NEW YORK MORTGAGE TRUST INC
Form 10-Q
August 07, 2017
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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, 2017

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 Incorporation or Organization)	(I.R.S. Employer 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	Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

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

The number of shares of the registrant’s common stock, par value $0.01 per share, outstanding on August 7, 2017 was 111,891,130.

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NEW YORK MORTGAGE TRUST, INC.

FORM 10-Q

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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 share data)

	June 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Investment securities, available for sale, at fair value (including $45,400 and $43,897 held in securitization trusts as of June 30, 2017 and December 31, 2016, respectively and pledged securities of $550,856 and $690,592, as of June 30, 2017 and December 31, 2016, respectively)	$740,903	$818,976
Residential mortgage loans held in securitization trusts, net	85,911	95,144
Distressed residential mortgage loans, net (including $152,621 and $195,347 held in securitization trusts as of June 30, 2017 and December 31, 2016, respectively)	429,792	503,094
Multi-family loans held in securitization trusts, at fair value	8,468,104	6,939,844
Derivative assets	172,642	150,296
Receivable for securities sold	5,976	—
Cash and cash equivalents	75,391	83,554
Investment in unconsolidated entities	72,817	79,259
Mezzanine loan and preferred equity investments	100,207	100,150
Operating real estate held in consolidated variable interest entities, net	28,907	—
Real estate held for sale in consolidated variable interest entities	34,806	—
Goodwill	25,222	25,222
Receivables and other assets	165,896	156,092
Total Assets (1)	$10,406,574	$8,951,631
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Financing arrangements, portfolio investments	$656,350	$773,142
Financing arrangements, residential mortgage loans	174,861	192,419
Residential collateralized debt obligations	82,313	91,663
Multi-family collateralized debt obligations, at fair value	8,069,938	6,624,896
Securitized debt	109,972	158,867
Mortgages and notes payable in consolidated variable interest entities	55,849	1,588
Derivative liabilities	310	498
Payable for securities purchased	172,557	148,015
Accrued expenses and other liabilities	68,182	64,381
Subordinated debentures	45,000	45,000
Convertible notes	127,799	—
Total liabilities (1)	9,563,131	8,100,469
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, $0.01 par value, 7.75% Series B cumulative redeemable, $25 liquidation preference per share, 6,000,000 shares authorized, 3,000,000 shares issued and outstanding	72,397	72,397

Preferred stock, $0.01 par value, 7.875% Series C cumulative redeemable, $25 liquidation preference per share, 4,140,000 shares authorized, 3,600,000 shares issued and outstanding	86,862	86,862
Common stock, $0.01 par value, 400,000,000 shares authorized, 111,891,130 and 111,474,521 shares issued and outstanding as of June 30, and December 31, 2016, respectively	1,119	1,115
Additional paid-in capital	749,862	748,599
Accumulated other comprehensive income	8,358	1,639
Accumulated deficit	(80,217)	(62,537)
Company's stockholders' equity	838,381	848,075
Non-controlling interest in consolidated variable interest entities	5,062	3,087
Total equity	843,443	851,162
Total Liabilities and Stockholders' Equity	$ 10,406,574	$ 8,951,631

(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, 2017 and December 31, 2016, assets of consolidated VIEs totaled $8,880,785 and $7,330,872, respectively, and the liabilities of consolidated VIEs totaled $8,349,762 and $6,902,536, respectively. See Note 9 for further discussion.

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

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NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share data)
(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
INTEREST INCOME:				
Investment securities and other	$10,199	$8,591	$20,000	$17,025
Multi-family loans held in securitization trusts	75,752	61,769	137,056	125,301
Residential mortgage loans held in securitization trusts	1,365	921	2,607	1,757
Distressed residential mortgage loans	6,665	8,485	12,703	17,309
Total interest income	93,981	79,766	172,366	161,392
INTEREST EXPENSE:				
Investment securities and other	5,805	3,962	11,374	7,811
Convertible notes	2,615	—	4,590	—
Multi-family collateralized debt obligations	66,873	55,224	120,805	112,424
Residential collateralized debt obligations	239	312	575	615
Securitized debt	2,171	3,096	4,286	5,227
Subordinated debentures	570	508	1,110	1,009
Total interest expense	78,273	63,102	142,740	127,086
NET INTEREST INCOME	15,708	16,664	29,626	34,306
OTHER INCOME (LOSS):				
(Provision for) recovery of loan losses	(300)	42	(112)	688
Realized gain (loss) on investment securities and related hedges, net	1,114	1,761	(109)	3,027
Realized gain on distressed residential mortgage loans, net	2,364	26	14,335	5,574
Unrealized (loss) gain on investment securities and related hedges, net	(1,051)	(667)	495	(3,159)
Unrealized gain on multi-family loans and debt held in securitization trusts, net	1,447	784	2,831	1,602
Income from operating real estate and real estate held for sale in consolidated variable interest entities	2,316	—	2,316	—
Other income	2,282	8,125	5,121	11,198
Total other income	8,172	10,071	24,877	18,930
Base management and incentive fees	(109)	2,979	2,969	6,504
Expenses related to distressed residential mortgage loans	2,218	2,740	4,457	5,934
Expenses related to operating real estate and real estate held for sale in consolidated variable interest entities	4,415	—	4,415	—
Other general and administrative expenses	5,065	4,217	9,952	6,857
Total general, administrative and operating expenses	11,589	9,936	21,793	19,295
INCOME FROM OPERATIONS BEFORE INCOME TAXES	12,291	16,799	32,710	33,941
Income tax expense	442	2,366	1,680	2,557

NET INCOME	11,849	14,433	31,030	31,384
Net loss attributable to non-controlling interest in consolidated variable interest entities	2,487	2	2,487	2
NET INCOME ATTRIBUTABLE TO COMPANY	14,336	14,435	33,517	31,386
Preferred stock dividends	(3,225)	(3,225)	(6,450)	(6,450)
NET INCOME ATTRIBUTABLE TO COMPANY'S COMMON STOCKHOLDERS	$11,111	$11,210	$27,067	$24,936
Basic earnings per common share	$0.10	$0.10	$0.24	$0.23
Diluted earnings per common share	$0.10	$0.10	$0.24	$0.23
Weighted average shares outstanding-basic	111,863	109,489	111,792	109,445
Weighted average shares outstanding-diluted	111,863	109,489	111,792	109,445

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

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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,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
NET INCOME ATTRIBUTABLE TO COMPANY'S COMMON STOCKHOLDERS	$11,111	$11,210	$27,067	$24,936
OTHER COMPREHENSIVE INCOME				
Increase in fair value of available for sale securities	4,108	3,713	7,386	11,575
Reclassification adjustment for net gain included in net income	(238)	—	(759)	—
(Decrease) increase in in fair value of derivative instruments utilized for cash flow hedges	(72)	(225)	92	(1,127)
OTHER COMPREHENSIVE INCOME	3,798	3,488	6,719	10,448
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMPANY'S COMMON STOCKHOLDERS	$14,909	$14,698	$33,786	$35,384

The accompanying notes are an integral part of the condensed consolidated financial statements.
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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 Deficit)	Accumulated Other Comprehensive (Loss) Income	Total Company Stockholders' Equity	Non-Controlling Interest in Consolidated Variable Interest Entities	Total
Balance, December 31, 2016	$ 1,115	$ 159,259	$ 748,599	$ (62,537)	$ 1,639	$ 848,075	$ 3,087	$ 851,162
Net income (loss)	—	—	—	33,517	—	33,517	(2,487)	31,030
Common Stock issuance, net	4	—	1,263	—	—	1,267	—	1,267
Dividends declared on common stock	—	—	—	(44,747)	—	(44,747)	—	(44,747)
Dividends declared on preferred stock	—	—	—	(6,450)	—	(6,450)		(6,450)
Reclassification adjustment for net gain included in net income	—	—	—	—	(759)	(759)	—	(759)
Increase in fair value on available for sale securities	—	—	—	—	7,386	7,386	—	7,386
Increase in fair value of derivative instruments utilized for cash flow hedges	—	—	—	—	92	92	—	92
Increase in non-controlling interest related to initial consolidation of variable interest entities						—	4,462	4,462
Balance, June 30, 2017	$ 1,119	$ 159,259	$ 749,862	$ (80,217)	$ 8,358	$ 838,381	$ 5,062	$ 843,443

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

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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,	
	2017	2016
Cash Flows from Operating Activities:		
Net income	$31,030	$31,384
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization	1,323	3,745
Realized loss (gain) on investment securities and related hedges, net	109	(3,027)
Realized gain on distressed residential mortgage loans	(14,335)	(5,574)
Unrealized (gain) loss on investment securities and related hedges, net	(495)	3,159
Gain on remeasurement of existing membership interest in businesses acquired	—	(5,045)
Gain on bargain purchase on businesses acquired	—	(65)
Unrealized gain on loans and debt held in multi-family securitization trusts	(2,831)	(1,602)
Net decrease in loans held for sale	17	432
Provision for (recovery of) loan losses	112	(688)
Income from unconsolidated entity, mezzanine loan and preferred equity investments	(11,112)	(8,794)
Distributions of income from unconsolidated entity, mezzanine loan and preferred equity investments	6,554	9,602
Amortization of stock based compensation, net	694	514
Changes in operating assets and liabilities:		
Receivables and other assets	(6,910)	(1,060)
Accrued expenses and other liabilities	6,652	1,035
Net cash provided by operating activities	10,808	24,016
Cash Flows from Investing Activities:		
Acquisition of businesses, net of cash and restricted cash acquired	—	(28,434)
Cash received from initial consolidation of variable interest entities	112	—
Proceeds from sales of investment securities	46,740	177,874
Purchases of investment securities	(111,023)	(274,623)
Redemption of FHLBI stock	—	5,423
Purchases of other assets	(23)	(81)
Capital expenditures on operating real estate and real estate held for sale in consolidated variable interest entities	(105)	—
Funding of mezzanine loans, equity and preferred equity investments	(11,122)	(8,430)
Principal repayments received on mezzanine loans	6,500	—
Return of capital from unconsolidated entity and preferred equity investments	3,083	—
Net proceeds on other derivative instruments settled during the period	2,850	2,996
Principal repayments received on residential mortgage loans held in securitization trusts	8,857	13,245
Principal repayments and proceeds from sales and refinancing of distressed residential mortgage loans	99,402	57,562
Principal repayments received on multi-family loans held in securitization trusts	66,148	58,994
Principal paydowns on investment securities - available for sale	132,826	58,602
Proceeds from sale of real estate owned	4,045	1,000

Purchases of residential mortgage loans and distressed residential mortgage loans	(33,533)	(46,595)
Purchases of investments held in multi-family securitization trusts	(65,453)	—
Net cash provided by investing activities	149,304	17,533
Cash Flows from Financing Activities:		
(Payments made on) net proceeds from financing arrangements, including FHLBI advances and payments	(134,350)	3,280
Proceeds from issuance of convertible notes, net	126,995	—
Proceeds from issuance of securitized debt	—	167,724
Common stock issuance, net	574	98
Dividends paid on common stock	(49,123)	(52,515)
Dividends paid on preferred stock	(6,450)	(6,450)
Payments made on mortgages and notes payable in consolidated variable interest entities	(116)	—
Proceeds from mortgages and notes payable in consolidated variable interest entities	2,795	—
Payments made on residential collateralized debt obligations	(9,387)	(14,171)
Payments made on multi-family collateralized debt obligations	(66,144)	(58,987)
Payments made on securitized debt	(50,075)	(41,336)
Redemption of preferred debt	—	(16,255)
Net cash used in financing activities	(185,281)	(18,612)

The accompanying notes are an integral part of the condensed consolidated financial statements.
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NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(Dollar amounts in thousands)
(unaudited)

Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	(25,169)	22,937
Cash, Cash Equivalents and Restricted Cash - Beginning of Period	139,530	82,742
Cash, Cash Equivalents and Restricted Cash - End of Period	$114,361	$105,679

Supplemental Disclosure:		
Cash paid for interest	$153,121	$150,569
Cash paid for income taxes	$1,681	$1,555

Non-Cash Investment Activities:		
Sales of investment securities not yet settled	$5,976	$—
Purchase of investment securities not yet settled	$172,557	$286,452
Consolidation of multi-family loans held in securitization trusts	$1,537,526	$—
Consolidation of multi-family collateralized debt obligations	$1,472,073	$—
Non-Cash Financing Activities:		
Dividends declared on common stock to be paid in subsequent period	$22,378	$26,296
Dividends declared on preferred stock to be paid in subsequent period	$3,225	$3,225

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

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(unaudited)

1. Organization

New York Mortgage Trust, Inc., together with its consolidated subsidiaries ("NYMT," "we," "our," or the "Company"), is a real estate investment trust, or REIT, in the business of acquiring, investing in, financing and managing mortgage-related and residential housing-related assets and financial assets. Our objective is to deliver stable distributions to our stockholders over diverse economic conditions through a combination of income generated by net interest margin and net realized capital gains from our diversified investment portfolio. Our portfolio includes residential mortgage loans, including second mortgage loans sourced from distressed markets, multi-family CMBS, preferred equity and joint venture equity investments in, and mezzanine loans to, owners of multi-family properties, equity and debt securities issued by entities that invest in residential and commercial real estate, non-Agency RMBS, 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 and certain other investments in mortgage-related and residential housing-related assets and financial assets.

The Company conducts its business through the parent company, New York Mortgage Trust, Inc., and several subsidiaries, including special purpose subsidiaries established for residential loan, distressed 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.

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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, including re-performing and non-performing 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;
"Prime ARM loans" and "residential securitized loans" each refer to prime credit quality residential ARM loans held in securitization trusts formed in 2005;
"Agency ARMs" refers to Agency RMBS comprised of adjustable-rate and hybrid adjustable-rate RMBS;
"Agency fixed-rate RMBS" refers to Agency RMBS comprised of fixed-rate RMBS;
"CMBS" refers to commercial mortgage-backed securities comprised of commercial mortgage pass-through securities, 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;
"Multi-family CMBS" refers to CMBS backed by commercial mortgage loans on multi-family properties;
"CDOs" refers to collateralized debt obligations; and
"CLO" refers to collateralized loan obligations.

Basis of Presentation – The accompanying condensed consolidated balance sheet as of December 31, 2016 has been derived from audited financial statements. The accompanying condensed consolidated balance sheet as of June 30, 2017, the accompanying condensed consolidated statements of operations for the three and six months ended June 30, 2017 and 2016, the accompanying condensed consolidated statements of comprehensive income for the three and six months ended June 30, 2017 and 2016, the accompanying condensed consolidated statement of changes in stockholders' equity for the six months ended June 30, 2017 and the accompanying condensed consolidated statements of cash flows for the six months ended June 30, 2017 and 2016 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, 2016, as filed with the U.S. Securities and Exchange Commission ("SEC"). The results of operations for the three and six months ended June 30, 2017 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. 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. 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.

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

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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, herein referred to as a "Consolidated VIE". As primary beneficiary, the Company 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.

Business Combinations – The Company evaluates each purchase transaction to determine whether the acquired assets meet the definition of a business. The Company accounts for business combinations by applying the acquisition method in accordance with Accounting Standards Codification (“ASC”) 805, Business Combinations ("ASC 805"). Transaction costs related to acquisition of a business are expensed as incurred and excluded from the fair value of consideration transferred. The identifiable assets acquired, liabilities assumed and non-controlling interests, if any, in an acquired entity are recognized and measured at their estimated fair values. The excess of the fair value of consideration transferred over the fair values of identifiable assets acquired, liabilities assumed and non-controlling interests, if any, in an acquired entity, net of fair value of any previously held interest in the acquired entity, is recorded as goodwill. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets and liabilities.

Contingent consideration is classified as a liability or equity, as applicable. Contingent consideration in connection with the acquisition of a business is measured at fair value on acquisition date, and unless classified as equity, is remeasured at fair value each reporting period thereafter until the consideration is settled, with changes in fair value included in net income.

Net cash paid to acquire a business is classified as investing activities on the accompanying condensed consolidated statements of cash flows.

On May 16, 2016, the Company acquired the outstanding membership interests in RiverBanc LLC ("RiverBanc"), RB Multifamily Investors LLC ("RBMI"), and RB Development Holding Company, LLC ("RBDHC") that were not previously owned by the Company through the consummation of separate membership interest purchase agreements, thereby increasing the Company's ownership of each of these entities to 100% (see Note 22). These transactions were accounted for by applying the acquisition method for business combinations under ASC 805.

On March 31, 2017, the Company determined that it became the primary beneficiary of 200 RHC Hoover, LLC ("Riverchase Landing") and The Clusters, LLC ("The Clusters"), two variable interest entities that each own a multi-family apartment community and in which the Company holds preferred equity investments. Accordingly, on this date, the Company consolidated both Riverchase Landing and The Clusters into its condensed consolidated financial statements in accordance with ASC 810, Consolidation ("ASC 810"). These transactions were accounted for by applying the acquisition method for business combinations under ASC 805 (see Note 9).

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 CMBS. The Company has elected the fair value option for its Agency IOs, U.S. Treasury securities, and certain Agency ARMs and Agency fixed-rate RMBS within the Agency IO portfolio, which measures unrealized gains and losses through earnings in the accompanying condensed consolidated statements of operations. The fair value option was elected for these investment securities to better match the accounting for these investment securities with the related derivative instruments within the Agency IO portfolio, which are not designated as hedging instruments for accounting purposes.

The Company generally intends to hold its investment securities until maturity; however, from time to time, it may sell any of its securities as part of the overall management of its business. As a result, 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.

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Interest income on our investment securities available for sale is accrued based on the outstanding principal balance and their contractual terms. 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.

Interest income on certain of our credit sensitive securities, such as 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 of the projected cash flows from each security, which are estimated based on assumptions related to fluctuations in interest rates, prepayment speeds and the timing and amount of credit losses. On at least a quarterly basis, management reviews and, if appropriate, adjusts 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.

A portion of the purchase discount on the Company’s first loss tranche PO multi-family CMBS 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 writedowns of such securities to a new cost basis could be required.

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 ASC 320-10, Investments - Debt and Equity Securities ("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, Investments - Beneficial Interests in Securitized Financial Assets ("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 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 prior reporting date or purchase date, whichever is most recent, 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.

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 all cases 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.

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 broker in the property's area.

Acquired Distressed Residential Mortgage Loans – Distressed residential mortgage loans are comprised of pools of fixed and adjustable rate residential mortgage loans acquired by the Company at a discount, with evidence of credit deterioration since their origination and where it is possible that the Company will not collect all contractually required principal payments. 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.

Acquired distressed residential mortgage loans that have evidence of deteriorated credit quality at acquisition are accounted for under ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality ("ASC 310-30"). Management evaluates whether there is evidence of credit quality deterioration as of the acquisition date using indicators such as past due or modified status, risk ratings, recent borrower credit scores and recent loan-to-value percentages. Acquired distressed residential mortgage loans are recorded at fair value at the date of acquisition, with no allowance for loan losses. 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 expectation of aggregate 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).

Management monitors actual cash collections against its expectations, and revised cash flow estimates are prepared as necessary. 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.

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A distressed residential mortgage loan disposal, which may include a loan sale, receipt of payment in full from the borrower or foreclosure, results in removal of the loan from the loan pool at its allocated carrying amount. In the event of a sale of the loan and receipt of payment (in full or partial) from the borrower, a gain or loss on sale is recognized and reported based on the difference between the sales proceeds or payment from the borrower and the allocated carrying amount of the acquired distressed residential mortgage loan. In the case of a foreclosure, an individual loan is removed from the pool and a loss on sale 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.

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, a loss is recognized if the carrying value exceeds the fair value of the underlying collateral less costs to sell. A gain is not recognized if the fair value of the underlying 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 Freddie Mac-sponsored multi-family K-Series securitizations (the “Consolidated K-Series”). 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 condensed consolidated 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 be reflected in the Company's accompanying condensed consolidated statement of operations. The Company adopted Accounting Standards Update ("ASU") 2014-13 Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity, effective January 1, 2016. As a result, the Company measures both the financial assets and financial liabilities of a qualifying collateralized financing entity ("CFE") using the fair value of either the CFE’s financial assets or financial liabilities, whichever is more observable. As the Company’s securitization trusts are considered qualifying CFEs, the Company determines the fair value of multi-family loans held in securitization trusts based on the fair value of its multi-family collateralized debt obligations and its retained interests from these securitizations (eliminated in consolidation in accordance with GAAP), as the fair value of these instruments is more observable.

Interest income is accrued and recognized as revenue when earned according to the terms of the multi-family loans and when, in the opinion of management, it is collectible. The accrual of interest on multi-family loans is discontinued when, in management’s opinion, the interest is not collectible in the normal course of business, but in all cases when payment becomes greater than 90 days delinquent. The multi-family 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.

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 and are stated at unpaid principal balance, adjusted for any unamortized premium or discount, deferred fees or expenses, net of valuation allowances. The Company has evaluated its mezzanine loan and preferred equity investments for accounting treatment as loans versus equity investment utilizing the guidance provided by the ADC Arrangements Subsection of ASC 310, Receivables.

For mezzanine loan and preferred equity investments where the characteristics, facts and circumstances indicate that loan accounting treatment is appropriate, the Company accretes or amortizes any discounts or premiums and deferred fees and expenses over the life of the related asset utilizing the effective interest method or straight line-method, if the result is not materially different.

Management evaluates the collectibility of both interest and principal of each of these 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. Interest income is accrued and recognized as revenue when earned according to the terms of the 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 all cases 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 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 Unconsolidated Entities."

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.

Investment in Unconsolidated Entities – Non-controlling, unconsolidated ownership interests in an entity may be accounted for using the equity method or the cost method. 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. 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.

The Company may elect the fair value option for an investment in an unconsolidated entity that is accounted for using the equity method. The Company elected the fair value option for certain investments in unconsolidated entities that own interests (directly or indirectly) in commercial and residential real estate assets because the Company determined that such presentation represents the underlying economics of the respective investment. The Company records the change in fair value of its investment in other income in the condensed consolidated statements of operations (see Note 7).

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Operating Real Estate Held in Consolidated Variable Interest Entities, Net – The Company records its initial investments in income-producing real estate at fair value at the acquisition date in accordance with ASC 805. The purchase price of acquired properties is apportioned to the tangible and identified intangible assets and liabilities acquired at their respective estimated fair values. In making estimates of fair values for purposes of allocating purchase price, the Company utilizes a number of sources, including independent appraisals that may be obtained in connection with the acquisition or financing of the respective real estate, its own analysis of recently-acquired and existing comparable properties, property financial results, and other market data. The Company also considers information obtained about the real estate as a result of its due diligence, including marketing and leasing activities, in estimating the fair value of the tangible and intangible assets acquired. The Company considers the value of acquired in-place leases and utilizes an amortization period that is the average remaining term of the acquired leases. The average term for in-place residential leases at acquisition for our income-producing real estate ranged from six to seven months. Acquired in-place lease intangible assets as of June 30, 2017 of $1.4 million are included in receivables and other assets on the condensed consolidated balance sheets. Acquired in-place lease intangible asset balances are provisional as of June 30, 2017 (see Note 9) and the related estimated amortization for the year ending December 31, 2017 is $3.6 million.

Depreciation of Real Estate – The Company depreciates the building component of its real estate over a 30-year estimated useful life, building and improvements over a 10-year to 30-year estimated useful life, and furniture, fixtures and equipment over a 5-year estimated useful life, all of which are judgmental determinations. Betterments and certain costs directly related to the improvement of real estate are capitalized. Expenditures for ordinary maintenance and repairs are expensed to operations as incurred.

Real Estate Held for Sale in Consolidated Variable Interest Entities - The Company classifies its long-lived assets as held for sale in accordance with ASC 360, Property, Plant, and Equipment. When real estate assets are identified as held for sale, the Company discontinues depreciating (amortizing) the assets and estimates the fair value, net of selling costs, of such assets. Real estate held for sale in consolidated variable interest entities is recorded at the lower of the net carrying amount of the assets or the estimated net fair value. If the estimated net fair value of the real estate held for sale is less than the net carrying amount of the assets, an impairment charge is recorded in the condensed consolidated statements of operations with an allocation to non-controlling interests in the respective VIEs, if any.

The Company assesses the net fair value of real estate held for sale each reporting period the assets remain classified as held for sale. Subsequent changes, if any, in the net fair value of the real estate assets held for sale that require an adjustment to the carrying amount are recorded in the condensed consolidated statements of operations with an allocation to non-controlling interests in the respective VIEs, if any, unless the adjustment causes the carrying amount of the assets to exceed the net carrying amount upon initial classification as held for sale.

If circumstances arise that the Company previously considered unlikely and, as a result, the Company decides not to sell real estate assets previously classified as held for sale, the real estate assets are reclassified to another real estate classification. Real estate assets that are reclassified are measured at the lower of (a) their carrying amount before they were classified as held for sale, adjusted for any depreciation (amortization) expense that would have been recognized had the assets remained in their previous classification, or (b) their fair value at the date of the subsequent decision not to sell.

Real Estate - Under Development – The Company's expenditures which directly relate to the acquisition, development, construction and improvement of properties are capitalized, at cost. During the development period, which culminates once a property is substantially complete and ready for intended use, operating and carrying costs such as interest expense, real estate taxes, insurance and other direct costs are capitalized. Advertising and general administrative costs that do not relate to the development of a property are expensed as incurred. Real estate under development as of

June 30, 2017 and December 31, 2016 of $20.0 million and $17.5 million, respectively, is included in receivables and other assets on the condensed consolidated balance sheets.

Real Estate - Impairment – The Company periodically evaluates its long-lived assets for indicators of impairment. The judgments regarding the existence of impairment indicators are based on factors such as operational performance, market conditions and legal and environmental concerns, as well as the Company's ability to hold and its intent with regard to each asset. Future events could occur which would cause the Company to conclude that impairment indicators exist and an impairment is warranted. If impairment indicators exist for long-lived assets to be held and used, and the expected future undiscounted cash flows are less than the carrying amount of the asset, then the Company will record an impairment loss for the difference between the fair value of the asset and its carrying amount. If the asset is to be disposed of, then an impairment loss is recognized for the difference between the estimated fair value of the asset, net of selling costs, and its carrying amount.

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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.

Goodwill – Goodwill represents the excess of the fair value of consideration transferred in a business combination over the fair values of identifiable assets acquired, liabilities assumed and non-controlling interests, if any, in an acquired entity, net of fair value of any previously held interest in the acquired entity. Goodwill is not amortized but tested for impairment annually or more frequently if events or circumstances indicate that goodwill may be impaired. Goodwill of $25.2 million as of June 30, 2017 and December 31, 2016 relates to the Company's multi-family investment reporting unit.

Goodwill is evaluated for impairment on an annual basis, or more frequently if the Company believes indicators of impairment exist, by initially performing a qualitative screen and, if necessary, then comparing fair value of the reporting unit to its carrying value, including goodwill. If the fair value of the reporting unit is less than the carrying value, an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value (in an amount not to exceed the total amount of goodwill allocated to the reporting unit) is recognized. The Company evaluated goodwill as of October 1, 2016 and no impairment was indicated.

Intangible Assets – Intangible assets consisting of acquired trade name, acquired technology, employment/non-compete agreements, and acquired in-place leases with useful lives ranging from 6 months to 10 years are included in receivables and other assets on the condensed consolidated balance sheets. Intangible assets with estimable useful lives are amortized on a straight-line basis over their respective estimated useful lives and reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The useful lives of intangible assets are evaluated on an annual basis to determine whether events and circumstances warrant a revision to the remaining useful life. See "Operating Real Estate Held in Consolidated Variable Interest Entities, Net" for further discussion of acquired in-place lease intangible assets.

Receivables and Other Assets – Receivables and other assets as of June 30, 2017 and December 31, 2016 include restricted cash held by third parties of $39.0 million and $56.0 million, respectively. Included in restricted cash is $18.8 million and $35.6 million held in our Agency IO portfolio to be used for trading purposes and $9.0 million and $6.1 million held by counterparties as collateral for hedging instruments as of June 30, 2017 and December 31, 2016, respectively. Interest receivable on multi-family loans held in securitization trusts is also included in the amounts of $28.3 million and $24.1 million as of June 30, 2017 and December 31, 2016, respectively.

Financing Arrangements, Portfolio Investments – The Company finances the majority of its investment securities available for sale 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 and are carried at their contractual amounts, as specified in the respective agreements. Borrowings under repurchase agreements generally bear interest rates of a specified margin over one-month LIBOR.

Financing Arrangements, Residential Mortgage Loans – The Company finances a portion of its residential mortgage loans, including its distressed residential mortgage loans, through a repurchase agreement expiring within 12 to 15 months. The borrowing under the repurchase agreement bears an interest rate of a specified margin over one-month LIBOR. The repurchase agreement is treated as a collateralized financing transaction and is carried at the contractual amounts, as specified in the respective agreement. Costs related to the establishment of the repurchase agreement which include underwriting, legal, accounting and other fees are reflected as deferred charges. Such costs are presented as a deduction from the corresponding debt liability on the Company’s accompanying condensed consolidated balance sheets in the amount of $0.7 million as of June 30, 2017 and $1.3 million as of December 31, 2016. 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.

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 completed four securitizations in 2005 and 2006. 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 its debt, referred to as Multi-Family CDOs, in our condensed consolidated 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 presented as a deduction from the corresponding debt liability on the Company’s accompanying condensed consolidated balance sheets in the amount of $1.0 million and $1.4 million as of June 30, 2017 and December 31, 2016, 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.

Convertible Notes – On January 23, 2017, the Company issued Convertible Notes to finance the acquisition of targeted assets and for general working capital purposes. The Company evaluated the conversion features of the Convertible Notes for embedded derivatives in accordance with ASC 815, Derivatives and Hedging ("ASC 815") and determined that the conversion features should not be bifurcated from the notes.

The Convertible Notes were issued at a 4% discount. Costs related to issuance of the convertible notes which include underwriting, legal, accounting and other fees are reflected as deferred charges. The discount and deferred charges are amortized as an adjustment to interest expense using the effective interest method. The discount and deferred issuance costs, net of amortization, are presented as a deduction from the corresponding debt liability on the Company's accompanying condensed consolidated balance sheets in the amount of $10.2 million as of June 30, 2017.

Derivative Financial Instruments – In accordance with ASC 815, the Company records derivative financial instruments on its consolidated balance sheet as assets or liabilities at fair value. Changes in fair value are accounted for depending on the use of the derivative instruments and whether they qualify for hedge accounting treatment.

In connection with our investment in Agency IOs, the Company uses several types of derivative instruments such as interest rate swaps, futures, put and call options on futures and TBAs to hedge the interest rate risk, as well as spread risk associated with these investments. The Company also purchases, or sells short, 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. The use of TBAs, futures, options on futures and interest rate swaps in our Agency IO portfolio hedge the overall risk profile of investment securities in the portfolio. The derivative instruments in our Agency IO portfolio are not designated as hedging instruments, therefore realized and unrealized gains and losses associated with these derivative instruments are recognized through earnings and reported as part of the other income (loss) category in the Company's condensed consolidated statements of operations.

The Company also uses interest rate swaps to hedge the variable cash flows associated with borrowings made under our financing arrangements and Residential CDOs. We typically pay a fixed rate and receive a floating rate based on one month LIBOR, on the notional amount of the interest rate swaps. The floating rate we receive under our swap agreements has the effect of offsetting the repricing characteristics and cash flows of our financing arrangements. These interest rate swaps qualify as a cash flow hedge, where 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.

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.

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Manager Compensation – We are a party to separate investment management agreements with Headlands Asset Management LLC (“Headlands”) and The Midway Group, LP (“Midway”), with Headlands providing investment management services with respect to our investments in certain distressed residential mortgage loans and Midway providing investment management services with respect to our investments in Agency IOs. 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) attributable to the Company's 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, reduced by dividends declared on the Company’s preferred stock and increased for net loss attributable to non-controlling interest.

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 three and six months ended June 30, 2017. The Company made $0.1 million in contributions to the Plan for the three and six months ended and June 30, 2016.

Stock Based Compensation – The Company has awarded restricted stock to eligible employees and officers as part of their 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 award at the grant date.

In May 2015, the Company granted certain Performance Share Awards (“PSAs”) which cliff vest after a three-year period, subject to the achievement of certain performance criteria based on a formula tied to the Company’s achievement of three-year total stockholder return (“TSR”) and the Company’s TSR relative to the TSR of certain peer companies. The feature in this award constitutes a “market condition” which impacts the amount of compensation expense recognized for these awards. The grant date fair values of PSAs were determined through Monte-Carlo simulation analysis.

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 ("ASC 740"), 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 attributable to the Company's 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.

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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 and residential housing-related assets and financial assets, and currently operate in only one reportable segment.

Summary of Recent Accounting Pronouncements

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 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. In August 2015, the FASB issued ASU 2015-14 that defers the effective date of ASU 2014-09 for public business entities for annual reporting periods beginning after December 15, 2017, including interim periods therein. Early application is permitted for public business entities only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.

ASC 606 applies to all contracts with customers with exceptions for financial instruments and other contractual rights or obligations that are within the scope of other ASC Topics. Exclusions from the scope of ASC 606 include investment securities available for sale (subject to ASC 320, Investments - Debt and Equity Securities or ASC 325, Investments - Other); residential mortgage loans, distressed residential mortgage loans, multi-family loans, and mezzanine loan and preferred equity investments (subject to either ASC 310, Receivables or ASC 825, Financial Instruments); derivative assets and derivative liabilities (subject to ASC 815, Derivatives and Hedging); and investment in unconsolidated entities (subject to either ASC 323, Investments- Equity Method and Joint Ventures or ASC 825, Financial Instruments). The Company evaluated the applicability of this ASU with respect to its investment portfolio, considering the scope exceptions listed above, and has determined that the adoption of this ASU will not have a material impact on the Company's financial condition or results of operations as the majority of the Company's revenue is generated by financial instruments and other contractual rights and obligations that are not within the scope of ASC 606.

Financial Instruments —Credit Losses (Topic 326)

In June 2016, the FASB issued ASU 2016-13, Financial Instruments —Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). The amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption as of the fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 is permitted. The Company is currently assessing the impact of this guidance as the ASU will have an effect on the Company's estimation of credit losses on distressed residential mortgage loans, residential mortgage loans held in securitization trusts, residential mortgage loans, and mezzanine loans and preferred equity investments that are accounted for as loans.

Statement of Cash Flows (Topic 230)

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash ("ASU 2016-18"). These amendments require that a statement of cash flows explain the change during the period in the total of cash,
cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments do not provide a definition of restricted cash or restricted cash equivalents. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. The Company adopted the ASU effective January 1, 2017 and included restricted cash of $39.0 million and $55.7 million as of June 30, 2017 and 2016, respectively, with cash and cash equivalents as shown on the condensed consolidated statements of cash flows.

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Intangibles - Goodwill and Other (Topic 350)

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment ("ASU 2017-04"). The amendments simplify annual or interim goodwill impairment tests by eliminating a second step to compute the implied fair value of goodwill if the fair value of a reporting unit is less than its carrying amount. Instead, should the fair value of a reporting unit be less than its carrying amount, an entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value (in an amount not to exceed the total amount of goodwill allocated to that reporting unit). The amendments are effective for all entities for their annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates on or after January 1, 2017. The Company adopted the ASU effective January 1, 2017 and will apply the guidance to the performance of our annual impairment test of $25.2 million in goodwill for the year ended December 31, 2017.

3. Investment Securities Available For Sale

Investment securities available for sale consisted of the following as of June 30, 2017 and December 31, 2016 (dollar amounts in thousands):

	June 30, 2017				December 31, 2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Agency RMBS (1)								
Agency ARMs								
Freddie Mac	$35,951	$23	$(471)	$35,503	$39,138	$24	$(528)	$38,634
Fannie Mae	61,704	48	(730)	61,022	69,031	71	(698)	68,404
Ginnie Mae	5,348	—	(216)	5,132	6,011	—	(204)	5,807
Total Agency ARMs	103,003	71	(1,417)	101,657	114,180	95	(1,430)	112,845
Agency Fixed Rate								
Freddie Mac	23,255	—	(660)	22,595	26,338	—	(644)	25,694
Fannie Mae	283,328	—	(10,248)	273,080	312,515	—	(10,035)	302,480
Ginnie Mae	401	—	(5)	396	457	—	(4)	453
Total Agency Fixed Rate	306,984	—	(10,913)	296,071	339,310	—	(10,683)	328,627
Agency IOs (1)								
Freddie Mac	13,551	42	(3,079)	10,514	19,768	559	(3,363)	16,964
Fannie Mae	16,555	175	(3,634)	13,096	27,597	478	(4,777)	23,298
Ginnie Mae	29,194	512	(4,413)	25,293	49,788	1,223	(6,382)	44,629
Total Agency IOs	59,300	729	(11,126)	48,903	97,153	2,260	(14,522)	84,891
Total Agency RMBS	469,287	800	(23,456)	446,631	550,643	2,355	(26,635)	526,363
Non-Agency RMBS	129,067	1,161	(310)	129,918	162,220	1,218	(154)	163,284
U.S. Treasury securities (1)	2,920	5	—	2,925	2,920	—	(33)	2,887
CMBS (2)	141,981	19,448	—	161,429	113,955	12,876	(389)	126,442
Total investment securities available for sale	$743,255	$21,414	$(23,766)	$740,903	$829,738	$16,449	$(27,211)	$818,976

(1) Included in investment securities available for sale are Agency IOs, Agency RMBS and U.S. Treasury securities managed by Midway that are measured at fair value through earnings.
(2) Included in CMBS is $45.4 million and $43.9 million of investment securities available for sale held in securitization trusts as of June 30, 2017 and December 31, 2016, respectively.

Realized Gain or Loss Activity

During the three and six months ended June 30, 2017, the Company received proceeds of approximately $15.4 million and $52.7 million on sales of investment securities available for sale realizing a loss of approximately $0.6 million and $2.3 million, respectively. During the three and six months ended June 30, 2016, the Company received proceeds of approximately $117.1 million and $177.9 million on sales of investment securities available for sale realizing a loss of approximately $0.5 million and $0.9 million, respectively.

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Weighted Average Life

Actual maturities of our available for sale securities are generally shorter than stated contractual maturities (with maturities up to 30 years), as they are affected by periodic payments and prepayments of principal on the underlying mortgages. As of June 30, 2017 and December 31, 2016, the weighted average life of the Company's available for sale securities portfolio was approximately 4.1 years and 4.3 years, respectively.

The following table sets forth the weighted average lives of our investment securities available for sale as of June 30, 2017 and December 31, 2016 (dollar amounts in thousands):

Weighted Average Life	June 30, 2017	December 31, 2016
0 to 5 years	$493,583	$ 606,079
Over 5 to 10 years	219,976	177,765
10+ years	27,344	35,132
Total	$740,903	$ 818,976

Portfolio Interest Reset Periods

The following tables set forth the stated reset periods of our investment securities available for sale and investment securities available for sale held in securitization trusts at June 30, 2017 and December 31, 2016 at carrying value (dollar amounts in thousands):

	June 30, 2017				December 31, 2016			
	Less than 6 months	6 to 24 months	More than 24 months	Total	Less than 6 months	6 to 24 months	More than 24 months	Total
Agency RMBS	$40,391	$31,286	$374,954	$446,631	$53,043	$27,272	$446,048	$526,363
Non-Agency RMBS	129,918	—	—	129,918	50,080	—	113,204	163,284
U.S. Treasury securities	—	—	2,925	2,925	—	—	2,887	2,887
CMBS	116,029	—	45,400	161,429	82,545	—	43,897	126,442
Total investment securities available for sale	$286,338	$31,286	$423,279	$740,903	$185,668	$27,272	$606,036	$818,976

Unrealized Losses in OCI

The following tables present the Company's investment securities available for sale in an unrealized loss position reported through OCI, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2017 and December 31, 2016 (dollar amounts in thousands):

June 30, 2017	Less than 12 Months		Greater than 12 months		Total	
	Carrying Value	Gross Unrealized Losses	Carrying Value	Gross Unrealized Losses	Carrying Value	Gross Unrealized Losses
Agency RMBS	$91,988	$(1,283)	$297,954	$(11,041)	$389,942	$(12,324)
Non-Agency RMBS	—	—	512	(310)	512	(310)
CMBS	—	—	—	—	—	—
Total investment securities available for sale	$91,988	$(1,283)	$298,466	$(11,351)	$390,454	$(12,634)

At June 30, 2017, the Company does not intend to sell any of its investments that were in an unrealized loss position, and it is “more likely than not” that the Company will not be required to sell these securities before recovery of their amortized cost basis, which may be at their maturity.

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Gross unrealized losses on the Company's Agency RMBS were $12.3 million at June 30, 2017. Agency RMBS are issued by Government Sponsored Entities ("GSEs") and enjoy either the implicit or explicit backing of the full faith and credit of the U.S. Government. While the Company's Agency RMBS are not rated by any rating agency, they are currently perceived by market participants to be of high credit quality, with risk of default limited to the unlikely event that the U.S. Government would not continue to support the GSEs. Given the credit quality inherent in Agency RMBS, the Company does not consider any of the current impairments on its Agency RMBS to be credit related. In assessing whether it is more likely than not that it will be required to sell any impaired security before its anticipated recovery, which may be at its maturity, the Company considers for each impaired security, the significance of each investment, the amount of impairment, the projected future performance of such impaired securities, as well as the Company's current and anticipated leverage capacity and liquidity position. Based on these analyses, the Company determined that at June 30, 2017 any unrealized losses on its Agency RMBS were temporary.

December 31, 2016	Less than 12 Months		Greater than 12 months		Total	
	Carrying Value	Gross Unrealized Losses	Carrying Value	Gross Unrealized Losses	Carrying Value	Gross Unrealized Losses
Agency RMBS	$96,357	$ (1,290)	$328,474	$(10,819)	$424,831	$(12,109)
Non-Agency RMBS	—	—	596	(154)	596	(154)
CMBS	16,523	(389)	—	—	16,523	(389)
Total investment securities available for sale	$112,880	$ (1,679)	$329,070	$(10,973)	$441,950	$(12,652)

Other than Temporary Impairment

For the three and six months ended June 30, 2017 and 2016, the Company recognized no other-than-temporary impairment through earnings.

4. Residential Mortgage Loans Held in Securitization Trusts (Net) and Real Estate Owned

Residential mortgage loans held in securitization trusts (net) consist of the following as of June 30, 2017 and December 31, 2016, respectively (dollar amounts in thousands):

	June 30, 2017	December 31, 2016
Unpaid principal balance	$89,329	$ 98,303
Deferred origination costs – net	565	623