UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 001-35916

PennyMac Financial Services, Inc.

(Exact name of registrant as specified in its charter)

Delaware	80-0882793
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

6101 Condor Drive, Moorpark, California	93021
(Address of principal executive offices)	(Zip Code)

(818) 224-7442

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company” in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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

Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date.

Class	Outstanding at November 4, 2015
Class A Common Stock, $0.0001 par value	21,886,868
Class B Common Stock, $0.0001 par value	51

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PENNYMAC FINANCIAL SERVICES, INC.

FORM 10-Q

September 30, 2015

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SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (“Report”) contains certain forward looking statements that are subject to various risks and uncertainties. Forward looking statements are generally identifiable by use of forward looking terminology such as “may,” “will,” “should,” “potential,” “intend,” “expect,” “seek,” “anticipate,” “estimate,” “approximately,” “believe,” “ “predict,” “continue,” “plan” or other similar words or expressions.

Forward looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain financial and operating projections or state other forward looking information. Examples of forward looking statements include the following:

- projections of our revenues, income, earnings per share, capital structure or other financial items;
- descriptions of our plans or objectives for future operations, products or services;
- forecasts of our future economic performance, interest rates, profit margins and our share of future markets; and
- descriptions of assumptions underlying or relating to any of the foregoing expectations regarding the timing of generating any revenues.

Our ability to predict results or the actual effect of future events, actions, plans or strategies is inherently uncertain. Although we believe that the expectations reflected in such forward looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward looking statements. There are a number of factors, many of which are beyond our control that could cause actual results to differ significantly from management’s expectations. Some of these factors are discussed below.

You should not place undue reliance on any forward looking statement and should consider the following uncertainties and risks, as well as the risks and uncertainties discussed elsewhere in this Report and the section entitled “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC on March 13, 2015 and our Quarterly Reports on Form 10-Q filed thereafter.

Factors that could cause actual results to differ materially from historical results or those anticipated include, but are not limited to:

- the continually changing federal, state and local laws and regulations applicable to the highly regulated industry in which we operate;
- lawsuits or governmental actions if we do not comply with the laws and regulations applicable to our businesses;
- the mortgage lending and servicing-related regulations promulgated by the Consumer Financial Protection Bureau (“CFPB”) and its enforcement of these regulations;
- our dependence on U.S. government sponsored entities and changes in their current roles or their guarantees or guidelines;

- changes to government mortgage modification programs;
- the licensing and operational requirements of states and other jurisdictions applicable to our businesses, to which our bank competitors are not subject;
- foreclosure delays and changes in foreclosure practices;
- certain banking regulations that may limit our business activities;
- our dependence on the multi-family and commercial real estate sectors for future originations and investments in commercial mortgage loans and other commercial real estate related loans;
- changes in macroeconomic and U.S. real estate market conditions;
- difficulties inherent in growing loan production volume;
- difficulties inherent in adjusting the size of our operations to reflect changes in business levels;
- purchase opportunities for mortgage servicing rights (“MSRs”) and our success in winning bids;

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- changes in prevailing interest rates;
- increases in loan delinquencies and defaults;
- our reliance on PennyMac Mortgage Investment Trust (“PMT”) as a significant source of financing for, and revenue related to, our mortgage banking business;
- any required additional capital and liquidity to support business growth that may not be available on acceptable terms, if at all;
- our obligation to indemnify third party purchasers or repurchase loans if loans that we originate, acquire, service or assist in the fulfillment of, fail to meet certain criteria or characteristics or under other circumstances;
- our obligation to indemnify PMT and certain investment funds if our services fail to meet certain criteria or characteristics or under other circumstances;
- decreases in the historical returns on the assets that we select and manage for our clients, and our resulting management and incentive fees;
- the extensive amount of regulation applicable to our investment management segment;
- conflicts of interest in allocating our services and investment opportunities among ourselves and certain advised entities;
- the effect of public opinion on our reputation;
- our recent growth;
- our ability to effectively identify, manage, monitor and mitigate financial risks;
- our initiation of new business activities or expansion of existing business activities;
- our ability to detect misconduct and fraud; and
- our ability to mitigate cybersecurity risks and cyber incidents.

Other factors that could also cause results to differ from our expectations may not be described in this Report or any other document. Each of these factors could by itself, or together with one or more other factors, adversely affect our business, results of operations and/or financial condition.

Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statement to reflect the impact of circumstances or events that arise after the date the forward-looking statement was made.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PENNYMAC FINANCIAL SERVICES, INC.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	September 30, 2015	December 31, 2014
	(in thousands, except share data)	
ASSETS		
Cash	$ 47,415	$ 76,256
Short-term investments at fair value	24,766	21,687
Mortgage loans held for sale at fair value (includes $1,420,782 and $976,772 pledged to secure mortgage loans sold under agreements to repurchase; and $255,134 and $148,133 pledged to secure mortgage loan participation and sale agreement)	1,696,980	1,147,884
Derivative assets	53,569	38,457
Servicing advances, net (includes $26,503 and $18,686 valuation allowance)	252,172	228,630
Carried Interest due from Investment Funds	70,196	67,298
Investment in PennyMac Mortgage Investment Trust at fair value	1,160	1,582
Mortgage servicing rights (includes $669,667 and $325,383 at fair value; $619,840 and $392,254 pledged to secure note payable; and $418,573 and $191,166 subject to excess servicing spread financing)	1,307,392	730,828
Furniture, fixtures, equipment and building improvements, net	14,107	11,339
Capitalized software, net	2,035	567
Note receivable from PennyMac Mortgage Investment Trust—secured	150,000	—
Receivable from PennyMac Mortgage Investment Trust	17,220	23,871
Receivable from Investment Funds	1,542	2,291
Deferred tax asset	25,878	46,038
Loans eligible for repurchase	97,455	72,539
Other	53,435	37,419
Total assets	$ 3,815,322	$ 2,506,686
LIABILITIES		
Mortgage loans sold under agreements to repurchase	$ 1,286,411	$ 822,252
Mortgage loan participation and sale agreement	247,410	143,568
Note payable	406,990	146,855
Excess servicing spread financing at fair value payable to PennyMac Mortgage Investment Trust	418,573	191,166
Derivative liabilities	4,632	6,513
Accounts payable and accrued expenses	85,530	62,715
Mortgage servicing liabilities at fair value	10,724	6,306
Payable to Investment Funds	30,211	35,908

Payable to PennyMac Mortgage Investment Trust	147,326	123,315
Payable to exchanged Private National Mortgage Acceptance Company, LLC unitholders under tax receivable agreement	72,275	75,024
Liability for loans eligible for repurchase	97,455	72,539
Liability for losses under representations and warranties	18,478	13,259
Total liabilities	2,826,015	1,699,420
Commitments and contingencies		
STOCKHOLDERS’ EQUITY		
Class A common stock—authorized 200,000,000 shares of $0.0001 par value; issued and outstanding, 21,842,868 and 21,577,686 shares, respectively	2	2
Class B common stock—authorized 1,000 shares of $0.0001 par value; issued and outstanding, 51 and 54 shares, respectively	—	—
Additional paid-in capital	169,297	162,720
Retained earnings	85,699	51,242
Total stockholders' equity attributable to PennyMac Financial Services, Inc. common stockholders	254,998	213,964
Noncontrolling interest in Private National Mortgage Acceptance Company, LLC	734,309	593,302
Total stockholders' equity	989,307	807,266
Total liabilities and stockholders’ equity	$ 3,815,322	$ 2,506,686

The accompanying notes are an integral part of these financial statements.

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PENNYMAC FINANCIAL SERVICES, INC.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Quarter ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands, except earnings per share)			
Revenues				
Net gains on mortgage loans held for sale at fair value:				
From non-affiliates	$ 85,744	$ 50,276	$ 247,822	$ 128,942
Recapture payable to PennyMac Mortgage Investment Trust	(3,098)	(2,143)	(5,843)	(6,567)
	82,646	48,133	241,979	122,375
Loan origination fees	29,448	11,823	70,551	29,048
Fulfillment fees from PennyMac Mortgage Investment Trust	17,553	15,497	45,752	36,832
Net loan servicing fees:				
Loan servicing fees				
From non-affiliates	83,424	44,647	200,392	124,061
From PennyMac Mortgage Investment Trust	11,736	12,325	34,542	41,096
From Investment Funds	796	1,116	1,917	6,754
Ancillary and other fees	10,096	6,620	33,131	16,609
	106,052	64,708	269,982	188,520
Amortization, impairment and change in fair value of mortgage servicing rights	(59,065)	(20,339)	(128,073)	(58,271)
Change in fair value of excess servicing spread payable to PennyMac Mortgage Investment Trust	10,271	9,539	10,674	24,392
	(48,794)	(10,800)	(117,399)	(33,879)
Net loan servicing fees	57,258	53,908	152,583	154,641
Management fees:				
From PennyMac Mortgage Investment Trust	5,742	9,623	18,524	26,609
From Investment Funds	714	1,756	3,384	5,877
	6,456	11,379	21,908	32,486
Carried Interest from Investment Funds	1,483	1,902	2,898	5,893
Net interest expense:				
Interest income:				
From non-affiliates	13,764	8,975	35,348	19,337
From PennyMac Mortgage Investment Trust	1,289	—	1,822	—
	15,053	8,975	37,170	19,337
Interest expense:				
To non-affiliates	12,918	8,136	31,526	17,253
To PennyMac Mortgage Investment Trust	8,026	3,577	17,596	9,578
	20,944	11,713	49,122	26,831
Net interest expense	(5,891)	(2,738)	(11,952)	(7,494)
	(158)	8	(295)	20

Change in fair value of investment in and dividends received from PennyMac Mortgage Investment Trust				
Other	410	713	2,446	2,751
Total net revenue	189,205	140,625	525,870	376,552
Expenses				
Compensation	74,129	48,375	202,695	138,232
Servicing	16,770	13,914	55,108	28,698
Technology	6,676	4,350	18,104	10,914
Loan origination	4,314	2,537	12,813	5,952
Professional services	3,803	3,290	10,710	8,150
Other	9,590	5,467	24,480	14,806
Total expenses	115,282	77,933	323,910	206,752
Income before provision for income taxes	73,923	62,692	201,960	169,800
Provision for income taxes	8,575	7,232	23,308	19,385
Net income	65,348	55,460	178,652	150,415
Less: Net income attributable to noncontrolling interest	52,668	44,971	144,195	122,336
Net income attributable to PennyMac Financial Services, Inc. common stockholders	$ 12,680	$ 10,489	$ 34,457	$ 28,079
Earnings per share				
Basic	$ 0.58	$ 0.49	$ 1.59	$ 1.33
Diluted	$ 0.58	$ 0.49	$ 1.58	$ 1.32
Weighted average common shares outstanding				
Basic	21,810	21,432	21,702	21,149
Diluted	76,138	75,949	76,098	75,918

The accompanying notes are an integral part of these financial statements.

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PENNYMAC FINANCIAL SERVICES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS’ EQUITY (UNAUDITED)

	PennyMac Financial Services, Inc. Stockholders						N i N A C
	Number of shares Class A (in thousands)	Class B	Common stock Class A	Class B	Additional paid-in capital	Retained earnings	
013	20,813	—	$ 2	$ —	$ 153,000	$ 14,400	$
	—	—	—	—	—	28,079	
	32	—	—	—	2,086	—	
	—	—	—	—	—	—	
in , of	9	—	—	—	147	—	
C to ces, Class	672	—	—	—	6,572	—	
ac	—	—	—	—	(496)	—	
014	21,526	—	$ 2	$ —	$ 161,309	$ 42,479	$
014	21,578	—	$ 2	$ —	$ 162,720	$ 51,242	$
	—	—	—	—	—	34,457	
	75	—	—	—	3,746	—	
	—	—	—	—	—	—	
in , of	13	—	—	—	223	—	
C to ces,	177	—	—	—	2,919	—	
Class	—	—	—	—	(311)	—	

ac

015	21,843	—	$ 2	$ —	$ 169,297	$ 85,699	$

The accompanying notes are an integral part of these financial statements.

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PENNYMAC FINANCIAL SERVICES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine months ended September 30,	
	2015	2014
	(in thousands)	
Cash flow from operating activities		
Net income	$ 178,652	$ 150,415
Adjustments to reconcile net income to net cash used in operating activities:		
Net gains on mortgage loans held for sale at fair value	(241,979)	(122,375)
Accrual of servicing rebate to Investment Funds	1,193	681
Amortization, impairment and change in fair value of mortgage servicing rights and excess servicing spread	117,399	33,879
Carried Interest from Investment Funds	(2,898)	(5,893)
Accrual of interest on excess servicing spread financing	17,596	9,578
Amortization of debt issuance costs and commitment fees relating to financing facilities	5,688	4,217
Change in fair value of investment in common shares of PennyMac Mortgage Investment Trust	422	115
Stock and unit-based compensation expense	13,104	7,479
Provision for servicing advance losses	23,538	8,519
Depreciation and amortization	1,585	972
Purchase of mortgage loans held for sale from PennyMac Mortgage Investment Trust	(24,877,077)	(11,947,251)
Originations of mortgage loans held for sale	(3,106,147)	(1,261,747)
Purchase of mortgage loans from Ginnie Mae securities for modification and subsequent sale	(989,009)	(897,381)
Capitalization of interest on mortgage loans held for sale at fair value	(11,703)	—
Sale and principal payments of mortgage loans held for sale	28,346,871	13,362,317
Sale of mortgage loans held for sale to PennyMac Mortgage Investment Trust	13,708	4,955
Repurchase of mortgage loans by PennyMac Mortgage Investment Trust	12,379	—
Repurchase of mortgage loans subject to representations and warranties	(17,112)	(1,757)
Increase in servicing advances	(47,080)	(54,850)
Increase in receivable from Investment Funds	(444)	(468)
Decrease (increase) in receivable from PennyMac Mortgage Investment Trust	8,889	(781)
Decrease in deferred tax asset	21,399	14,670
Decrease in payable to exchanged Private National Mortgage Acceptance Company, LLC unitholders under tax receivable agreement	(4,299)	—

Increase in other assets	(23,113)	(38,806)
Increase in accounts payable and accrued expenses	22,280	16,359
Decrease in payable to Investment Funds	(5,697)	(1,063)
Increase in payable to PennyMac Mortgage Investment Trust	22,698	23,136
Net cash used in operating activities	(519,157)	(695,080)
Cash flow from investing activities		
(Increase) decrease in short-term investments	(3,079)	106,247
Advance on note receivable from PennyMac Mortgage Investment Trust—secured	(168,546)	—
Repayment of note receivable from PennyMac Mortgage Investment Trust—secured	18,546	—
Purchase of mortgage servicing rights	(379,264)	(113,348)
Sale of mortgage servicing rights	—	10,916
Settlement of derivative financial instruments used for hedging	(3,678)	3,048
Purchase of furniture, fixtures, equipment and building improvements	(5,716)	(4,006)
Acquisition of capitalized software	(1,745)	(56)
Decrease (increase) in margin deposits and restricted cash	5,331	(1,620)
Net cash (used in) provided by investing activities	(538,151)	1,181
Cash flow from financing activities		
Sale of loans under agreements to repurchase	25,947,385	12,500,064
Repurchase of loans sold under agreements to repurchase	(25,482,890)	(12,041,909)
Issuance of mortgage loan participation certificates	13,265,896	180,062
Repayment of mortgage loan participation certificates	(13,162,123)	(37,679)
Borrowing on note payable	289,556	102,794
Repayment of note payable	(29,411)	—
Issuance of excess servicing spread financing	271,452	82,646
Repayment of excess servicing spread financing	(55,800)	(25,280)
Repayment of leases payable	(6)	—
Payment of debt issuance costs	(5,965)	—
Distribution to Private National Mortgage Acceptance Company, LLC partners	(9,627)	(20,187)
Net cash provided by financing activities	1,028,467	740,511
Net (decrease) increase in cash	(28,841)	46,612
Cash at beginning of period	76,256	30,639
Cash at end of period	$ 47,415	$ 77,251

The accompanying notes are an integral part of these financial statements.

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PENNYMAC FINANCIAL SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1—Organization and Basis of Presentation

PennyMac Financial Services, Inc. ("PFSI" or the "Company") was formed as a Delaware corporation on December 31, 2012. Pursuant to a reorganization, the Company became a holding corporation and its primary asset is an equity interest in Private National Mortgage Acceptance Company, LLC ("PennyMac"). The Company is the managing member of PennyMac and operates and controls all of the businesses and affairs of PennyMac subject to the consent rights of other members under certain circumstances, and consolidates the financial results of PennyMac and its subsidiaries.

PennyMac is a Delaware limited liability company which, through its subsidiaries, engages in mortgage banking and investment management activities. PennyMac's mortgage banking activities consist of residential mortgage loan production (including correspondent production and consumer direct lending) and mortgage loan servicing. PennyMac's investment management activities and a portion of its loan servicing activities are conducted on behalf of investment vehicles that invest in residential mortgage loans and related assets. PennyMac's primary wholly owned subsidiaries are:

· PNMAC Capital Management, LLC ("PCM")—a Delaware limited liability company registered with the Securities and Exchange Commission ("SEC") as an investment adviser under the Investment Advisers Act of 1940, as amended. PCM enters into investment management agreements with entities that invest in residential mortgage loans and related assets.

Presently, PCM has management agreements with PennyMac Mortgage Investment Trust ("PMT"), a publicly held real estate investment trust, PNMAC Mortgage Opportunity Fund, LLC and PNMAC Mortgage Opportunity Fund, L.P., both registered under the Investment Company Act of 1940, as amended, an affiliate of these funds, and PNMAC Mortgage Opportunity Fund Investors, LLC (collectively, "Investment Funds"). Together, the Investment Funds and PMT are referred to as the "Advised Entities."

· PennyMac Loan Services, LLC ("PLS")—a Delaware limited liability company that services portfolios of residential mortgage loans on behalf of non-affiliates or the Advised Entities, originates new prime credit quality residential mortgage loans, and engages in other mortgage banking activities for its own account and the account of PMT.

PLS is approved as a seller/servicer of mortgage loans by the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") and as an issuer of securities guaranteed by the Government National Mortgage Association ("Ginnie Mae"). PLS is a licensed Federal Housing Administration Nonsupervised Title II Lender with the U.S. Department of Housing and Urban Development and a lender/servicer with the Veterans Administration and U.S. Department of Agriculture. We refer to each of Fannie Mae, Freddie Mac and Ginnie Mae as an "Agency" and collectively the "Agencies."

· PNMAC Opportunity Fund Associates, LLC ("PMOFA")—a Delaware limited liability company and the general partner of PNMAC Mortgage Opportunity Fund, L.P. PMOFA is entitled to incentive fees representing allocations of profits ("Carried Interest") from PNMAC Mortgage Opportunity Fund, L.P..

The accompanying consolidated financial statements have been prepared in compliance with accounting principles generally accepted in the United States ("GAAP") as codified in the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification for interim financial information and with the SEC's instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, these financial statements and notes do not include all of the information required by GAAP for complete financial statements. The interim consolidated information should be read together with the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

The accompanying unaudited consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, income, and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for the full year ending December 31, 2015. Intercompany accounts and transactions have been eliminated.

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Preparation of financial statements in compliance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting period. Actual results will likely differ from those estimates.

Reclassification of previously presented balances

In April of 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-03, Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability.

ASU 2015-03 specifies that its adoption be made on a retrospective basis. Accordingly, the Company has reclassified its debt issuance costs from Other assets as previously presented to Mortgage loans sold under agreements to repurchase and Mortgage loan participation and sale agreement to conform its December 31, 2014 balance sheet to the current presentation. The adoption of ASU 2015-03 did not result in changes to the Company's previously presented consolidated statements of income or consolidated statements of cash flows.

Following is a summary of the balance sheet reclassifications:

	December 31, 2014		
	As reported	As previously reported	Reclassification
	(in thousands)		
Assets:			
Other	$ 37,419	$ 37,858	$ (439)
Total assets	$ 2,506,686	$ 2,507,125	$ (439)
Liabilities:			
Mortgage loans sold under agreements to repurchase	$ 822,252	$ 822,621	$ (369)
Mortgage loan participation and sale agreement	$ 143,568	$ 143,638	$ (70)
Total liabilities	$ 1,699,420	$ 1,699,859	$ (439)
Total liabilities and stockholders' equity	$ 2,506,686	$ 2,507,125	$ (439)

Note 2—Concentration of Risk

A substantial portion of the Company's activities relate to the Advised Entities. Fees charged to these entities (generally comprised of fulfillment fees, loan servicing fees, management fees and Carried Interest) totaled 20% and 33% of total net revenue for the quarters ended September 30, 2015 and 2014, respectively, and 18% and 35% for the nine months ended September 30, 2015 and 2014, respectively.

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Note 3—Transactions with Affiliates

Transactions with PMT

Correspondent Production Activities

Following is a summary of mortgage lending and sourcing activity between the Company and PMT:

	Quarter ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Fulfillment fee revenue	$ 17,553	$ 15,497	$ 45,752	$ 36,832
Unpaid principal balance of loans fulfilled for PennyMac Mortgage Investment Trust	$ 4,073,201	$ 3,677,613	$ 10,542,411	$ 8,588,955
Sourcing fees paid	$ 3,236	$ 1,384	$ 7,084	$ 3,401
Unpaid principal balance of loans purchased from PennyMac Mortgage Investment Trust	$ 10,783,882	$ 4,609,947	$ 23,602,020	$ 11,332,898
Proceeds from sale of mortgage loans held for sale to PennyMac Mortgage Investment Trust	$ 1,047	$ 2,970	$ 11,875	$ 4,955
Tax service fee receivable from PennyMac Mortgage Investment Trust	$ 1,291	$ 703	$ 3,293	$ 1,753
Mortgage servicing rights recapture recognized	$ 670	$ —	$ 670	$ 9

Mortgage Loan Servicing Activities

Following is a summary of mortgage loan servicing fees earned from PMT:

	Quarter ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014

	(in thousands)			
Loan servicing fees relating to PennyMac Mortgage Investment Trust:				
Mortgage loans acquired for sale at fair value:				
Base and supplemental	$ 130	$ 28	$ 198	$ 74
Activity-based	153	35	243	112
	283	63	441	186
Mortgage loans at fair value:				
Base and supplemental	3,896	4,662	12,053	14,549
Activity-based	2,961	4,076	8,948	16,208
	6,857	8,738	21,001	30,757
Mortgage loans held in a variable interest entity by PennyMac Mortgage Investment Trust:				
Base and supplemental	34	17	92	71
Activity-based	—	—	—	—
	34	17	92	71
Mortgage servicing rights:				
Base and supplemental	4,473	3,459	12,783	9,930
Activity-based	89	48	225	152
	4,562	3,507	13,008	10,082
	$ 11,736	$ 12,325	$ 34,542	$ 41,096

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Management Activities

Following is a summary of the management fees earned from PMT:

	Quarter ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Management fees:				
Base	$ 5,742	$ 6,033	$ 17,181	$ 17,392
Performance incentive	—	3,590	1,343	9,217
	$ 5,742	$ 9,623	$ 18,524	$ 26,609

Investing and Financing Activities

Following is a summary of investing and financing activity between the Company and PMT:

	Quarter ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Financing activities:				
Excess servicing spread financing:				
Issuance	$ 84,165	$ 9,253	$ 271,452	$ 82,646
Repayment	$ 24,717	$ 8,786	$ 55,800	$ 25,280
Change in fair value (gain) loss	$ 10,271	$ 9,539	$ 10,674	$ 24,392
Interest expense	$ 8,026	$ 3,577	$ 17,596	$ 9,578
Recapture recognized	$ 2,428	$ 2,143	$ 5,173	$ 6,558
Investing activities:				
Note receivable from PennyMac Mortgage Investment Trust—secured:				
Advances	$ 97,474	$ —	$ 168,546	$ —
Repayment	$ —	$ —	$ 18,546	$ —
Interest income	$ 1,289	$ —	$ 1,822	$ —

The Company is a party to a Third Amended and Restated Loan and Security Agreement, dated as of March 27, 2015, pursuant to which it finances certain of its mortgage servicing rights ("MSRs") and servicing advance receivables with Credit Suisse First Boston Mortgage Capital LLC ("CSFB") (the "Loan and Security Agreement"). On April 30, 2015, the Company amended and restated the Loan and Security Agreement to increase the maximum loan amount thereunder to $407 million, a $150 million increase for the purpose of facilitating the financing of the related excess servicing spread ("ESS") by PMT.

In connection with the Loan and Security Agreement, the Company and PMT entered into an underlying loan and security agreement, dated as of April 30, 2015, pursuant to which PMT may borrow up to $150 million from the Company for the purpose of financing ESS. The principal amount of the borrowings under the Loan and Security Agreement is based upon a percentage of the fair value of the ESS pledged by PMT, subject to the $150 million sublimit described above. Pursuant to the underlying loan and security agreement, PMT granted to the Company a security interest in all of its right, title and interest in, to and under the ESS pledged to secure loans. The portion of the loan amount outstanding under the Loan and Security Agreement and relating to advances outstanding with PMT under the underlying loan and security agreement is guaranteed in full by PMT.

The Company and PMT have agreed that PMT is required to repay the Company the principal amount of such borrowings plus accrued interest to the date of such repayment, and the Company is required to repay CSFB the corresponding amount under the Loan and Security Agreement. Interest accrues under the underlying loan and security agreement at a rate based on CSFB's cost of funds. PMT was also required to pay the Company a fee for the structuring of the Loan and Security Agreement in an amount equal to the portion of the corresponding fee paid by the Company to CSFB under the Loan and Security Agreement and allocable to the $150.0 million relating to the ESS financing.

As of September 30, 2015, $150.0 million of principal was outstanding and included in Note receivable from PennyMac Mortgage Investment Trust secured on the accompanying consolidated balance sheets.

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Other Transactions

In connection with PMT's initial public offering of common shares on August 4, 2009 ("IPO"), PMT conditionally agreed to reimburse the Company up to $2.9 million for underwriting fees paid to the IPO underwriters by the Company on PMT's behalf. The Company received reimbursement payments from PMT totaling $7,000 and $237,000 for the quarter and nine months ended September 30, 2015, respectively, and $256,000 and $292,000 during the quarter and nine months ended September 30, 2014, respectively.

PMT reimburses the Company for other expenses, including common overhead expenses incurred on its behalf by the Company, in accordance with the terms of its management agreement. Such amounts are summarized below:

	Quarter ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Reimbursement of:				
Common overhead incurred by the Company (1)	$ 2,694	$ 2,912	$ 8,125	$ 8,181
Expenses incurred on PMT's behalf	(85)	122	377	671
	$ 2,609	$ 3,034	$ 8,502	$ 8,852
Payments and settlements during the period (2)	$ 17,709	$ 31,621	$ 64,575	$ 72,975

(1) During the quarter and nine month periods ended September 30, 2015, in accordance with the terms of its management agreement with PMT, the Company provided PMT with discretionary waivers of $900,000 and $1.6 million, respectively, of overhead expenses otherwise allocable to PMT.

(2) Payments and settlements include payments for correspondent production activities, loan servicing activities, management activities, investment activities and financing activities itemized in the preceding tables and netting settlements made pursuant to master netting agreements between the Company and PMT.

Amounts due from PMT are summarized below:

	September 30, 2015	December 31, 2014
	(in thousands)	
Management fees	$ 5,742	$ 8,426
Allocated expenses	5,237	6,581
Fulfillment fees	3,031	506

Servicing fees	2,310	3,385
Conditional Reimbursement	900	1,137
Unsettled excess servicing spread issuance	—	3,836
	$ 17,220	$ 23,871

The Company holds an investment in PMT in the form of 75,000 common shares of beneficial interest as of September 30, 2015 and December 31, 2014. The common shares of beneficial interest had fair values of $1.2 million and $1.6 million as of September 30, 2015 and December 31, 2014, respectively.

Of the $147.3 million payable to PMT as of September 30, 2015, $138.3 million represents deposits made by PMT to fund servicing advances made by the Company, $8.2 million represents other expenses and unsettled ESS financing activity, and $800,000 represents MSR recapture payable to PMT.

Of the $123.3 million payable to PMT as of December 31, 2014, $116.7 million represents deposits made by PMT to fund servicing advances made by the Company, $6.2 million represents other expenses and unsettled ESS financing activity, and $460,000 represents MSR recapture payable to PMT.

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Transactions with Investment Funds

Amounts due from the Investment Funds are summarized below:

	September 30, 2015	December 31, 2014
	(in thousands)	
Carried Interest due from Investment Funds:		
PNMAC Mortgage Opportunity Fund, LLC	$ 42,283	$ 40,771
PNMAC Mortgage Opportunity Fund Investors, LLC	27,913	26,527
	$ 70,196	$ 67,298
Receivable from Investment Funds:		
Management fees	$ 722	$ 1,596
Loan servicing fees	315	476
Expense reimbursements	284	30
Loan servicing rebate	221	189
	$ 1,542	$ 2,291

Amounts due to the Investment Funds totaling $30.2 million and $35.9 million represent amounts advanced by the Investment Funds to fund servicing advances made by the Company as of September 30, 2015 and December 31, 2014, respectively.

Exchanged Private National Mortgage Acceptance Company, LLC Unitholders

The Company entered into a tax receivable agreement with PennyMac's existing unitholders on the date of the IPO that will provide for the payment by PFSI to PennyMac's exchanged unitholders an amount equal to 85% of the amount of the benefits, if any, that PFSI is deemed to realize as a result of (i) increases in tax basis of PennyMac's assets resulting from such unitholders' exchanges and (ii) certain other tax benefits related to entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement. Based on the PennyMac unitholder exchanges to date, the Company has recorded a $72.3 million Payable to exchanged Private National Mortgage Acceptance Company, LLC unitholders under tax receivable agreement as of September 30, 2015. The Company made payments under the tax receivable agreement totaling $0 and $4.3 million during the quarter and nine months ended September 30, 2015.

Note 4—Earnings Per Share of Common Stock

Basic earnings per share of common stock is determined using net income attributable to the Company's common stockholders divided by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share of common stock is determined by dividing diluted net income attributable to the Company's common stockholders by the weighted average number of shares of common stock outstanding, assuming all potentially dilutive shares of common stock were issued.

The Company applies the treasury stock method to determine the dilutive weighted average shares of common stock represented by the non-vested unit-based and stock-based compensation awards. The diluted earnings per share calculation assumes the exchange of these PennyMac Class A units for shares of common stock. Accordingly, earnings attributable to the Company's common stockholders is also adjusted to include the earnings allocated to the PennyMac Class A units after taking into account the income taxes applicable to the shares of common stock assumed to be exchanged.

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The following table summarizes the basic and diluted earnings per share calculations:

	Quarter ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands, except per share data)			
Basic earnings per share of common stock:				
Net income attributable to PennyMac Financial Services, Inc. common stockholders	$ 12,680	$ 10,489	$ 34,457	$ 28,079
Weighted average shares of common stock outstanding	21,810	21,432	21,702	21,149
Basic earnings per share of common stock	$ 0.58	$ 0.49	$ 1.59	$ 1.33
Diluted earnings per share of common stock:				
Net income	$ 12,680	$ 10,489	$ 34,457	$ 28,079
Effect of net income attributable to noncontrolling interest, net of income taxes	31,418	26,620	86,012	72,374
Diluted net income attributable to common stockholders	$ 44,098	$ 37,109	$ 120,469	$ 100,453
Weighted average shares of common stock outstanding	21,810	21,432	21,702	21,149
Dilutive shares:				
PennyMac Class A units exchangeable to common stock	54,042	53,492	53,744	53,569
Non-vested PennyMac Class A units issuable under unit-based stock compensation plan and exchangeable to common stock	163	975	528	1,155
Shares issuable under stock-based compensation plans	123	50	124	45
Diluted weighted average shares of common stock outstanding	76,138	75,949	76,098	75,918
Diluted earnings per share of common stock	$ 0.58	$ 0.49	$ 1.58	$ 1.32

Note 5—Loan Sales and Servicing Activities

The Company originates or purchases and sells mortgage loans in the secondary mortgage market without recourse for credit losses. However, the Company maintains continuing involvement with the mortgage loans in the form of servicing arrangements and the liability under representations and warranties it makes to purchasers and insurers of the mortgage loans.

The following table summarizes cash flows between the Company and transferees as a result of the sale of mortgage loans in transactions where the Company maintains continuing involvement with the mortgage loans in the form of loan servicing arrangements and a liability for representations and warranties it makes to purchasers and insurers of the mortgage loans, as well as unpaid principal balance information at period end.

	Quarter ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Cash flows:				
Sales proceeds	$ 12,738,035	$ 5,345,227	$ 28,357,226	$ 13,367,272
Servicing fees received (1)	$ 33,745	$ 30,609	$ 103,057	$ 78,075
Net servicing advances (recoveries)	$ (9,778)	$ 6,520	$ (18,733)	$ 2,182
Period end information:				
Unpaid principal balance of mortgage loans outstanding at end of period	$ 55,216,410	$ 33,297,161		
Delinquencies:				
30-89 days	$ 1,303,412	$ 662,863		
90 days or more or in foreclosure or bankruptcy	$ 1,249,692	$ 168,503		

(1) Net of guarantee fees paid to the Agencies.

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The unpaid principal balance ("UPB") of the Company's mortgage servicing portfolio is summarized as follows:

	September 30, 2015		
	Servicing rights owned	Contract servicing and subservicing	Total loans serviced
	(in thousands)		
Investor:			
Non-affiliated entities	$ 107,933,619	$ —	$ 107,933,619
Affiliated entities	—	45,294,101	45,294,101
Mortgage loans held for sale	1,602,692	—	1,602,692
	$ 109,536,311	$ 45,294,101	$ 154,830,412
Amount subserviced for the Company (1)	$ 1,798	$ —	$ 1,798
Delinquent mortgage loans:			
30 days	$ 2,558,944	$ 340,589	$ 2,899,533
60 days	800,846	137,172	938,018
90 days or more			
Not in foreclosure	1,124,614	872,914	1,997,528
In foreclosure	508,771	1,291,618	1,800,389
Foreclosed	19,755	577,581	597,336
	$ 5,012,930	$ 3,219,874	$ 8,232,804
Custodial funds managed by the Company (2)	$ 2,895,891	$ 556,565	$ 3,452,456

(1) Certain of the mortgage loans serviced by the Company are subserviced on the Company's behalf by other mortgage loan servicers. Mortgage loans are subserviced for the Company on a transitional basis for loans where the Company has obtained the rights to service the loans but servicing of the loans has not yet been transferred to the Company's servicing system.

(2) Borrower and investor custodial cash accounts relate to mortgage loans serviced under the servicing agreements and are not recorded on the Company's consolidated balance sheets. The Company earns interest on custodial funds it manages on behalf of the mortgage loans' investors, which is recorded as part of the interest income in the Company's consolidated statements of income.

	December 31, 2014		
	Servicing rights owned	Contract servicing and subservicing	Total loans serviced
	(in thousands)		
Investor:			
Non-affiliated entities	$ 65,169,194	$ —	$ 65,169,194
Affiliated entities	—	39,709,945	39,709,945
Mortgage loans held for sale	1,100,910	—	1,100,910

	$ 66,270,104	$ 39,709,945	$ 105,980,049
Amount subserviced for the Company (1)	$ —	$ 330,768	$ 330,768
Delinquent mortgage loans:			
30 days	$ 1,372,915	$ 302,091	$ 1,675,006
60 days	434,428	135,777	570,205
90 days or more			
Not in foreclosure	779,129	1,057,973	1,837,102
In foreclosure	422,330	1,544,762	1,967,092
Foreclosed	32,444	533,067	565,511
	$ 3,041,246	3,573,670	$ 6,614,916
Custodial funds managed by the Company (2)	$ 1,522,295	$ 388,498	$ 1,910,793

(1) Certain of the mortgage loans serviced by the Company are subserviced on the Company's behalf by other mortgage loan servicers. Mortgage loans are subserviced for the Company on a transitional basis for loans where the Company has obtained the rights to service the loans but servicing of the loans has not yet been transferred to the Company's servicing system.

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(2) Borrower and investor custodial cash accounts relate to mortgage loans serviced under the servicing agreements and are not recorded on the Company's consolidated balance sheets. The Company earns interest on custodial funds it manages on behalf of the mortgage loans' investors, which is recorded as part of the interest income in the Company's consolidated statements of income.

Following is a summary of the geographical distribution of mortgage loans included in the Company's servicing portfolio for the top five and all other states as measured by UPB:

State	September 30, 2015	December 31, 2014
	(in thousands)	
California	$ 38,425,517	$ 33,751,630
Texas	11,542,716	6,954,778
Virginia	9,209,929	6,360,171
Florida	9,154,980	5,573,215
Maryland	5,784,906	*
Washington	*	3,830,587
All other states	80,712,364	49,509,668
	$ 154,830,412	$ 105,980,049

* State did not represent a top five state as of the respective date.

Note 6—Netting of Financial Instruments

The Company uses derivative financial instruments to manage exposure to interest rate risk for the interest rate lock commitments ("IRLCs") it makes to purchase or originate mortgage loans at specified interest rates, its inventory of mortgage loans held for sale and MSRs. The Company has elected to present net derivative asset and liability positions, and cash collateral obtained from (or posted to) its counterparties when subject to a master netting arrangement that is legally enforceable on all counterparties in the event of default. The derivatives that are not subject to a master netting arrangement are IRLCs.

Following are summaries of derivative assets and related netting amounts.

Offsetting of Derivative Assets

	September 30, 2015			December 31, 2014		
	Gross amount of recognized assets (in thousands)	Gross amount offset in the consolidated balance sheet	Net amount of assets in the consolidated balance sheet	Gross amount of recognized assets	Gross amount offset in the consolidated balance sheet	Net amount of assets in the consolidated balance sheet
Derivatives subject to master netting arrangements:						
Forward purchase contracts	$ 37,265	$ —	$ 37,265	$ 9,060	$ —	$ 9,060
Forward sale contracts	862	—	862	320	—	320
MBS put options	604	—	604	476	—	476
Put options on interest rate futures purchase contracts	1,301	—	1,301	862	—	862
Call options on interest rate futures purchase contracts	4,539	—	4,539	2,193	—	2,193
Netting	—	(35,465)	(35,465)	—	(7,807)	(7,807)
	44,571	(35,465)	9,106	12,911	(7,807)	5,104
Derivatives not subject to master netting arrangements - IRLCs	44,463	—	44,463	33,353	—	33,353
	$ 89,034	$ (35,465)	$ 53,569	$ 46,264	$ (7,807)	$ 38,457

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Derivative Assets, Financial Assets, and Collateral Held by Counterparty

The following table summarizes by significant counterparty the amount of derivative asset positions after considering master netting arrangements and financial instruments or cash pledged that do not meet the accounting guidance qualifying for netting.

	September 30, 2015				December 31, 2014			
		Gross amount not offset in the consolidated balance sheet				Gross amount not offset in the consolidated balance sheet		
	Net amount of assets in the consolidated balance sheet	Financial instruments	Cash collateral received	Net amount	Net amount of assets in the consolidated balance sheet	Financial instruments	Cash collateral received	Net amount
	(in thousands)							
Interest rate lock commitments	$ 44,463	$ —	$ —	$ 44,463	$ 33,353	$ —	$ —	$ 33,353
RJ O'Brien	4,637	—	—	4,637	2,005	—	—	2,005
Jefferies & Co.	1,544	—	—	1,544	764	—	—	764
Bank of America, N.A.	1,057	—	—	1,057	—	—	—	—
Nomura	606	—	—	606	322	—	—	322
Wells Fargo Bank, N.A.	356	—	—	356	379	—	—	379
Goldman Sachs	—	—	—	—	600	—	—	600
JP Morgan	—	—	—	—	526	—	—	526
Others	906	—	—	906	508	—	—	508
	$ 53,569	$ —	$ —	$ 53,569	$ 38,457	$ —	$ —	$ 38,457

Offsetting of Derivative Liabilities and Financial Liabilities

Following is a summary of net derivative liabilities and assets sold under agreements to repurchase and related netting amounts. As discussed above, all derivatives with the exception of IRLCs are subject to master netting arrangements. The mortgage loans sold under agreements to repurchase do not qualify for netting.

	September 30, 2015		December 31, 2014	
		Net		Net

	Gross amount of recognized liabilities (in thousands)	Gross amount offset in the consolidated balance sheet	amount of liabilities in the consolidated balance sheet	Gross amount of recognized liabilities	Gross amount offset in the consolidated balance sheet	amount of liabilities in the consolidated balance sheet
Derivatives subject to a master netting arrangement:						
Forward purchase contracts	$ 113	$ —	$ 113	$ 141	$ —	$ 141
Forward sale contracts	36,619	—	36,619	16,110	—	16,110
Put options on interest rate futures sale contracts	—	—	—	8	—	8
Netting	—	(33,025)	(33,025)	—	(10,698)	(10,698)
	36,732	(33,025)	3,707	16,259	(10,698)	5,561
Derivatives not subject to a master netting arrangement - IRLCs	925	—	925	952	—	952
Total derivatives	37,657	(33,025)	4,632	17,211	(10,698)	6,513
Mortgage loans sold under agreements to repurchase:						
Amount outstanding	1,287,116	—	1,287,116	822,621	—	822,621
Unamortized debt issuance costs	(705)	—	(705)	(369)	—	(369)
	1,286,411	—	1,286,411	822,252	—	822,252
	$ 1,324,068	$ (33,025)	$ 1,291,043	$ 839,463	$ (10,698)	$ 828,765

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Derivative Liabilities, Financial Liabilities, and Collateral Held by Counterparty

The following table summarizes by significant counterparty the amount of derivative liabilities and mortgage loans sold under agreements to repurchase after considering master netting arrangements and financial instruments or cash pledged that do not qualify under the accounting guidance for netting. All assets sold under agreements to repurchase are secured by sufficient collateral or have fair value that exceeds the liability amount recorded on the consolidated balance sheets.

	September 30, 2015				December 31, 2014			
		Gross amount not offset in the consolidated balance sheet				Gross amount not offset in the consolidated balance sheet		
	Net amount of liabilities in the consolidated balance sheet	Financial instruments	Cash collateral pledged	Net amount of liabilities in the consolidated balance sheet	Net amount of liabilities in the consolidated balance sheet	Financial instruments	Cash collateral pledged	Net amount of liabilities in the consolidated balance sheet
	(in thousands)							
Interest rate lock commitments	$ 925	$ —	$ —	$ 925	$ 952	$ —	$ —	$ 952
Credit Suisse First Boston Mortgage Capital LLC	496,904	(496,855)	—	49	464,737	(463,541)	—	1,196
Bank of America, N.A.	494,691	(494,691)	—	—	236,909	(236,771)	—	138
Morgan Stanley Bank, N.A.	198,790	(198,687)	—	103	122,148	(122,031)	—	117
Citibank, N.A.	97,190	(96,883)	—	307	699	(278)	—	421
Bank of Oklahoma	978	—	—	978	486	—	—	486
Multi-Bank	401	—	—	401	—	—	—	—
JP Morgan	352	—	—	352	—	—	—	—
Bank of New York Mellon	—	—	—	—	1,552	—	—	1,552
Others	1,517	—	—	1,517	1,651	—	—	1,651
	$ 1,291,748	$ (1,287,116)	$ —	$ 4,632	$ 829,134	$ (822,621)	$ —	$ 6,513

Note 7—Fair Value

The Company's consolidated financial statements include assets and liabilities that are measured based on their fair values. The application of fair value may be on a recurring or nonrecurring basis depending on the accounting principles applicable to the specific asset or liability and whether management has elected to carry the item at its fair value as discussed in the following paragraphs.

Fair Value Accounting Elections

Management identified all of its non-cash financial assets, its originated MSRs relating to loans with initial interest rates of more than 4.5% and purchased MSRs subject to ESS financing to be accounted for at fair value so changes in fair value will be reflected in income as they occur and more timely reflect the results of the Company's performance. Management has also elected to account for its ESS financing at fair value as a means of hedging the related MSRs' fair value risk.

The Company's subsequent accounting for MSRs is based on the class of MSRs. Originated MSRs relating to mortgage loans with initial interest rates of less than or equal to 4.5% are accounted for using the amortization method. Originated MSRs relating to mortgage loans with initial interest rates of more than 4.5% and purchased MSRs subject to ESS financing are accounted for at fair value with changes in fair value recorded in current period income.

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Financial Statement Items Measured at Fair Value on a Recurring Basis

Following is a summary of financial statement items that are measured at fair value on a recurring basis:

	September 30, 2015			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets:				
Short-term investments	$ 24,766	$ —	$ —	$ 24,766
Mortgage loans held for sale at fair value	—	1,633,358	63,622	1,696,980
Derivative assets:				
Interest rate lock commitments	—	—	44,463	44,463
Forward purchase contracts	—	37,265	—	37,265
Forward sales contracts	—	862	—	862
MBS put options	—	604	—	604
Put options on interest rate futures purchase contracts	1,301	—	—	1,301
Call options on interest rate futures purchase contracts	4,539	—	—	4,539
Total derivative assets before netting	5,840	38,731	44,463	89,034
Netting (1)	—	—	—	(35,465)
Total derivative assets	5,840	38,731	44,463	53,569
Investment in PennyMac Mortgage Investment Trust	1,160	—	—	1,160
Mortgage servicing rights at fair value	—	—	669,667	669,667
	$ 31,766	$ 1,672,089	$ 777,752	$ 2,446,142
Liabilities:				
Excess servicing spread financing at fair value payable to PennyMac Mortgage Investment Trust	$ —	$ —	$ 418,573	$ 418,573
Derivative liabilities:				
Interest rate lock commitments	—	—	925	925
Forward purchase contracts	—	113	—	113
Forward sales contracts	—	36,619	—	36,619
Total derivative liabilities before netting	—	36,732	925	37,657
Netting (1)	—	—	—	(33,025)
Total derivative liabilities	—	36,732	925	4,632
Mortgage servicing liabilities	—	—	10,724	10,724
	$ —	$ 36,732	$ 430,222	$ 433,929

(1) Derivatives are reported net of cash collateral received and paid and, to the extent that the criteria of the accounting guidance covering the offsetting of amounts related to certain contracts are met, positions with the same counterparty are netted as part of a legally enforceable master netting agreement.

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	December 31, 2014			
	Level 1	Level 2	Total	Total
	(in thousands)			
Assets:				
Short-term investments	$ 21,687	$ —	$ —	$ 21,687
Mortgage loans held for sale at fair value	—	937,976	209,908	1,147,884
Derivative assets:				
Interest rate lock commitments	—	—	33,353	33,353
Forward purchase contracts	—	9,060	—	9,060
Forward sales contracts	—	320	—	320
MBS put options	—	476	—	476
Put options on interest rate futures purchase contracts	862	—	—	862
Call options on interest rate futures purchase contracts	2,193	—	—	2,193
Total derivative assets before netting	3,055	9,856	33,353	46,264
Netting (1)	—	—	—	(7,807)
Total derivative assets	3,055	9,856	33,353	38,457
Investment in PennyMac Mortgage Investment Trust	1,582	—	—	1,582
Mortgage servicing rights at fair value	—	—	325,383	325,383
	$ 26,324	$ 947,832	$ 568,644	$ 1,534,993
Liabilities:				
Excess servicing spread financing at fair value payable to PennyMac Mortgage Investment Trust	$ —	$ —	$ 191,166	$ 191,166
Derivative liabilities:				
Interest rate lock commitments	—	—	952	952
Forward purchase contracts	—	141	—	141
Forward sales contracts	—	16,110	—	16,110
Put options on interest rate futures sale contracts	8	—	—	8
Total derivative liabilities before netting	8	16,251	952	17,211
Netting (1)	—	—	—	(10,698)
Total derivative liabilities	8	16,251	952	6,513
Mortgage servicing liabilities	—	—	6,306	6,306
	$ 8	$ 16,251	$ 198,424	$ 203,985

(1) Derivatives are reported net of cash collateral received and paid and, to the extent that the criteria of the accounting guidance covering the offsetting of amounts related to certain contracts are met, positions with the same counterparty are netted as part of a legally enforceable master netting agreement.

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As shown above, all or a portion of the Company's mortgage loans held for sale, IRLCs, MSRs at fair value, mortgage servicing liabilities and ESS financing are measured using Level 3 inputs. Following are roll forwards of these items for the quarters and nine months ended September 30, 2015 and 2014:

	Quarter ended September 30, 2015			
	Mortgage loans held for sale	Net interest rate lock commitments (1)	Mortgage servicing rights	Total
	(in thousands)			
Assets:				
Balance, June 30, 2015	$ 34,085	$ 27,737	$ 581,269	$ 643,091
Purchases	391,578	—	109,131	500,709
Sales	(286,481)	—	—	(286,481)
Repayments	(14,465)	—	—	(14,465)
Interest rate lock commitments issued, net	—	73,133	—	73,133
Mortgage servicing rights resulting from mortgage loan sales	—	—	6,989	6,989
Changes in fair value included in income arising from:				
Changes in instrument-specific credit risk	—	—	—	—
Other factors	826	58,659	(27,722)	31,763
	826	58,659	(27,722)	31,763
Transfers of mortgage loans held for sale from Level 3 to Level 2 (2)	(61,921)	—	—	(61,921)
Transfers of interest rate lock commitments to mortgage loans held for sale	—	(115,991)	—	(115,991)
Balance, September 30, 2015	$ 63,622	$ 43,538	$ 669,667	$ 776,827
Changes in fair value recognized during the period relating to assets still held at September 30, 2015	$ (614)	$ 43,538	$ (27,722)	$ 15,202

(1) For the purpose of this table, the IRLC asset and liability positions are shown net.

(2) Mortgage loans held for sale are transferred from Level 3 to Level 2 as a result of the mortgage loan becoming saleable into active mortgage markets pursuant to a loan modification, borrower reperformance or resolution of deficiencies.

	Quarter ended September 30, 2015		
	Excess servicing spread financing	Mortgage servicing liabilities	Total
	(in thousands)		
Liabilities:			
Balance, June 30, 2015	$ 359,102	$ 11,791	$ 370,893

Issuance of excess servicing spread financing	84,165	—	84,165
Excess servicing spread financing issued pursuant to a recapture agreement with PennyMac Mortgage Investment Trust	2,268	—	2,268
Accrual of interest on excess servicing spread	8,026	—	8,026
Repayments	(24,717)	—	(24,717)
Mortgage servicing liabilities resulting from mortgage loan sales	—	8,358	8,358
Changes in fair value included in income	(10,271)	(9,425)	(19,696)
Balance, September 30, 2015	$ 418,573	$ 10,724	$ 429,297
Changes in fair value recognized during the period relating to liabilities still held at September 30, 2015	$ (10,271)	$ (9,425)	$ (19,696)

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	Quarter ended September 30, 2014			
	Mortgage loans held for sale	Net interest rate lock commitments (1)	Mortgage servicing rights	Total
	(in thousands)			
Assets:				
Balance, June 30, 2014	$ 254,656	$ 29,750	$ 308,599	$ 593,005
Purchases	217,498	—	15,704	233,202
Repayments	(10,659)	—	—	(10,659)
Interest rate lock commitments issued, net	—	30,727	—	30,727
Mortgage servicing rights resulting from mortgage loan sales	—	—	6,381	6,381
Sales	(74,817)	—	—	(74,817)
Changes in fair value included in income arising from:				
Changes in instrument-specific credit risk	—	—	—	—
Other factors	1,797	2,289	(11,535)	(7,449)
	1,797	2,289	(11,535)	(7,449)
Transfers of mortgage loans held for sale from Level 3 to Level 2 (2)	(102,419)	—	—	(102,419)
Transfers of interest rate lock commitments to mortgage loans held for sale	—	(40,130)	—	(40,130)
Balance, September 30, 2014	$ 286,056	$ 22,636	$ 319,149	$ 627,841
Changes in fair value recognized during the period relating to assets still held at September 30, 2014	$ 1,797	$ 22,636	$ (11,535)	$ 12,898

(1) For the purpose of this table, the interest rate lock asset and liability positions are shown net.

(2) Mortgage loans held for sale are transferred from Level 3 to Level 2 as a result of the mortgage loan becoming saleable into active mortgage markets pursuant to a loan modification, borrower reperformance or resolution of deficiencies.

	Quarter ended September 30, 2014		
	Excess servicing spread financing	Mortgage servicing liabilities	Total
	(in thousands)		
Liabilities:			
Balance, June 30, 2014	$ 190,244	$ 5,821	$ 196,065
Issuance of excess servicing spread financing	9,253	—	9,253
Excess servicing spread financing issued pursuant to a recapture agreement with PennyMac Mortgage Investment	2,619	—	2,619
Accrual of interest on excess servicing spread	3,577	—	3,577

Repayments	(8,786)	—	(8,786)
Changes in fair value included in income	(9,539)	(1,730)	(11,269)
Balance, September 30, 2014	$ 187,368	$ 4,091	$ 191,459
Changes in fair value recognized during the period relating to liabilities still held at September 30, 2014	$ (9,539)	$ (1,730)	$ (11,269)

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	Nine months ended September 30, 2015			
	Mortgage loans held for sale	Net interest rate lock commitments (1)	Mortgage servicing rights	Total
	(in thousands)			
Assets:				
Balance, December 31, 2014	$ 209,908	$ 32,401	$ 325,383	$ 567,692
Purchases	857,863	—	379,264	1,237,127
Sales	(798,335)	—	—	(798,335)
Repayments	(34,467)	—	—	(34,467)
Interest rate lock commitments issued, net	—	217,278	—	217,278
Mortgage servicing rights resulting from mortgage loan sales	—	—	13,107	13,107
Changes in fair value included in income arising from:				
Changes in instrument-specific credit risk	4,054	—	—	4,054
Other factors	35	48,367	(48,087)	315
	4,089	48,367	(48,087)	4,369
Transfers of mortgage loans held for sale from Level 3 to Level 2 (2)	(175,436)	—	—	(175,436)
Transfers of interest rate lock commitments to mortgage loans held for sale	—	(254,508)	—	(254,508)
Balance, September 30, 2015	$ 63,622	$ 43,538	$ 669,667	$ 776,827
Changes in fair value recognized during the period relating to assets still held at September 30, 2015	$ (1,145)	$ 43,538	$ (48,087)	$ (5,694)

(1) For the purpose of this table, the interest rate lock asset and liability positions are shown net.

(2) Mortgage loans held for sale are transferred from Level 3 to Level 2 as a result of the mortgage loan becoming saleable into active mortgage markets pursuant to a loan modification, borrower reperformance or resolution of deficiencies.

	Nine months ended September 30, 2015		
	Excess servicing spread financing	Mortgage servicing liabilities	Total
	(in thousands)		
Liabilities:			
Balance, December 31, 2014	$ 191,166	$ 6,306	$ 197,472
Issuance of excess servicing spread financing	271,452	—	271,452
Excess servicing spread financing issued pursuant to a recapture agreement with PennyMac Mortgage Investment Trust	4,833	—	4,833
Accrual of interest on excess servicing spread	17,596	—	17,596
Repayments	(55,800)	—	(55,800)
Mortgage servicing liabilities resulting from mortgage loan sales	—	20,442	20,442

Changes in fair value included in income	(10,674)	(16,024)	(26,698)
Balance, September 30, 2015	$ 418,573	$ 10,724	$ 429,297
Changes in fair value recognized during the year relating to liabilities still held at September 30, 2015	$ (10,674)	$ (16,024)	$ (26,698)

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	Nine months ended September 30, 2014			
	Mortgage loans held for sale	Net interest rate lock commitments (1)	Mortgage servicing rights	Total
	(in thousands)			
Assets:				
Balance December 31, 2013	$ 3,933	$ 6,761	$ 224,913	$ 235,607
Purchases	897,381	—	113,348	1,010,729
Repayments	(16,778)	—	—	(16,778)
Interest rate lock commitments issued, net	—	113,559	—	113,559
Mortgage servicing rights resulting from mortgage loan sales	—	—	20,647	20,647
Sales	(435,437)	—	(10,916)	(446,353)
Changes in fair value included in income arising from:				
Changes in instrument-specific credit risk	—	—	—	—
Other factors	(84)	21,768	(28,843)	(7,159)
	(84)	21,768	(28,843)	(7,159)
Transfers of mortgage loans held for sale from Level 3 to Level 2 (2)	(162,959)	—	—	(162,959)
Transfers of interest rate lock commitments to mortgage loans held for sale	—	(119,452)	—	(119,452)
Balance, September 30, 2014	$ 286,056	$ 22,636	$ 319,149	$ 627,841
Changes in fair value recognized during the period relating to assets still held at September 30, 2014	$ (84)	$ 22,636	$ (28,878)	$ (6,326)

(1) For the purpose of this table, the interest rate lock asset and liability positions are shown net.
(2) Mortgage loans held for sale are transferred from Level 3 to Level 2 as a result of the mortgage loan becoming saleable into active mortgage markets pursuant to a loan modification, borrower reperformance or resolution of deficiencies.

	Nine months ended September 30, 2014		
	Excess servicing spread financing	Mortgage servicing liabilities	Total
	(in thousands)		
Liabilities:			
Balance December 31, 2013	$ 138,723	$ —	$ 138,723
Issuance of excess servicing spread financing	82,646	—	82,646
Excess servicing spread financing issued pursuant to a recapture agreement with PennyMac Mortgage Investment Trust	6,093	—	6,093
Accrual of interest on excess servicing spread financing	9,578	—	9,578
Repayments	(25,280)	—	(25,280)

Changes in fair value included in income	(24,392)	4,091	(20,301)
Balance, September 30, 2014	$ 187,368	$ 4,091	$ 191,459
Changes in fair value recognized during the period relating to liabilities still held at September 30, 2014	$ (24,393)	$ 4,091	$ (20,302)

The information used in the preceding roll forwards represents activity for any financial statement items identified as using Level 3 significant inputs at either the beginning or the end of the periods presented. The Company had transfers among the levels arising from transfers of IRLCs to mortgage loans held for sale at fair value upon purchase or funding of the respective mortgage loans and from the return to salability in the active secondary market of certain mortgage loans held for sale. Such loans became saleable into the active secondary market due to curing of the loans' defects through borrower reperformance, modification of the loan or resolution of deficiencies contained in the borrowers' credit file.

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Net changes in fair values included in income for financial statement items carried at fair value as a result of management's election of the fair value option by income statement line item are summarized below:

	Quarter ended September 30,					
	2015			2014		
	Net gains on mortgage loans held for sale at fair value	Net loan servicing fees	Total	Net gains on mortgage loans held for sale at fair value	Net loan servicing fees	Total
	(in thousands)					
Assets:						
Mortgage loans held for sale at fair value	$ 136,119	$ —	$ 136,119	$ 63,076	$ —	$ 63,076
Mortgage servicing rights at fair value	—	(27,722)	(27,722)	—	(11,535)	(11,535)
	$ 136,119	$ (27,722)	$ 108,397	$ 63,076	$ (11,535)	$ 51,541
Liabilities:						
Excess servicing spread financing at fair value payable to PennyMac Mortgage Investment Trust	$ —	$ 10,271	$ 10,271	$ —	$ 9,539	$ 9,539
Mortgage servicing liabilities at fair value	—	9,425	9,425	—	1,730	1,730
	$ —	$ 19,696	$ 19,696	$ —	$ 11,269	$ 11,269

	Nine months ended September 30,					
	2015			2014		
	Net gains on mortgage loans held for sale at fair value	Net servicing fees	Total	Net gains on mortgage loans held for sale at fair value	Net servicing fees	Total
	(in thousands)					
Assets:						
Mortgage loans held for sale at fair value	$ 285,936	$ —	$ 285,936	$ 180,971	$ —	$ 180,971
Mortgage servicing rights at fair value	—	(48,087)	(48,087)	—	(34,255)	(34,255)
	$ 285,936	$ (48,087)	$ 237,849	$ 180,971	$ (34,255)	$ 146,716
Liabilities:						
	$ —	$ 10,674	$ 10,674	$ —	$ 24,392	$ 24,392

Excess servicing spread financing at fair value payable to PennyMac Mortgage Investment Trust						
Mortgage servicing liabilities at fair value	—	16,024	16,024	—	(4,091)	(4,091)
	$ —	$ 26,698	$ 26,698	$ —	$ 20,301	$ 20,301

Following are the fair value and related principal amounts due upon maturity of loans, long-term receivables and long-term debt instruments with contractual principal amounts accounted for under the fair value option:

	September 30, 2015		
	Fair value	Principal amount due upon maturity	Difference
	(in thousands)		
Mortgage loans held for sale:			
Current through 89 days delinquent	$ 1,653,875	$ 1,555,975	$ 97,900
90 days or more delinquent:			
Not in foreclosure	39,834	40,882	(1,048)
In foreclosure	3,271	3,517	(246)
	$ 1,696,980	$ 1,600,374	$ 96,606

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	December 31, 2014		
	Fair value	Principal amount due upon maturity	Difference
	(in thousands)		
Mortgage loans held for sale:			
Current through 89 days delinquent	$ 950,697	$ 894,924	$ 55,773
90 days or more delinquent:			
Not in foreclosure	126,171	128,533	(2,362)
In foreclosure	71,016	72,039	(1,023)
	$ 1,147,884	$ 1,095,496	$ 52,388

Financial Statement Items Measured at Fair Value on a Nonrecurring Basis

Following is a summary of financial statement items that were remeasured at fair value on a nonrecurring basis during the periods presented:

	September 30, 2015			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Mortgage servicing rights at lower of amortized cost or fair value	$ —	$ —	$ 482,565	$ 482,565
	$ —	$ —	$ 482,565	$ 482,565

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Mortgage servicing rights at lower of amortized cost or fair value	$ —	$ —	$ 139,505	$ 139,505
	$ —	$ —	$ 139,505	$ 139,505

The following table summarizes the total gains (losses) on assets measured at fair value on a nonrecurring basis:

	Quarter ended September 30,	Nine months ended September 30,

	2015	2014	2015	2014
	(in thousands)			
Mortgage servicing rights at lower of amortized cost or fair value	$ (33,301)	$ (925)	$ (51,427)	$ (5,132)
	$ (33,301)	$ (925)	$ (51,427)	$ (5,132)

Fair Value of Financial Instruments Carried at Amortized Cost

The Company's Cash as well as its Carried Interest due from Investment Funds, Note receivable from PennyMac Mortgage Investment Trust secured, Mortgage loans sold under agreements to repurchase, Mortgage loan participation and sale agreement, Note payable, and amounts receivable from and payable to the Advised Entities are carried at amortized cost.

Cash is measured using a "Level 1" input.

Management has concluded that the carrying value of the Carried Interest due from Investment Funds approximates its fair value as the balance represents the amount distributable to the Company at the balance sheet date assuming liquidation of the Investment Funds.

The Company's Note receivable from PennyMac Mortgage Investment Trust secured, Mortgage loans sold under agreements to repurchase, Mortgage loan participation and sale agreement and Note payable are carried at amortized cost. These financial instruments do not have observable inputs and fair value is measured using management's estimate of fair value, where the inputs into the determination of fair value require significant judgment or estimation. The Company has classified these financial instruments as "Level 3" financial statement items as of September 30, 2015 and December 31, 2014 due to the lack of observable inputs to estimate the fair value. Management has concluded that the fair value of these financial statement items approximates their carrying values due to their short terms and variable interest rates.

The Company also carries the receivables from and payables to the Advised Entities at cost. Management has concluded that the fair value of such balances approximates their carrying values due to the short terms of such balances.

Valuation Techniques and Assumptions

Most of the Company's financial assets, a portion of its MSRs and its ESS liability are carried at fair value with changes in fair value recognized in current period income. Certain of the Company's financial assets and all of its MSRs and ESS are "Level 3" financial statement items which require the use of unobservable inputs that are significant to the estimation of the items' fair values. Unobservable inputs reflect the Company's own assumptions about the factors that market participants use in pricing an asset or liability, and are based on the best information available under the circumstances.

Due to the difficulty in estimating the fair values of "Level 3" financial statement items, management has assigned the responsibility for estimating the fair value of these items to specialized staff and subjects the valuation process to significant executive management oversight. The Company's Financial Analysis and Valuation group (the "FAV group") is responsible for estimating the fair values of "Level 3" financial statement items other than IRLCs and maintaining its valuation policies and procedures.

With respect to the Level 3 valuations, the FAV group reports to the Company's senior management valuation committee, which oversees and approves the valuations. The FAV group monitors the models used for valuation of the Company's "Level 3" financial statement items, including the models' performance versus actual results, and reports those results to the Company's senior management valuation committee. The Company's senior management valuation committee includes PFSI's chief executive, financial, operating, credit and asset/liability management officers.

The FAV group is responsible for reporting to the Company's senior management valuation committee on a monthly basis on the changes in the valuation of the portfolio, including major factors affecting the valuation and any changes in model methods and inputs. To assess the reasonableness of its valuations, the FAV group presents an analysis of the effect on the valuation of changes to the significant inputs to the models.

With respect to IRLCs, the Company has assigned responsibility for developing fair values to its Capital Markets Risk Management staff. The fair values developed by the Capital Markets Risk Management staff are submitted to the Company's senior management Secondary Marketing Working Group. The Company's Secondary Marketing Working Group includes PFSI's chief executive, operating, institutional mortgage banking, capital markets, asset/liability management, portfolio risk and capital markets operations officers.

Following is a description of the techniques and inputs used in estimating the fair values of “Level 2” and “Level 3” fair value financial statement items:

Mortgage Loans Held for Sale

A substantial portion of the Company’s mortgage loans held for sale at fair value are saleable into active markets and are therefore categorized as “Level 2” fair value financial statement items and their fair values are determined using their quoted market or contracted price or market price equivalent.

Certain of the Company’s mortgage loans may become non-saleable into active markets due to identification of a defect by the Company or to the repurchase of mortgage loans with identified defects. The Company may also purchase certain delinquent government guaranteed or insured mortgage loans from Ginnie Mae guaranteed pools in its servicing portfolio. The Company’s right to purchase such mortgage loans arises as the result of the borrower’s failure to make payments for at least three consecutive months preceding the month of repurchase by the Company and provides an alternative to the Company’s obligation to continue advancing principal and interest at the coupon rate of the related Ginnie Mae security. To the extent such mortgage loans (“early buyout loans”) have not become saleable into another Ginnie Mae guaranteed security by becoming current either through the borrower’s reperformance or through completion of a modification of the mortgage loan’s terms, the Company measures such mortgage loans along with other mortgage loans with identified defects using “Level 3” inputs.

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The significant unobservable inputs used in the fair value measurement of the Company's "Level 3" mortgage loans held for sale at fair value are discount rates, home price projections, voluntary prepayment speeds and total prepayment/resale speeds. Significant changes in any of those inputs in isolation could result in a significant change to the mortgage loans' fair value measurement. Increases in home price projections are generally accompanied by an increase in voluntary prepayment speeds.

Following is a quantitative summary of key "Level 3" inputs used in the valuation of mortgage loans held for sale at fair value:

Key inputs	September 30, 2015	December 31, 2014
Discount rate		
Range	2.5% – 8.8%	2.3% – 9.6%
Weighted average	2.8%	2.4%
Twelve-month projected housing price index change		
Range	2.8% – 6.0%	4.2% – 5.4%
Weighted average	4.3%	4.5%
Prepayment/resale speed (1)		
Range	0.6% – 18.5%	1.3% – 15.5%
Weighted average	17.2%	15.1%
Total prepayment speed (2)		
Range	1.0% – 35.1%	2.1% – 38.1%
Weighted average	32.1%	35.7%

(1)Voluntary prepayment/resale speed is measured using Life Voluntary Conditional Prepayment Rate ("CPR").

(2)Total prepayment speed is measured using Life Total CPR.

Changes in fair value attributable to changes in instrument specific credit risk are measured by reference to the change in the respective loan's delinquency status at period end from the later of the beginning of the period or acquisition date. Changes in fair value of mortgage loans held for sale are included in Net gains on mortgage loans held for sale at fair value in the Company's consolidated statements of income.

Derivative Financial Instruments

Interest Rate Lock Commitments

The Company categorizes IRLCs as a "Level 3" financial statement item. The Company estimates the fair value of an IRLC based on quoted Agency mortgage-backed securities ("MBS") prices, its estimate of the fair value of the MSRs it expects to receive in the sale of the mortgage loans and the probability that the mortgage loan will fund or be purchased (the "pull-through rate").

The significant unobservable inputs used in the fair value measurement of the Company's IRLCs are the pull-through rate and the MSR component of the Company's estimate of the fair value of the mortgage loans it has committed to purchase. Significant changes in the pull-through rate or the MSR component of the IRLCs, in isolation, could result in significant changes in fair value measurement. The financial effects of changes in these inputs are generally inversely correlated as increasing interest rates have a positive effect on the fair value of the MSR component of IRLC fair value, but increase the pull-through rate for IRLCs that have decreased in fair value as a whole. Changes in fair value of IRLCs are included in Net gains on mortgage loans held for sale in the Company's consolidated statements of income.

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Following is a quantitative summary of key unobservable inputs used in the valuation of IRLCs:

Key inputs	September 30, 2015	December 31, 2014
Pull-through rate		
Range	50.3% – 100.0%	55.4% – 99.9%
Weighted average	85.5%	85.5%
Mortgage servicing rights value expressed as:		
Servicing fee multiple		
Range	0.8 – 5.8	2.0 – 5.0
Weighted average	3.9	3.7
Percentage of unpaid principal balance		
Range	0.2% – 3.7%	0.4% – 3.1%
Weighted average	1.3%	1.2%

Hedging Derivatives

The remaining derivative financial instruments held or issued by the Company are categorized as “Level 1” or “Level 2” financial statement items. For “Level 1” fair value derivative financial instruments, the Company determines fair value with reference to the respective derivatives’ quoted prices. For “Level 2” fair value derivative financial instruments, the Company estimates the fair value of commitments to sell or purchase loans based on observable MBS prices. The Company estimates the fair value of MBS options based on observed interest rate volatilities in the MBS market. Changes in fair value of hedging derivatives are included in Net gains on mortgage loans held for sale at fair value in the Company’s consolidated statements of income.

Mortgage Servicing Rights

MSRs are categorized as “Level 3” fair value financial statement items. The Company uses a discounted cash flow approach to estimate the fair value of MSRs. This approach consists of projecting net servicing cash flows discounted at a rate that management believes market participants would use in their determinations of fair value. The key inputs used in the estimation of the fair value of MSRs include prepayment rates of the underlying loans, the applicable discount rate or pricing spread, and the per-loan annual cost to service the respective mortgage loans. Changes in the fair value of MSRs are included in Net servicing fees—Amortization, impairment and change in fair value of mortgage servicing rights in the Company’s consolidated statements of income.

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Following are the key inputs used in determining the fair value of MSRs at the time of initial recognition, excluding MSR purchases:

	Quarter ended September 30,			
	2015		2014	
	Fair value	Amortized cost	Fair value	Amortized cost
	(Amount recognized and unpaid principal balance of underlying mortgage loans in thousa			
MSR and pool characteristics:				
Amount recognized	$6,989	$154,707	$6,381	$54,819
Unpaid principal balance of underlying mortgage loans	$550,073	$11,369,493	$515,866	$4,498,619
Weighted average servicing fee rate (in basis points)	32	34	34	31
Key inputs:				
Pricing spread (1)				
Range	7.0% – 14.4%	6.8% – 16.2%	8.0% – 15.4%	7.5% – 15.2%
Weighted average	8.9%	9.1%	11.6%	10.9%
Annual total prepayment speed (2)				
Range	7.7% – 52.3%	7.5% – 35.0%	7.6% – 42.3%	7.6% – 47.8%
Weighted average	11.9%	9.2%	9.7%	8.3%
Life (in years)				
Range	1.4 – 7.5	1.9 – 9.1	1.6 – 7.3	1.4 – 7.3
Weighted average	6.5	7.0	6.7	7.1
Per-loan annual cost of servicing				
Range	$59 – $101	$59 – $95	$54 – $93	$54 – $93
Weighted average	$75	$78	$83	$85

(1) Pricing spread represents a margin that is applied to a reference interest rate’s forward rate curve to develop periodic discount rates. The Company applies a pricing spread to the United States Dollar London Interbank Offered Rate (“LIBOR”) curve for purposes of discounting cash flows relating to MSRs acquired as proceeds from the sale of mortgage loans.
(2) Prepayment speed is measured using Life Total CPR.

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	Nine months ended September 30,			
	2015		2014	
	Fair value	Amortized cost	Fair value	Amortized cost
	(Amount recognized and unpaid principal balance of underlying mortgage loans in thousar			
MSR and pool characteristics:				
Amount recognized	$13,107	$347,549	$20,647	$127,727
Unpaid principal balance of underlying mortgage loans	$1,072,203	$25,268,602	$1,627,529	$10,672,629
Weighted average servicing fee rate (in basis points)	32	35	33	31
Key inputs:				
Pricing spread (1)				
Range	7.0% – 14.4%	6.8% – 16.2%	8.0% – 16.2%	6.8% – 15.2%
Weighted average	9.4%	9.2%	11.4%	10.8%
Annual total prepayment speed (2)				
Range	7.7% – 62.4%	7.5% – 39.4%	7.6% – 42.3%	7.6% – 47.8%
Weighted average	11.6%	8.8%	9.0%	8.2%
Life (in years)				
Range	1.1 – 7.5	1.8 – 9.1	1.6 – 7.5	1.4 – 7.5
Weighted average	6.5	7.0	7.0	7.1
Per-loan annual cost of servicing				
Range	$59 – $101	$59 – $95	$53 – $100	$53 – $100
Weighted average	$75	$76	$89	$90

(1) Pricing spread represents a margin that is applied to a reference interest rate's forward rate curve to develop periodic discount rates. The Company applies a pricing spread to the United States Dollar LIBOR curve for purposes of discounting cash flows relating to MSRs acquired as proceeds from the sale of mortgage loans.

(2) Prepayment speed is measured using Life Total CPR.

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Following is a quantitative summary of key inputs used in the valuation and assessment for impairment of the Company’s MSRs at period end and the effect on fair value from adverse changes in those inputs (weighted averages are based upon UPB):

	September 30, 2015		December 31, 2014	
	Fair value	Amortized cost	Fair value	Amortized cost
	(Carrying value, unpaid principal balance of underlying mortgage loans and effect on fair value amounts in thousands)			
MSR and pool characteristics:				
Carrying value	$669,667	$637,725	$325,383	$405,445
Unpaid principal balance of underlying mortgage loans	$55,911,946	$51,064,561	$30,945,000	$33,745,613
Weighted average note interest rate	4.14%	3.83%	4.24%	3.82%
Weighted average servicing fee rate (in basis points)	32	32	31	30
Key inputs:				
Pricing spread (1) (2)				
Range	7.2% – 12.8%	7.2% – 12.8%	2.9% – 21.3%	6.3% – 15.3%
Weighted average	8.6%	8.9%	9.2%	9.7%
Effect on fair value of:				
5% adverse change	($11,102)	($11,337)	($5,550)	($8,710)
10% adverse change	($21,839)	($22,287)	($10,908)	($17,083)
20% adverse change	($42,283)	($43,099)	($21,084)	($32,890)
Average life (in years)				
Range	0.1 – 8.8	1.9 – 8.9	0.4 – 8.2	1.6 – 7.3
Weighted average	6.6	6.9	5.8	6.8
Prepayment speed (1) (3)				
Range	5.6% – 44.5%	6.0% – 43.3%	7.6% – 60.5%	7.6% – 42.8%
Weighted average	10.5%	10.7%	11.2%	8.5%
Effect on fair value of:				
5% adverse change	($14,081)	($13,780)	($7,052)	($7,359)
10% adverse change	($27,622)	($27,024)	($13,835)	($14,494)
20% adverse change	($53,202)	($52,016)	($26,654)	($28,132)
Annual per-loan cost of servicing (1)				
Range	$68 – $98	$68 – $95	$59 – $109	$59 – $81
Weighted average	$86	$84	$76	$75
Effect on fair value of:				
5% adverse change	($6,897)	($4,948)	($2,910)	($2,992)
10% adverse change	($13,794)	($9,896)	($5,819)	($5,983)
20% adverse change	($27,588)	($19,791)	($11,638)	($11,967)

(1) The effect on value of an adverse change in one of the above-mentioned key inputs will result in recognized change in fair value for MSRs carried at fair value and may result in recognition of MSR impairment for MSRs carried at the lower of amortized cost or fair value. The extent of the recognized MSR impairment will depend on the relationship of fair value to the carrying value of such MSRs.

(2) Pricing spread represents a margin that is applied to a reference interest rate's forward curve to develop periodic discount rates. The Company applies a pricing spread to the United States Dollar LIBOR curve for purposes of discounting cash flows relating to MSRs acquired as proceeds from the sale of mortgage loans and purchased MSRs not backed by pools of distressed mortgage loans.

(3) Prepayment speed is measured using Life Total CPR.

The preceding sensitivity analyses are limited in that they were performed at a particular point in time; only contemplate the movements in the indicated inputs; do not incorporate changes to other inputs; are subject to the accuracy of various models and inputs used; and do not incorporate other factors that would affect the Company's overall financial performance in such scenarios, including operational adjustments made by management to account for changing circumstances. For these reasons, the preceding estimates should not be viewed as earnings forecasts.

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Excess Servicing Spread Financing at Fair Value

The Company categorizes ESS financing as a “Level 3” financial statement item. The Company uses a discounted cash flow approach to estimate the fair value of ESS financing. The key inputs used in the estimation of ESS fair value include pricing spread and prepayment speed. Significant changes to either of those inputs in isolation could result in a significant change in the ESS fair value. Changes in these key inputs are not necessarily directly related.

ESS financing is generally subject to fair value increases when mortgage interest rates increase. Increasing mortgage interest rates normally slow mortgage refinancing activity. Decreased refinancing activity increases the life of the loans underlying the ESS, thereby increasing ESS’ fair value, which is the liability owed to PMT. Increases in the fair value of ESS decrease income and are included in Amortization, impairment and change in fair value of mortgage servicing rights.

Interest expense for ESS is accrued using the interest method based upon the expected cash flows from the ESS through the expected life of the underlying mortgage loans. Changes in fair value of ESS attributable to changes in estimated future cash flows are included in Interest expense. Other changes in fair value are recorded in Change in fair value of excess servicing spread payable to PennyMac Mortgage Investment Trust.

Following are the key inputs used in estimating the fair value of ESS:

	September 30, 2015	December 31, 2014
ESS and pool characteristics:		
Unpaid principal balance of underlying loans (in thousands)	$54,189,421	$28,227,340
Average servicing fee rate (in basis points)	32	31
Average excess servicing spread (in basis points)	17	16
Key inputs:		
Pricing spread (1)		
Range	4.8% – 6.5%	1.7% – 12.0%
Weighted average	5.7%	5.3%
Average life (in years)		
Range	1.5 – 8.9	0.4 – 7.3
Weighted average	6.7	5.8
Annualized prepayment speed (2)		
Range	5.5% – 50.3%	7.6% – 74.6%
Weighted average	10.4%	11.2%

(1)Pricing spread represents a margin that is applied to a reference interest rate's forward rate curve to develop periodic discount rates. The Company applies a pricing spread to the United States Dollar LIBOR curve for purposes of discounting cash flows relating to ESS.

(2)Prepayment speed is measured using Life Total CPR.

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Note 8—Mortgage Loans Held for Sale at Fair Value

Mortgage loans held for sale at fair value include the following:

	September 30, 2015	December 31, 2014
	(in thousands)	
Government-insured or guaranteed	$ 1,575,536	$ 866,148
Conventional conforming	57,385	66,229
Jumbo	437	5,599
Delinquent mortgage loans purchased from Ginnie Mae pools serviced by the Company	57,678	206,331
Mortgage loans repurchased pursuant to representations and warranties	5,944	3,577
	$ 1,696,980	$ 1,147,884
Fair value of mortgage loans pledged to secure:		
Mortgage loans sold under agreements to repurchase	$ 1,420,782	$ 976,772
Mortgage loans pledged to secure mortgage loan participation and sale agreement	$ 255,134	$ 148,133

Note 9—Derivative Financial Instruments

The Company is exposed to fair value risk relative to its mortgage loans held for sale as well as to its IRLCs and MSRs. The Company bears fair value risk from the time an IRLC is made to PMT or a loan applicant to the time the mortgage loan is sold. The Company is exposed to loss in fair value of its IRLCs and mortgage loans held for sale when market mortgage interest rates increase. The Company is exposed to loss in fair value of its MSRs when market mortgage interest rates decrease.

The Company engages in interest rate risk management activities in an effort to reduce the variability of earnings caused by changes in market interest rates. To manage this fair value risk resulting from interest rate risk, the Company uses derivative financial instruments acquired with the intention of reducing the risk that changes in market interest rates will result in unfavorable changes in the fair value of the Company's IRLCs, inventory of mortgage loans held for sale and MSRs.

The Company does not use derivative financial instruments for purposes other than in support of its risk management activities other than IRLCs, which are generated in the process of purchasing or originating mortgage loans held for sale. The Company records all derivative financial instruments at fair value and records changes in fair value in current period income.

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The Company had the following derivative financial instruments recorded on its consolidated balance sheets:

Instrument	September 30, 2015 Notional amount	Fair value Derivative assets	Derivative liabilities	December 31, 2014 Notional amount	Fair value Derivative assets	Derivative liabilities
	(in thousands)					
Derivatives not designated as hedging instruments						
Free-standing derivatives:						
Interest rate lock commitments	2,781,551	$ 44,463	$ 925	1,765,597	$ 33,353	$ 952
Forward purchase contracts	6,063,741	37,265	113	2,634,218	9,060	141
Forward sales contracts	7,116,246	862	36,619	3,901,851	320	16,110
MBS put options	910,000	604	—	340,000	476	—
Put options on interest rate futures purchase contracts	3,375,000	1,301	—	755,000	862	—
Call options on interest rate futures purchase contracts	1,175,000	4,539	—	630,000	2,193	—
Put options on interest rate futures sale contracts	—	—	—	50,000	—	8
Total derivatives before netting		89,034	37,657		46,264	17,211
Netting		(35,465)	(33,025)		(7,807)	(10,698)
		$ 53,569	$ 4,632		$ 38,457	$ 6,513
Margin deposits placed with (collateral received from) derivative counterparties, net		$ 2,440			$ (2,891)	

The following table summarizes the notional value activity for derivative contracts used in the Company's hedging activities:

Instrument	Quarter ended September 30, 2015 Balance beginning of period	Additions	Dispositions/ expirations	Balance end of period
	(in thousands)			
Forward purchase contracts	6,202,418	33,050,370	(33,189,047)	6,063,741
Forward sale contracts	9,789,564	42,709,764	(45,383,082)	7,116,246
MBS put options	327,500	1,260,000	(677,500)	910,000
MBS call options	160,000	—	(160,000)	—
Put options on interest rate futures purchase contracts	2,019,500	3,365,000	(2,009,500)	3,375,000

Call options on interest rate futures purchase contracts	1,025,000	2,140,000	(1,990,000)	1,175,000

	Quarter ended September 30, 2014			
Instrument	Balance beginning of period	Additions	Dispositions/ expirations	Balance end of period
	(in thousands)			
Forward purchase contracts	2,789,277	12,668,171	(12,652,851)	2,804,597
Forward sale contracts	4,617,100	17,409,056	(17,726,827)	4,299,329
MBS put options	225,000	505,000	(300,000)	430,000
MBS call options	95,000	50,000	(95,000)	50,000
Put options on interest rate futures purchase contracts	377,500	1,320,000	(902,500)	795,000
Call options on interest rate futures purchase contracts	170,000	675,000	(395,000)	450,000
Treasury futures purchase contracts	—	65,600	(65,600)	—
Treasury futures sale contracts	—	78,200	(78,200)	—
Call options on interest rate futures sales contracts	—	35,000	(35,000)	—

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Instrument	Nine months ended September 30, 2015 Balance beginning of period	Additions	Dispositions/ expirations	Balance end of period
	(in thousands)			
Forward purchase contracts	2,634,218	78,426,073	(74,996,550)	6,063,741
Forward sale contracts	3,901,851	107,084,874	(103,870,479)	7,116,246
MBS put options	340,000	2,502,500	(1,932,500)	910,000
MBS call options	—	160,000	(160,000)	—
Put options on interest rate futures purchase contracts	755,000	7,190,000	(4,570,000)	3,375,000
Call options on interest rate futures purchase contracts	630,000	5,055,000	(4,510,000)	1,175,000
Put options on interest rate futures sale contracts	50,000	50,000	(100,000)	—
Call options on interest rate futures sale contracts	—	35,100	(35,100)	—

Instrument	Nine months ended September 30, 2014 Balance beginning of period	Additions	Dispositions/ expirations	Balance end of period
	(in thousands)			
Forward purchase contracts	1,418,527	30,178,842	(28,792,772)	2,804,597
Forward sale contracts	2,659,000	43,791,245	(42,150,916)	4,299,329
MBS put options	185,000	1,145,000	(900,000)	430,000
MBS call options	105,000	590,000	(645,000)	50,000
Put options on interest rate futures purchase contracts	—	2,022,500	(1,227,500)	795,000
Call options on interest rate futures purchase contracts	—	1,055,000	(605,000)	450,000
Treasury futures purchase contracts	—	143,900	(143,900)	—
Treasury futures sale contracts	—	165,600	(165,600)	—
Call options on interest rate futures sales contracts	—	35,000	(35,000)	—

Following are the gains (losses) recognized by the Company on derivative financial instruments and the income statement line items where such gains and losses are included:

Hedged item	Income statement line	Quarter ended September 30, 2015	Quarter ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
		(in thousands)			
Interest rate lock commitments and mortgage loans held for sale	Net gain on mortgage loans held for sale	$ (63,954)	$ (5,215)	$ (44,713)	$ (64,037)
Mortgage servicing rights	Net loan servicing fees	$ 30,455	$ (897)	$ 19,259	$ 8,289

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Note 10—Mortgage Servicing Rights and Mortgage Servicing Liabilities

Carried at Fair Value:

The activity in MSRs carried at fair value is as follows:

	Quarter ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Balance at beginning of period	$ 581,269	$ 308,599	$ 325,383	$ 224,913
Additions:				
Purchases	109,131	15,704	379,264	113,348
Mortgage servicing rights resulting from mortgage loan sales	6,989	6,381	13,107	20,647
	116,120	22,085	392,371	133,995
Sales	—	—	—	(10,916)
Change in fair value due to:				
Changes in valuation inputs or assumptions used in valuation model (1)	(5,651)	(544)	2,942	(989)
Other changes in fair value (2)	(22,071)	(10,991)	(51,029)	(27,854)
Total change in fair value	(27,722)	(11,535)	(48,087)	(28,843)
Balance at end of period	$ 669,667	$ 319,149	$ 669,667	$ 319,149

(1) Principally reflects changes in discount rates and prepayment speed inputs, primarily due to changes in market mortgage interest rates.
(2) Represents changes due to realization of cash flows.

Carried at Lower of Amortized Cost or Fair Value:

The activity in MSRs carried at the lower of amortized cost or fair value is summarized below:

	Quarter ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands)			

Amortized cost:				
Balance at beginning of period	$ 581,558	$ 321,911	$ 415,245	$ 263,373
Mortgage servicing rights resulting from mortgage loan sales	154,707	54,819	347,549	127,727
Amortization	(19,522)	(8,712)	(46,051)	(23,082)
Application of valuation allowance to write down mortgage servicing rights with other-than-temporary impairment	—	—	—	—
Balance at end of period	716,743	368,018	716,743	368,018
Valuation allowance:				
Balance at beginning of period	(27,317)	(8,829)	(9,800)	(4,622)
Additions	(51,701)	(925)	(69,218)	(5,132)
Application of valuation allowance to write down mortgage servicing rights with other-than-temporary impairment	—	—	—	—
Balance at end of period	(79,018)	(9,754)	(79,018)	(9,754)
Mortgage servicing rights, net	$ 637,725	$ 358,264	$ 637,725	$ 358,264
Fair value of mortgage servicing rights at end of period	$ 647,942	$ 368,270	$ 647,942	$ 368,270
Fair value of mortgage servicing rights at beginning of period	$ 569,969	$ 321,383	$ 416,802	$ 269,422

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The fair value of mortgage servicing rights pledged to secure the note payable totaled $619.8 million and $392.3 million as of September 30, 2015 and December 31, 2014, respectively.

The following table summarizes the Company's estimate of future amortization of its existing MSRs. This estimate was developed with the inputs used in the September 30, 2015 valuation of MSRs. The inputs underlying the following estimate will change as market conditions and portfolio composition and behavior change, causing both actual and projected amortization levels to change over time.

Twelve month period ending September 30,	Estimated MSR amortization (in thousands)
2016	$ 91,913
2017	78,700
2018	68,601
2019	60,997
2020	54,429
Thereafter	362,103
	$ 716,743

Servicing fees relating to MSRs are recorded in Net servicing fees—Loan servicing fees—From non-affiliates on the consolidated statements of income; late charges and other ancillary fees relating to MSRs are recorded in Net servicing fees—Loan servicing fees—Ancillary and other fees on the Company's consolidated statements of income. The fees are summarized below:

	Quarter ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Contractual servicing fees	$ 83,424	$ 44,647	$ 200,392	$ 124,061
Ancillary and other fees:				
Late charges	1,420	1,171	4,538	3,021
Other	478	361	1,880	785
	$ 85,322	$ 46,179	$ 206,810	$ 127,867

Mortgage Servicing Liabilities Carried at Fair Value:

The activity in mortgage servicing liabilities carried at fair value is summarized below:

	Quarter ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Balance at beginning of period	$ 11,791	$ 5,821	$ 6,306	$ —
Mortgage servicing liabilities resulting from mortgage loan sales	8,358	—	20,442	—
Change in fair value	(9,425)	(1,730)	(16,024)	4,091
Balance at end of period	$ 10,724	$ 4,091	$ 10,724	$ 4,091

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Note 11—Carried Interest Due from Investment Funds

The activity in the Company's Carried Interest due from Investment Funds is summarized as follows:

	Quarter ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Balance at beginning of period	$ 68,713	$ 65,133	$ 67,298	$ 61,142
Carried Interest recognized during the period	1,483	1,902	2,898	5,893
Proceeds received during the period	—	—	—	—
Balance at end of period	$ 70,196	$ 67,035	$ 70,196	$ 67,035

The amount of the Carried Interest that will be received by the Company depends on the Investment Funds' future performance. As a result, the amount of Carried Interest recorded by the Company is based on the cash flows that would be produced assuming termination of the Investment Funds at period end and may be reduced in future periods based on the performance of the Investment Funds in those periods. However, the Company is not required to pay guaranteed returns to the Investment Funds and the amount of any reduction to Carried Interest will be limited to the amounts previously recognized.

Management expects the Carried Interest to be collected by the Company when the Investment Funds liquidate. The commitment period for the Investment Funds ended on December 31, 2011. The Investment Fund limited liability company and limited partnership agreements specify that the funds will continue in existence through December 31, 2016, subject to three one-year extensions by PCM at its discretion.

Note 12—Investment in PennyMac Mortgage Investment Trust at Fair Value

Following is a summary of Change in fair value of investment in and dividends received from PennyMac Mortgage Investment Trust:

	Quarter ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands)			

Dividends received from PennyMac Mortgage Investment Trust	$ (11)	$ 46	$ 127	$ 135
Change in fair value of investment in PennyMac Mortgage Investment Trust	(147)	(38)	(422)	(115)
	$ (158)	$ 8	$ (295)	$ 20
Fair value of PennyMac Mortgage Investment Trust shares at period end	$ 1,160	$ 1,607		

Note 13—Borrowings

As of September 30, 2015, the Company maintained six borrowing facilities: four repurchase facilities that provide funding for mortgage loans held for sale; one mortgage loan participation and sale agreement; and one note payable secured by MSRs and servicing advances made relating to certain loans in the Company’s mortgage loan servicing portfolio.

The borrowing facilities contain various covenants, including financial covenants governing PLS’s net worth, debt to equity ratio, profitability and liquidity. Management believes that PLS was in compliance with these requirements as of September 30, 2015.

Mortgage Loans Sold Under Agreement to Repurchase

The borrowing facilities secured by mortgage loans held for sale are in the form of mortgage loan sale and repurchase agreements. Eligible mortgage loans are sold at advance rates based on the loan type. Interest is charged at a rate based on the buyer’s overnight cost of funds rate for one agreement and on LIBOR for the other three agreements. Mortgage loans financed under these agreements may be re-pledged by the lenders. One facility also provides financing

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for government-insured loans purchased out of Ginnie Mae securities to effect either a loan modification or default resolution.

Financial data pertaining to mortgage loans sold under agreements to repurchase are as follows:

	Quarter ended September 30, 2015 (in thousands)	2014	Nine months ended September 30, 2015	2014
Period end:				
Unpaid principal balance	$ 1,287,116	$ 929,747		
Unamortized issuance costs	(705)	(287)		
	$ 1,286,411	$ 929,460		
Unused amount (1)	$ 112,884	$ 570,253		
Weighted average interest rate	1.84 %	1.73 %		
Fair value of mortgage loans securing agreements to repurchase	$ 1,420,782	$ 1,087,425		
Margin deposits placed with counterparties (2)	$ 3,000	$ 1,500		
During the period:				
Average balance of mortgage loans sold under agreements to repurchase	$ 975,724	$ 691,730	$ 805,517	$ 505,072
Weighted average interest rate (3)	1.84 %	1.83 %	1.82 %	1.82 %
Total interest expense	$ 5,661	$ 4,495	$ 14,159	$ 10,506
Maximum daily amount outstanding	$ 1,496,306	$ 1,010,146	$ 1,496,306	$ 1,010,146

(1) The amount the Company is able to borrow under mortgage loan repurchase agreements is tied to the fair value of unencumbered mortgage loans eligible to secure those agreements and the Company's ability to fund the agreements' margin requirements relating to the mortgage loans sold.
(2) Margin deposits are included in Other assets on the consolidated balance sheet.
(3) Excludes the effect of amortization of commitment fees totaling $1.1 million and $3.1 million for the quarter and nine months ended September 30, 2015, respectively, and $1.3 million and $3.5 million for the quarter and nine months ended September 30, 2014, respectively.

Following is a summary of maturities of outstanding advances under repurchase agreements by maturity date:

Remaining maturity at September 30, 2015	Balance (in thousands)
Within 30 days	$ 19,689
Over 30 to 90 days	1,267,038
Over 90 days	389

		1,287,116
Debt issuance costs		(705)
Total loans sold under agreements to repurchase	$	1,286,411
Weighted average maturity (in months)		1.9

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The amount at risk (the fair value of the assets pledged plus the related margin deposit, less the amount advanced by the counterparty and accrued interest) relating to the Company's mortgage loans held for sale sold under agreements to repurchase is summarized by counterparty below as of September 30, 2015:

Counterparty	Amount at risk (in thousands)	Weighted average maturity of advances under repurchase agreement	Facility maturity
Credit Suisse First Boston Mortgage Capital LLC	$ 54,117	December 10, 2015	October 30, 2015
Bank of America, N.A.	$ 52,803	December 20, 2015	January 29, 2016
Morgan Stanley Bank, N.A.	$ 16,755	November 19, 2015	July 26, 2016
Citibank, N.A.	$ 10,504	November 6, 2015	October 22, 2015

The Company is subject to margin calls during the period the agreements are outstanding and therefore may be required to repay a portion of the borrowings before the respective agreements mature if the fair value (as determined by the applicable lender) of the mortgage loans securing those agreements decreases.

Mortgage Loan Participation and Sale Agreement

Under the mortgage loan participation and sale agreement, participation certificates, each of which represents an undivided beneficial ownership interest in mortgage loans that have been pooled with Fannie Mae, Freddie Mac or Ginnie Mae, are sold to the lender pending the securitization of the mortgage loans and sale of the resulting securities. A commitment to sell the securities resulting from the pending securitization between the Company and a non-affiliate is also assigned to the lender as part of the sale of the participation certificate.

The purchase price paid by the lender for each participation certificate is based on the trade price of the security, plus an amount of interest expected to accrue on the security to its anticipated delivery date, minus a present value adjustment, any related hedging costs and a holdback amount that is based on a percentage of the purchase price and is not required to be paid to the Company until the settlement of the security and its delivery to the lender.

The mortgage loan participation and sale agreement is summarized below:

	Quarter ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Period end:				
Unpaid principal balance	$ 247,411	$ 142,383		
Unamortized issuance costs	(1)	—		
	$ 247,410	$ 142,383		
Mortgage loans pledged to secure mortgage loan participation and sale agreement	$ 255,134	$ 146,798		
During the period:				
Average balance	$ 200,510	$ 4,149	$ 163,365	$ 1,398
Weighted average interest rate (1)	1.44 %	1.40 %	1.43 %	1.40 %
Total interest expense	$ 814	$ 39	$ 2,053	$ 39

(1) Excludes the effect of amortization of commitment fees totaling $74,000 and $276,000 for the quarter and nine months ended September 30, 2015, respectively, and $24,000 for the quarter and nine months ended September 30, 2014.

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Note Payable

The note payable is summarized below:

	Quarter ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Period end:				
Note payable secured by:				
Mortgage servicing rights	$ 407,000	$ 154,948		
Servicing advances	—	—		
Unamortized issuance costs	(10)	—		
	$ 406,990	$ 154,948		
Assets pledged to secure note payable:				
Mortgage servicing rights	$ 619,840	$ 350,758		
Servicing advances	$ —	$ —		
During the period:				
Average balance	$ 361,488	$ 127,361	$ 239,935	$ 86,239
Weighted average interest rate	3.07 %	2.92 %	3.03 %	2.93 %
Total interest expense	$ 3,760	$ 1,239	$ 7,858	$ 2,759

The note payable was secured by servicing advances and MSRs relating to certain mortgage loans in the Company's mortgage loan servicing portfolio, providing for advance rates of 50% of the carrying value of MSRs pledged and 85% of the amount of the servicing advances pledged. Interest was charged at a rate based on the lender's overnight cost of funds.

In connection with the note payable, the Company entered into an agreement with PMT pursuant to which PMT may borrow up to $150 million from the Company for the purpose of financing ESS. The Company then re-pledges the ESS to secure the note payable. At September 30, 2015, PMT had advances payable to the Company totaling $150.0 million under this arrangement.

Excess Servicing Spread Financing

In conjunction with the Company's purchase from non-affiliates of certain MSRs relating to pools of Agency-backed residential mortgage loans, the Company has entered into sale and assignment agreements with PMT which are treated as financings and are carried at fair value with changes in fair value recognized in current period income. Under these agreements, the Company sold to PMT the right to receive ESS cash flows relating to certain MSRs. The Company retained a fixed base servicing fee and all ancillary income associated with servicing the mortgage loans. The Company continues to be the servicer of the mortgage loans and provides all servicing functions, including responsibility to make servicing advances.

Following is a summary of ESS:

	Quarter ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Balance at beginning of period	$ 359,102	$ 190,244	$ 191,166	$ 138,723
Issuances of excess servicing spread to PennyMac Mortgage Investment Trust:				
For cash	84,165	9,253	271,452	82,646
Pursuant to a recapture agreement with PennyMac Mortgage Investment Trust	2,268	2,619	4,833	6,093
Accrual of interest	8,026	3,577	17,596	9,578
Repayments	(24,717)	(8,786)	(55,800)	(25,280)
Change in fair value	(10,271)	(9,539)	(10,674)	(24,392)
Balance at end of period	$ 418,573	$ 187,368	$ 418,573	$ 187,368

Note 14—Liability for Losses Under Representations and Warranties

Following is a summary of activity in the Company's liability for representations and warranties:

	Quarter ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Balance at beginning of period	$ 16,257	$ 10,178	$ 13,259	$ 8,123
Provision for losses on loans sold	2,292	1,584	5,535	3,639
Incurred losses	(71)	—	(316)	—
Balance at end of period	$ 18,478	$ 11,762	$ 18,478	$ 11,762
Unpaid principal balance of mortgage loans subject to representations and warranties at period end	$ 54,259,297	$ 33,660,189		

Note 15—Income Taxes

The Company's effective tax rates for the quarter and nine months ended September 30, 2015 were 11.6% and 11.5%, respectively. The Company's effective tax rates for the quarter and nine months ended September 30, 2014 were 11.5% and 11.4%, respectively. The difference between the Company's effective tax rate and the statutory rate is primarily due to the allocation of earnings to the noncontrolling interest unitholders. As the noncontrolling interest unitholders convert their ownership units into the Company's shares, the portion of the Company's income that will be subject to corporate federal and state statutory tax rates will increase, which will in turn increase the Company's effective income tax rate.

Note 16—Noncontrolling Interest

During the quarter and nine months ended September 30, 2015, PennyMac unitholders exchanged 43,830 and 177,218 Class A units for the Company's Class A common stock. The effect of the exchanges reduced the percentage of the Noncontrolling interest in Private National Mortgage Acceptance Company, LLC from 71.6% at December 31, 2014 to 71.3% at September 30, 2015.

During the quarter and nine months ended September 30, 2014, PennyMac unitholders exchanged 192,527 and 671,736 Class A units for the Company's Class A common stock. The effect of the exchanges reduced the percentage of the Noncontrolling interest in Private National Mortgage Acceptance Company, LLC from 72.6% at December 31, 2013 to 71.7% at September 30, 2014.

Net income attributable to the Company's common stockholders and the effects of changes in noncontrolling ownership interest in PennyMac is summarized below:

	Quarter ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands, except share amounts)			
Net income attributable to PennyMac Financial Services, Inc. common stockholders	$ 12,680	$ 10,489	$ 34,457	$ 28,079
Increase in the Company's additional paid-in capital for exchanges of Class A units of Private National Mortgage Acceptance Company, LLC to Class A stock of PennyMac Financial Services, Inc. (Class A shares issued, 43,830 and 177,218 during the quarter and nine months ended September 30, 2015, respectively, and 192,527 and 671,736 during the quarter and nine months ended September 30, 2014, respectively)	$ 487	$ 1,974	$ 2,919	$ 6,572

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Note 17—Net Gains on Mortgage Loans Held for Sale

Net gains on mortgage loans held for sale at fair value is summarized below:

	Quarter ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Cash (loss) gain:				
Mortgage loans	$ (33,957)	$ 3,965	$ (70,171)	$ 21,499
Hedging activities	(51,469)	(12,437)	(51,803)	(48,242)
	(85,426)	(8,472)	(121,974)	(26,743)
Non-cash gain:				
Mortgage servicing rights resulting from mortgage loan sales	161,696	61,200	360,656	148,374
Mortgage servicing liabilities resulting from mortgage loan sales	(8,358)	—	(20,442)	—
MSR and ESS recapture payable to PennyMac Mortgage Investment Trust	(3,098)	(2,143)	(5,843)	(6,567)
Provision for losses relating to representations and warranties on loans sold	(2,292)	(1,584)	(5,535)	(3,639)
Change in fair value relating to loans and hedging derivatives held at period end:				
Interest rate lock commitments	15,800	(7,114)	11,137	15,875
Mortgage loans	16,809	(976)	16,890	10,870
Hedging derivatives	(12,485)	7,222	7,090	(15,795)
	$ 82,646	$ 48,133	$ 241,979	$ 122,375

Note 18—Net Interest Expense

Net interest expense is summarized below:

	Quarter ended September 30,	Nine months ended September 30,

	2015	2014	2015	2014
	(in thousands)			
Interest income:				
From non-affiliates:				
Short-term investments	$ 1,246	$ 511	$ 2,691	$ 1,037
Mortgage loans held for sale at fair value	12,518	8,464	32,657	18,300
	13,764	8,975	35,348	19,337
From PennyMac Mortgage Investment Trust—Note receivable	1,289	—	1,822	—
	15,053	8,975	37,170	19,337
Interest expense:				
To non-affiliates:				
Mortgage loans sold under agreements to repurchase	5,661	4,495	14,159	10,506
Mortgage loan participation and sale agreement	814	39	2,053	39
Note payable	3,760	1,239	7,858	2,759
Interest shortfall on repayments of mortgage loans serviced for Agency securitizations	1,803	747	5,003	1,340
Interest on mortgage loan impound deposits	880	1,616	2,453	2,609
	12,918	8,136	31,526	17,253
To PennyMac Mortgage Investment Trust—Excess servicing spread financing at fair value	8,026	3,577		