CHIMERA INVESTMENT CORP
Form 10-Q
June 25, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED: MARCH 31, 2012

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: 1-33796

CHIMERA INVESTMENT CORPORATION
(Exact name of Registrant as specified in its Charter)

MARYLAND	26-0630461
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1211 AVENUE OF THE AMERICAS, SUITE 2902
NEW YORK, NEW YORK
(Address of principal executive offices)

10036
(Zip Code)

(646) 454-3759
(Registrant’s telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all documents and 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 o No þ

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 (Section 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 o No þ

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, non-accelerated filer, or a smaller reporting company. See definition of “accelerated filer,” “large accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

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

Yes o No þ

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the last practicable date:

Class	Outstanding at June 21, 2013
Common Stock, $.01 par value	1,027,593,441

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CHIMERA INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(dollars in thousands, except share and per share data)

	March 31, 2012 (Unaudited)	December 31, 2011 (1)
Assets:		
Cash and cash equivalents	$131,273	$206,299
Non-Agency RMBS, at fair value		
Senior	822	1,020
Senior interest-only	200,941	188,679
Subordinated	635,627	606,895
Subordinated interest-only	22,405	22,019
Agency RMBS, at fair value	2,949,803	3,144,531
Accrued interest receivable	25,144	22,709
Other assets	12,596	1,403
Subtotal	3,978,611	4,193,555
Assets of Consolidated VIEs:		
Non-Agency RMBS transferred to consolidated variable interest entities ("VIEs"), at fair value	3,267,779	3,270,332
Securitized loans held for investment, net of allowance for loan losses of $13.8 million and $13.9 million, respectively	983,587	256,632
Accrued interest receivable	24,585	26,616
Subtotal	4,275,951	3,553,580
Total assets	$8,254,562	$7,747,135
Liabilities:		
Repurchase agreements, Agency RMBS ($2.6 billion and $2.8 billion pledged as collateral, respectively)	$2,502,870	$2,672,989
Accrued interest payable	2,928	3,294
Dividends payable	112,946	112,937
Accounts payable and other liabilities	1,572	1,687
Investment management fees and expenses payable to affiliate	12,963	12,958
Interest rate swaps, at fair value	43,655	44,467
Subtotal	2,676,934	2,848,332
Non-Recourse Liabilities of Consolidated VIEs		
Securitized debt, Non-Agency RMBS transferred to consolidated VIEs ($3.3 billion and $3.3 billion pledged as collateral, respectively)	1,507,268	1,630,276
Securitized debt, loans held for investment ($993.8 million and $238.0 million pledged as collateral, respectively)	890,374	212,778
Accrued interest payable	9,394	8,130
Subtotal	2,407,036	1,851,184
Total liabilities	$5,083,970	$4,699,516
Commitments and Contingencies (See Note 15)		
Stockholders' Equity:		
	$10,268	$10,267

Common stock: par value $0.01 per share; 1,500,000,000 shares authorized, 1,027,505,477 and 1,027,467,089 shares issued and outstanding, respectively		
Additional paid-in-capital	3,603,936	3,603,739
Accumulated other comprehensive income (loss)	588,941	433,453
Retained earnings (accumulated deficit)	(1,032,553)	(999,840)
Total stockholders' equity	$3,170,592	$3,047,619
Total liabilities and stockholders' equity	$8,254,562	$7,747,135

(1) Derived from the audited consolidated financial statements.

See accompanying notes to consolidated financial statements.

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CHIMERA INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(dollars in thousands, except share and per share data)
(unaudited)

	For the Quarter Ended	
	March 31, 2012	March 31, 2011
Net Interest Income:		
Interest income	$51,319	$58,086
Interest expense	(2,326)	(3,052)
Interest income, Non-Agency RMBS and securitized loans transferred to consolidated VIEs	98,349	113,957
Interest expense, Non-Agency RMBS and securitized loans transferred to consolidated VIEs	(34,049)	(32,525)
Net interest income (expense)	113,293	136,466
Other-than-temporary impairments:		
Total other-than-temporary impairment losses	(56,961)	(70,217)
Non-credit portion of loss recognized in other comprehensive income (loss)	8,597	37,034
Net other-than-temporary credit impairment losses	(48,364)	(33,183)
Other gains (losses):		
Net unrealized gains (losses) on interest rate swaps	812	9,831
Net realized gains (losses) on interest rate swaps	(4,398)	(2,847)
Net gains (losses) on interest rate swaps	(3,586)	6,984
Net unrealized gains (losses) on interest-only RMBS	17,947	4,106
Net realized gains (losses) on sales of investments	16,010	2,642
Total other gains (losses)	30,371	13,732
Net investment income (loss)	95,300	117,015
Other expenses:		
Management fees	12,909	12,750
Provision for loan losses	167	1,442
General and administrative expenses	1,989	1,487
Total other expenses	15,065	15,679
Income (loss) before income taxes	80,235	101,336
Income taxes	2	698
Net income (loss)	$80,233	$100,638
Net income (loss) per share available to common shareholders:		
Basic	$0.08	$0.10
Diluted	$0.08	$0.10
Weighted average number of common shares outstanding:		
Basic	1,026,762,092	1,026,209,153
Diluted	1,027,489,586	1,027,063,055
Dividends declared per share of common stock	$0.11	$0.14

Comprehensive income (loss):		
Net income (loss)	$80,233	$100,638
Other comprehensive income (loss):		
Unrealized gains (losses) on available-for-sale securities, net	170,186	(128,569)
Reclassification adjustment for net losses included in net income (loss) for other-than-temporary credit impairment losses	(14,252)	33,183
Reclassification adjustment for net realized losses (gains) included in net income (loss)	(446)	(2,642)
Other comprehensive income (loss)	155,488	(98,028)
Comprehensive income (loss)	$235,721	$2,610

See accompanying notes to consolidated financial statements.

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CHIMERA INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
(dollars in thousands, except per share data)
(unaudited)

	Common Stock Par Value	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total
Balance, December 31, 2010	$ 10,261	$ 3,601,890	$ 680,123	$ (613,688)	$ 3,678,586
Net income	-	-	-	100,638	100,638
Unrealized gains (losses) on available-for-sale securities, net	-	-	(128,569)	-	(128,569)
Reclassification adjustment for net losses included in net income (loss) for other-than-temporary credit impairment losses	-	-	33,183	-	33,183
Reclassification adjustment for net realized losses (gains) included in net income (loss)	-	-	(2,642)	-	(2,642)
Proceeds from direct purchase and dividend reinvestment	1	310	-	-	311
Proceeds from common stock offerings	-	11	-	-	11
Proceeds from restricted stock grants	-	128	-	-	128
Common dividends declared, $0.14 per share	-	-	-	(143,676)	(143,676)
Balance, March 31, 2011	$ 10,262	$ 3,602,339	$ 582,095	$ (656,726)	$ 3,537,970
Balance, December 31, 2011	$ 10,267	$ 3,603,739	$ 433,453	$ (999,840)	$ 3,047,619
Net income	-	-	-	80,233	80,233
Unrealized gains (losses) on available-for-sale securities, net	-	-	170,186	-	170,186
Reclassification adjustment for net losses included in net income (loss) for other-than-temporary credit impairment losses	-	-	(14,252)	-	(14,252)
Reclassification adjustment for net realized losses (gains)	-	-	(446)	-	(446)

included in net income (loss)										
Proceeds from direct purchase and dividend reinvestment		1		116		-		-		117
Proceeds from restricted stock grants		-		81		-		-		81
Common dividends declared, $0.11 per share		-		-		-		(112,946)		(112,946)
Balance, March 31, 2012	$	10,268	$	3,603,936	$	588,941	$	(1,032,553)	$	3,170,592

See accompanying notes to consolidated financial statements.

CHIMERA INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)
(unaudited)

	For the Quarter Ended	
	March 31, 2012	March 31, 2011
Cash Flows From Operating Activities:		
Net income (loss)	$ 80,233	$ 100,638
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
(Accretion) amortization of investment discounts/premiums, net	(10,355)	(9,190)
Amortization of deferred financing costs	3,221	456
Amortization of debt issue costs of securitized debt	8,103	3,352
Unrealized losses (gains) on interest rate swaps	(812)	(9,831)
Net unrealized losses (gains) on interest-only RMBS	(17,947)	(4,106)
Realized losses (gains) on sales of investments, net	(16,010)	(2,642)
Net other-than-temporary credit impairment losses	48,364	33,183
Provision for loan losses	167	1,442
Equity-based compensation expense	81	128
Changes in operating assets:		
Decrease (increase) in accrued interest receivable, net	(1,288)	(9,163)
Decrease (increase) in other assets	2	(58)
Changes in operating liabilities:		
Increase (decrease) in accounts payable and other liabilities	(115)	841
Increase (decrease) in investment management fees and expenses payable to affiliate	5	385
Increase (decrease) in accrued interest payable, net	898	902
Net cash provided by (used in) operating activities	$ 94,547	$ 106,337
Cash Flows From Investing Activities:		
RMBS portfolio:		
Purchases	$ (91,429)	$ (3,095,715)
Sales	79,059	646,356
Principal payments	183,612	135,868
RMBS transferred to consolidated VIEs:		
Principal payments	132,630	194,385
Securitized loans:		
Purchases	(753,692)	-
Principal payments	21,061	25,337
Net cash provided by (used in) investing activities	$ (428,759)	$ (2,093,769)
Cash Flows From Financing Activities:		
Proceeds from repurchase agreements	$ 2,034,833	$ 4,563,683
Payments on repurchase agreements	(2,204,952)	(2,502,073)
Net proceeds from common stock offerings	-	11
Payment of deferred financing costs	(4,369)	-
Proceeds from securitized debt borrowings, loans held for investment	696,113	-

Payments on securitized debt borrowings, loans held for investment		(19,730)		(23,861)
Proceeds from securitized debt borrowings, RMBS transferred to consolidated VIEs		-		311,012
Payments on securitized debt borrowings, RMBS transferred to consolidated VIEs		(129,889)		(178,084)
Net proceeds from direct purchase and dividend reinvestment		117		311
Common dividends paid		(112,937)		(174,445)
Net cash provided by (used in) financing activities	$	259,186	$	1,996,554
Net increase (decrease) in cash and cash equivalents	$	(75,026)	$	9,122
Cash and cash equivalents at beginning of period		206,299		7,173
Cash and cash equivalents at end of period	$	131,273	$	16,295
Supplemental disclosure of cash flow information:				
Interest received	$	138,909	$	154,000
Interest paid	$	27,374	$	31,797
Taxes paid	$	-	$	3
Management fees and expenses paid to affiliates	$	12,958	$	12,229
Non-cash investing activities:				
Receivable for investments sold	$	-	$	6,192
Payable for investments purchased	$	-	$	311,610
Net change in unrealized gain (loss) on available-for sale securities	$	155,488	$	(98,028)
Non-cash financing activities:				
Common dividends declared, not yet paid	$	112,946	$	143,676

See accompanying notes to consolidated financial statements.

CHIMERA INVESTMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER ENDED MARCH 31, 2012

1. Organization

Chimera Investment Corporation (the "Company") was organized in Maryland on June 1, 2007. The Company commenced operations on November 21, 2007 when it completed its initial public offering. The Company elected to be taxed as a real estate investment trust ("REIT"), under the Internal Revenue Code of 1986, as amended. The Company formed the following wholly-owned qualified REIT subsidiaries: Chimera Securities Holdings, LLC in July 2008; Chimera Asset Holding LLC and Chimera Holding LLC in June 2009; Chimera Special Holding LLC in January 2010 which is a wholly-owned subsidiary of Chimera Asset Holding LLC. In July 2010, the Company formed CIM Trading Company LLC, a wholly-owned taxable REIT subsidiary ("TRS").

Annaly Capital Management, Inc. ("Annaly") owns approximately 4.38% of the Company's common shares. The Company is managed by Fixed Income Discount Advisory Company ("FIDAC"), an investment advisor registered with the Securities and Exchange Commission ("SEC"). FIDAC is a wholly-owned subsidiary of Annaly.

2. Summary of the Significant Accounting Policies

Restatement

The Company restated its previously issued (i) consolidated statement of financial condition included in its Annual Report on Form 10-K as of December 31, 2010 and (ii) consolidated statements of operations and comprehensive income, consolidated statements of changes in stockholders' equity, and consolidated statements of cash flows for the years ended December 31, 2010 and 2009, including the cumulative effect of the restatement on retained earnings (accumulated deficit) as of the earliest period presented (the "Restatement") as part of its Form 10-K for the year ended December 31, 2011. The Restatement also impacted each of the quarters for the periods beginning with the Company's inception in November 2007 through the quarter ended September 30, 2011. The historical interim periods included in this Form 10-Q have been restated to reflect the Restatement.

(a) Basis of Presentation and Consolidation

The accompanying consolidated financial statements and related notes of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). In the opinion of management, all adjustments considered necessary for a fair presentation of the Company's financial position, results of operations and cash flows have been included. The accompanying unaudited consolidated interim financial statements should be read in conjunction with the consolidated financial statements and the related management's discussion and analysis of financial condition and results of operations filed with our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

The consolidated financial statements include, on a consolidated basis, the Company's accounts, the accounts of its wholly-owned subsidiaries, and variable interest entities ("VIEs") in which the Company is the primary beneficiary. All significant intercompany balances and transactions have been eliminated in consolidation.

VIEs are defined as entities in which equity investors (i) do not have the characteristics of a controlling financial interest, and/or (ii) do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The entity that consolidates a VIE is known as its primary beneficiary, and is generally the entity with (i) the power to direct the activities that most significantly impact the VIE's economic performance, and (ii) the right to receive benefits from the VIE or the obligation to absorb losses of the VIE that could be significant to the VIE. For VIEs that do not have substantial on going activities, the power to direct the activities that most significantly impact the VIEs' economic performance may be determined by an entity's involvement with the design and structure of the VIE.

The Company uses securitization trusts considered to be VIEs in its securitization and re-securitization transactions. Prior to January 1, 2010, these VIEs met the definition of Qualified Special Purpose Entities ("QSPE") and, as such, were not subject to consolidation by the Company. Effective January 1, 2010, all such VIEs were considered for consolidation based on the criteria in ASC 810, Consolidation, resulting in the consolidation of certain VIEs that were not previously consolidated. Non-Agency RMBS transferred to consolidated VIEs are composed entirely of senior certificates.

(b) Statement of Financial Condition Presentation

The Company's consolidated statements of financial condition separately present: (i) the Company's direct assets and liabilities, and (ii) the assets and liabilities of consolidated securitization vehicles. Assets of each consolidated VIE can only be used to satisfy the obligations of that VIE, and the liabilities of consolidated VIEs are non-recourse to the Company.

The Company has aggregated all the assets and liabilities of the consolidated securitization vehicles due to the determination that these entities are substantively similar and therefore a further disaggregated presentation would not be more meaningful. The notes to the consolidated financial statements describe the Company's direct assets and liabilities and the assets and liabilities of consolidated securitization vehicles. See Note 8 for additional information related to the Company's investments in consolidated securitization vehicles.

(c) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and cash deposited overnight in money market funds, which are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation. There were no restrictions on cash and cash equivalents at March 31, 2012 and December 31, 2011.

(d) Agency and Non-Agency Residential Mortgage-Backed Securities

The Company invests in residential mortgage-backed securities ("RMBS") representing interests in obligations backed by pools of mortgage loans. The Company delineates between (1) Agency RMBS and (2) Non-Agency RMBS as follows: Agency RMBS are mortgage pass-through certificates, collateralized mortgage obligations ("CMOs"), and other RMBS representing interests in or obligations backed by pools of mortgage loans issued or guaranteed by agencies of the U.S. Government, such as Ginnie Mae, or federally chartered corporations such as Freddie Mac or Fannie Mae where principal and interest repayments are guaranteed. Non-Agency RMBS are not issued or guaranteed by Fannie Mae, Freddie Mac, or Ginnie Mae and are therefore subject to credit risk. Repayment of principal and interest on Non-Agency RMBS is subject to the performance of the mortgage loans or RMBS collateralizing the obligation.

The Company classifies its RMBS as available-for-sale, records investments at estimated fair value as described in Note 5 of these consolidated financial statements, and includes unrealized gains and losses considered to be temporary on all RMBS, excluding interest-only strips, in other comprehensive income (loss) in the Consolidated Statements of Operations and Comprehensive Income. Interest-only strips are recorded at estimated fair value and all unrealized gains and losses are included in earnings in the Consolidated Statements of Operations and Comprehensive Income. From time to time, as part of the overall management of its portfolio, the Company may sell any of its RMBS investments and recognize a realized gain or loss as a component of earnings in the Consolidated Statements of Operations and Comprehensive Income utilizing the average cost method.

The Company's accounting policy for interest income and impairment related to its RMBS is as follows:

Interest Income Recognition

The recognition of interest income on RMBS securities varies depending on the characteristics of the security as follows:

Agency RMBS and Non-Agency RMBS of High Credit Quality

ASC 310-20, Nonrefundable Fees and Other Costs (“ASC 310-20”) is applied to the recognition of interest income for the following securities:

Agency RMBS

Non-Agency RMBS that meet each of the following conditions at the acquisition date (referred to hereafter as “Non-Agency RMBS of High Credit Quality”):

1. Rated AA or higher by a nationally recognized credit rating agency. The Company uses the lowest rating available.
2. The Company expects to collect all of the security’s contractual cash flows.
3. The security cannot be contractually prepaid such that the Company would not recover substantially all of its recorded investment.

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Under ASC 310-20, interest income, including premiums and discounts associated with the acquisition of these securities, is recognized over the life of such securities using the interest method based on the contractual cash flows of the security. In applying the interest method, the Company considers estimates of future principal prepayments in the calculation of the constant effective yield. Differences that arise between previously anticipated prepayments and actual prepayments received, as well as changes in future prepayment assumptions, result in a recalculation of the effective yield on the security on a quarterly basis. This recalculation results in the recognition of an adjustment to the carrying amount of the security based on the revised prepayment assumptions and a corresponding increase or decrease in reported interest income.

Non-Agency RMBS Not of High Credit Quality

Non-Agency RMBS that are purchased at a discount and that are not of high credit quality at the time of purchase are accounted for under ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality (“ASC 310-30”) or ASC 325-40, Beneficial Interests in Securitized Financial Assets (“ASC 325-40”) (referred to hereafter as “Non-Agency RMBS Not of High Credit Quality”).

Non-Agency RMBS are accounted for under ASC 310-30 if the following conditions are met as of the acquisition date:

1. There is evidence of deterioration in credit quality of the security from its inception.
2. It is probable that the Company will be unable to collect substantially all contractual cash flows of the security.

Non-Agency RMBS are accounted for under ASC 325-40 if both of the following conditions are met as of the acquisition date:

1. The security is rated below AA (or is unrated) or the security can be contractually prepaid such that the Company would not recover substantially all of its recorded investment.
2. The security is rated AA or higher and the Company expects to collect substantially all, but not all contractual cash flows.

Interest income on Non-Agency RMBS Not of High Credit Quality is recognized using the interest method based on management’s estimates of cash flows expected to be collected. The effective interest rate on these securities is based on management’s estimate for each security of the projected cash flows, which are estimated based on observation of current market information and include assumptions related to fluctuations in prepayment speeds and the timing and amount of credit losses. Quarterly, the Company reviews and, if appropriate, makes adjustments to its cash flow projections based on inputs and analyses received from external sources, internal models, and the Company’s judgments about prepayment rates, the timing and amount of credit losses, and other factors. Changes in the amount and/or timing of cash flows from those originally projected, or from those estimated at the last evaluation date, are considered to be either positive changes or adverse changes. For securities accounted for under ASC 325-40, any positive or adverse change in cash flows that does not result in the recognition of an other-than-temporary impairment results in a prospective increase or decrease in the effective interest rate used to recognize interest income. For securities accounted for under ASC 310-30, only significant positive changes are reflected prospectively in the effective interest rate used to recognize interest income. Adverse changes in cash flows expected to be collected are generally treated consistently for RMBS accounted for under ASC 325-40 and ASC 310-30, and generally result in recognition of an other-than-temporary impairment with no change in the effective interest rate used to recognize interest income.

Impairment

Considerations Applicable to all RMBS

When the fair value of an available-for-sale RMBS is less than its amortized cost the security is considered impaired. On at least a quarterly basis the Company evaluates its securities for other-than-temporary impairment ("OTTI"). If the Company intends to sell an impaired security, or it is more-likely-than-not that the Company will be required to sell an impaired security before its anticipated recovery, then the Company must recognize an OTTI through a charge to earnings equal to the entire difference between the investment's amortized cost and its fair value at the measurement date. If the Company does not intend to sell an impaired security and it is not more-likely-than-not that it would be required to sell an impaired security before recovery, the Company must further evaluate the security for impairment due to credit losses. The credit component of OTTI is recognized in earnings and the remaining or non-credit component is recorded as a component of OCI. Following the recognition of an OTTI through earnings, a new amortized cost basis is established for the security and subsequent recoveries in fair value may not be adjusted through earnings.

When evaluating whether the Company intends to sell an impaired security or will more-likely-than-not be required to sell an impaired security before recovery, the Company makes judgments that consider among other things, its liquidity, leverage, contractual obligations, and targeted investment strategy to determine its intent and ability to hold the investments that are deemed impaired. The determination as to whether an OTTI exists is subjective as such determinations are based on factual information available at the time of assessment as well as the Company's estimates of future conditions. As a result, the determination of OTTI, its timing and amount, are based on estimates that may change materially over time.

The Company's estimate of the amount and timing of cash flows for its RMBS is based on its review of the underlying securities or mortgage loans securing the RMBS. The Company considers historical information available and expected future performance of the underlying securities or mortgage loans, including timing of expected future cash flows, prepayment rates, default rates, loss severities, delinquency rates, percentage of non-performing loans, extent of credit support available, Fair Isaac Corporation ("FICO") scores at loan origination, year of origination, loan-to-value ratios, geographic concentrations, as well as reports by credit rating agencies, such as Moody's Investors Service, Inc., Standard & Poor's Rating Services or Fitch Ratings, Inc. General market assessments and dialogue with market participants. As a result, substantial judgment is used in the Company's analysis to determine the expected cash flows for its RMBS.

Considerations Applicable to Non-Agency RMBS of High Credit Quality

The impairment assessment for Non-Agency RMBS of High Credit Quality involves comparing the present value of the remaining cash flows expected to be collected to the amortized cost of the security at the assessment date. The discount rate used to calculate the present value of the expected future cash flows is based on the security's effective interest rate as calculated under ASC 310-20 (i.e., the discount rate implicit in the security as of the last measurement date). If the present value of the remaining cash flows expected to be collected is less than the amortized cost basis, an OTTI is recognized in earnings for the difference. This amount is considered to be the credit loss component; the remaining difference between amortized cost and the fair value of the security is considered to be the non-credit component of the OTTI, which is recognized in other comprehensive income (loss).

Following the recognition of an OTTI through earnings for the credit loss component, a new amortized cost basis is established for the security and subsequent recoveries in fair value may not be adjusted through earnings.

Considerations Applicable to Non-Agency RMBS Not of High Credit Quality

Non-Agency RMBS within the scope of ASC 325-40 or ASC 310-30 are considered other-than-temporarily impaired when the following two conditions exist: (1) the fair value is less than the amortized cost basis, and (2) there has been an adverse change in cash flows expected to be collected from the last measurement date (i.e., adverse changes in either the amount or timing of cash flows from those previously expected).

The other-than-temporary impairment is separated into a credit loss component that is recognized in earnings and a non-credit component that is recorded in other comprehensive income (loss). The credit component is comprised of the impact of the fair value decline due to changes in assumptions related to default (collection) risk and prepayments. The non-credit component comprises the change in fair value of the security due to all other factors, including changes in benchmark interest rates and market liquidity. In determining the OTTI related to credit losses for securities, the Company compares the present value of the remaining cash flows expected to be collected at the current financial reporting date to the present value of the remaining cash flows expected to be collected at the original purchase date (or the last date those estimates were revised for accounting purposes). The discount rate used to calculate the present value of expected future cash flows is the effective interest rate used for income recognition purposes as determined under ASC 325-40 or ASC 310-30 for purposes of recognizing interest income.

Following the recognition of an OTTI through earnings for the credit component, a new amortized cost basis is established for the security and subsequent recoveries in fair value may not be adjusted through earnings. However, to the extent that there are subsequent increases in cash flows expected to be collected, the OTTI previously recorded through earnings may be accreted into interest income following the guidance in ASC 325-40 or ASC 310-30.

The determination of whether an OTTI exists and, if so, the extent of the credit component is subject to significant judgment and management's estimates of both historical information available at the time of assessment, the current market environment, as well as the Company's estimates of the future performance and projected amount and timing of cash flows expected to be collected on the security. As a result, the timing and amount of OTTI constitutes an accounting estimate that may change materially over time.

(e) Interest-Only RMBS

The Company invests in interest-only ("IO") Agency and Non-Agency RMBS. These IO RMBS represent the Company's right to receive a specified proportion of the contractual interest flows of the collateral. The Company has accounted for IO RMBS at fair value with changes in fair value recognized in the Company's Consolidated Statements of Operations and Comprehensive Income. The IO RMBS are included in RMBS, at fair value, on the accompanying Consolidated Statements of Financial Condition. Coupon income on IO securities is accrued based on the outstanding notional balance and the security's contractual terms, and amortization is computed in accordance with ASC 325-40. Changes in fair value are presented in Net unrealized gains (losses) on interest-only RMBS on the Consolidated Statement of Operations and Comprehensive Income. Interest income reported on IO securities was $6.0 million and $7.6 million for the quarters ended March 31, 2012 and March 31, 2011, respectively.

(f) Securitized Loans Held for Investment and Related Allowance for Loan Losses

The Company's securitized residential mortgage loans are comprised of fixed-rate and variable-rate loans. Mortgage loans are designated as held for investment, and are carried at their principal balance outstanding, plus any premiums, less discounts and allowances for loan losses. Interest income on loans held for investment is recognized over the life of the investment using the interest method. Income recognition is suspended for loans when, based on information from the servicer, a full recovery of income and principal becomes doubtful. Income recognition is resumed when the loan becomes contractually current and performance is demonstrated to be resumed. The Company estimates the fair value of securitized loans for disclosure purposes only as described in Note 5 of these consolidated financial statements.

(g) Allowance for Loan Losses – Securitized Loans Held for Investment

The securitized loan portfolio is comprised primarily of non-conforming, single family, owner occupied, jumbo, prime loans that are not guaranteed as to repayment of principal or interest. Securitized loans are serviced and modified by a third-party servicer. The Company is not involved in the loan modification process, except as it relates to CSMC 2012-CIM1, a securitization vehicle consolidated by the Company that is collateralized by residential mortgage loans. As it relates solely to CSMC 2012-CIM1, the Company has the ability to approve certain loan modifications and determine the course of action to be taken as it relates to loans in technical default, including whether or not to proceed with foreclosure.

The Company has established an allowance for loan losses related to securitized loans that is composed of a general and specific reserve. The general reserve relates to loans that have not been individually evaluated for impairment and is accounted for under ASC 450, Contingencies. The general reserve is based on historical loss rates for pools of loans with similar credit characteristics, adjusted for current trends and conditions.

Certain loans are individually evaluated for impairment, including securitized loans modified by the servicer and loans more than 60 days delinquent under ASC 310, Receivables. Loan modifications made by the servicer are evaluated to determine if they constitute troubled debt restructurings ("TDRs"). A restructuring of a loan constitutes a TDR if the servicer, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. Impairment of modified loans considered to be TDRs is measured based on the present value of expected cash flows discounted at the loan's effective interest rate at inception. If the present value of expected cash flows is less than the recorded investment in the loan, a provision for loan losses is recognized through an allowance with a corresponding charge to provision for loan losses. Impairment of all other loans individually evaluated is measured as the difference between the unpaid principal balance and the estimated fair value of the collateral, less estimated costs to sell. The Company charges off the corresponding loan allowance and related principal balance when the servicer reports an actual credit writedown.

(h) Repurchase Agreements

The Company finances the acquisition of a significant portion of its Agency mortgage-backed securities with repurchase agreements. The Company examines each of the specified criteria in ASC 860, Transfers and Servicing (“ASC 860”), at the inception of each transaction and has determined that each of the Company’s repurchase agreements meet the specified criteria in this guidance to be accounted for as secured borrowings. None of the Company’s repurchase agreements are accounted for as components of linked transactions. As a result, the Company separately accounts for the financial assets posted as collateral and related repurchase agreements in the accompanying consolidated financial statements.

(i) Securitized Debt, Non-Agency RMBS Transferred to Consolidated VIEs, and Securitized Debt, Loans Held for Investment

The Company has issued securitized debt to finance a portion of its residential mortgage loan and RMBS portfolios. Certain transactions involving residential mortgage loans are accounted for as secured borrowings, and are recorded as “Securitized loans held for investment” and the corresponding debt as “Securitized debt, loans held for investment” in the Consolidated Statements of Financial Condition. These securitizations are collateralized by residential adjustable or fixed rate mortgage loans that have been placed in a trust and pay interest and principal to the debt holders of that securitization. Re-securitization transactions classified as “Securitized debt, Non-Agency RMBS transferred to consolidated VIEs” reflect the transfer to a trust of fixed or adjustable rate RMBS which are classified as “Non-Agency RMBS transferred to consolidated VIEs” that pay interest and principal to the debt holders of that re-securitization. Re-securitization transactions completed by the Company that did not qualify as a sale are accounted for as secured borrowings pursuant to ASC 860. For the quarter ended March 31, 2012, the Company did not have any continuing involvement with any loans or securities previously sold, except as it relates to the loans in the CSMC 2012-CIM1 securitization as further described above. The holders of securitized debt have no recourse to the Company, and the Company does not receive any interest or principal paid on such debt. As of March 31, 2012 and December 31, 2011 the Company recorded $2.4 billion and $1.9 billion in principal on securitized debt and accrued interest payable, respectively. The associated securitized debt is carried at amortized cost and is non-recourse to the Company. The Company estimates the fair value of its securitized debt for disclosure purposes as described in Note 5 to these consolidated financial statements.

(j) Fair Value Disclosure

A complete discussion of the methodology utilized by the Company to estimate the fair value of its financial instruments is included in Note 5 to these consolidated financial statements.

(k) Derivative Financial Instruments

The Company’s policies permit it to enter into derivative contracts, including interest rate swaps and interest rate caps, as a means of managing its interest rate risk. The Company intends to use interest rate derivative instruments to manage interest rate risk rather than to enhance returns. Interest rate swaps are recorded as either assets or liabilities in the Consolidated Statements of Financial Condition and measured at fair value. Net payments on interest rate swaps are included in the Consolidated Statements of Cash Flows as a component of net income (loss). Unrealized gains (losses) on interest rate swaps are removed from net income (loss) to arrive at cash flows from operating activities. The Company estimates the fair value of interest rate swaps as described in Note 5 of these consolidated financial statements.

The Company elects to net by counterparty the fair value of interest rate swap contracts. These contracts contain legally enforceable provisions that allow for netting or setting off of all individual swaps receivable and payable with each counterparty and, therefore, the fair value of those swap contracts are reported net by counterparty. The credit support annex provisions of the Company's interest rate swap contracts allow the parties to mitigate their credit risk by requiring the party which is in a net payable position to post collateral. As the Company elects to net by counterparty the fair value of interest rate swap contracts, it also nets by counterparty any collateral exchanged as part of the interest rate swap contracts.

(l) Sales, Securitizations, and Re-Securitizations

The Company periodically enters into transactions in which it sells financial assets, such as RMBS, and mortgage loans. Gains and losses on sales of assets are computed on the average cost method whereby the Company records a gain or loss on the difference between the carrying value of the asset and the proceeds from the sale. In addition, the Company from time to time securitizes or re-securitizes assets and sells tranches in the newly securitized assets. These transactions may be recorded as either a sale and the assets contributed to the securitization are removed from the Consolidated Statements of Financial Condition and a gain or loss is recognized, or as a secured borrowing whereby the assets contributed to the securitization are not derecognized but rather the debt issued by the securitization are recorded to reflect the term financing of the assets. In these securitizations and re-securitizations, the Company may retain senior or subordinated interests in the securitized and/or re-securitized assets.

(m) Income Taxes

The Company elected to be taxed as a REIT, and therefore it generally will not be subject to corporate federal or state income tax to the extent that qualifying distributions are made to stockholders and the REIT requirements, including certain asset, income, distribution and stock ownership tests are met. If the Company failed to qualify as a REIT and did not qualify for certain statutory relief provisions, the Company would be subject to federal, state and local income taxes and may be precluded from qualifying as a REIT for the subsequent four taxable years following the year in which the REIT qualification was lost. The Company and CIM Trading made a joint election to treat CIM Trading as a TRS. As such, CIM Trading is taxable as a domestic C corporation and subject to federal, state, and local income taxes based upon its taxable income.

The provisions of ASC 740, Income Taxes (“ASC 740”), clarify the accounting for uncertainty in income taxes recognized in financial statements and prescribe a recognition threshold and measurement attribute for tax positions taken or expected to be taken on a tax return. The Company does not have any unrecognized tax benefits that would affect its financial position. The Company has not taken any tax positions that would require disclosure under ASC 740. No accruals for penalties and interest were necessary as of March 31, 2012 or December 31, 2011.

(n) Net Income per Share

The Company calculates basic net income per share by dividing net income for the period by the basic weighted-average shares of its common stock outstanding for that period. Diluted net income per share takes into account the effect of dilutive instruments, such as unvested restricted stock, but uses the average share price for the period in determining the number of incremental shares that are to be added to the diluted weighted average number of shares outstanding.

(o) Stock-Based Compensation

The Company accounts for stock-based compensation awards granted to the employees of FIDAC and FIDAC’s affiliates in accordance with ASC 505-50, Equity-Based Payments to Non-Employees (“ASC 505-50”). Pursuant to ASC 505-50 the Company measures the fair value of the equity instrument using the stock prices and other measurement assumptions as of the earlier of either the date at which a performance commitment by the recipient is reached or the date at which the recipient’s performance is complete. Compensation expense related to the grants of stock is recognized over the vesting period of such grants based on the fair value of the stock on each quarterly vesting date, at which the recipient’s performance is complete.

The Company accounts for stock-based compensation awards granted to the Company’s independent directors in accordance with ASC 718, Compensation – Stock Compensation (“ASC 718”). Compensation expense for equity based awards granted to the Company's independent directors is recognized pro-rata over the vesting period of such awards, based upon the fair value of such awards at the grant date.

(p) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although the Company's estimates contemplate current conditions and how it expects them to change in the future, it is reasonably possible that actual conditions could be materially different than anticipated in those estimates, which could have a material adverse impact on the Company's results of operations and its financial condition. Management has made significant estimates in accounting for income recognition and OTTI on Agency and Non-Agency RMBS and IO RMBS (Note 3), valuation of Agency and Non-Agency RMBS (Notes 3 and 5), and interest rate swaps (Notes 5 and 9). Actual results could differ materially from those estimates.

(q) Recent Accounting Pronouncements

Presentation

Balance Sheet (Topic 210)

On December 23, 2011, the FASB released Accounting Standards Update ("ASU") 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. Under this update, the Company will be required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and transactions subject to an agreement similar to a master netting arrangement. The scope would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements and securities borrowing and securities lending arrangements. This disclosure is intended to enable financial statement users to understand the effect of such arrangements on the Company's financial position. The objective of this update is to support further convergence between U.S. GAAP and International Financial Reporting Standards ("IFRS"). This update is effective for annual reporting periods beginning on or after January 1, 2013. This update is expected to result in additional disclosure.

Comprehensive Income (Topic 220)

In June 2011, the FASB released ASU 2011-05, Comprehensive Income: Presentation of Comprehensive Income, which attempts to improve the comparability, consistency, and transparency of financial reporting and increase the prominence of items reported in Other Comprehensive Income ("OCI"). ASU 2011-05 requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of net income and comprehensive income or two separate consecutive statements. Either presentation requires the presentation on the face of the financial statements any reclassification adjustments for items that are reclassified from OCI to net income in the statements. There is no change in what must be reported in OCI or when an item of OCI must be reclassified to net income. This update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company adopted the provisions of ASU 2011-05 effective January 1, 2012. Adoption of ASU 2011-05 did not have a significant impact on the Company's consolidated financial statements.

On December 23, 2011, the FASB issued ASU 2011-12, Comprehensive Income: Deferral of Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income In ASU No. 2011-05, which defers those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments out of accumulated OCI. This was done to allow the FASB time to re-deliberate the presentation, on the face of the financial statements, of the effects of reclassifications out of accumulated OCI on the components of net income and OCI. No other requirements under ASU 2011-05 are affected by ASU 2011-12. FASB tentatively decided not to require presentation of reclassification adjustments out of accumulated other comprehensive income on the face of the financial statements and to propose new disclosures instead.

In March 2013, the FASB issued ASU 2013-02 Comprehensive Income: Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This update addresses the disclosure issue left open at the deferral under ASU 2011-12. This update requires the provision of information about the amounts reclassified out of accumulated OCI by component. In addition, it requires presentation, either on the face of the statement where net income is presented or in the Notes, significant amounts reclassified out of accumulated OCI by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, a cross-reference must be provided to other disclosures required under U.S. GAAP that provide additional detail about those amounts. This update is effective for reporting periods beginning after December 15, 2012. Adoption of ASU 2013-02 is not expected to have a significant impact on the consolidated financial statements.

Broad Transactions

Fair Value Measurements and Disclosures (Topic 820)

In May 2011, the FASB released ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS, further converging U.S. GAAP and IFRS by providing common fair value measurement and disclosure requirements. FASB made changes to the fair value measurement guidance, which include: 1) prohibiting the inclusion of block discounts in all fair value measurements, not just Level 1 measurements, 2) adding guidance on when to include other premiums and discounts in fair value measurements, 3) clarifying that the concepts of “highest and best use” and “valuation premise” apply only when measuring the fair value of non-financial assets and 4) adding an exception that allows the measurement of a group of financial assets and liabilities with offsetting risks (e.g., a portfolio of derivative contracts) at their net exposure to a particular risk if certain criteria are met. ASU 2011-04 also requires additional disclosure related to items categorized as Level 3 in the fair value hierarchy, including a description of the processes for valuing these assets, providing quantitative information about the significant unobservable inputs used to measure fair value and, in certain cases, explaining the sensitivity of the fair value measurements to changes in unobservable inputs. This update is effective for reporting periods beginning after December 15, 2011. Adoption of ASU 2011-04 increased the footnote disclosure in these consolidated financial statements.

Transfers and Servicing (Topic 860)

In April 2011, the FASB issued ASU 2011-03, Transfers and Servicing: Reconsideration of Effective Control for Repurchase Agreements. In a typical repurchase agreement transaction, an entity transfers financial assets to the counterparty in exchange for cash with an agreement for the counterparty to return the same or equivalent financial assets for a fixed price in the future. Prior to this update, one of the factors in determining whether sale treatment could be used was whether the transferor maintained effective control of the transferred assets and, in order to do so, the transferor must have the ability to repurchase such assets. In connection with the issuance of ASU 2011-03, the FASB concluded that the assessment of effective control should focus on a transferor’s contractual rights and obligations with respect to transferred financial assets, rather than whether the transferor has the practical ability to perform in accordance with those rights or obligations. ASU 2011-03 removes the transferor’s ability criterion from consideration of effective control. This update is effective for the first interim or annual period beginning on or after December 15, 2011. As the Company records repurchase agreements as secured borrowings and not sales, this update has no significant effect on the Company’s consolidated financial statements.

Financial Services – Investment Companies (Topic 946)

In June 2013, the FASB finalized ASU 2013-08 amending the scope, measurement and disclosure requirements under Topic 946 – Financial Services-Investment Companies. The Board decided not to address issues related to the applicability of investment company accounting for real estate entities and the measurement of real estate investments at this time. Further, as stated in ASC 946-10-15-3, the guidance in Topic 946 does not apply to real estate investment trusts, and thus has no effect on the Company’s consolidated financial statements.

3. Residential Mortgage-Backed Securities

The Company classifies its Non-Agency RMBS as senior, senior interest-only, subordinated, subordinated interest-only, Non-Agency RMBS transferred to consolidated VIEs and Agency RMBS. Senior interests in Non-Agency RMBS are considered to be entitled to the first principal repayments in their pro-rata ownership interests. The total fair value of the Non-Agency RMBS that are held by the re-securitization trusts consolidated pursuant to ASC 810 was $3.3 billion and $3.3 billion at March 31, 2012 and December 31, 2011, respectively. See

Note 8 of these consolidated financial statements for further discussion of consolidated VIEs.

The following tables present the principal or notional value, total premium, total discount, amortized cost, fair value, gross unrealized gains, gross unrealized losses, and net unrealized gain (loss) related to the Company's available-for-sale RMBS portfolio as of March 31, 2012 and December 31, 2011, by asset class.

March 31, 2012
(dollars in thousands)

	Principal or Notional Value	Total Premium	Total Discount	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gain/(Loss)
Non-Agency RMBS								
Senior	$912	$-	$(59)	$853	$822	$3	$(34)	$(31)
Senior interest-only	3,990,375	195,652	-	195,652	200,941	19,398	(14,109)	5,289
Subordinated	1,362,600	-	(708,154)	654,446	635,627	43,211	(62,030)	(18,819)
Subordinated interest-only	277,150	20,348	-	20,348	22,405	2,057	-	2,057
RMBS transferred to consolidated variable interest entities ("VIEs")	5,187,368	10,237	(2,329,017)	2,764,039	3,267,779	518,107	(14,367)	503,740
Agency RMBS	2,832,413	85,020	(157)	2,840,824	2,949,803	109,269	(290)	108,979
Total	$13,650,818	$311,257	$(3,037,387)	$6,476,162	$7,077,377	$692,045	$(90,830)	$601,215

December 31, 2011
(dollars in thousands)

	Principal or Notional Value	Total Premium	Total Discount	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gain/(Loss)
Non-Agency RMBS								
Senior	$1,115	$-	$(56)	$1,059	$1,020	$2	$(41)	$(39)
Senior interest-only	3,734,452	199,288	-	199,288	188,679	11,308	(21,917)	(10,609)
Subordinated	1,378,891	-	(724,739)	654,152	606,895	30,997	(78,254)	(47,257)
Subordinated interest-only	277,560	21,910	-	21,910	22,019	1,663	(1,554)	109
RMBS transferred to consolidated variable	5,265,128	19,869	(2,382,995)	2,902,002	3,270,332	420,505	(52,175)	368,330

interest entities ("VIEs")								
Agency RMBS	3,018,347	90,403	(159)	3,027,285	3,144,531	117,601	(355)	117,246
Total	$13,675,493	$331,470	$(3,107,949)	$6,805,696	$7,233,476	$582,076	$(154,296)	$427,780

The table below presents changes in Accretable Yield, or the excess of the security's cash flows expected to be collected over the Company's investment, solely as it pertains to the Company's Non-Agency RMBS portfolio accounted for according to the provisions of ASC 310-30.

	For the Quarter Ended	
	March 31, 2012	March 31, 2011
	(dollars in thousands)	
Balance at beginning of period	$ 2,342,462	$ 2,521,723
Purchases	86,847	63,233
Accretion	(95,108)	(96,425)
Reclassification (to) from non-accretable difference	(11,662)	(42,430)
Sales	(21,663)	(47,380)
Balance at end of period	$ 2,300,876	$ 2,398,721

The table below presents the outstanding principal balance and related carrying amount at the beginning and ending of the quarterly periods ending March 31, 2012 and December 31, 2011 as it pertains to the Company's Non-Agency RMBS portfolio accounted for according to the provisions of ASC 310-30.

	For the Quarter Ended	
	March 31, 2012	December 31, 2011
	(dollars in thousands)	
Outstanding principal balance:		
Beginning of period	5,563,895	5,589,919
End of period	5,376,864	5,563,895
Carrying value:		
Beginning of period	$ 2,880,478	$ 3,009,179
End of period	$ 2,772,969	$ 2,880,478

The following tables present the gross unrealized losses and estimated fair value of the Company's RMBS by length of time that such securities have been in a continuous unrealized loss position at March 31, 2012 and December 31, 2011. All securities in an unrealized loss position have been evaluated by the Company for OTTI as discussed in Note 2(d).

March 31, 2012
(dollars in thousands)

	Unrealized Loss Position for Less than 12 Months			Unrealized Loss Position for 12 Months or More			Total		
	Estimated Fair Value	Unrealized Losses	Number of Securities	Estimated Fair Value	Unrealized Losses	Number of Securities	Estimated Fair Value	Unrealized Losses	Number of Securities
Non-Agency RMBS									
Senior	$ -	$ -	-	$ 114	$ (34)	1	$ 114	$ (34)	1
Senior interest-only	68,425	(9,158)	10	15,751	(4,951)	10	84,176	(14,109)	20
Subordinated	51,386	(5,591)	7	245,467	(56,439)	26	296,853	(62,030)	33
RMBS transferred to consolidated VIEs	-	-	-	412,595	(14,367)	10	412,595	(14,367)	10
Agency RMBS	4,094	(150)	2	1,464	(140)	1	5,558	(290)	3
Total	$ 123,905	$ (14,899)	19	$ 675,391	$ (75,931)	48	$ 799,296	$ (90,830)	67

December 31, 2011
(dollars in thousands)

	Unrealized Loss Position for Less than 12 Months			Unrealized Loss Position for 12 Months or More			Total		
	Estimated Fair Value	Unrealized Losses	Number of Securities	Estimated Fair Value	Unrealized Losses	Number of Securities	Estimated Fair Value	Unrealized Losses	Number of Securities
Non-Agency RMBS									
Senior	$ -	$ -	-	$ 127	$ (41)	1	$ 127	$ (41)	1
Senior interest-only	99,351	(18,756)	26	17,647	(3,161)	12	116,998	(21,917)	38
Subordinated	321,416	(52,824)	33	111,167	(25,430)	17	432,583	(78,254)	50
Subordinated interest-only	16,300	(1,554)	2	-	-	-	16,300	(1,554)	2
RMBS transferred to consolidated VIEs	-	-	-	594,369	(52,175)	18	594,369	(52,175)	18
Agency RMBS	3,888	(355)	2	-	-	-	3,888	(355)	2

Total	$ 440,955	$ (73,489)	63	$ 723,310	$ (80,807)	48	$ 1,164,265	$ (154,296)	111

At March 31, 2012, the Company did not intend to sell any of its RMBS that were in an unrealized loss position, and it was not more likely than not that the Company would be required to sell these RMBS before recovery of their amortized cost basis, which may be at their maturity. With respect to RMBS held by consolidated VIEs, the ability of any entity to cause the sale by the VIE prior to the maturity of these RMBS is either expressly prohibited, not probable, or is limited to specified events of default, none of which have occurred to date.

Gross unrealized losses on the Company's Agency RMBS were $290 thousand and $355 thousand at March 31, 2012 and December 31, 2011, respectively. 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 evaluating 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 their maturity, the Company considers 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 March 31, 2012 and December 31, 2011 unrealized losses on its Agency RMBS were temporary.

Gross unrealized losses on the Company's Non-Agency RMBS (including Non-Agency RMBS held by consolidated VIEs) were $90.5 million and $153.9 million at March 31, 2012 and December 31, 2011, respectively. Based upon the most recent evaluation, the Company does not consider these unrealized losses to be indicative of OTTI and does not believe that these unrealized losses are credit related, but rather are due to non-credit related factors. The Company has reviewed its Non-Agency RMBS that are in an unrealized loss position to identify those securities with losses that are other-than-temporary based on an assessment of changes in cash flows expected to be collected for such RMBS, which considers recent bond performance and expected future performance of the underlying collateral.

A summary of the OTTI included in earnings for the quarters ended March 31, 2012 and 2011 is presented below.

	For the Quarter Ended	
	March 31, 2012	March 31, 2011
Other-than-temporary impairments	(dollars in thousands)	
Total other-than-temporary impairment losses	$(56,961)	$(70,217)
Non-credit portion of loss recognized in other comprehensive income (loss)	8,597	37,034
Net other-than-temporary credit impairment losses	$(48,364)	$(33,183)

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Net other-than-temporary credit impairment losses recognized in earnings are estimated using significant unobservable inputs. The following table presents a roll forward of the credit loss component of OTTI on the Company's Non-Agency RMBS for which a non-credit component of OTTI was previously recognized in other comprehensive income. The table delineates between those securities that are recognizing OTTI for the first time as opposed to those that have previously recognized OTTI.

	For the Quarter Ended	
	March 31, 2012	March 31, 2011
	(dollars in thousands)	
Cumulative credit loss beginning balance	$81,837	$85,740
Additions:		
Other-than-temporary impairments not previously recognized	34,112	17,105
Reductions for securities sold during the period	(290)	(1,177)
Increases related to other-than-temporary impairments on securities with previously recognized other-than-temporary impairments	14,252	16,078
Reductions for increases in cash flows expected to be collected that are recognized over the remaing life of the security	(31,030)	(19,500)
Cumulative credit loss ending balance	$98,881	$98,246

The significant inputs used to measure the component of OTTI recognized in earnings for the Company's Non-Agency RMBS are summarized as follows:

		For the Quarter Ended	
		March 31, 2012	March 31, 2011
Loss Severity			
	Weighted Average	54%	61%
	Range	33% - 74%	38% - 97%
60+ days delinquent			
	Weighted Average	28%	33%
	Range	0% - 45%	0% - 52%
Credit Enhancement (1)			
	Weighted Average	14%	7%
	Range	0% - 72%	1% - 88%
3 Month CPR			
	Weighted Average	14%	16%
	Range	0% - 25%	4% - 36%
12 Month CPR			
	Weighted Average	16%	16%

Range	9% - 35%	4% - 27%

(1) Calculated as the combined credit enhancement to the Re-REMIC and underlying from each of their respective capital structures.

The following tables present a summary of unrealized gains and losses at March 31, 2012 and December 31, 2011. Interest-only RMBS included in the tables below represent the right to receive a specified proportion of the contractual interest cash flows of the underlying unamortized principal balance of specific securities. At March 31, 2012, interest-only RMBS had a net unrealized gain of $12.3 million and had an amortized cost of $232.1 million. At December 31, 2011, interest-only RMBS had a net unrealized loss of $5.7 million and had an amortized cost of $237.8 million.

The fair value of IOs at March 31, 2012 and December 31, 2011 was $244.4 million, and $232.1 million, respectively.

March 31, 2012
(dollars in thousands)

	Gross Unrealized Gain Included in Accumulated Other Comprehensive Income	Gross Unrealized Gain Included in Accumulated Deficit	Total Gross Unrealized Gain	Gross Unrealized Loss Included in Accumulated Other Comprehensive Income	Gross Unrealized Loss Included in Accumulated Deficit	Total Gross Unrealized Loss
Non-Agency RMBS						
Senior	$ 3	$ -	$ 3	$ (34)	$ -	$ (34)
Senior interest-only	-	19,398	19,398	-	(14,109)	(14,109)
Subordinated	43,211	-	43,211	(62,030)	-	(62,030)
Subordinated interest-only	-	2,057	2,057	-	-	-
RMBS transferred to consolidated VIEs	512,889	5,218	518,107	(14,367)	-	(14,367)
Agency RMBS	109,269	-	109,269	-	(290)	(290)
Total	$ 665,372	$ 26,673	$ 692,045	$ (76,431)	$ (14,399)	$ (90,830)

December 31, 2011
(dollars in thousands)

	Gross Unrealized Gain Included in Accumulated Other Comprehensive Income	Gross Unrealized Gain Included in Accumulated Deficit	Total Gross Unrealized Gain	Gross Unrealized Loss Included in Accumulated Other Comprehensive Income	Gross Unrealized Loss Included in Accumulated Deficit	Total Gross Unrealized Loss
Non-Agency RMBS						
Senior	$ 2	$ -	$ 2	$ (41)	$ -	$ (41)
Senior interest-only	-	11,308	11,308	-	(21,917)	(21,917)
Subordinated	30,997	-	30,997	(78,254)	-	(78,254)
Subordinated interest-only	-	1,663	1,663	-	(1,554)	(1,554)
RMBS transferred to consolidated VIEs	415,688	4,817	420,505	(52,175)	-	(52,175)
Agency RMBS	117,236	365	117,601	-	(355)	(355)

Total	$ 563,923	$ 18,153	$ 582,076	$ (130,470)	$ (23,826)	$ (154,296)

Changes in prepayments, actual cash flows, and cash flows expected to be collected, among other items, are affected by the collateral characteristics of each asset class. The portfolio is most heavily weighted to contain Non-Agency RMBS with credit risk. The Company chooses assets for the portfolio after carefully evaluating each investment's risk profile.

The following tables provide a summary of the Company's RMBS portfolio at March 31, 2012 and December 31, 2011.

	March 31, 2012				
	Principal or Notional Value at Period-End (dollars in thousands)	Weighted Average Amortized Cost Basis	Weighted Average Fair Value	Weighted Average Coupon	Weighted Average Yield at Period-End (1)
Non-Agency Mortgage-Backed Securities					
Senior	$ 912	$ 93.58	$ 90.21	0.97 %	3.17 %
Senior, interest only	$ 3,990,375	$ 4.90	$ 5.04	1.92 %	12.51 %
Subordinated	$ 1,362,600	$ 48.03	$ 46.65	3.28 %	10.21 %
Subordinated, interest only	$ 277,150	$ 7.34	$ 8.08	2.81 %	5.13 %
RMBS transferred to consolidated variable interest entities	$ 5,187,368	$ 54.38	$ 64.29	5.24 %	14.87 %
Agency Mortgage-Backed Securities	$ 2,832,413	$ 103.08	$ 107.03	4.66 %	3.96 %

(1) Bond Equivalent Yield at period end.

	December 31, 2011				
	Principal or Notional Value at Period-End (dollars in thousands)	Weighted Average Amortized Cost Basis	Weighted Average Fair Value	Weighted Average Coupon	Weighted Average Yield at Period-End (1)
Non-Agency Mortgage-Backed Securities					
Senior	$ 1,115	$ 95.13	$ 91.55	1.02 %	2.95 %
Senior, interest only	$ 3,734,452	$ 5.34	$ 5.05	1.96 %	13.28 %
Subordinated	$ 1,378,891	$ 47.44	$ 44.01	3.44 %	9.57 %
Subordinated, interest only	$ 277,560	$ 7.89	$ 7.93	2.94 %	9.93 %
RMBS transferred to consolidated variable interest entities	$ 5,265,128	$ 55.14	$ 62.11	5.32 %	14.56 %
Agency Mortgage-Backed Securities	$ 3,018,347	$ 103.07	$ 107.06	4.66 %	3.83 %

(1) Bond Equivalent Yield at period end.

The following table presents the weighted average credit rating, based on the lowest rating available, of the Company's Non-Agency RMBS portfolio at March 31, 2012 and December 31, 2011.

	March 31, 2012	December 31, 2011
AAA	0.00%	0.53%
AA	0.62%	0.14%
A	0.19%	0.45%
BBB	1.50%	1.54%
BB	0.00%	0.00%
B	2.17%	0.43%
Below B or not rated	95.52%	96.91%
Total	100.00%	100.00%

Actual maturities of RMBS are generally shorter than the stated contractual maturities. Actual maturities of the Company's RMBS are affected by the contractual lives of the underlying mortgages, periodic payments of principal and prepayments of principal. The following tables provide a summary of the fair value and amortized cost of the Company's RMBS at March 31, 2012 and December 31, 2011 according to their estimated weighted-average life classifications. The weighted-average lives of the RMBS in the tables below are based on lifetime expected prepayment rates using the prepayment model for the Agency RMBS portfolio and the Company's prepayment assumptions for the Non-Agency RMBS. The prepayment model considers current yield, forward yield, steepness of the interest rate curve, current mortgage rates, mortgage rates of the outstanding loan, loan age, margin, and volatility.

March 31, 2012
(dollars in thousands)

Weighted Average Life

	Less than one year	Greater than one year and less than five years	Greater than five years and less than ten years	Greater than ten years	Total
Fair value					
Non-Agency RMBS					
Senior	$ 708	$ -	$ 114	$ -	$ 822
Senior interest-only	-	88,397	101,509	11,035	200,941
Subordinated	5,382	83,003	244,949	302,293	635,627
Subordinated interest-only	-	-	1,840	20,565	22,405
RMBS transferred to consolidated VIEs	22,454	426,244	2,026,999	792,082	3,267,779
Agency RMBS	-	2,648,549	301,254	-	2,949,803
Total fair value	$ 28,544	$ 3,246,193	$ 2,676,665	$ 1,125,975	$ 7,077,377
Amortized cost					
Non-Agency RMBS					
Senior	$ 706	$ -	$ 147	$ -	$ 853
Senior interest-only	-	98,707	88,659	8,286	195,652
Subordinated	4,533	74,349	269,699	305,865	654,446
Subordinated interest-only	-	-	1,775	18,573	20,348
RMBS transferred to consolidated VIEs	20,514	355,814	1,697,511	690,200	2,764,039
Agency RMBS	-	2,544,188	296,636	-	2,840,824
Total amortized cost	$ 25,753	$ 3,073,058	$ 2,354,427	$ 1,022,924	$ 6,476,162

December 31, 2011
(dollars in thousands)

Weighted Average Life

	Less than one year	Greater than one year and less than five years	Greater than five years and less than ten years	Greater than ten years	Total
Fair value					
Non-Agency RMBS					
Senior	$ 892	$ -	$ 128	$ -	$ 1,020
Senior interest-only	-	85,633	69,204	33,842	188,679
Subordinated	6,530	101,984	259,549	238,832	606,895
	-	-	1,812	20,207	22,019

Subordinated interest-only										
RMBS transferred to consolidated VIEs		25,375		338,616		2,119,030		787,311		3,270,332
Agency RMBS		17,932		1,735,106		824,645		566,848		3,144,531
Total fair value	$	50,729	$	2,261,339	$	3,274,368	$	1,647,040	$	7,233,476
Amortized cost										
Non-Agency RMBS										
Senior	$	891	$	-	$	168	$	-	$	1,059
Senior interest-only		-		95,974		69,953		33,361		199,288
Subordinated		5,616		98,657		300,489		249,390		654,152
Subordinated interest-only		-		-		1,946		19,964		21,910
RMBS transferred to consolidated VIEs		32,806		296,144		1,827,000		746,052		2,902,002
Agency RMBS		17,610		1,663,917		798,632		547,126		3,027,285
Total amortized cost	$	56,923	$	2,154,692	$	2,998,188	$	1,595,893	$	6,805,696

The Non-Agency RMBS portfolio is subject to credit risk. The Company seeks to mitigate credit risk through its asset selection process. The Non-Agency RMBS portfolio is primarily collateralized by what the Company classifies as Alt-A first lien mortgages. The Company categorizes collateral as Alt-A regardless of whether the loans were originally described as “prime” if the behavior of the collateral when the Company purchased the security more typically resembles Alt-A. The Company defines Alt-A collateral characteristics to be evidenced by the 60+ day delinquency bucket of the pool being greater than 5% and the weighted average FICO scores at the time of origination as greater than 650. At March 31, 2012, 97.5% of the Non-Agency RMBS collateral was Alt-A. At December 31, 2011, 97.4% of the Non-Agency RMBS collateral was Alt-A.

The Non-Agency RMBS in the Portfolio have the following collateral characteristics at March 31, 2012 and December 31, 2011.

	March 31, 2012		December 31, 2011	
Weighted average maturity (years)		25.5		25.7
Weighted average amortized loan to value (1)		71.6%		71.5%
Weighted average FICO (2)		718.2		718.4
Weighted average loan balance (in thousands)		$483.1		$469.0
Weighted average percentage owner occupied		84.6%		85.3%
Weighted average percentage single family residence		65.1%		65.6%
Weighted average current credit enhancement		4.2%		4.5%
Weighted average geographic concentration of top five states	CA	36.9%	CA	38.1%
	FL	8.3%	FL	8.5%
	NY	6.0%	NY	6.1%
	NJ	2.7%	NJ	2.7%
	VA	2.6%	VA	2.4%

(1) Value represents appraised value of the collateral at the time of loan origination.
(2) FICO as determined at the time of loan origination.

The table below presents the origination year of the underlying loans related to the Company's portfolio of Non-Agency RMBS at March 31, 2012 and December 31, 2011.

Origination Year	March 31, 2012	December 31, 2011
2001	0.2%	0.2%
2003	0.9%	0.9%
2004	1.3%	1.3%
2005	13.0%	13.8%
2006	32.8%	31.8%
2007	48.7%	48.7%
2008	3.1%	3.3%
Total	100.0%	100.0%

During the quarter ended March 31, 2012, the Company sold RMBS with a carrying value of $63.0 million for realized gains of $16.0 million. During the quarter ended March 31, 2011, the Company sold RMBS with a carrying value of $643.8 million for realized gains of $2.6 million.

4. Securitized Loans Held for Investment

The Company is considered to be the primary beneficiary of certain VIEs formed for the purpose of securitizing whole mortgage loans. Refer to Note 8 for additional details regarding the Company's involvement with VIEs.

The securitized loans held for investment are carried at their principal balance outstanding, plus unamortized premiums, less unaccreted discounts and an allowance for loan losses. During the quarter ended March 31, 2012, the

Company was required to consolidate the CSMC 2012-CIM1 Trust, a securitization collateralized by high quality, jumbo, prime, residential mortgage loans. The Company transferred $741.9 million in principal value to the CSMC 2012-CIM1 Trust that was recorded as a secured borrowing pursuant to ASC 860. In this transaction, the Company financed $696.3 million of AAA-rated and AA-rated fixed rate bonds by selling the bonds to third party investors for net proceeds of $696.1 million.

The following table provides a summary of the changes in the carrying value of securitized loans held for investment at March 31, 2012 and December 31, 2011:

	For the Quarter Ended	
	March 31, 2012	December 31, 2011
	(dollars in thousands)	
Balance, beginning of period	$ 256,632	$ 281,589
Purchases	753,692	-
Principal paydowns	(21,061)	(20,179)
Net periodic amortization (accretion)	(5,509)	(929)
Change to loan loss provision	(167)	