

Edgar Filing: FIRST TRUST MORTGAGE INCOME FUND - Form N-Q

FIRST TRUST MORTGAGE INCOME FUND  
Form N-Q  
March 27, 2012

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT  
INVESTMENT COMPANY

Investment Company Act file number 811-21727  
-----

First Trust Mortgage Income Fund  
-----

(Exact name of registrant as specified in charter)

120 East Liberty Drive, Suite 400  
Wheaton, IL 60187  
-----

(Address of principal executive offices) (Zip code)

W. Scott Jardine, Esq.  
First Trust Portfolios L.P.  
120 East Liberty Drive, Suite 400  
Wheaton, IL 60187  
-----

(Name and address of agent for service)

Registrant's telephone number, including area code: 630-765-8000  
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Date of fiscal year end: October 31  
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Date of reporting period: January 31, 2012  
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Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (ss.ss. 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-Q unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to the Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. ss. 3507.

ITEM 1. SCHEDULE OF INVESTMENTS.

The Schedule of Investments is attached herewith.

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FIRST TRUST MORTGAGE INCOME FUND  
 PORTFOLIO OF INVESTMENTS (a)  
 JANUARY 31, 2012 (UNAUDITED)

| PRINCIPAL<br>VALUE                                   | DESCRIPTION  | STATED<br>COUPON | STATED MATURITY | V  |
|--|--|------------------|-----------------|----|
| -----  |  |                  |                 |    |
| MORTGAGE-BACKED SECURITIES - 67.8%                   |  |                  |                 |    |
| COLLATERALIZED MORTGAGE OBLIGATIONS - 47.4%          |  |                  |                 |    |
| Adjustable Rate Mortgage Trust                       |  |                  |                 |    |
| \$ 354,328   | Series 2004-5, Class 1A1 (b).....<br>Banc of America Funding Corp.       | 3.03%            | 04/25/35        | \$ |
| 991,639  | Series 2005-F, Class 4A1 (b).....<br>Banc of America Mortgage Securities | 2.79%            | 09/20/35        |    |
| 109,022  | Series 2002-L, Class 1A1 (b).....  | 2.78%            | 12/25/32        |    |
| 146,136  | Series 2004-K, Class 4A1 (b).....  | 5.25%            | 12/25/34        |    |
| 1,509,000  | Series 2007-1, Class 1A26 .....  | 6.00%            | 03/25/37        | 1  |
| 2,987,251  | Series 2007-3, Class 2A3 .....   | 7.00%            | 09/25/37        |    |
| Bear Stearns Adjustable Rate Mortgage Trust          |  |                  |                 |    |
| 989,082  | Series 2004-10, Class 12A3 (b).....                                      | 2.78%            | 01/25/35        |    |
| 1,126,322  | Series 2004-9, Class 12A3 (b).....<br>Chase Mortgage Finance Corp.       | 2.88%            | 11/25/34        |    |
| 634,258  | Series 2007-A3, Class 3A1 (b).....<br>Countrywide Alternative Loan Trust | 5.80%            | 12/25/37        |    |
| 268,459  | Series 2004-14T2, Class A6 .....   | 5.50%            | 08/25/34        |    |
| 1,326,087  | Series 2005-J1, Class 2A1 .....  | 5.50%            | 02/25/25        | 1  |
| Countrywide Home Loan Mortgage Pass Through Trust    |  |                  |                 |    |
| 1,191,752  | Series 2006-21, Class A8 .....   | 5.75%            | 02/25/37        |    |
| 142,073  | Series 2007-15, Class 2A2 .....  | 6.50%            | 09/25/37        |    |
| Countrywide Home Loans                               |  |                  |                 |    |
| 312,627  | Series 2004-HYB1, Class 2A (b).....                                      | 2.95%            | 05/20/34        |    |
| 220,354  | Series 2005-20, Class A7 .....   | 5.25%            | 12/25/27        |    |
| 968,432  | Series 2005-J4, Class A4 .....   | 5.50%            | 11/25/35        |    |
| Credit Suisse First Boston Mortgage Securities Corp. |  |                  |                 |    |
| 2,016,926  | Series 2004-AR2, Class 1A1 (b).....                                      | 2.91%            | 03/25/34        | 1  |
| First Horizon Mortgage Trust                         |  |                  |                 |    |
| 245,638  | Series 2005-8, Class 1A5 .....   | 5.75%            | 02/25/36        |    |
| 741,589  | Series 2006-2, Class 1A3 .....   | 6.00%            | 08/25/36        |    |
| GMAC Mortgage Corporation Loan Trust                 |  |                  |                 |    |
| 373,340  | Series 2004-AR1, Class 22A (b).....                                      | 3.06%            | 06/25/34        |    |
| GSR Mortgage Loan Trust                              |  |                  |                 |    |
| 318,296  | Series 2005-AR2, Class 5A1 (b).....                                      | 2.63%            | 04/25/35        |    |
| 2,399,873  | Series 2007-1F, Class 3A10, IO .....                                     | 6.00%            | 01/25/37        |    |
| Harborview Mortgage Loan Trust                       |  |                  |                 |    |
| 306,999  | Series 2004-1, Class 2A (b).....   | 2.71%            | 04/19/34        |    |
| 1,173,784  | Series 2004-6, Class 3A1 (b).....  | 2.77%            | 08/19/34        |    |
| JP Morgan Mortgage Trust                             |  |                  |                 |    |
| 2,678,946  | Series 2005-ALT1, Class 4A1 (b)....                                      | 5.24%            | 10/25/35        | 1  |
| JP Morgan Re-REMIC                                   |  |                  |                 |    |
| 2,693,106  | Series 2009-7, Class 12A1 (b) (c)..                                      | 6.25%            | 01/27/37        | 2  |
| MASTR Alternative Loan Trust                         |  |                  |                 |    |
| 651,980  | Series 2004-8, Class 5A1 .....   | 6.00%            | 09/25/34        |    |

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|           |  |       |          |   |
|-----------|--|-------|----------|---|
| 1,150,589 | MASTR Asset Securitization Trust<br>Series 2006-2, Class 1A10 (b)..... | 6.00% | 06/25/36 | 1 |
|-----------|--|-------|----------|---|

See Notes to Quarterly Portfolio of Investments

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FIRST TRUST MORTGAGE INCOME FUND  
PORTFOLIO OF INVESTMENTS (a) - (CONTINUED)  
JANUARY 31, 2012 (UNAUDITED)

| PRINCIPAL<br>VALUE   | DESCRIPTION  | STATED<br>COUPON | STATED MATURITY | V    |
|--|--|------------------|-----------------|------|
| MORTGAGE-BACKED SECURITIES - (CONTINUED)                   |  |                  |                 |      |
| COLLATERALIZED MORTGAGE OBLIGATIONS - (CONTINUED)          |  |                  |                 |      |
| \$ 1,436,517   | Merrill Lynch Mortgage Investors Trust<br>Series 2005-A7, Class 2A1 (b).....       | 5.24%            | 09/25/35        | \$ 1 |
| 246,338  | Morgan Stanley Mortgage Loan Trust<br>Series 2004-7AR, Class 2A6 (b).....          | 2.64%            | 09/25/34        |      |
| 482,653  | Provident Funding Mortgage Loan Trust<br>Series 2005-1, Class 1A1 (b).....         | 2.72%            | 05/25/35        |      |
| 104,480  | Residential Accredit Loans, Inc.<br>Series 2002-QS18, Class A1 .....               | 5.50%            | 12/25/17        |      |
| 1,124,629  | Residential Funding Mortgage Securities I<br>Series 2004-QS2, Class CB .....       | 5.75%            | 02/25/34        | 1    |
| 445,895  | Structured Asset Securities Corp.<br>Series 2005-S5, Class A5 .....                | 5.25%            | 07/25/35        |      |
| 930,000  | Wachovia Mortgage Loan Trust, LLC<br>Series 2005-16, Class 1A2 .....               | 5.50%            | 09/25/35        |      |
| 998,410  | Washington Mutual Msc Mortgage Pass-Through<br>Series 2006-A, Class 3A1 (b).....   | 4.84%            | 05/20/36        |      |
| 717,020  | Wells Fargo Mortgage Backed Securities<br>Trust<br>Series 2004-RA1, Class 2A ..... | 7.00%            | 03/25/34        |      |
| 2,746,000  | Series 2005-9, Class 2A9 .....   | 5.25%            | 10/25/35        | 2    |
| 652,999  | Series 2005-AR16, Class 1A1 (b).....   | 2.73%            | 08/25/33        |      |
| 495,000  | Series 2006-AR1, Class 2A5 (b).....  | 5.37%            | 03/25/36        |      |
| 300,620  | Series 2006-AR10, Class 5A2 (b).....   | 2.74%            | 07/25/36        |      |
| 1,826,043  | Series 2007-10, Class 1A18 .....   | 6.00%            | 07/25/37        | 1    |
| 1,485,466  | Series 2007-16, Class 1A1 .....  | 6.00%            | 12/28/37        | 1    |
| 1,066,950  | Series 2007-2, Class 1A13 .....  | 6.00%            | 03/25/37        |      |
| 265,000  | Series 2007-8, Class 2A2 .....   | 6.00%            | 07/25/37        |      |
| 124,234  | Series 2007-8, Class 2A7 .....   | 6.00%            | 07/25/37        |      |
| COMMERCIAL MORTGAGE-BACKED SECURITIES - 20.4%              |  |                  |                 |      |
| Banc of America Merrill Lynch Commercial<br>Mortgage, Inc. |  |                  |                 |      |
| 1,000,000  | Series 2006-6, Class A4 .....  | 5.36%            | 10/10/45        | 1    |
| 1,000,000  | Series 2007-2, Class A4 (b) (d).....   | 5.43%            | 04/10/49        | 1    |
| Citigroup/Deutsche Bank Commercial Mortgage                |  |                  |                 |      |

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| Principal Value | Description                                 | Stated Coupon | Stated Maturity | Value |
|-----------------|---|---------------|-----------------|-------|
| 1,000,000       | Trust<br>Series 2007-CD4, Class A4 .....    | 5.32%         | 12/11/49        | 1     |
|                 | Countrywide Alternative Loan Trust          |               |                 |       |
| 122,723         | Series 2007-11T1, Class A37 (e).....        | 38.36%        | 05/25/37        |       |
|                 | Credit Suisse Mortgage Capital Certificates |               |                 |       |
| 820,000         | Series 2007-C2, Class A3 (b).....           | 5.54%         | 01/15/49        |       |
|                 | Greenwich Capital Commercial Funding Corp.  |               |                 |       |
| 1,000,000       | Series 2007-GG11, Class A4 (d).....         | 5.74%         | 12/10/49        | 1     |
| 1,000,000       | Series 2007-GG9, Class A4 .....             | 5.44%         | 03/10/39        | 1     |
|                 | GS Mortgage Securities Corp II              |               |                 |       |
| 1,000,000       | Series 2007-GG10, Class A4 (b).....         | 5.79%         | 08/10/45        | 1     |

See Notes to Quarterly Portfolio of Investments

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FIRST TRUST MORTGAGE INCOME FUND  
 PORTFOLIO OF INVESTMENTS (a) - (CONTINUED)  
 JANUARY 31, 2012 (UNAUDITED)

| PRINCIPAL VALUE   | DESCRIPTION  | STATED COUPON | STATED MATURITY | VALUE |
|---|--|---------------|-----------------|-------|
| MORTGAGE-BACKED SECURITIES - (CONTINUED)                  |  |               |                 |       |
| COMMERCIAL MORTGAGE-BACKED SECURITIES - (CONTINUED)       |  |               |                 |       |
|   | JP Morgan Chase Commercial Mortgage Securities Corp              |               |                 |       |
| \$ 905,000  | Series 2007-CB18, Class A4 .....                                 | 5.44%         | 06/12/47        | \$ 1  |
|   | LB-UBS Commercial Mortgage Trust                                 |               |                 |       |
| 1,200,000   | Series 2007-C7, Class A3 (b) (d).....                            | 5.87%         | 09/15/45        | 1     |
|   | Merrill Lynch/Countrywide Commercial Mortgage Trust              |               |                 |       |
| 1,200,000   | Series 2007-7, Class A4 (b) (d).....                             | 5.75%         | 06/12/50        | 1     |
|   | Morgan Stanley Capital I, Inc.                                   |               |                 |       |
| 1,000,000   | Series 2007-IQ14, Class A4 (b) (d)...                            | 5.69%         | 04/15/49        | 1     |
|   | Wachovia Bank Commercial Mortgage Trust                          |               |                 |       |
| 1,000,000   | Series 2007-C30, Class A5 (d).....                               | 5.34%         | 12/15/43        | 1     |
| 1,000,000   | Series 2007-C32, Class A3 (b) (d)....                            | 5.74%         | 06/15/49        | 1     |
|   | Washington Mutual Alternative Mortgage Pass-Through Certificates |               |                 |       |
| 75,967  | Series 2007-5, Class A11 (b).....                                | 37.82%        | 06/25/37        |       |
| TOTAL MORTGAGE-BACKED SECURITIES .....                    |  |               |                 | 49    |
| (Cost \$49,619,023)                                       |  |               |                 |       |
| U.S. GOVERNMENT AGENCY MORTGAGE-BACKED SECURITIES - 51.9% |  |               |                 |       |
| COLLATERALIZED MORTGAGE OBLIGATIONS - 26.3%               |  |               |                 |       |
|   | Federal Home Loan Mortgage Corp.                                 |               |                 |       |
| 1,241,186   | Series 2641, Class SC (e).....                                   | 13.32%        | 07/15/33        | 1     |
| 5,722,449   | Series 2807, Class SB, IO (e).....                               | 7.16%         | 11/15/33        |       |

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|            |   |        |          |
|------------|---|--------|----------|
| 454,118    | Series 3000, Class SU (e).....          | 22.21% | 04/15/35 |
| 503,619    | Series 3069, Class LI, IO .....         | 5.50%  | 08/15/32 |
| 256,723    | Series 3195, Class SX (e).....          | 44.27% | 07/15/36 |
| 2,095,688  | Series 3562, Class KI, IO .....         | 4.50%  | 11/15/22 |
| 2,103,700  | Series 3593, Class IP, IO .....         | 5.00%  | 06/15/36 |
| 8,307,870  | Series 3619, Class EI, IO .....         | 4.50%  | 05/15/24 |
| 4,531,587  | Series 3692, Class PS, IO (e).....      | 6.31%  | 05/15/38 |
| 1,965,701  | Series 3702, Class SK (e).....          | 13.83% | 08/15/40 |
| 12,185,552 | Series 3726, Class KI, IO .....         | 3.50%  | 04/15/25 |
| 5,507,013  | Series 3870, Class WS, IO (e).....      | 6.31%  | 06/15/31 |
|            | Federal Home Loan Mortgage Corp., STRIP |        |          |
| 4,145,997  | Series 232, Class IO, IO .....          | 5.00%  | 08/01/35 |
|            | Federal National Mortgage Association   |        |          |
| 2,153,660  | Series 2005-122, Class SN (e).....      | 27.49% | 01/25/36 |
| 290,282    | Series 2005-91, Class SH (e).....       | 22.82% | 05/25/33 |
| 2,404,804  | Series 2008-50, Class AI, IO .....      | 5.50%  | 06/25/23 |
| 176,494    | Series 2009-56, Class PI, IO .....      | 5.00%  | 11/25/30 |
| 6,076,389  | Series 2010-103, Class ID, IO .....     | 5.00%  | 09/25/40 |
| 9,023,917  | Series 2010-139, Class KI, IO .....     | 1.09%  | 12/25/40 |
| 4,495,203  | Series 2010-142, Class PS, IO (e)....   | 5.77%  | 05/25/40 |
| 2,886,212  | Series 2010-145, Class TI, IO .....     | 3.50%  | 12/25/20 |
| 10,520,790 | Series 2010-40, Class MI, IO .....      | 4.50%  | 08/25/24 |

See Notes to Quarterly Portfolio of Investments

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FIRST TRUST MORTGAGE INCOME FUND  
 PORTFOLIO OF INVESTMENTS (a) - (CONTINUED)  
 JANUARY 31, 2012 (UNAUDITED)

| PRINCIPAL<br>VALUE  | DESCRIPTION                         | STATED<br>COUPON | STATED MATURITY | V  |
|---|-------------------------------------|------------------|-----------------|----|
| U.S. GOVERNMENT AGENCY MORTGAGE-BACKED SECURITIES - (CONTINUED) |                                     |                  |                 |    |
| COLLATERALIZED MORTGAGE OBLIGATIONS - (CONTINUED)               |                                     |                  |                 |    |
| Federal National Mortgage Association,<br>STRIP                 |                                     |                  |                 |    |
| \$ 4,482,939  | Series 360, Class 2, IO .....       | 5.00%            | 08/01/35        | \$ |
| 6,947,704   | Series 406, Class 6, IO (e).....    | 4.00%            | 01/25/41        |    |
| Government National Mortgage Association                        |                                     |                  |                 |    |
| 2,797,189   | Series 2009-65, Class NJ, IO .....  | 5.50%            | 07/20/39        |    |
| 5,195,633   | Series 2010-115, Class IQ, IO ..... | 4.50%            | 11/20/38        |    |
| 5,084,440   | Series 2011-69, Class CI, IO .....  | 5.00%            | 03/20/36        |    |
| COMMERCIAL MORTGAGE-BACKED SECURITIES - 2.4%                    |                                     |                  |                 |    |
| Government National Mortgage Association                        |                                     |                  |                 |    |
| 13,578,923  | Series 2011-131, Class EI, IO ..... | 4.50%            | 08/20/39        | 1  |
| PASS-THROUGH SECURITIES - 23.2%                                 |                                     |                  |                 |    |

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|           |   |       |          |       |
|-----------|---|-------|----------|-------|
|           | Fannie Mae REMICs   |       |          |       |
| 2,369,054 | Series 2005-83, Class LZ (d).....                             | 5.50% | 10/25/35 | 2     |
| 1,580,874 | Series 2010-110, Class WG (d).....                            | 5.50% | 09/25/40 | 1     |
|           | Federal Home Loan Mortgage Corp.                              |       |          |       |
| 2,511,628 | Pool A94738 (d).....  | 4.50% | 11/01/40 | 2     |
| 1,300,855 | Pool K36017 (d).....  | 5.00% | 09/01/47 | 1     |
|           | Federal National Mortgage Association                         |       |          |       |
| 3,487,862 | Pool 831145 (d).....  | 6.00% | 12/01/35 | 3     |
| 4,217,828 | Pool 843971 (d).....  | 6.00% | 11/01/35 | 4     |
|           |   |       |          | ----- |
|           |   |       |          | 16    |
|           |   |       |          | ----- |
|           | TOTAL U.S. GOVERNMENT AGENCY MORTGAGE-BACKED SECURITIES ..... |       |          | 37    |
|           | (Cost \$37,966,490)   |       |          | ----- |
|           | ASSET-BACKED SECURITIES - 2.7%                                |       |          |       |
|           | Green Tree Financial Corp.                                    |       |          |       |
| 128,298   | Series 1997-2, Class A6 (b).....                              | 7.24% | 06/15/28 |       |
| 138,642   | Series 1997-3, Class A6 .....                                 | 7.32% | 03/15/28 |       |
| 173,650   | Series 1997-7, Class A6 .....                                 | 6.76% | 07/15/29 |       |
|           | Lehman ABS Manufactured Housing Contract                      |       |          |       |
|           | Trust   |       |          |       |
| 272,507   | Series 2001-B, Class A4 .....                                 | 5.27% | 04/15/40 |       |
|           | Mid-State Trust   |       |          |       |
| 269,623   | Series 2006-1, Class A .....                                  | 5.79% | 10/15/40 |       |
|           | Park Place Securities, Inc.                                   |       |          |       |
| 917,805   | Series 2004-MHQ1, Class M1 (b).....                           | 0.98% | 12/25/34 |       |
|           |   |       |          | ----- |
|           | TOTAL ASSET-BACKED SECURITIES .....                           |       |          | 1     |
|           | (Cost \$1,910,941)  |       |          | ----- |
|           | TOTAL INVESTMENTS - 122.4% .....                              |       |          | 88    |
|           | (Cost \$89,496,454) (f)                                       |       |          | ----- |

See Notes to Quarterly Portfolio of Investments

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FIRST TRUST MORTGAGE INCOME FUND  
 PORTFOLIO OF INVESTMENTS (a) - (CONTINUED)  
 JANUARY 31, 2012 (UNAUDITED)

| PRINCIPAL<br>VALUE | DESCRIPTION   | AM    |
|--------------------|---|-------|
| -----              |   |       |
|                    | REVERSE REPURCHASE AGREEMENTS - (30.2%)   |       |
| \$ (6,230,500)     | With Credit Suisse 1.65% dated 11/07/11, to be repurchased at \$6,256,486 on 02/06/12 | \$ (6 |

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(8,161,000) With Credit Suisse 0.39% dated 11/14/11, to be repurchased at \$8,169,134 on 02/14/12 (8)  
 (3,853,000) With Credit Suisse 0.32% dated 01/18/12, to be repurchased at \$3,856,117 on 04/18/12 (3)  
 (3,612,750) With Credit Suisse 1.00% dated 01/31/12, to be repurchased at \$3,618,671 on 03/30/12 (3)

TOTAL REVERSE REPURCHASE AGREEMENTS ..... (21)

NET OTHER ASSETS AND LIABILITIES - 7.8% ..... 5

NET ASSETS - 100.0% ..... \$ 72

- (a) All percentages shown in the Portfolio of Investments are based on net assets.
- (b) Floating rate security. The interest rate shown reflects the rate in effect at January 31, 2012.
- (c) The Fund may invest in restricted securities. This security is restricted and cannot be offered for public sale without first being registered under the Securities Act of 1933, as amended. Prior to registration, restricted securities may only be resold in transactions exempt from registration. The Fund does not have the right to demand that this security be registered. This security is valued according to the valuation procedures as stated in the Portfolio Valuation footnote (Note A) and is not expressed as a discount to the carrying value of a comparable unrestricted security. This security was acquired on September 9, 2009, has a current carrying cost of \$2,625,795, a carrying value per share of \$1.02 and represents 3.80% of net assets.
- (d) This security or a portion of this security is segregated as collateral for reverse repurchase agreements.
- (e) Inverse floating rate instrument. The interest rate shown reflects the rate in effect at January 31, 2012.
- (f) Aggregate cost for financial reporting purposes, which approximates the aggregate cost for federal income tax purposes. As of January 31, 2012, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was \$5,700,242 and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was \$6,732,119.

IO Interest-Only Security

STRIP Separate Trading of Registered Interest and Principal of Securities

See Notes to Quarterly Portfolio of Investments

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JANUARY 31, 2012 (UNAUDITED)

## VALUATION INPUTS

A summary of the inputs used to value the Fund's investments as of January 31, 2012 is as follows (see Note A - Portfolio Valuation in the Notes to Quarterly Portfolio of Investments):

|   | TOTAL<br>VALUE AT<br>1/31/2012 | LEVEL 1<br>QUOTED<br>PRICES | LEVEL 2<br>SIGNIFICANT<br>OBSERVABLE<br>INPUTS |
|---|--------------------------------|-----------------------------|--|
|   |                                |                             |  |
| Mortgage-Backed Securities.....                           | \$ 49,018,163                  | \$ --                       | \$ 49,018,163                                  |
| U.S. Government Agency Mortgage-Backed<br>Securities..... | 37,508,496                     | --                          | 37,508,496                                     |
| Asset-Backed Securities.....                              | 1,937,918                      | --                          | 1,937,918                                      |
|   |                                |                             |  |
| TOTAL INVESTMENTS.....                                    | \$ 88,464,577                  | \$ --                       | \$ 88,464,577                                  |
|   |                                |                             |  |

See Notes to Quarterly Portfolio of Investments

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## NOTES TO QUARTERLY PORTFOLIO OF INVESTMENTS

FIRST TRUST MORTGAGE INCOME FUND  
JANUARY 31, 2012 (UNAUDITED)

### VALUATION AND INVESTMENT PRACTICES

#### A. PORTFOLIO VALUATION:

The net asset value ("NAV") of the Common Shares of First Trust Mortgage Income Fund (the "Fund") is determined daily, as of the close of regular trading on the New York Stock Exchange ("NYSE"), normally 4:00 p.m. Eastern time, on each day the NYSE is open for trading. If the NYSE closes early on a valuation day, the NAV is determined as of that time. Domestic debt securities and foreign securities are priced using data reflecting the earlier closing of the principal markets for those securities. The NAV per Common Share is calculated by dividing the value of all assets of the Fund (including accrued interest and dividends), less all liabilities (including accrued expenses, dividends declared but unpaid and any borrowings of the Fund), by the total number of Common Shares outstanding.



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The Fund's investments are valued daily in accordance with valuation procedures adopted by the Fund's Board of Trustees, and in accordance with provisions of the Investment Company Act of 1940, as amended (the "1940 Act"). The Fund's securities will be valued as follows:

U.S. Government securities, Mortgage-backed securities ("MBS"), Asset-backed securities ("ABS") and other debt securities are valued on the basis of valuations provided by dealers who make markets in such securities or by an independent pricing service approved by the Fund's Board of Trustees, which may use the following valuation inputs when available:

- 1) benchmark yields;
- 2) reported trades;
- 3) broker/dealer quotes;
- 4) issuer spreads;
- 5) benchmark securities;
- 6) bids and offers; and
- 7) reference data including market research publications.

Debt securities having a remaining maturity of sixty days or less when purchased are valued at cost adjusted for amortization of premiums and accretion of discounts.

In the event that the pricing service or dealer does not provide a valuation, or the valuations received are deemed unreliable, the Fund's Board of Trustees has designated First Trust Advisors L.P. ("First Trust") to use a fair value method to value the Fund's securities. Additionally, if events occur after the close of the principal markets for certain securities (e.g., domestic debt and foreign securities) that could materially affect the Fund's NAV, First Trust may use a fair value method to value the Fund's securities. The use of fair value pricing is governed by valuation procedures adopted by the Fund's Board of Trustees, and in accordance with the provisions of the 1940 Act. As a general principle, the fair value of a security is the amount which the Fund might reasonably expect to receive for the security upon its current sale. However, in light of the judgment involved in fair valuations, there can be no assurance that a fair value assigned to a particular security will be the amount which the Fund might be able to receive upon its current sale. Fair valuation of a security is based on the consideration of all available information, including, but not limited to, the following:

- 1) the fundamental business data relating to the issuer;
- 2) an evaluation of the forces which influence the market in which these securities are purchased and sold;
- 3) the type, size and cost of security;
- 4) the financial statements of the issuer;
- 5) the credit quality and cash flow of the issuer, based on the Sub-Advisor's or external analysis;
- 6) the information as to any transactions in or offers for the security;

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- 7) the price and extent of public trading in similar securities (or equity securities) of the issuer/borrower, or comparable companies;
- 8) the coupon payments;
- 9) the quality, value and salability of collateral, if any, securing the security;
- 10) the business prospects of the issuer, including any ability to obtain money or resources from a parent or affiliate and an assessment of the issuer's management;
- 11) the prospects for the issuer's industry, and multiples (of earnings and/or cash flows) being paid for similar businesses in that industry; and
- 12) other relevant factors.

The Fund is subject to fair value accounting standards that define fair value, establish the framework for measuring fair value and provide a three-level hierarchy for fair valuation based upon the inputs to the valuation as of the measurement date. The three levels of the fair value hierarchy are as follows:

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### NOTES TO QUARTERLY PORTFOLIO OF INVESTMENTS - (CONTINUED)

#### FIRST TRUST MORTGAGE INCOME FUND JANUARY 31, 2012 (UNAUDITED)

- o Level 1 - Level 1 inputs are quoted prices in active markets for identical investments. An active market is a market in which transactions for the investment occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- o Level 2 - Level 2 inputs are observable inputs, either directly or indirectly, and include the following:
  - o Quoted prices for similar investments in active markets.
  - o Quoted prices for identical or similar investments in markets that are non-active. A non-active market is a market where there are few transactions for the investment, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly.
  - o Inputs other than quoted prices that are observable for the investment (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates).
  - o Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- o Level 3 - Level 3 inputs are unobservable inputs. Unobservable inputs may reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the investments.

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The inputs or methodology used for valuing investments are not necessarily an indication of the risk associated with investing in those investments. A summary of the inputs used to value the Fund's investments as of January 31, 2012, is included with the Fund's Portfolio of Investments.

### B. SECURITIES TRANSACTIONS:

Securities transactions are recorded as of the trade date. Realized gains and losses from securities transactions are recorded on the identified cost basis.

Securities purchased or sold on a when-issued, delayed-delivery or forward purchase commitment basis may have extended settlement periods. The value of the security so purchased is subject to market fluctuations during this period. The Fund maintains liquid assets with a current value at least equal to the amount of its when-issued, delayed-delivery or forward purchase commitments until payment is made. At January 31, 2012, the Fund had no when-issued, delayed-delivery or forward purchase commitments.

### C. REVERSE REPURCHASE AGREEMENTS:

Reverse repurchase agreements are utilized as leverage for the Fund. A reverse repurchase agreement, although structured as a sale and repurchase obligation, acts as a financing under which Fund assets are pledged as collateral to secure a short-term loan. Generally, the other party to the agreement makes the loan in an amount equal to a percentage of the market value of the pledged collateral. At the maturity of the reverse repurchase agreement, the loan will be repaid and the collateral will correspondingly be received back by the Fund. While used as collateral, the assets continue to pay principal and interest which are for the benefit of the Fund.

Information for the period ended January 31, 2012:

|  |              |
|--|--------------|
| Maximum amount outstanding during the period.....              | \$22,993,750 |
| Average amount outstanding during the period*.....             | \$22,630,902 |
| Average Common Shares outstanding during the period.....       | 4,073,199    |
| Average debt per Common Share outstanding during the period... | \$5.56       |

\* The average amount outstanding during the period was calculated by adding the borrowings at the end of each day and dividing the sum by the number of days in the period ended January 31, 2012.

During the period ended January 31, 2012, the interest rates ranged from 0.31% to 1.65%, with a weighted average interest rate of 0.81%, on borrowings by the Fund under reverse repurchase agreements, which had interest expense that aggregated \$47,105.

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NOTES TO QUARTERLY PORTFOLIO OF INVESTMENTS - (CONTINUED)

FIRST TRUST MORTGAGE INCOME FUND  
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### D. INVERSE FLOATING-RATE SECURITIES:

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An inverse floating-rate security is one where the coupon is inversely indexed to a short-term floating interest rate multiplied by a specific factor. As the floating rate rises, the coupon is reduced. Conversely, as the floating rate declines, the coupon is increased. The price of these securities may be more volatile than the price of a comparable fixed-rate security. These instruments are typically used to enhance the yield of the portfolio. These securities are identified on the Portfolio of Investments.

### E. STRIPPED MORTGAGE-BACKED SECURITIES:

Stripped Mortgage-Backed Securities are created by segregating the cash flows from underlying mortgage loans or mortgage securities to create two or more new securities, each with a specified percentage of the underlying security's principal or interest payments. Mortgage securities may be partially stripped so that each investor class receives some interest and some principal. When securities are completely stripped, however, all of the interest is distributed to holders of one type of security known as an interest-only or IO security and all of the principal is distributed to holders of another type of security known as a principal-only or PO security. These securities are identified on the Portfolio of Investments.

### F. INTEREST-ONLY SECURITIES:

An interest-only security ("IO Security") is the interest-only portion of a MBS that receives some or all of the interest portion of the underlying MBS and little or no principal. A reference principal value called a notional value is used to calculate the amount of interest due to the IO Security. IO securities are sold at a deep discount to their notional principal amount. Generally speaking, when interest rates are falling and prepayment rates are increasing, the value of an IO Security will fall. Conversely, when interest rates are rising and prepayment rates are decreasing, generally the value of an IO Security will rise. These securities are identified on the Portfolio of Investments.

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## ITEM 2. CONTROLS AND PROCEDURES.

- (a) The registrant's principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act") (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of the report that includes the disclosure required by this paragraph, based on their evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended (17 CFR 240.13a-15(b) or 240.15d-15(b)).
- (b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d))) that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

## ITEM 3. EXHIBITS.

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Certifications pursuant to Rule 30a-2(a) under the 1940 Act and Section 302 of the Sarbanes-Oxley Act of 2002 are attached hereto.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) First Trust Mortgage Income Fund  
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By (Signature and Title)\* /s/ Mark R. Bradley  
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Mark R. Bradley, President and Chief Executive Officer  
(principal executive officer)

Date March 26, 2012  
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Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title)\* /s/ Mark R. Bradley  
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Mark R. Bradley, President and Chief Executive Officer  
(principal executive officer)

Date March 26, 2012  
-----

By (Signature and Title)\* /s/ James M. Dykas  
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James M. Dykas, Treasurer, Chief Financial Officer  
and Chief Accounting Officer  
(principal financial officer)

Date March 26, 2012  
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\* Print the name and title of each signing officer under his or her signature.