
Income tax expense	538	189	3,568	320
NET INCOME	31,779	11,900	54,490	27,283
Preferred stock dividends	1,453	662	2,906	662
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	$30,326	$11,238	$51,584	$26,621
Basic income per common share	$0.34	$0.19	$0.63	$0.49
Diluted income per common share	$0.34	$0.19	$0.63	$0.49
Dividends declared per common share	$0.27	$0.27	$0.54	$0.54
Weighted average shares outstanding-basic	89,686	58,959	82,137	54,311
Weighted average shares outstanding-diluted	89,686	58,959	82,137	54,311

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

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollar amounts in thousands)

(unaudited)

	For the Three Months Ended June 30, 2014	**For the Three Months Ended June 30, 2013**	**For the Six Months Ended June 30, 2014**	**For the Six Months Ended June 30, 2013**
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	$30,326	$11,238	$51,584	$26,621
OTHER COMPREHENSIVE INCOME				
Increase (decrease) in net unrealized gain on available for sale securities	13,427	(20,521)	21,877	(20,329)
(Decrease) increase in fair value of derivative instruments utilized for cash flow hedges	(1,201)	4,214	(1,330)	4,898
OTHER COMPREHENSIVE INCOME (LOSS)	12,226	(16,307)	20,547	(15,431)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	$42,552	$(5,069)	$72,131	$11,190

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

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollar amounts in thousands)

(unaudited)

	Common Stock	Preferred Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2013	$ 641	$ 72,397	$ 404,555	$ -	$ 3,073	$ 480,666
Net income	-	-	-	54,490	-	54,490
Stock issuance, net	266	-	186,111		-	186,377
Dividends declared	-	-		(47,832)	-	(47,832)
Increase in net unrealized gain on available for sale securities	-	-	-	-	21,877	21,877
Decrease in fair value of derivative instruments utilized for cash flow hedges	-	-	-	-	(1,330)	(1,330)
Balance, June 30, 2014	$ 907	$ 72,397	$ 590,666	$ 6,658	$ 23,620	$ 694,248

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

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollar amounts in thousands)

(unaudited)

	For the Six Months Ended June 30, 2014	2013
Cash Flows from Operating Activities:		
Net income	$54,490	$27,283
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization	(1,617)	8,596
Realized (gain) loss on investment securities and related hedges, net	(3,364)	11,652
Realized gain on distressed residential mortgage loans	(8,643)	(571)
Unrealized loss (gain) on investment securities and related hedges, net	3,027	(4,513)
Unrealized gain on loans and debt held in multi-family securitization trusts	(24,945)	(16,032)
Net decrease in loans held for sale	24	334
Provision for loan losses	1,152	667
Income from investments in limited partnerships and limited liability companies	(727)	-
Distributions of income from investments in limited partnership and limited liability companies	859	-
Amortization of stock based compensation, net	667	518
Changes in operating assets and liabilities:		
Receivables and other assets	(5,585)	(6,577)
Accrued expenses and other liabilities and accrued expenses, related parties	1,159	6,804
Net cash provided by operating activities	16,497	28,161
Cash Flows from Investing Activities:		
Restricted cash	(32,665)	15,184
Proceeds from sales of investment securities	-	1,254
Purchases of investment securities	(20,273)	(60,498)
Return of capital from investments in limited partnerships and limited liability companies	-	136
Purchases of other assets	(77)	-
Funding of mezzanine loan and preferred equity investments	(12,543)	(1,997)
Proceeds from mortgage loans held for investment	-	18
Net receipts on other derivative instruments settled during the period	3,688	(8,437)
Principal repayments received on residential mortgage loans held in securitization trusts	7,212	9,742
Principal repayments and proceeds from sales and refinancing of distressed residential mortgage loans	48,088	1,898
Principal repayments received on multi-family loans held in securitization trusts	33,669	29,871
Principal paydowns on investment securities - available for sale	45,488	70,293

Purchases of distressed residential mortgage loans	(20,107)	(132,372)
Purchases of loans held in multi-family securitization trusts	-	(41,235)
Net cash provided by (used in) investing activities	52,480	(116,143)
Cash Flows from Financing Activities:		
(Payments) proceeds of financing arrangements	(122,697)	6,019
Common stock issuance	186,081	98,172
Preferred stock issuance	-	72,637
Costs associated with common stock and preferred stock issued	(371)	(490)
Dividends paid on common stock	(37,736)	(26,875)
Dividends paid on preferred stock	(2,906)	-
Payments made on residential collateralized debt obligations	(7,340)	(9,975)
Payments made on multi-family collateralized debt obligations	(33,669)	(29,863)
Payments made on securitized debt	(11,004)	(153)
Net cash (used in) provided by financing activities	(29,642)	109,472
Net Increase in Cash and Cash Equivalents	39,335	21,490
Cash and Cash Equivalents - Beginning of Period	31,798	31,777
Cash and Cash Equivalents - End of Period	$71,133	$53,267
Supplemental Disclosure:		
Cash paid for interest	$176,893	$118,169
Cash paid for income taxes	$4,519	$390
Non-Cash Investment Activities:		
Purchase of investment securities not yet settled	$204,580	$238,440
Consolidation of multi-family loans held in securitization trusts	$-	$1,700,865
Consolidation of multi-family collateralized debt obligations	$-	$1,659,630
Non-Cash Financing Activities:		
Dividends declared on common stock to be paid in subsequent period	$24,485	$17,214
Dividends declared on preferred stock to be paid in subsequent period	$1,453	$662

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

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(unaudited)

1. Organization

New York Mortgage Trust, Inc., together with its consolidated subsidiaries ("NYMT," the "Company," "we," "our" and "us"), a real estate investment trust, or REIT, in the business of acquiring, investing in, financing and managing primarily mortgage-related assets and financial assets. Our objective is to manage a portfolio of investments that will deliver stable distributions to our stockholders over diverse economic conditions. We intend to achieve this objective through a combination of net interest margin and net realized capital gains from our investment portfolio. Our portfolio includes investments in mortgage-related and financial assets, including multi-family CMBS, direct financing to owners of multi-family properties through mezzanine loans and preferred equity investments, residential mortgage loans, including loans sourced from distressed markets, Agency RMBS consisting of fixed-rate, adjustable-rate and hybrid adjustable-rate RMBS and Agency IOs consisting of interest only and inverse interest-only RMBS that represent the right to the interest component of the cash flow from a pool of mortgage loans.

The Company conducts its business through the parent company, NYMT, and several subsidiaries, including special purpose subsidiaries established for residential loan and CMBS securitization purposes, taxable REIT subsidiaries ("TRSs") and qualified REIT subsidiaries ("QRSs"). The Company consolidates all of its subsidiaries under generally accepted accounting principles in the United States of America ("GAAP").

The Company is organized and conducts its operations to qualify as a REIT for federal income tax purposes. As such, the Company will generally not be subject to federal income tax on that portion of its income that is distributed to stockholders if it distributes at least 90% of its REIT taxable income to its stockholders by the due date of its federal income tax return and complies with various other requirements.

2. Summary of Significant Accounting Policies

Definitions – The following defines certain of the commonly used terms in these financial statements: "RMBS" refers to residential adjustable-rate, hybrid adjustable-rate, fixed-rate, interest only and inverse interest only and principal only mortgage-backed securities; "Agency RMBS" refers to RMBS representing interests in or obligations backed by pools of mortgage loans issued or guaranteed by a federally chartered corporation ("GSE"), such as the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac"), or an agency of the U.S. government, such as the Government National Mortgage Association ("Ginnie Mae"); "non-Agency RMBS" refers to RMBS backed by prime jumbo mortgage loans; "IOs" refers collectively to interest only and inverse interest only mortgage-backed securities that represent the right to the interest component of the cash flow from a pool of mortgage loans; "POs" refers to mortgage-backed securities that represent the right to the principal component of the cash flow from a pool of mortgage loans; "Agency IOs" refers to an IO that represents the right to the interest component of the cash flows from a pool of residential mortgage loans issued or guaranteed by a GSE or an agency of the U.S. government; "ARMs" refers to adjustable-rate residential mortgage loans; "Agency ARMs" refers to Agency RMBS comprised of adjustable-rate and hybrid adjustable-rate RMBS; "multi-family CMBS" refers to commercial mortgage-backed securities backed by commercial mortgage loans on multi-family properties, as well as IO or PO securities that represent the right to a specific component of the cash flow from a pool of commercial mortgage loans; and "CLO" refers to collateralized loan obligations.

Basis of Presentation – The accompanying condensed consolidated balance sheet as of December 31, 2013 has been derived from audited financial statements. The accompanying condensed consolidated balance sheet as of June 30, 2014, the accompanying condensed consolidated statements of operations for the three and six months ended June 30, 2014 and 2013, the accompanying condensed consolidated statements of comprehensive income for the three and six months ended June 30, 2014 and 2013, the accompanying condensed consolidated statement of changes in stockholders' equity for the six months ended June 30, 2014 and the accompanying condensed consolidated statements of cash flows for the six months ended June 30, 2014 and 2013 are unaudited. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly the Company's financial position, results of operations and cash flows have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted in accordance with Article 10 of Regulation S-X and the instructions to Form 10-Q. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the U.S. Securities and Exchange Commission ("SEC"). The results of operations for the three and six months ended June 30, 2014 are not necessarily indicative of the operating results for the full year.

The accompanying condensed consolidated financial statements have been prepared on the accrual basis of accounting in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although the Company’s estimates contemplate current conditions and how it expects them to change in the future, it is reasonably possible that actual conditions could be different than anticipated in those estimates, which could materially impact the Company’s results of operations and its financial condition. Management has made significant estimates in several areas, including valuation of its CMBS investments, multi-family loans held in securitization trusts and multi-family CDOs, as well as, income recognition on distressed residential mortgage loans purchased at a discount.

Reclassifications – Certain prior period amounts have been reclassified in the accompanying condensed consolidated financial statements to conform to current period presentation.

Principles of Consolidation and Variable Interest Entities – The accompanying condensed consolidated financial statements of the Company include the accounts of all its subsidiaries which are majority-owned, controlled by the Company or a variable interest entity (“VIE”) where the Company is the primary beneficiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

A VIE is an entity that lacks one or more of the characteristics of a voting interest entity. A VIE is defined as an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The Company consolidates a VIE when it is the primary beneficiary of such VIE. As primary beneficiary, it has both the power to direct the activities that most significantly impact the economic performance of the VIE and a right to receive benefits or absorb losses of the entity that could be potentially significant to the VIE. The Company is required to reconsider its evaluation of whether to consolidate a VIE each reporting period, based upon changes in the facts and circumstances pertaining to the VIE.

Investment Securities Available for Sale – The Company's investment securities, where the fair value option has not been elected and which are reported at fair value with unrealized gains and losses reported in Other Comprehensive Income (“OCI”), include Agency RMBS, non-Agency RMBS and CLOs. The Company has elected the fair value option for its Agency IOs, which measures unrealized gains and losses through earnings in the accompanying condensed consolidated statements of operations. The fair value option was elected for Agency IOs to mitigate earnings volatility by better matching the accounting for these investment securities with the related derivative instruments which are not designated as hedging instruments for accounting purposes, with unrealized gains and losses recognized through earnings in the accompanying condensed consolidated statements of operations within the Agency IO portfolio.

Our investment securities are classified as available for sale securities. Realized gains and losses recorded on the sale of investment securities available for sale are based on the specific identification method and included in realized gain (loss) on investment securities and related hedges in the accompanying condensed consolidated statements of operations. Purchase premiums or discounts on investment securities are amortized or accreted to interest income over the estimated life of the investment securities using the effective yield method. Adjustments to amortization are made for actual prepayment activity.

The Company accounts for debt securities that are of high credit quality (generally those rated AA or better by a Nationally Recognized Statistical Rating Organization, or NRSRO), at date of acquisition in accordance with Accounting Standards Codification (“ASC”) 320-10. The Company accounts for debt securities that are not of high credit quality (i.e., those whose risk of loss is less than remote) or securities that can be contractually prepaid such that we would not recover our initial investment at the date of acquisition in accordance with ASC 325-40. The Company considers credit ratings, the underlying credit risk and other market factors in determining whether the debt securities are of high credit quality; however, securities rated lower than AA or an equivalent rating are not considered of high credit quality and are accounted for in accordance with ASC 325-40. If ratings are inconsistent among NRSROs, the Company uses the lower rating in determining whether the securities are of high credit quality.

The Company assesses its impaired securities on at least a quarterly basis and designates such impairments as either "temporary" or "other-than-temporary" by applying the guidance prescribed in ASC Topic 320-10. When the fair value of an investment security is less than its amortized cost as of the reporting balance sheet date, the security is considered impaired. If the Company intends to sell an impaired security, or it is more likely than not that it will be required to sell the impaired security before its anticipated recovery, then it must recognize an other-than-temporary impairment through earnings equal to the entire difference between the investment's amortized cost and its fair value as of the balance sheet date. If the Company does not expect to sell an other-than-temporarily impaired security, only the portion of the other-than-temporary impairment related to credit losses is recognized through earnings with the remainder recognized as a component of other comprehensive income (loss) on the accompanying condensed consolidated balance sheets. Impairments recognized through other comprehensive income (loss) do not impact earnings. Following the recognition of an other-than-temporary impairment through earnings, a new cost basis is established for the security, which may not be adjusted for subsequent recoveries in fair value through earnings. However, other-than-temporary impairments recognized through earnings may be accreted back to the amortized cost basis of the security on a prospective basis through interest income. The determination as to whether an other-than-temporary impairment exists and, if so, the amount considered other-than-temporarily impaired is subjective, as such determinations are based on both factual and subjective information available at the time of assessment as well the Company's estimates of the future performance and cash flow projections. As a result, the timing and amount of other-than-temporary impairments constitute material estimates that are susceptible to significant change.

In determining the other-than temporary impairment related to credit losses for securities that are not of high credit quality, the Company compares the present value of the remaining cash flows expected to be collected at the purchase date (or last date previously revised) against the present value of the cash flows expected to be collected at the current financial reporting date. The Company considers information available about the past and expected future performance of underlying mortgage loans, including timing of expected future cash flows, prepayment rates, default rates, loss severities and delinquency rates.

Investment Securities Available for Sale Held in Securitization Trusts – The Company's investment securities available for sale held in securitization trusts are comprised of multi-family CMBS consisting of PO securities that represent the first loss tranche of the securitizations from which they were issued, or "first loss tranche", a first loss tranche floating rate security and certain IOs issued from four Freddie Mac-sponsored multi-family K-Series securitizations. These securities are reported at fair value with unrealized gains and losses reported in OCI. Realized gains and losses recorded on the sale of investment securities available for sale held in securitization trusts are based on the specific identification method and included in realized gain (loss) on sale of securities and related hedges in the accompanying condensed consolidated statements of operations. Purchase premiums or discounts are amortized or accreted to interest income over the estimated life of the investment securities using the effective yield method.

Residential Mortgage Loans Held in Securitization Trusts – Residential mortgage loans held in securitization trusts are comprised of certain ARM loans transferred to Consolidated VIEs that have been securitized into sequentially rated classes of beneficial interests. The Company accounted for these securitization trusts as financings which are consolidated into the Company’s financial statements. Residential mortgage loans held in securitization trusts are carried at their unpaid principal balances, net of unamortized premium or discount, unamortized loan origination costs and allowance for loan losses. Interest income is accrued and recognized as revenue when earned according to the terms of the mortgage loans and when, in the opinion of management, it is collectible. The accrual of interest on loans is discontinued when, in management’s opinion, the interest is not collectible in the normal course of business, but in no case when payment becomes greater than 90 days delinquent. As of June 30, 2014 and December 31, 2013, there were 24 and 31 loans, respectively, on a nonaccrual basis with an unpaid principal balance of approximately $14.4 and $19.1 million, respectively. Loans return to accrual status when principal and interest become current and are anticipated to be fully collectible.

We establish an allowance for loan losses based on management's judgment and estimate of credit losses inherent in our portfolio of residential mortgage loans held in securitization trusts. Estimation involves the consideration of various credit-related factors, including but not limited to, macro-economic conditions, current housing market conditions, loan-to-value ratios, delinquency status, historical credit loss severity rates, purchased mortgage insurance, the borrower's current economic condition and other factors deemed to warrant consideration. Additionally, we look at the balance of any delinquent loan and compare that to the current value of the collateralizing property. We utilize various home valuation methodologies including appraisals, broker pricing opinions, internet-based property data services to review comparable properties in the same area or consult with a realtor in the property's area.

Acquired Distressed Residential Mortgage Loans – Distressed residential mortgage loans held in securitization trusts are comprised of pools of fixed and adjustable rate residential mortgage loans acquired by the Company at a discount (that is due, in part, to the credit quality of the borrower). Distressed residential mortgage loans held in securitization trusts are distressed residential mortgage loans transferred to Consolidated VIEs that have been securitized into beneficial interests. The Company accounted for these securitization trusts as financings which are consolidated into the Company’s financial statements.

The Company considers the purchase price for the acquired distressed residential mortgage loans to be at fair value at the date of acquisition. These acquired distressed residential mortgage loans were initially recorded at fair value with no allowance for loan losses.

Acquired distressed residential mortgage loans that have evidence of deteriorated credit quality at acquisition are accounted for under ASC Subtopic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality" ("ASC 310-30"). Under ASC 310-30, the acquired loans may be accounted for individually or aggregated and accounted for as a pool of loans if the loans being aggregated have common risk characteristics. A pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Once a pool is assembled, it is treated as if it was one loan for purposes of applying the accounting guidance.

Under ASC 310-30, the excess of cash flows expected to be collected over the carrying amount of the loans, referred to as the “accretable yield,” is accreted into interest income over the life of the loans in each pool or individually using a level yield methodology. Accordingly, our acquired distressed residential mortgage loans accounted for under ASC 310-30 are not subject to classification as nonaccrual classification in the same manner as our residential mortgage loans that were not distressed when acquired by us. Rather, interest income on acquired distressed residential mortgage loans relates to the accretable yield recognized at the pool level or on an individual loan basis, and not to contractual interest payments received at the loan level. The difference between contractually required principal and interest payments and the cash flows expected to be collected, referred to as the “nonaccretable difference,” includes estimates of both the impact of prepayments and expected credit losses over the life of the individual loan, or the pool (for loans grouped into a pool).

The Company monitors actual cash collections against its expectations, and revised cash flow estimates are prepared as necessary. These estimates incorporate assumptions regarding default rates, loss severities, value of the underlying real estate securing the loans, the amounts and timing of prepayments and other factors that reflect then-current market conditions. A decrease in expected cash flows in subsequent periods may indicate that the loan pool or individual loan, as applicable, is impaired thus requiring the establishment of an allowance for loan losses by a charge to the provision for loan losses. An increase in expected cash flows in subsequent periods initially reduces any previously established allowance for loan losses by the increase in the present value of cash flows expected to be collected, and results in a recalculation of the amount of accretable yield for the loan pool. The adjustment of accretable yield due to an increase in expected cash flows is accounted for prospectively as a change in estimate. The additional cash flows expected to be collected are reclassified from the nonaccretable difference to the accretable yield, and the amount of periodic accretion is adjusted accordingly over the remaining life of the loans in the pool or individual loan, as applicable. The impacts of (i) prepayments, (ii) changes in variable interest rates, and (iii) any other changes in the timing of expected cash flows are recognized prospectively as adjustments to interest income.

An acquired distressed residential mortgage loan may be resolved either through receipt of payment (in full or in part) from the borrower, the sale of the loan to a third party, or foreclosure of the collateral. For acquired distressed residential mortgage loans held in pools, in the event of a sale of the loan, a gain or loss on sale is recognized and reported based on the difference between the sales proceeds and the carrying amount of the acquired distressed residential mortgage loan. In the case of a foreclosure, an individual loan is removed from the pool at the fair value of the underlying collateral less costs to sell. For loans satisfied by payment in full, the loan is removed from the pool. The Company uses the specific allocation method for the removal of loans as the estimated cash flows and related carrying amount for each individual loan are known. In these cases, the remaining accretable yield is unaffected and any material change in remaining effective yield caused by the removal of the loan from the pool is addressed by the re-assessment of the estimate of cash flows for the pool prospectively. Acquired distressed residential mortgage loans subject to modification are not removed from the pool even if those loans would otherwise be considered troubled debt restructurings because the pool, and not the individual loan, represents the unit of account.

For individual loans not accounted for in pools that are sold or satisfied by payment in full, a gain or loss on sale is recognized and reported based on the difference between the sales proceeds and the carrying amount of the acquired distressed residential mortgage loan. In the case of a foreclosure, the loss is recognized if the carrying value exceeds the fair value of the collateral (less costs to sell). A gain is not recognized if the fair value of collateral (less costs to sell) exceeds the carrying value.

Multi-Family Loans Held in Securitization Trusts – Multi-family loans held in securitization trusts are comprised of multi-family mortgage loans held in six Freddie Mac-sponsored multi-family K-Series securitizations (the “Consolidated K-Series”) as of June 30, 2014 and December 31, 2013. Based on a number of factors, we determined that we were the primary beneficiary of each VIE within the Consolidated K-Series, met the criteria for consolidation and, accordingly, have consolidated these Freddie Mac-sponsored multi-family K-Series securitizations, including their assets, liabilities, income and expenses in our financial statements. The Company has elected the fair value option on each of the assets and liabilities held within the Consolidated K-Series, which requires that changes in valuations in the assets and liabilities of the Consolidated K-Series be reflected in the Company's accompanying condensed consolidated statement of operations, as the Company believes this accounting treatment more accurately and consistently reflects its results of operations.

Interest income is accrued and recognized as revenue when earned according to the terms of the mortgage loans and when, in the opinion of management, it is collectible. The accrual of interest on loans is discontinued when, in management's opinion, the interest is not collectible in the normal course of business, but in no case when payment becomes greater than 90 days delinquent. Loans return to accrual status when principal and interest become current and are anticipated to be fully collectible.

Mezzanine Loan and Preferred Equity Investments – The Company invests in mezzanine loans and preferred equity of entities that have significant real estate assets. The mezzanine loan is secured by a pledge of the borrower's equity ownership in the property. Unlike a mortgage, this loan does not represent a lien on the property. Therefore, it is always junior and subordinate to any first-lien as well as second liens, if applicable, on the property. These loans are senior to any preferred equity or common equity interests. Purchasers of mezzanine loans benefit from a right to foreclose on the ownership equity in a more efficient manner than senior mortgage debt.

A preferred equity investment is an equity investment in the entity that owns the underlying property. Preferred equity is not secured by the underlying property, but holders have priority relative to common equity holders on cash flow distributions and proceeds from capital events. In addition, preferred equity holders may be able to enhance their position and protect their equity position with covenants that limit the entity's activities and grant the holder the exclusive right to control the property after an event of default.

Mezzanine loans and preferred equity investments, where the risks and payment characteristics are equivalent to mezzanine loans, are accounted for as loans held for investment and are stated at unpaid principal balance, adjusted for any unamortized premium or discount, deferred fees or expenses, net of valuation allowances, and are included in receivables and other assets. We accrete or amortize any discounts or premiums over the life of the related loan receivable utilizing the effective interest method or straight line-method, if the result is not materially different. We evaluate the collectibility of both interest and principal of each of our loans, if circumstances warrant, to determine whether they are impaired. A loan is impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the existing contractual terms. When a loan is impaired, the amount of the loss accrual is calculated by comparing the carrying amount of the investment to the estimated fair value of the loan or, as a practical expedient, to the value of the collateral if the loan is collateral dependent.

Mezzanine loans and preferred equity investments where the risks and payment characteristics are equivalent to an equity investment are accounted for using the equity method of accounting. See "*Investment in Limited Partnership and Limited Liability Companies*" for a description of our accounting policy for Investments in Limited Partnerships and Limited Liability Companies. The mezzanine loans and preferred equity investments are included in receivables and other assets.

Mortgage Loans Held for Investment – Mortgage loans held for investment are stated at unpaid principal balance, adjusted for any unamortized premium or discount, deferred fees or expenses, net of valuation allowances, and are included in receivables and other assets. Interest income is accrued on the principal amount of the loan based on the loan's contractual interest rate. Amortization of premiums and discounts is recorded using the effective yield method. Interest income, amortization of premiums and discounts and prepayment fees are reported in interest income. A loan is considered to be impaired when it is probable that based upon current information and events, the Company will be unable to collect all amounts due under the contractual terms of the loan agreement. Based on the facts and circumstances of the individual loans being impaired, loan specific valuation allowances are established for the excess carrying value of the loan over either: (i) the present value of expected future cash flows discounted at the loan's original effective interest rate, (ii) the estimated fair value of the loan's underlying collateral if the loan is in the process of foreclosure or otherwise collateral dependent, or (iii) the loan's observable market price.

Investments in Limited Partnership and Limited Liability Companies – In circumstances where the Company has a non-controlling interest but either owns a significant interest or is able to exert influence over the affairs of the enterprise, the Company utilizes the equity method of accounting. Under the equity method of accounting, the initial investment is increased each period for additional capital contributions and a proportionate share of the entity's earnings or preferred return and decreased for cash distributions and a proportionate share of the entity's losses. Where the Company is not required to fund additional losses, the Company does not continue to record its proportionate share of the entity's losses such that its investment balance would go below zero.

Management periodically reviews its investments for impairment based on projected cash flows from the entity over the holding period. When any impairment is identified, the investments are written down to recoverable amounts.

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, amounts due from banks and overnight deposits. The Company maintains its cash and cash equivalents in highly rated financial institutions, and at times these balances exceed insurable amounts.

Receivables and Other Assets – Receivables and other assets as of June 30, 2014 and December 31, 2013 include restricted cash held by third parties of $76.7 million and $44.1 million, respectively. Included in restricted cash is $42.3 million and $30.4 million held in our Agency IO portfolio to be used for trading purposes and $13.9 million and $10.2 million held by counterparties as collateral for hedging instruments as of June 30, 2014 and December 31, 2013, respectively. Also included in receivable and other assets is $20.4 million and $3.3 million in restricted cash held in trust relating to our securitized debt transactions as of June 30, 2014 and December 31, 2013, respectively. Interest receivable on multi-family loans held in securitization trusts is also included in the amounts of $29.1 million and $30.2 million as of June 30, 2014 and December 31, 2013, respectively.

Financing Arrangements, Portfolio Investments – The Company finances the majority of its Agency RMBS purchases using repurchase agreements. Under a repurchase agreement, an asset is sold to a counterparty to be repurchased at a future date at a predetermined price, which represents the original sales price plus interest. The Company accounts for these repurchase agreements as financings under ASC 860, *Transfers and Servicing*. Under ASC 860, for these transactions to be treated as financings, they must be separate transactions and not linked. If the Company finances the purchase of its securities with repurchase agreements with the same counterparty from which the securities are purchased and both transactions are entered into contemporaneously or in contemplation of each other, the transactions are presumed under GAAP to be part of the same arrangement, or a "Linked Transaction," unless certain criteria are met. None of the Company's repurchase agreements are accounted for as linked transactions because they met the applicable criteria in accordance with ASC 860-10-40.

Residential Collateralized Debt Obligations ("Residential CDOs") – We use Residential CDOs to permanently finance our residential mortgage loans held in securitization trusts. For financial reporting purposes, the ARM loans held as collateral are recorded as assets of the Company and the Residential CDOs are recorded as the Company's debt. The Company has completed four securitizations since inception. The first three were accounted for as a permanent financing while the fourth was accounted for as a sale and accordingly, is not included in the Company's accompanying condensed consolidated financial statements.

Multi-Family Collateralized Debt Obligations ("Multi-Family CDOs") – We consolidated the Consolidated K-Series including their debt, referred to as Multi-Family CDOs, in our financial statements. The Multi-Family CDOs permanently finance the multi-family mortgage loans held in the Consolidated K-Series securitizations. For financial reporting purposes, the loans held as collateral are recorded as assets of the Company and the Multi-Family CDOs are recorded as the Company's debt. We refer to both the Residential CDOs and Multi-Family CDOs as CDOs in this report.

Securitized Debt – Securitized Debt represents third-party liabilities of Consolidated VIEs and excludes liabilities of the VIEs acquired by the Company that are eliminated on consolidation. The Company has entered into several financing transactions that resulted in the Company consolidating as VIEs the special purpose entities (the "SPEs") that were created to facilitate the transactions and to which underlying assets in connection with the financing were transferred. The Company engaged in these transactions primarily to obtain permanent or longer term financing on a portion of its multi-family CMBS and acquired distressed residential mortgage loans.

Costs related to issuance of securitized debt which include underwriting, rating agency, legal, accounting and other fees are reflected as deferred charges. Such costs are included on the Company's accompanying condensed consolidated balance sheets in receivables and other assets in the amount of $3.3 million and $4.1 million as of June 30, 2014 and December 31, 2013, respectively. These deferred charges are amortized as an adjustment to interest expense using the effective interest method, or straight line-method, if the result is not materially different.

Derivative Financial Instruments – The Company has developed risk management programs and processes, which include investments in derivative financial instruments designed to manage interest rate and prepayment risk associated with its securities investment activities.

Derivative instruments contain an element of risk in the event that the counterparties may be unable to meet the terms of such agreements. The Company minimizes its risk exposure by limiting the counterparties with which it enters into contracts to banks and investment banks who meet established credit and capital guidelines.

The Company invests in To-Be-Announced securities ("TBAs") through its Agency IO portfolio. TBAs are forward-settling purchases and sales of Agency RMBS where the underlying pools of mortgage loans are "To-Be-Announced." Pursuant to these TBA transactions, we agree to purchase or sell, for future settlement, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered is not identified until shortly before the TBA settlement date. For TBA contracts that we have entered into, we have not asserted that physical settlement is probable, therefore we have not designated these forward commitments as hedging instruments. Realized and unrealized gains and losses associated with these TBAs are recognized through earnings as other income (expense) in the consolidated statements of operations.

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of OCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instruments in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in current earnings during the period of change.

For instruments that are not designated or qualify as a cash flow hedge, such as our use of U.S. Treasury securities or financial futures and options on financial futures contracts, any realized and unrealized gains and losses associated with these instruments are recognized through earnings as other income (expense) in the consolidated statements of operations.

Termination of Hedging Relationships – The Company employs risk management monitoring procedures to ensure that the designated hedging relationships are demonstrating, and are expected to continue to demonstrate, a high level of effectiveness. Hedge accounting is discontinued on a prospective basis if it is determined that the hedging relationship is no longer highly effective or expected to be highly effective in offsetting changes in fair value of the hedged item.

Additionally, the Company may elect to un-designate a hedge relationship during an interim period and re-designate upon the rebalancing of a hedge profile and the corresponding hedge relationship. When hedge accounting is discontinued, the Company continues to carry the derivative instruments at fair value with changes recorded in current earnings.

Revenue Recognition – Interest income on our investment securities and on our mortgage loans is accrued based on the outstanding principal balance and their contractual terms. Premiums and discounts associated with investment securities and mortgage loans at the time of purchase or origination are amortized into interest income over the life of such securities using the effective yield method. Adjustments to amortization are made for actual prepayment activity.

Interest income on our credit sensitive securities, such as our CLOs and certain of our CMBS that were purchased at a discount to par value, is recognized based on the security's effective interest rate. The effective interest rate on these securities is based on management's estimate from each security of the projected cash flows, which are estimated based on the Company's assumptions related to fluctuations in interest rates, prepayment speeds and the timing and amount of credit losses. On at least a quarterly basis, the Company reviews and, if appropriate, makes adjustments to its cash flow projections based on input and analysis received from external sources, internal models, and its judgment about interest rates, prepayment rates, the timing and amount of credit losses, and other factors. Changes in cash flows from those originally projected, or from those estimated at the last evaluation, may result in a prospective change in the yield/interest income recognized on these securities.

Based on the projected cash flows from the Company's first loss tranche PO multi-family CMBS purchased at a discount to par value, a portion of the purchase discount is designated as non-accretable purchase discount or credit reserve, which partially mitigates the Company's risk of loss on the mortgages collateralizing such multi-family CMBS, and is not expected to be accreted into interest income. The amount designated as a credit reserve may be adjusted over time, based on the actual performance of the security, its underlying collateral, actual and projected cash flow from such collateral, economic conditions and other factors. If the performance of a security with a credit reserve is more favorable than forecasted, a portion of the amount designated as credit reserve may be accreted into interest income over time. Conversely, if the performance of a security with a credit reserve is less favorable than forecasted, the amount designated as credit reserve may be increased, or impairment charges and write-downs of such securities to a new cost basis could result.

With respect to interest rate swaps that have not been designated as hedges, any net payments under, or fluctuations in the fair value of, such swaps will be recognized in current earnings.

See *"Acquired Distressed Residential Mortgage Loans"* for a description of our revenue recognition policy for acquired distressed residential mortgage loans.

Manager Compensation - We are a party to separate investment management agreements with Headlands Asset Management LLC ("Headlands"), The Midway Group, LP ("Midway") and RiverBanc, LLC ("RiverBanc"), with Headlands providing investment management services with respect to our investments in certain distressed residential mortgage loans, Midway providing investment management services with respect to our investments in Agency IOs, and RiverBanc providing investment management services with respect to our investments in multifamily CMBS and certain commercial real estate-related debt investments. These investment management agreements provide for the payment to our investment managers of a management fee, incentive fee and reimbursement of certain operating expenses, which are accrued and expensed during the period for which they are earned or incurred.

Other Comprehensive Income (Loss) – The Company's comprehensive income/(loss) available to common stockholders includes net income, the change in net unrealized gains/(losses) on its available for sale securities and its derivative hedging instruments, currently comprised of interest rate swaps, (to the extent that such changes are not recorded in earnings), adjusted by realized net gains/(losses) reclassified out of accumulated other comprehensive income/(loss) for available for sale securities and is reduced by dividends declared on the Company's preferred stock.

Employee Benefits Plans – The Company sponsors a defined contribution plan (the "Plan") for all eligible domestic employees. The Plan qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). The Company made no contributions to the Plan for the six months ended June 30, 2014 and 2013.

Stock Based Compensation – Compensation expense for equity based awards and stock issued for services are recognized over the vesting period of such awards and services based upon the fair value of the stock at the grant date.

Income Taxes – The Company operates in such a manner so as to qualify as a REIT under the requirements of the Internal Revenue Code. Requirements for qualification as a REIT include various restrictions on ownership of the Company's stock, requirements concerning distribution of taxable income and certain restrictions on the nature of assets and sources of income. A REIT must distribute at least 90% of its taxable income to its stockholders, of which 85% plus any undistributed amounts from the prior year must be distributed within the taxable year in order to avoid the imposition of an excise tax. Distribution of the remaining balance may extend until timely filing of the Company's tax return in the subsequent taxable year. Qualifying distributions of taxable income are deductible by a REIT in computing taxable income.

Certain activities of the Company are conducted through TRSs and therefore are subject to federal and various state and local income taxes. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

ASC 740, *Income Taxes*, provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. In situations involving uncertain tax positions related to income tax matters, we do not recognize benefits unless it is more likely than not that they will be sustained. ASC 740 was applied to all open taxable years as of the effective date. Management's determinations regarding ASC 740 may be subject to review and adjustment at a later date based on factors including, but not limited to, an ongoing analysis of tax laws, regulations and interpretations thereof. The Company will recognize interest and penalties, if any, related to uncertain tax positions as income tax expense.

Earnings Per Share – Basic earnings per share excludes dilution and is computed by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

Segment Reporting – ASC 280, Segment Reporting, is the authoritative guidance for the way public entities report information about operating segments in their annual financial statements. We are a REIT focused on the business of acquiring, investing in, financing and managing primarily mortgage-related assets, and to a lesser extent, financial assets, and currently operate in only one reportable segment.

Summary of Recent Accounting Pronouncements

Liabilities (ASC 405)

In April 2013, the FASB issued Accounting Standards Update ("ASU") 2013-04, *Liabilities (Topic 405)—Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date* ("ASU 2013-04"), which provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. ASU 2013-04 became effective for the Company beginning January 1, 2014. The adoption of ASU 2013-04 did not have an effect on the Company's consolidated financial statements.

Income taxes (ASC 740)

In November 2013, the FASB issued ASU No. 2013-11, *Income Taxes (Topic 740)—Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* (“ASU 2013-11”). ASU No. 2013-11 provide that an unrecognized tax benefit, or a portion thereof, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent that a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from disallowance of a tax position, or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, then the unrecognized tax benefit should be presented as a liability. ASU 2013-11 became effective for the Company beginning January 1, 2014. The adoption of ASU 2013-11 did not have an impact on the Company's consolidated financial statements.

Receivables (ASC 310)

In April 2014, the FASB issued ASU 2014-04, *Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40)—Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure* (“ASU 2014-04”). The amendments of this ASU are intended to clarify when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate recognized. In addition, the amendments clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure, or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. ASU 2014-04 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. We do not expect the adoption of ASU 2014-04 to have a significant effect on our financial condition, results of operations and disclosures.

Transfers and Servicing (ASC 860)

In June 2014, the FASB issued ASU 2014-11, *Transfers and Servicing: Repurchase-to-Maturity Transaction, Repurchase Financings, and Disclosures* ("ASU 2014-09"). This guidance requires repurchase-to-maturity transactions to be accounted for as secured borrowings as if the transferor retains effective control, even though the transferred financial assets are not returned to the transferor at settlement. ASU 2014-09 also eliminates existing guidance for repurchase financings and requires instead that entities consider the initial transfer and the related repurchase agreement separately when applying the derecognition requirements of ASC 860, Transfers and Servicing. New disclosures will be required for (1) certain transactions accounted for as secured borrowings and (2) transfers accounted for as sales when the transferor also retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. This guidance will take effect for periods beginning after December 15, 2014, and early adoption is prohibited. Certain disclosures under this guidance do not take effect until the first period beginning after March 15, 2015. We do not expect the adoption of ASU 2014-11 to have a significant effect on our financial condition, results of operations and disclosures.

Revenue Recognition (Topic 606)

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). This guidance creates a new, principle-based revenue recognition framework that will affect nearly every revenue-generating entity. ASU 2014-09 also creates a new topic in the Codification, Topic 606 ("ASC 606"). In addition to superseding and replacing nearly all existing U.S. GAAP revenue recognition guidance, including industry-specific guidance, ASC 606 does the following: (1) Establishes a new control-based revenue recognition model; (2) Changes the basis for deciding when revenue is recognized over time or at a point in time; (3) Provides new and more detailed guidance on specific aspects of revenue recognition; and (4) Expands and improves disclosures about revenue. ASC 606 is effective for public business entities for annual reporting periods beginning after December 15, 2016, including interim periods therein. Early application is not permitted for public business entities. The Company is currently assessing the impact of this guidance.

3. Investment Securities Available For Sale

Investment securities available for sale consist of the following as of June 30, 2014 and December 31, 2013 (dollar amounts in thousands):

	June 30, 2014				**December 31, 2013**			
	Amortized Cost	**Unrealized Gains**	**Losses**	**Fair Value**	**Amortized Cost**	**Unrealized Gains**	**Losses**	**Fair Value**
Agency RMBS:								