ANNALY CAPITAL MANAGEMENT INC
Form 10-Q/A
November 02, 2018

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

FORM 10-Q/A

(Amendment No. 1 to Form 10-Q)

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

EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED: SEPTEMBER 30, 2018

OR

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

FOR THE TRANSITION PERIOD FROM _______________ TO _________________

COMMISSION FILE NUMBER: 1-13447

ANNALY CAPITAL MANAGEMENT, INC.
(Exact Name of Registrant as Specified in its Charter)

MARYLAND (State or other jurisdiction of incorporation or organization)	22-3479661 (IRS Employer Identification No.)
1211 AVENUE OF THE AMERICAS NEW YORK, NY 10036 (Address of principal executive offices)	10036 (Zip Code)

(212) 696-0100
(Registrant’s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes þ No

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

Large accelerated filer þ Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class	Outstanding at October 31, 2018
Common Stock, $.01 par value	1,313,722,699

EXPLANATORY NOTE

Annaly Capital Management, Inc. is filing this Amendment No. 1 (the "Form 10-Q/A") to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 that we filed with the Securities and Exchange Commission ("SEC") on November 2, 2018 (the "Original Form 10-Q"), for the sole purpose of correcting a typographical error on the cover page. We removed a header that was unintentionally included in the initial filing.

No other changes have been made to the Original Form 10-Q, but for the convenience of the reader, this Form 10-Q/A includes, in its entirety, the Original Form 10-Q, as amended.

This Form 10-Q/A does not reflect events that may have occurred subsequent to the original filing date, and except as noted above, does not modify or update in any way disclosures made in the Form 10-Q.

ANNALY CAPITAL MANAGEMENT, INC.
FORM 10-Q
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PART I - FINANCIALINFORMATION

ITEM 1. FINANCIAL STATEMENTS

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(dollars in thousands, except per share data)

	September 30, 2018 (Unaudited)	December 31, 2017 [1]
ASSETS		
Cash and cash equivalents (includes pledged assets $924,891 and $579,213, respectively) [2]	$1,082,747	$706,589
Securities (includes pledged assets of $84,613,575 and $84,752,790, respectively) [3]	91,338,611	92,563,572
Loans (includes pledged assets of $2,519,340 and $1,811,062, respectively)	4,224,203	2,999,148
Mortgage servicing rights (includes pledged assets of $2,958 and $5,224, respectively)	588,833	580,860
Assets transferred or pledged to securitization vehicles	4,287,821	3,306,133
Real estate, net	753,014	485,953
Derivative assets	404,841	313,885
Reverse repurchase agreements	1,234,704	—
Receivable for unsettled trades	1,266,840	1,232
Interest receivable	347,278	323,526
Goodwill and intangible assets, net	103,043	95,035
Other assets	329,868	384,117
Total assets	$105,961,803	$101,760,050
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Repurchase agreements	$79,073,026	$77,696,343
Other secured financing	4,108,547	3,837,528
Debt issued by securitization vehicles	3,799,542	2,971,771
Mortgages payable	511,588	309,686
Derivative liabilities	379,794	607,854
Payable for unsettled trades	2,505,428	656,581
Interest payable	399,605	253,068
Dividends payable	102,811	347,876
Other liabilities	125,606	207,770
Total liabilities	91,005,947	86,888,477
Stockholders' Equity:		
Preferred stock, par value $0.01 per share, 75,950,000 and 70,700,000 authorized, 73,400,000 and 70,700,000 issued and outstanding, respectively	1,778,168	1,720,381
	13,031	11,596

Common stock, par value $0.01 per share, 1,924,050,000 and 1,929,300,000 authorized, 1,303,079,555 and 1,159,585,078 issued and outstanding, respectively		
Additional paid-in capital	18,793,706	17,221,265
Accumulated other comprehensive income (loss)	(3,822,956)	(1,126,020)
Accumulated deficit	(1,811,955)	(2,961,749)
Total stockholders’ equity	14,949,994	14,865,473
Noncontrolling interests	5,862	6,100
Total equity	14,955,856	14,871,573
Total liabilities and equity	$105,961,803	$101,760,050

(1) Derived from the audited consolidated financial statements at December 31, 2017.

(2) Includes cash of consolidated Variable Interest Entities (“VIEs”) of $28.4 million and $42.3 million at September 30, 2018 and December 31, 2017, respectively.

(3) Excludes $129.8 million and $66.3 million at September 30, 2018 and December 31, 2017, respectively, of non-Agency mortgage-backed securities and $275.8 million and $0 at September 30, 2018 and December 31, 2017, respectively, of commercial mortgage-backed securities in consolidated VIEs pledged as collateral and eliminated from the Company’s Consolidated Statements of Financial Condition.

See notes to consolidated financial statements.

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ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 1. Financial Statements

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(dollars in thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net interest income:				
Interest income	$816,596	$ 622,550	$2,472,889	$ 1,747,703
Interest expense	500,973	268,937	1,311,086	689,643
Net interest income	315,623	353,613	1,161,803	1,058,060
Realized and unrealized gains (losses):				
Net interest component of interest rate swaps	51,349	(88,211)	34,664	(288,837)
Realized gains (losses) on termination or maturity of interest rate swaps	575	—	1,409	(58)
Unrealized gains (losses) on interest rate swaps	417,203	56,854	1,737,963	28,471
Subtotal	469,127	(31,357)	1,774,036	(260,424)
Net gains (losses) on disposal of investments	(324,294)	(11,552)	(376,943)	(11,833)
Net gains (losses) on other derivatives	94,827	154,208	81,871	140,104
Net unrealized gains (losses) on instruments measured at fair value through earnings	(39,944)	(67,492)	(139,913)	(27,569)
Subtotal	(269,411)	75,164	(434,985)	100,702
Total realized and unrealized gains (losses)	199,716	43,807	1,339,051	(159,722)
Other income (loss)	(10,643)	28,282	57,550	90,793
General and administrative expenses:				
Compensation and management fee	45,983	41,993	136,091	120,193
Other general and administrative expenses	80,526	15,023	116,709	44,674
Total general and administrative expenses	126,509	57,016	252,800	164,867
Income (loss) before income taxes	378,187	368,686	2,305,604	824,264
Income taxes	(7,242)	1,371	(3,416)	2,019
Net income (loss)	385,429	367,315	2,309,020	822,245
Net income (loss) attributable to noncontrolling interests	(149)	(232)	(277)	(437)
Net income (loss) attributable to Annaly	385,578	367,547	2,309,297	822,682
Dividends on preferred stock [1]	31,675	30,355	96,818	77,301
Net income (loss) available (related) to common stockholders	$353,903	$ 337,192	$2,212,479	$ 745,381
Net income (loss) per share available (related) to common stockholders:				
Basic	$0.29	$ 0.31	$1.88	$ 0.72
Diluted	$0.29	$ 0.31	$1.88	$ 0.72
Weighted average number of common shares outstanding:				
Basic	1,202,353,851	1,072,566,395	1,174,292,701	1,037,033,076
Diluted	1,202,353,851	1,073,040,637	1,174,292,701	1,037,445,177
Dividends declared per share of common stock	$0.30	$ 0.30	$0.90	$ 0.90
Net income (loss)	$385,429	$ 367,315	$2,309,020	$ 822,245
Other comprehensive income (loss):				
Unrealized gains (losses) on available-for-sale securities	(719,609)	195,251	(3,104,218)	397,600

Reclassification adjustment for net (gains) losses included in net income (loss)	331,100	15,367	407,282	48,144
Other comprehensive income (loss)	(388,509)	210,618	(2,696,936)	445,744
Comprehensive income (loss)	(3,080)	577,933	(387,916)	1,267,989
Comprehensive income (loss) attributable to noncontrolling interests	(149)	(232)	(277)	(437)
Comprehensive income (loss) attributable to Annaly	(2,931)	578,165	(387,639)	1,268,426
Dividends on preferred stock [(1)]	31,675	30,355	96,818	77,301
Comprehensive income (loss) attributable to common stockholders	$(34,606)	$ 547,810	$(484,457)	$ 1,191,125

(1) Includes cumulative and undeclared dividends on the Company's Series F Preferred Stock of $8.3 million for the three and nine months ended September 30, 2017.

See notes to consolidated financial statements.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(dollars in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Preferred Stock		
Beginning of period	$1,720,381	$1,200,559
Issuance	411,335	696,910
Acquisition of subsidiary	55,000	—
Redemption	(408,548)	(177,088)
End of period	$1,778,168	$1,720,381
Common Stock		
Beginning of period	$11,596	$10,189
Issuance	1,103	690
Acquisition of subsidiary	330	—
Direct purchase and dividend reinvestment	2	2
End of period	$13,031	$10,881
Additional paid-in capital		
Beginning of period	$17,221,265	$15,579,342
Stock compensation expense	1,789	1,276
Issuance	1,116,409	803,464
Acquisition of subsidiary	455,613	—
Redemption of preferred stock	(3,952)	(8,224)
Direct purchase and dividend reinvestment	2,582	1,947
End of period	$18,793,706	$16,377,805
Accumulated other comprehensive income (loss)		
Beginning of period	$(1,126,020)	$(1,085,893)
Unrealized gains (losses) on available-for-sale securities	(3,104,218)	397,600
Reclassification adjustment for net gains (losses) included in net income (loss)	407,282	48,144
End of period	$(3,822,956)	$(640,149)
Accumulated deficit		
Beginning of period	$(2,961,749)	$(3,136,017)
Net income (loss) attributable to Annaly	2,309,297	822,682
Dividends declared on preferred stock	(96,818)	(69,000)

Dividends and dividend equivalents declared on common stock and share-based awards	(1,062,685)	(937,825)
End of period	$(1,811,955)	$(3,320,160)
Total stockholder’s equity	$14,949,994	$14,148,758
Noncontrolling interests		
Beginning of period	$6,100	$7,792
Net income (loss) attributable to noncontrolling interests	(277)	(437)
Equity contributions from (distributions to) noncontrolling interests	39	(895)
End of period	$5,862	$6,460
Total	$14,955,856	$14,155,218

See notes to consolidated financial statements.

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ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 1. Financial Statements

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)
(Unaudited)

	Nine Months Ended September 30, 2018	2017
Cash flows from operating activities:		
Net income (loss)	$2,309,020	$822,245
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Amortization of premiums and discounts of investments, net	474,449	668,195
Amortization of securitized debt premiums and discounts and deferred financing costs	991	618
Depreciation, amortization and other noncash expenses	63,839	21,686
Net (gains) losses on disposals of investments	376,943	11,833
Net (gains) losses on investments and derivatives	(1,679,921)	(141,006)
Income from unconsolidated joint ventures	6,441	2,223
Payments on purchases of loans held for sale	(191,641)	(230,503)
Proceeds from sales and repayments of loans held for sale	64,460	330,285
Net receipts (payments) on derivatives	1,519,228	(732,998)
Net change in:		
Other assets	100,010	(30,387)
Interest receivable	(8,468)	(17,322)
Interest payable	124,316	68,598
Other liabilities	(136,510)	(43,936)
Net cash provided by (used in) operating activities	3,023,157	729,531
Cash flows from investing activities:		
Payments on purchases of Residential Securities	(17,053,068)	(25,852,497)
Proceeds from sales of Residential Securities	9,558,735	11,598,472
Principal payments on Residential Securities	8,696,239	8,971,444
Payments on purchases of MSRs	(381)	(11,081)
Payments on purchases of corporate debt	(744,071)	(374,358)
Principal payments on corporate debt	235,423	295,380
Originations and purchases of commercial real estate related assets	(697,753)	(388,951)
Proceeds from sales of commercial real estate related assets	134,538	11,960
Principal repayments on commercial real estate related assets	478,726	852,381
Proceeds from reverse repurchase agreements	70,016,988	50,280,000
Payments on reverse repurchase agreements	(70,313,441)	(50,280,000)
Distributions in excess of cumulative earnings from unconsolidated joint ventures	5,434	6,160
Payments on purchases of residential mortgage loans held for investment	(729,917)	(668,977)
Proceeds from repayments of residential mortgage loans held for investment	251,407	131,052
Payments on purchases of equity securities	—	(2,104)
Cash paid related to asset acquisition, net of cash acquired	(258,334)	—
Net payment from disposal of subsidiary	—	5,337
Net cash provided by (used in) investing activities	(419,475)	(5,425,782)
Cash flows from financing activities:		

Proceeds from repurchase agreements and other secured financing	3,866,183,872	2,505,995,751
Principal payments on repurchase agreements and other secured financing	(3,868,097,943)	(2,501,952,817)
Proceeds from issuance of securitized debt	588,111	—
Principal repayments on securitized debt	(614,536)	(334,386)
Payment of deferred financing cost	—	(2,054)
Net proceeds from stock offerings, direct purchases and dividend reinvestments	1,531,690	1,503,013
Redemption of preferred stock	(412,500)	(185,312)
Principal payments on participation sold	—	(12,827)
Principal payments on mortgages payable	(49)	(54)
Net contributions (distributions) from (to) noncontrolling interests	(780)	(895)
Dividends paid	(1,405,389)	(986,074)
Net cash provided by (used in) financing activities	(2,227,524)	4,024,345
Net (decrease) increase in cash and cash equivalents	376,158	(671,906)
Cash and cash equivalents including cash pledged as collateral, beginning of period	706,589	1,539,746
Cash and cash equivalents including cash pledged as collateral, end of period	$ 1,082,747	$ 867,840
Supplemental disclosure of cash flow information:		
Interest received	$ 2,846,535	$ 2,460,097
Dividends received	$ 5,448	$ 3,774
Interest paid (excluding interest paid on interest rate swaps)	$ 1,159,384	$ 693,983
Net interest paid (received) on interest rate swaps	$ (243,946)	$ 264,965
Taxes paid	$ 86	$ 2,612
Noncash investing activities:		
Receivable for unsettled trades	$ 1,266,840	$ 340,033
Payable for unsettled trades	$ 2,505,428	$ 5,243,868
Net change in unrealized gains (losses) on available-for-sale securities, net of reclassification adjustment	$ (2,696,936)	$ 445,744
Noncash financing activities:		
Dividends declared, not yet paid	$ 102,811	$ 326,425

See notes to consolidated financial statements.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 1. Financial Statements

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. DESCRIPTION OF BUSINESS

Annaly Capital Management, Inc. (the “Company” or “Annaly”) is a Maryland corporation that commenced operations on February 18, 1997. The Company is a leading diversified capital manager that invests in and finances residential and commercial assets. The Company owns a portfolio of real estate related investments, including mortgage pass-through certificates, collateralized mortgage obligations, credit risk transfer (“CRT”) securities, other securities representing interests in or obligations backed by pools of mortgage loans, residential mortgage loans, mortgage servicing rights (“MSRs”), commercial real estate assets and corporate debt. The Company’s principal business objective is to generate net income for distribution to its stockholders and to preserve capital through prudent selection of investments and continuous management of its portfolio. The Company is externally managed by Annaly Management Company LLC (the “Manager”).

The Company’s four investment groups are primarily comprised of the following:

Investment Groups	Description
Annaly Agency Group	Invests in Agency mortgage-backed securities (“MBS”) collateralized by residential mortgages which are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae.
Annaly Residential Credit Group	Invests primarily in non-Agency residential mortgage assets within securitized products and residential mortgage loan markets.
Annaly Commercial Real Estate Group	Originates and invests in commercial mortgage loans, securities, and other commercial real estate debt and equity investments.
Annaly Middle Market Lending Group	Provides financing to private equity-backed middle market businesses across the capital structure.

The Company has elected to be taxed as a Real Estate Investment Trust (“REIT”) as defined under the Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder (the “Code”).

2. BASIS OF PRESENTATION

The accompanying consolidated financial statements and related notes of the Company have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”).

The accompanying consolidated financial statements and related notes are unaudited and should be read in conjunction with the audited consolidated financial statements included in the Company’s most recent Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (the “2017 Form 10-K”). The consolidated financial information as of December 31, 2017 has been derived from audited consolidated financial statements included in the Company’s 2017 Form 10-K. The Company reclassified previously presented financial information to conform to the current presentation.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported balance sheet amounts and/or disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

In the opinion of management, all normal, recurring adjustments have been included for a fair presentation of this interim financial information. Interim period operating results may not be indicative of the operating results for a full year.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 1. Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described below or are included in the following notes:

Notes

Note 1. Description of Business	Note 9. Real Estate	Note 17. Income Taxes
Note 2. Basis of Presentation	Note 10. Derivative Instruments	Note 18. Risk Management
Note 3. Significant Accounting Policies	Note 11. Fair Value Measurements	Note 19. Related Party Transactions
Note 4. Financial Instruments	Note 12. Goodwill and Intangible Assets, Net	Note 20. Lease Commitments and Contingencies
Note 5. Securities	Note 13. Secured Financing	Note 21. Arcola Regulatory Requirements
Note 6. Loans	Note 14. Capital Stock	Note 22. Acquisition of MTGE Investment Corp.
Note 7. Mortgage Servicing Rights	Note 15. Interest Income and Interest Expense	Note 23. Subsequent Events
Note 8. Variable Interest Entities	Note 16. Net Income (Loss) Per Common Share	

Principles of Consolidation – The consolidated financial statements include the accounts of the entities where the Company has a controlling financial interest. In order to determine whether the Company has a controlling financial interest, it first evaluates whether an entity is a voting interest entity ("VOE") or a variable interest entity ("VIE"). All intercompany balances and transactions have been eliminated in consolidation.

Voting Interest Entities – A VOE is an entity that has sufficient equity and in which equity investors have a controlling financial interest. The Company consolidates VOEs where it has a majority of the voting equity of such VOE.

Variable Interest Entities – A VIE is defined as an entity in which equity investors (i) do not have the characteristics of a controlling financial interest, and/or (ii) do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. A VIE is required to be consolidated by its primary beneficiary, which is defined as the party that has both (i) the power to control the activities that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The Company performs ongoing reassessments of whether changes in the facts and circumstances regarding the Company's involvement with a VIE causes the Company's consolidation conclusion to change. Refer to the "Variable Interest Entities" Note for further information.

Equity Method Investments - For entities that are not consolidated, but where the Company has significant influence over the operating or financial decisions of the entity, the Company accounts for the investment under the equity method of accounting. In accordance with the equity method of accounting, the Company will recognize its share of earnings or losses of the investee in the period in which they are reported by the investee. The Company also considers whether there are any indicators of other-than-temporary impairment of joint ventures accounted for under the equity method. These investments are included in Real estate, net and Other assets with income or loss included in Other income (loss).

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, cash held in money market funds on an overnight basis and cash pledged as collateral with counterparties. Cash deposited with clearing organizations is carried at cost, which approximates fair value. Cash and securities deposited with clearing organizations and collateral held in the form of cash on margin with counterparties to the Company's interest rate swaps and other derivatives totaled $924.9 million and $579.2 million at September 30, 2018 and December 31, 2017, respectively.

Equity Securities – The Company may invest in equity securities that are not accounted for under the equity method or do not result in consolidation. These equity securities are required to be reported at fair value with unrealized gains and losses reported in the Consolidated Statements of Comprehensive Income (Loss) as Net unrealized gains (losses) on instruments measured at fair value through earnings, unless the securities do not have readily determinable fair values. For such equity securities without readily determinable fair values, the Company has elected to carry the securities at cost less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. For equity securities carried at fair value through earnings, dividends are recorded in earnings on the declaration date. Dividends from equity securities without readily determinable fair values are recognized as income when received to the extent they are distributed from net accumulated earnings.

Fair Value Measurements and the Fair Value Option – The Company reports various investments at fair value, including certain eligible financial instruments elected to be accounted for under the fair value option ("FVO"). The Company chooses to elect the fair value option in order to simplify the accounting treatment for certain financial instruments. If an item is accounted for at fair value, including financial instruments elected under the FVO, it is presented at fair value in the Consolidated Statements of Financial Condition and any change in fair value is recorded in Net unrealized gains (losses) on instruments measured at fair value through earnings in the Consolidated Statements of Comprehensive Income (Loss). The Company made elections to account for the investments at fair value as these elections simplify the accounting. For additional information regarding financial instruments for which the Company has elected the fair value option see the table in the "Financial Instruments" Note.

Refer to the "Fair Value Measurement" Note for a complete discussion on the methodology utilized by the Company to estimate the fair value of certain financial instruments.

Offsetting Assets and Liabilities - The Company elected to present all derivative instruments on a gross basis as discussed in the "Derivative Instruments" Note. Reverse repurchase and repurchase agreements are presented net in the Consolidated Statements of Financial Condition if they are subject to netting agreements and they meet the offsetting criteria. Please see below and refer to the "Financing" Note for further discussion on reverse repurchase and repurchase agreements.

Derivative Instruments – Derivatives are accounted for in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 815, Derivatives and Hedging, which requires recognition of all derivatives as either assets or liabilities at fair value in the Consolidated Statements of Financial Condition with changes in fair value recognized in the Consolidated Statements of Comprehensive Income (Loss). The changes in the estimated fair value are presented within Net gains (losses) on other derivatives with the exception of interest rate swaps which are separately presented. None of the Company's derivative transactions have been designated as hedging instruments for accounting purposes. Refer to the "Derivative Instruments" Note for further discussion.

Stock Based Compensation – The Company is required to measure and recognize in the consolidated financial statements the compensation cost relating to share-based payment transactions. The Company recognizes compensation expense on a straight-line basis over the requisite service period for the entire award.

Interest Income - Premiums and discounts associated with the purchase of residential mortgage loans and with those transferred or pledged to securitization trusts are primarily amortized or accreted into interest income over their estimated remaining lives using the effective interest rates inherent in the estimated cash flows from the mortgage loans. Amortization of premiums and accretion of discounts are presented in Interest income in the Consolidated Statements of Comprehensive Income (Loss). Refer to the "Interest Income and Interest Expense" Note for further discussion on interest income.

Income Taxes – The Company has elected to be taxed as a REIT and intends to comply with the provisions of the Code, with respect thereto. As a REIT, the Company will not incur federal income tax to the extent that it distributes its taxable income to its stockholders. The Company and certain of its direct and indirect subsidiaries have made separate joint elections to treat these subsidiaries as taxable REIT subsidiaries ("TRSs"). As such, each of these TRSs is taxable as a domestic C corporation and subject to federal, state and local income taxes based upon its taxable income. Refer to the "Income Taxes" Note for further discussion on income taxes.

Recent Accounting Pronouncements

The Company considers the applicability and impact of all Accounting Standards Updates ("ASUs"). ASUs not listed below were not applicable, not expected to have a significant impact on the Company's consolidated financial statements when adopted, or did not have a significant impact on the Company's consolidated financial statements upon adoption.

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ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 1. Financial Statements

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
Standards that are not yet adopted			
ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	This ASU updates the existing incurred loss model to a current expected credit loss ("CECL") model for financial assets and net investments in leases that are not accounted for at fair value through earnings. The amendments affect loans, held-to-maturity debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures and any other financial assets not excluded from the scope. There are also limited amendments to the impairment model for available-for-sale debt securities.	January 1, 2020 (early adoption permitted)	The Company currently plans to adopt the new standard on its effective date. While the Company is continuing to assess the impact the ASU will have on the consolidated financial statements, the measurement of expected credit losses under the CECL model will be based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts of the financial assets in scope of the model. The Company needs to complete the development of an appropriate allowance methodology, assess the impact on the consolidated financial statements and determine appropriate internal controls and financial statement disclosures. Further, based on the amended guidance for available-for-sale debt securities, the Company: • will be required to use an allowance approach to recognize credit impairment, with the allowance to be limited to the amount by which the security's fair value is less than its amortized cost basis; • may not consider the length of time fair value has been below amortized cost, and • may not consider recoveries of fair value after the balance sheet date when assessing whether a credit loss exists.

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
Standards that were adopted			
ASU 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business	This update provides a screen to determine and a framework to evaluate when a set of assets and activities is a business.	January 1, 2018	The amendments are expected to result in fewer transactions being accounted for as business combinations.
ASU 2016-15 Statement of Cash Flows (Topic 230):	This update provides specific guidance on certain cash flow classification issues, including classification of cash receipts and	January 1, 2018	As a result of adopting this standard, the Company reclassified its cash flows on reverse repurchase and repurchase agreements entered into by Arcola Securities, Inc. from operating

Classification of Certain Cash Receipts and Cash Payments	payments that have aspects of more than one class of cash flows. If cash flows cannot be separated by source or use, the appropriate classification should depend on the activity that is likely to be the predominant source or use of cash flows.	activities to investing and financing activities, respectively, in the Consolidated Statements of Cash Flows. The Company applied the retrospective transition method, which resulted in reclassification of comparative periods.

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4. FINANCIAL INSTRUMENTS

The following table presents characteristics for certain of the Company's financial instruments at September 30, 2018 and December 31, 2017.

Financial Instruments [1]

Balance Sheet Line Item	Type / Form	Measurement Basis	September 30, 2018	December 31, 2017
	Assets	(dollars in thousands)		
Securities	Agency mortgage-backed securities [2]	Fair value, with unrealized gains (losses) through other comprehensive income	$ 88,363,876	$ 89,426,437
Securities	Agency mortgage-backed securities [3]	Fair value, with unrealized gains (losses) through earnings	926,252	1,125,326
Securities	Credit risk transfer securities	Fair value, with unrealized gains (losses) through earnings	688,521	651,764
Securities	Non-agency mortgage-backed securities	Fair value, with unrealized gains (losses) through earnings	1,173,467	1,097,294
Securities	Commercial real estate debt investments - CMBS	Fair value, with unrealized gains (losses) through other comprehensive income	162,678	244,636
Securities	Commercial real estate debt investments - Conduit CMBS	Fair value, with unrealized gains (losses) through earnings	23,817	18,115
Total securities			91,338,611	92,563,572
Loans	Residential mortgage loans	Fair value, with unrealized gains (losses) through earnings	1,217,139	958,546
Loans	Commercial real estate debt and preferred equity, held for investment	Amortized cost	1,435,865	1,029,327
Loans	Loans held for sale, net	Lower of amortized cost or fair value	42,325	—
Loans	Corporate debt	Amortized cost	1,528,874	1,011,275
Total loans			4,224,203	2,999,148
Assets transferred or pledged to securitization vehicles	Residential mortgage loans	Fair value, with unrealized gains (losses) through earnings	765,876	479,776
Assets transferred or pledged to securitization vehicles	Commercial mortgage loans	Fair value, with unrealized gains (losses) through earnings	3,521,945	2,826,357
Total assets transferred or pledged to securitization vehicles			4,287,821	3,306,133
Reverse repurchase agreements	Reverse repurchase agreements	Amortized cost	1,234,704	—
	Liabilities			
Repurchase agreements	Repurchase agreements	Amortized cost	79,073,026	77,696,343
Other secured financing	Loans	Amortized cost	4,108,547	3,837,528

Debt issued by securitization vehicles	Securities	Fair value, with unrealized gains (losses) through earnings	3,799,542	2,971,771
Mortgages payable	Loans	Amortized cost	511,588	309,686

(1) Receivable for unsettled trades, Interest receivable, Dividends payable, Payable for unsettled trades and Interest payable are accounted for at cost.

(2) Includes Agency pass-through, CMO and multifamily securities.

(3) Includes interest-only securities and reverse mortgages.

5. SECURITIES

The Company's investments in securities include agency, credit risk transfer, non-agency and commercial mortgage-backed securities. All of the debt are classified as available-for-sale. Available-for-sale securities are carried at fair value with changes in fair value recognized in other comprehensive income unless the fair value option is elected. Transactions for securities are recorded on trade date, including TBA securities that meet the regular-way securities scope exception from derivative accounting. Gains and losses on disposals of securities are recorded on trade date based on the specific identification method.

The Company accounts for equity securities at fair value unless it is accounted for under the equity method of accounting or the measurement alternative for equity securities without readily determinable fair values.

Other-Than-Temporary Impairment - Management evaluates available-for-sale securities for other-than-temporary impairment at least quarterly, and more frequently when economic or market conditions warrant such evaluation.

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When the fair value of an available-for-sale security is less than its amortized cost, the security is considered impaired. For securities that are impaired, the Company determines if it (1) has the intent to sell the security, (2) is more likely than not that it will be required to sell the security before recovery of its amortized cost basis, or (3) does not expect to recover the entire amortized cost basis of the security. Further, the security is analyzed for credit loss (the difference between the present value of cash flows expected to be collected and the amortized cost basis). The credit loss, if any, will then be recognized in the Consolidated Statements of Comprehensive Income (Loss), while the balance of losses related to other factors will be recognized as a component of Other comprehensive income (loss). There was no other-than-temporary impairment recognized for the three or nine months ended September 30, 2018 and 2017.

Agency Mortgage-Backed Securities - The Company invests in mortgage pass-through certificates, collateralized mortgage obligations and other mortgage-backed securities representing interests in or obligations backed by pools of residential or multifamily mortgage loans and certificates. Many of the underlying loans and certificates are guaranteed by the Government National Mortgage Association (“Ginnie Mae”), the Federal Home Loan Mortgage Corporation (“Freddie Mac”) or the Federal National Mortgage Association (“Fannie Mae”) (collectively, “Agency mortgage-backed securities”).

Agency mortgage-backed securities may include forward contracts for Agency mortgage-backed securities purchases or sales of a generic pool, on a to-be-announced basis (“TBA securities”). TBA securities without intent to accept delivery (“TBA derivatives”),
are accounted for as derivatives as discussed in the “Derivative Instruments” Note.

Credit Risk Transfer Securities - CRT securities are risk sharing instruments issued by Fannie Mae and Freddie Mac, and similarly structured transactions arranged by third party market participants. CRT securities are designed to synthetically transfer mortgage credit risk from Fannie Mae and Freddie Mac to private investors.

Non-Agency Mortgage-Backed Securities- The Company invests in non-Agency mortgage-backed securities such as those issued in non-performing loan (“NPL”) and re-performing loan (“RPL”) securitizations.

Commercial Mortgage-Backed Securities (“Commercial Securities”) - Certain commercial mortgage-backed securities are classified as available-for-sale and reported at fair value with unrealized gains and losses reported as a component of Other comprehensive income (loss). Management evaluates such Commercial Securities for other-than-temporary impairment at least quarterly. The Company elected the fair value option on certain Commercial Securities, including conduit commercial mortgage-backed securities, to simplify the accounting where the unrealized gains and losses on these financial instruments are recorded through earnings.

Agency mortgage-backed securities, non-agency mortgage-backed securities and CRT securities are referred to herein as “Residential Securities.” Although the Company generally intends to hold most of its Residential Securities until maturity, it may, from time to time, sell any of its Residential Securities as part of the overall management of its portfolio.
The following represents a rollforward of the activity for the Company’s securities:

	September 30, 2018		
	Residential Securities	Commercial Securities	Total
	(dollars in thousands)		
Beginning Balance January 1	$92,300,821	$ 262,751	$92,563,572

Purchases	25,395,018	62,402	25,457,420
Sales	(14,532,225)	(40,900)	(14,573,125)
Principal paydowns	(8,695,247)	(96,397)	(8,791,644)
Amortization / accretion	(485,804)	501	(485,303)
Fair value adjustment	(2,830,447)	(1,862)	(2,832,309)
Ending Balance September 30	$91,152,116	$ 186,495	$91,338,611

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The following tables present the Company’s securities that were carried at fair value at September 30, 2018 and December 31, 2017:

	September 30, 2018						
	Principal / Notional	Remaining Premium	Remaining Discount	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Agency	(dollars in thousands)						
Fixed-rate pass-through	$80,917,596	$4,376,927	$(7,643)	$85,286,880	$28,156	$(3,664,420)	$81,650,616
Adjustable-rate pass-through	5,415,559	268,852	(1,568)	5,682,843	9,098	(164,520)	5,527,421
CMO	11,610	55	—	11,665	—	(124)	11,541
Interest-only	6,248,885	1,226,033	—	1,226,033	2,500	(340,766)	887,767
Multifamily	1,204,773	8,596	(8,242)	1,205,127	306	(31,135)	1,174,298
Reverse mortgages	34,552	4,272	—	38,824	—	(339)	38,485
Total Agency Securities	$93,832,975	$5,884,735	$(17,453)	$93,451,372	$40,060	$(4,201,304)	$89,290,128
Residential Credit							
CRT	$651,360	$33,670	$(14,996)	$670,034	$18,537	$(50)	$688,521
Alt-A	239,990	385	(36,910)	203,465	12,730	(131)	216,064
Prime	386,193	2,111	(25,419)	362,885	15,341	(596)	377,630
Subprime	449,425	1,973	(67,841)	383,557	45,238	(109)	428,686
NPL/RPL	3,431	—	(37)	3,394	45	—	3,439
Prime Jumbo (>= 2010 Vintage)	137,953	587	(4,644)	133,896	49	(3,977)	129,968
Prime Jumbo (>= 2010 Vintage) Interest-Only	884,325	13,265	—	13,265	4,415	—	17,680
Total Residential Credit Securities	$2,752,677	$51,991	$(149,847)	$1,770,496	$96,355	$(4,863)	$1,861,988
Total Residential Securities	$96,585,652	$5,936,726	$(167,300)	$95,221,868	$136,415	$(4,206,167)	$91,152,116
Commercial							
Commercial Securities	196,407	339	(9,903)	186,843	575	(923)	186,495
Total Securities	$96,782,059	$5,937,065	$(177,203)	$95,408,711	$136,990	$(4,207,090)	$91,338,611

	December 31, 2017						
	Principal / Notional	Remaining Premium	Remaining Discount	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Agency	(dollars in thousands)						
Fixed-rate pass-through	$78,509,335	$4,514,815	$(1,750)	$83,022,400	$140,115	$(1,178,673)	$81,983,842
Adjustable-rate pass-through	6,760,991	277,212	(1,952)	7,036,251	15,776	(103,121)	6,948,906
Interest-only	6,804,715	1,326,761	—	1,326,761	1,863	(242,862)	1,085,762
Multifamily	490,753	5,038	(341)	495,450	84	(1,845)	493,689
Reverse mortgages	35,000	4,527	—	39,527	37	—	39,564
Total Agency Securities	$92,600,794	$6,128,353	$(4,043)	$91,920,389	$157,875	$(1,526,501)	$90,551,763
Residential Credit							
CRT	$593,027	$25,463	$(3,456)	$615,034	$36,730	$—	$651,764
Alt-A	204,213	499	(34,000)	170,712	13,976	(802)	183,886

Prime	197,756	358	(24,158)	173,956	18,804	—	192,760
Subprime	554,470	2,037	(78,561)	477,946	56,024	(90)	533,880
NPL/RPL	42,585	14	(117)	42,482	506	—	42,988
Prime Jumbo (>= 2010 Vintage)	130,025	627	(3,956)	126,696	1,038	(1,112)	126,622
Prime Jumbo (>= 2010 Vintage) Interest-Only	989,052	15,287	—	15,287	1,871	—	17,158
Total Residential Credit Securities	2,711,128	44,285	(144,248)	1,622,113	128,949	(2,004)	1,749,058
Total Residential Securities	$95,311,922	$6,172,638	$(148,291)	$93,542,502	$286,824	$(1,528,505)	$92,300,821
Commercial							
Commercial Securities	$270,288	$680	$(9,731)	$261,237	$1,843	$(329)	$262,751
Total Securities	$95,582,210	$6,173,318	$(158,022)	$93,803,739	$288,667	$(1,528,834)	$92,563,572

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The following table presents the Company's Agency mortgage-backed securities portfolio concentration by issuing Agency at September 30, 2018 and December 31, 2017:

Investment Type	September 30, 2018	December 31, 2017
	(dollars in thousands)	
Fannie Mae	$59,568,293	$63,361,415
Freddie Mac	29,636,443	27,091,978
Ginnie Mae	85,392	98,370
Total	$89,290,128	$90,551,763

Actual maturities of the Company's Residential Securities portfolio are generally shorter than stated contractual maturities because actual maturities of the portfolio are generally affected by periodic payments and prepayments of principal on underlying mortgages.

The following table summarizes the Company's available-for-sale Residential Securities at September 30, 2018 and December 31, 2017, according to their estimated weighted average life classifications:

	September 30, 2018		December 31, 2017	
Weighted Average Life	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost
	(dollars in thousands)			
Less than one year	$19,335	$19,339	$471,977	$476,538
Greater than one year through five years	10,442,022	10,737,675	13,838,890	13,925,749
Greater than five years through ten years	79,260,878	83,003,720	77,273,833	78,431,852
Greater than ten years	1,429,881	1,461,134	716,121	708,363
Total	$91,152,116	$95,221,868	$92,300,821	$93,542,502

The weighted average lives of the Residential Securities at September 30, 2018 and December 31, 2017 in the table above are based upon projected principal prepayment rates. The actual weighted average lives of the Residential Securities could be longer or shorter than projected.

The following table presents the gross unrealized losses and estimated fair value of the Company's Agency mortgage-backed securities, accounted for as available-for-sale where the fair value option has not been elected, by length of time that such securities have been in a continuous unrealized loss position at September 30, 2018 and December 31, 2017.

	September 30, 2018			December 31, 2017		
	Estimated Fair Value [1]	Gross Unrealized Losses [1]	Number of Securities [1]	Estimated Fair Value [1]	Gross Unrealized Losses [1]	Number of Securities [1]
	(dollars in thousands)					
Less than 12 Months	$46,457,384	$(1,401,491)	2,213	$39,878,158	$(272,234)	1,114
12 Months or More	40,098,674	(2,458,708)	1,233	39,491,238	(1,011,405)	911
Total	$86,556,058	$(3,860,199)	3,446	$79,369,396	$(1,283,639)	2,025

[1] Excludes interest-only mortgage-backed securities and reverse mortgages.

The decline in value of these securities is solely due to market conditions and not the quality of the assets. Substantially all of the Agency mortgage-backed securities are "AAA" rated or carry an implied "AAA" rating. The investments are not considered to be other-than-temporarily impaired because the Company currently has the ability and intent to hold the investments to maturity or for a period of time sufficient for a forecasted market price recovery up to or beyond the cost of the investments, and it is not more likely than not that the Company will be required to sell the investments before recovery of the amortized cost bases, which may be maturity.

During the three and nine months ended September 30, 2018, the Company disposed of $9.1 billion and $14.5 billion of Residential Securities, resulting in net realized (losses) of ($322.4) million and ($372.5) million, respectively. During the three and nine months ended September 30, 2017, the Company disposed of $6.8 billion and $11.4 billion of Residential Securities, resulting in net realized losses of ($10.2) million and ($14.3) million, respectively.

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6. LOANS

The Company invests in residential, commercial and corporate loans. Loans are classified as either held for investment or held for sale. Loans are also eligible to be accounted for under the fair value option. As of September 30, 2018, the Company reported $1.2 billion of loans elected under the fair value option. If loans are held for investment and the fair value option has not been elected, they are accounted for at amortized cost less impairment. If loans are held for sale and the fair value option has not been elected, they are accounted for at the lower of cost or fair value.

Loans can be classified as held for investment if the Company has the intent and ability to hold the loan for the foreseeable future or to maturity or payoff. If the Company has the intent and ability to sell loans, they are classified as held for sale.

Nonaccrual Status – If collection of a loan's principal or interest is in doubt or the loan is 90 days or more past due, interest income is not accrued. For nonaccrual status loans carried at fair value or held for sale, interest is not accrued, but is recognized on a cash basis. For nonaccrual status loans carried at amortized cost, if collection of principal is not in doubt, but collection of interest is in doubt, interest income is recognized on a cash basis. If collection of principal is in doubt, any interest received is applied against principal until collectability of the remaining balance is no longer in doubt; at that point, any interest income is recognized on a cash basis. Generally, a loan is returned to accrual status when the borrower has resumed paying the full amount of the scheduled contractual obligation, if all principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period of time and there is a sustained period of repayment performance by the borrower. The Company did not have any impaired loans or loans in default as all of the loans were performing at September 30, 2018 and December 31, 2017. There were no allowances for loan losses at September 30, 2018 or December 31, 2017.

Allowance for Losses – The Company evaluates the need for a loss reserve on its CRE Debt and Preferred Equity Investments and its corporate loans. A provision for losses related to CRE Debt and Preferred Equity Investments and corporate loans, including those accounted for under ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, may be established when it is probable the Company will not collect amounts contractually due or all amounts previously estimated to be collectible. Management assesses the credit quality of the portfolio and adequacy of loan loss reserves on a quarterly basis, or more frequently as necessary. Significant judgment is required in this analysis. Depending on the expected recovery of its investment, the Company considers the estimated net recoverable value of the CRE Debt and Preferred Equity Investments as well as other factors, including but not limited to the fair value of any collateral, the amount and the status of any senior debt, the prospects for the borrower and the competitive landscape where the borrower conducts business. To determine if loan loss allowances are required on investments in corporate debt, the Company reviews the monthly and/or quarterly financial statements of the borrowers, verifies loan compliance packages, if applicable, and analyzes current results relative to budgets and sensitivities performed at inception of the investment. Because these determinations are based upon projections of future economic events, which are inherently subjective, the amounts ultimately realized may differ materially from the carrying value as of the reporting date.

The Company may be exposed to various levels of credit risk depending on the nature of its investments and credit enhancements, if any, supporting its assets. The Company's core investment process includes procedures related to the initial approval and periodic monitoring of credit risk and other risks associated with each investment. The Company's investment underwriting procedures include evaluation of the underlying borrowers' ability to manage and operate their respective properties or companies. Management reviews loan-to-value metrics at origination or acquisition of a new investment and if events occur that trigger re-evaluation by management.

Management generally reviews the most recent financial information produced by the borrower, which may include, but is not limited to, net operating income ("NOI"), debt service coverage ratios, property debt yields (net cash flow or NOI divided by the amount of outstanding indebtedness), loan per unit and rent rolls relating to each of the Company's CRE Debt and Preferred Equity Investments, and may consider other factors management deems important. Management also reviews market pricing to determine each borrower's ability to refinance their respective assets at the maturity of each loan, economic trends (both macro and those affecting the property specifically), and the supply and demand of competing projects in the sub-market in which each subject property is located. Management monitors the financial condition and operating results of its corporate borrowers and continually assesses the future outlook of the borrower's financial performance in light of industry developments, management changes and company-specific considerations.

The Company's internal loan risk ratings are based on the guidance provided by the Office of the Comptroller of the Currency for commercial real estate lending. The Company's internal risk rating categories include "Performing", "Performing - Closely Monitored", "Performing - Special Mention", "Substandard", "Doubtful" or "Loss". Performing loans meet all present contractual obligations. Performing - Closely Monitored loans meet all present contractual obligations, but are transitional or could be exhibiting some weakness in both leverage and liquidity. Performing - Special Mention loans meet all present contractual obligations, but exhibit potential weakness that deserves management's close attention and, if uncorrected, may result in deterioration of repayment prospects. Substandard loans are inadequately protected by sound worth and paying capacity of the obligor or of the collateral pledged with a distinct possibility that loss will be sustained if some of the deficiencies are not corrected. Doubtful loans are Substandard loans whereby collection of all contractual principal and interest is highly questionable or improbable. Loss loans are considered uncollectible. The Company did not have any impaired loans, nonaccrual loans, or loans in default in the commercial loan portfolio as all of the loans were performing at September 30, 2018 and December 31, 2017. As such, no provision for loan losses was deemed necessary at September 30, 2018 or December 31, 2017.

The following table presents the activity of the Company’s loan investments for the nine months ended September 30, 2018:

	Residential	Commercial	Corporate	Total
	(dollars in thousands)			
Beginning balance January 1, 2018	$958,546	$1,029,327	$1,011,275	$2,999,148
Purchases	430,854	528,835	788,213	1,747,902
Syndications	—	—	(44,125)	(44,125)
Principal Payments	(156,198)	(124,559)	(235,423)	(516,180)
Change in fair value	(13,812)	—	—	(13,812)
Amortization	(2,251)	2,262	8,934	8,945
Ending balance September 30, 2018	$1,217,139	$1,435,865	$1,528,874	$4,181,878

The carrying value of the Company’s loans held for sale was $42.3 million and $0 at September 30, 2018 and December 31, 2017, respectively.

Residential

The Company’s residential mortgage loans are primarily comprised of performing adjustable-rate and fixed-rate whole loans. Additionally, the Company consolidates a collateralized financing entity that securitized prime adjustable-rate jumbo residential mortgage loans. The Company also consolidates securitization trusts in which it had purchased subordinated securities because it also has certain powers and rights to direct the activities of such trusts. Please refer to the “Variable Interest Entities” Note for further information related to the Company’s consolidated Residential Mortgage Loan Trusts.

The following table presents the fair value and the unpaid principal balances of the residential mortgage loan portfolio, including loans transferred or pledged to securitization vehicles, at September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
	(dollars in thousands)	
Fair value	$1,983,015	$ 1,438,322
Unpaid principal balance	$1,976,077	$ 1,419,807

The following table provides information regarding the line items and amounts recognized in the Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2018 and 2017 for these investments:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	(dollars in thousands)			
Net interest income	$16,423	$ 8,226	$45,702	$ 18,935
Net gains (losses) on disposal of investments [1]	(2,975)	(2,093)	(7,924)	(3,407)
Net unrealized gains (losses) on instruments measured at fair value through earnings	(3,633)	(725)	(14,802)	5,400
Total included in net income (loss)	$9,815	$ 5,408	$22,976	$ 20,928

[1] Includes loan premium write offs.

The following table provides the geographic concentrations based on the unpaid principal balances at September 30, 2018 and December 31, 2017, for the residential mortgage loans, including loans transferred or pledged to securitization trusts:

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Geographic Concentrations of Residential Mortgage Loans

September 30, 2018		December 31, 2017	
Property Location	% of Balance	Property Location	% of Balance
California	54.5 %	California	49.8 %
New York	8.1 %	Florida	9.3 %
Florida	6.6 %	New York	7.1 %
All other (none individually greater than 5%)	30.8 %	All other (none individually greater than 5%)	33.8 %
Total	100.0 %	Total	100.0 %

The following table provides additional data on the Company's residential mortgage loans, including loans transferred or pledged to securitization trusts, at September 30, 2018 and December 31, 2017:

	September 30, 2018		December 31, 2017	
	Portfolio Range	Portfolio Weighted Average	Portfolio Range	Portfolio Weighted Average
	(dollars in thousands)			
Unpaid principal balance	$1 - $3,500	$494	$1 - $3,663	$514
Interest rate	2.00% - 7.50%	4.74%	1.63% - 7.50%	4.25%
Maturity	1/1/2028 - 9/1/2058	1/5/2045	1/1/2028 - 5/1/2057	2/1/2043
FICO score at loan origination	510 - 823	754	468 - 823	748
Loan-to-value ratio at loan origination	11% - 100%	67%	11% - 100%	68%

At September 30, 2018 and December 31, 2017, approximately 54% and 78%, respectively, of the carrying value of the Company's residential mortgage loans, including loans transferred or pledged to securitization trusts, were adjustable-rate.

Commercial

The Company's commercial real estate loans are comprised of fixed-rate and adjustable-rate loans. The Company designates loans as held for investment if it has the intent and ability to hold the loans until maturity or payoff. The difference between the principal amount of a loan and proceeds at acquisition is recorded as either a discount or premium. Commercial real estate loans that are designated as held for investment and are originated or purchased by the Company are carried at their outstanding principal balance, net of unamortized origination fees and costs, premiums or discounts, less an allowance for losses, if necessary. Origination fees and costs, premiums or discounts are amortized into interest income over the life of the loan.

If the Company intends to sell or securitize the loans and the securitization vehicle is not expected to be consolidated, they are classified as held for sale. Commercial real estate loans that are designated as held for sale are carried at the lower of amortized cost or fair value in the accompanying Consolidated Statements of Financial Condition. Any origination fees and costs or purchase premiums or discounts are deferred and recognized upon sale. The Company determines the fair value of commercial real estate loans held for sale on an individual loan basis.

Preferred equity interests are designated as held for investment and are carried at their outstanding principal balance, net of unamortized origination fees and costs, premiums or discounts, less a reserve for estimated losses, if necessary.

At September 30, 2018 and December 31, 2017, approximately 87% and 85%, respectively, of the carrying value of the Company's CRE Debt and Preferred Equity Investments, excluding loans held for sale, was comprised of floating-rate debt investments.

On December 11, 2015, the Company originated a $335.0 million recapitalization financing with respect to eight class A/B office properties in Orange County, California. The Company previously classified the senior mortgage loan as held for sale. During the nine months ended September 30, 2017, the Company sold the remaining balance of $115.0 million ($114.4 million, net of origination fees) of the senior loan to unrelated third parties at carrying value. Accordingly, no gain or loss was recorded in connection with the sale.

At September 30, 2018 and December 31, 2017, commercial real estate investments held for investment were comprised of the following:

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	September 30, 2018			December 31, 2017		
	Outstanding Principal	Carrying Value [(1)]	Percentage of Loan Portfolio [(2)]	Outstanding Principal	Carrying Value [(1)]	Percentage of Loan Portfolio [(2)]
(dollars in thousands)						
Senior mortgages	$1,090,849	$1,084,167	75.6 %	$629,143	$625,900	60.9 %
Mezzanine loans	343,354	342,700	23.8 %	395,015	394,442	38.2 %
Preferred equity	9,000	8,998	0.6 %	9,000	8,985	0.9 %
Total	$1,443,203	$1,435,865	100.0 %	$1,033,158	$1,029,327	100.0 %

(1) Carrying value includes unamortized origination fees of $5.7 million and $3.8 million at September 30, 2018 and December 31, 2017, respectively.
(2) Based on outstanding principal.

The following tables represent a rollforward of the activity for the Company's commercial real estate investments held for investment at September 30, 2018 and December 31, 2017:

	September 30, 2018			
	Senior Mortgages	Mezzanine Loans	Preferred Equity	Total
	(dollars in thousands)			
Beginning balance (January 1, 2018)	$625,900	$394,442	$ 8,985	$1,029,327
Originations & advances (principal)	489,271	45,334	—	534,605
Principal payments	(27,565)	(96,993)	—	(124,558)
Net (increase) decrease in origination fees	(5,400)	(370)	—	(5,770)
Amortization of net origination fees	1,961	287	13	2,261
Net carrying value (September 30, 2018)	$1,084,167	$342,700	$ 8,998	$1,435,865

	December 31, 2017			
	Senior Mortgages	Mezzanine Loans	Preferred Equity	Total
	(dollars in thousands)			
Beginning balance (January 1, 2017)	$510,071	$451,467	$ 8,967	$970,505
Originations & advances (principal)	338,242	69,121	—	407,363
Principal payments	(221,421)	(127,799)	—	(349,220)
Amortization & accretion of (premium) discounts	(44)	28	—	(16)
Net (increase) decrease in origination fees	(3,317)	(605)	—	(3,922)
Amortization of net origination fees	2,369	2,230	18	4,617
Net carrying value (December 31, 2017)	$625,900	$394,442	$ 8,985	$1,029,327

The following table provides the internal loan risk ratings of commercial real estate investments held for investment as of September 30, 2018 and December 31, 2017.

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Investment Type	Outstanding Principal	Percentage of CRE Debt and Preferred Equity Portfolio	Internal Ratings Performing	Performing - Closely Monitored	Performing - Special Mention	Substandard (1)	Doubtful	Loss	Total
(dollars in thousands)									
Senior mortgages	$ 1,090,849	75.6 %	$ 724,111	$ 302,348	$ —	$ 64,390	$ —	$ —	$ 1,090,849
Mezzanine loans	343,354	23.8 %	135,334	64,323	107,094	36,603	—	—	343,354
Preferred equity	9,000	0.6 %	—	—	9,000	—	—	—	9,000
Total	$ 1,443,203	100.0 %	$ 859,445	$ 366,671	$ 116,094	$ 100,993	$ —	$ —	$ 1,443,203

December 31, 2017

Investment Type	Outstanding Principal	Percentage of CRE Debt and Preferred Equity Portfolio	Internal Ratings Performing	Performing - Closely Monitored	Performing - Special Mention	Substandard (1)	Doubtful	Loss	Total
(dollars in thousands)									
Senior mortgages	$ 629,143	60.9 %	$ 409,878	$ 115,075	$ 36,800	$ 67,390	$ —	$ —	$ 629,143
Mezzanine loans	395,015	38.2 %	206,169	66,498	122,348	—	—	—	395,015
Preferred equity	9,000	0.9 %	—	—	9,000	—	—	—	9,000
Total	$ 1,033,158	100.0 %	$ 616,047	$ 181,573	$ 168,148	$ 67,390	$ —	$ —	$ 1,033,158

(1) The Company rated two loans as Substandard as of September 30, 2018. The Company evaluated whether an impairment exists and determined in each case that, based on quantitative and qualitative factors, the Company expects repayment of contractual amounts due.

Corporate Debt

The Company's investments in corporate loans are designated as held for investment when the Company has the intent and ability to hold the investment until maturity or payoff. These investments are carried at their principal balance outstanding plus any premiums or discounts less allowances for loan losses. Interest income from coupon payments is accrued based upon the outstanding principal amounts of the debt and its contractual terms. Premiums and discounts are amortized or accreted into interest income using the effective interest method. These investments typically take the form of senior secured loans primarily in first or second lien positions. The Company's senior secured loans generally have stated maturities of three to eight years. In connection with these senior secured loans the Company receives a security interest in certain assets of the borrower and such assets support repayment of such loans. Senior secured loans are generally exposed to less credit risk than more junior loans given their seniority to scheduled principal and interest and priority of security in the assets of the borrower.
The Company invests in corporate loans through its Annaly Middle Market Lending Group. The industry and rate attributes of the portfolio at September 30, 2018 and December 31, 2017 are as follows:

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	Industry Dispersion					
	September 30, 2018			December 31, 2017		
	Fixed Rate	Floating Rate	Total	Fixed Rate	Floating Rate	Total
	(dollars in thousands)					
Aircraft and Parts	$—	$41,344	$41,344	$—	$34,814	$34,814
Coating, Engraving and Allied Services	—	58,850	58,850	—	64,034	64,034
Computer Programming, Data Processing & Other Computer Related Services	—	212,969	212,969	—	209,624	209,624
Drugs	—	38,735	38,735	—	38,708	38,708
Electrical Work	—	43,266	43,266	—	—	—
Electronic Components & Accessories	—	24,029	24,029	—	23,916	23,916
Engineering, Architectural & Surveying	—	80,741	80,741	—	—	—
Groceries and Related Products	—	14,725	14,725	—	14,794	14,794
Grocery Stores	—	23,461	23,461	—	23,531	23,531
Home Health Care Services	—	—	—	—	23,779	23,779
Insurance Agents, Brokers and Services	—	49,211	49,211	—	28,872	28,872
Mailing, Reproduction, Commercial Art and Photography, and Stenographic	—	14,855	14,855	—	—	—
Management and Public Relations Services	—	240,740	240,740	—	94,871	94,871
Medical and Dental Laboratories	—	26,876	26,876	—	26,956	26,956
Metal Cans & Shipping Containers	—	118,006	118,006	—	—	—
Miscellaneous Business Services	—	19,650	19,650	—	19,723	19,723
Miscellaneous Equipment Rental and Leasing	—	49,433	49,433	—	49,129	49,129
Miscellaneous Health and Allied Services, not elsewhere classified	—	54,189	54,189	—	25,963	25,963
Miscellaneous Nonmetallic Minerals, except Fuels	—	—	—	—	25,992	25,992
Miscellaneous Plastic Products	—	9,963	9,963	—	9,879	9,879
Motor Vehicles and Motor Vehicle Equipment	—	16,937	16,937	—	—	—
Motor Vehicles and Motor Vehicle Parts and Supplies	—	27,979	27,979	—	12,212	12,212
Nonferrous Foundries (Castings)	—	12,953	12,953	—	—	—
Offices and Clinics of Doctors of Medicine	—	97,760	97,760	—	600	600
Offices and Clinics of Other Health Practitioners	—	21,122	21,122	—	18,979	18,979
Public Warehousing and Storage	—	61,912	61,912	—	48,890	48,890
Research, Development and Testing Services	—	33,334	33,334	—	33,155	33,155
Schools and Educational Services, not elsewhere classified	—	19,794	19,794	—	20,625	20,625
Services Allied with the Exchange of Securities	—	14,895	14,895	—	13,960	13,960
Surgical, Medical, and Dental Instruments and Supplies	—	39,806	39,806	—	29,687	29,687
Telephone Communications	—	61,339	61,339	—	59,182	59,182
Total	$—	$1,528,874	$1,528,874	$—	$1,011,275	$1,011,275

The table below reflects the Company’s aggregate positions by their respective place in the capital structure of the borrowers at September 30, 2018 and December 31, 2017.

September 30, 2018	December 31, 2017

	(dollars in thousands)	
First lien loans	$888,860	$ 582,724
Second lien loans	640,014	428,551
Total	$1,528,874	$ 1,011,275

7. MORTGAGE SERVICING RIGHTS

MSRs represent the rights associated with servicing pools of residential mortgage loans. The Company and its subsidiaries do not originate or directly service residential mortgage loans. Rather, these activities are carried out by duly licensed subservicers who

perform substantially all servicing functions for the loans underlying the MSRs. The Company intends to hold the MSRs as investments and elected to account for all of its investments in MSRs at fair value. As such, they are recognized at fair value on the accompanying Consolidated Statements of Financial Condition with changes in the estimated fair value presented as a component of Net unrealized gains (losses) on instruments measured at fair value through earnings in the Consolidated Statements of Comprehensive Income (Loss). Servicing income, net of servicing expenses, is reported in Other income (loss) in the Consolidated Statements of Comprehensive Income (Loss).
The following table presents activity related to MSRs for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	(dollars in thousands)			
Fair value, beginning of period	$599,014	$605,653	$580,860	$652,216
Purchases [1]	—	(30)	—	(27)
Other	—	—	—	10
Change in fair value due to:				
Changes in valuation inputs or assumptions [2]	(19,913)	(19,207)	(61,011)	(34,645)
Other changes, including realization of expected cash flows	9,732	(16,198)	68,984	(47,336)
Fair value, end of period	$588,833	$570,218	$588,833	$570,218

(1) Includes adjustments to original purchase price from early payoffs, defaults, or loans that were delivered but were deemed to be not acceptable.
(2) Principally represents changes in discount rates and prepayment speed inputs used in valuation model, primarily due to changes in interest rates.

For the three and nine months ended September 30, 2018, the Company recognized $27.7 million and $83.8 million, respectively, and for the three and nine months ended September 30, 2017, the Company recognized $31.9 million and $99.7 million, respectively,
of net servicing income from MSRs in Other income (loss) in the Consolidated Statements of Comprehensive Income (Loss).

The Company also owns variable interests in an entity that invests in MSRs, refer to the “Variable Interest Entities” Note for a detailed discussion on this topic.

8. VARIABLE INTEREST ENTITIES

The Company has investments in Freddie Mac securitizations (“FREMF Trusts”) which are structured as pass-through entities that receive principal and interest on the underlying collateral and distribute those payments to the certificate holders. The FREMF Trusts are VIEs and the Company is considered to be the primary beneficiary as a result of its ability to replace the special servicer without cause through its ownership of the Class C Certificates and its current designation as the directing certificate holder. The FREMF Trusts are included in the “Commercial Trusts” in the tables below.

The Company purchased approximately $94 million of a subordinated tranche in a securitization trust in 2018. As the directing holder, the Company can remove the special servicer with or without cause as well as direct activities that are considered to be most significant to the economic performance of the trust. As such, the Company was determined to be the primary beneficiary and consolidates the trust. The trust is included in “Commercial Trusts” in the tables below.

Upon consolidation, the Company elected the fair value option for the financial assets and liabilities of the Commercial Trusts in order to avoid an accounting mismatch, and to represent more faithfully the economics of its interest in the entities. The fair value option requires that changes in fair value be reflected in the Company's Consolidated Statements of Comprehensive Income (Loss). The Company applied the practical expedient under ASU 2014-07, whereby the Company determines whether the fair value of the financial assets or financial liabilities is more observable as a basis for measuring the less observable financial instruments. The Company has determined that the fair value of the financial liabilities of the Commercial Trusts are more observable, since the prices for these liabilities are primarily available from third-party pricing services utilized for multifamily mortgage-backed securities, while the individual assets of the trusts are inherently less capable of precise measurement given their illiquid nature and the limitations on available information related to these assets. Given that the Company's methodology for valuing the financial assets of the Commercial Trusts are an aggregate fair value derived from the fair value of the financial liabilities, the Company has determined that the fair value of each of the financial assets in their entirety should be classified in Level 2 of the fair value measurement hierarchy.

The Commercial Trusts mortgage loans had an aggregate unpaid principal balance of $3.5 billion at September 30, 2018. At September 30, 2018, there were no loans 90 days or more past due or on nonaccrual status. There is no gain or loss attributable to instrument-specific credit risk of the underlying loans or securitized debt securities at September 30, 2018 based upon the Company's process of monitoring events of default on the underlying mortgage loans.

The Company consolidates a securitization trust, which is included in "Residential Trusts" in the tables below, that issued residential mortgage-backed securities that are collateralized by residential mortgage loans that had been transferred to the trust by one of the Company's subsidiaries. The Company owns most of the mortgage-backed securities issued by this VIE, including the subordinate securities, and a subsidiary of the Company continues to be the master servicer. As such, the Company is deemed to be the primary beneficiary of the residential mortgage trust and consolidates the entity. The Company has elected the fair value option for the financial assets and liabilities of this VIE, but has not elected to apply the practical expedient under ASU 2014-13 as prices of both the financial assets and financial liabilities of the residential mortgage trust are available from third-party pricing services. The contractual principal amount of the residential mortgage trust's debt held by third parties was $30.4 million at September 30, 2018.

In March 2018, the Company closed OBX 2018-01, with a face value of $327.5 million. In July 2018, the Company closed OBX 2018-EXP1 with a face value of $383.4 million. The OBX 2018-01 Trust and the OBX 2018-EXP1 Trust are referred to collectively as the "OBX Trusts". These securitizations represent financing transactions which provided non-recourse financing to the Company that is collateralized by residential mortgage loans purchased by the Company. A total of $588.1 million of bonds were issued to third parties and the Company retained $122.5 million of mortgage-backed securities, which are eliminated in consolidation. The Company is deemed to be the primary beneficiary and consolidates the OBX Trusts because it has power to direct the activities that most significantly impact the OBX Trusts' performance and holds a variable interest that could be potentially significant to these VIEs. The Company has elected the fair value option for the financial assets and liabilities of these VIEs, but has not elected the practical expedient under ASU 2014-13 as prices of both the financial assets and financial liabilities of the residential mortgage trust are available from third-party pricing services. The Company incurred approximately $1.5 million of costs in connection with the OBX 2018-01 securitization and approximately $1.8 million of costs in connection with the OBX 2018-EXP1 securitization that were expensed as incurred during the first quarter ended March 31, 2018 and the third quarter ended September 30, 2018, respectively. The contractual principal amount of the OBX Trusts' debt held by third parties was $530.1 million at September 30, 2018.

Although the residential mortgage loans have been sold for bankruptcy and state law purposes, the transfers of the residential mortgage loans to the OBX Trusts did not qualify for sale accounting and are reflected as intercompany secured borrowings that are eliminated upon consolidation.

In June 2016, a consolidated subsidiary of the Company entered into a credit facility with a third party financial institution. As of September 30, 2018, the borrowing limit on this facility was $400.0 million. The subsidiary was deemed to be a VIE and the Company was determined to be the primary beneficiary due to its role as collateral manager and because it holds a variable interest in the entity that could potentially be significant to the entity. The Company has pledged as collateral for this facility corporate loans with a carrying amount of $443.6 million at September 30, 2018. The transfers did not qualify for sale accounting and are reflected as an intercompany secured borrowing that is eliminated upon consolidation. At September 30, 2018, the subsidiary had an intercompany receivable of $300.0 million, which eliminates upon consolidation and an Other secured financing of $300.0 million to the third party financial institution.

In July 2017, a consolidated subsidiary of the Company entered into a $150.0 million credit facility with a third party financial institution. The subsidiary was deemed to be a VIE and the Company was determined to be the primary beneficiary due to its role as servicer and because it holds a variable interest in the entity that could potentially be significant to the entity. The Company has transferred corporate loans to the subsidiary with a carrying amount of $235.6 million at September 30, 2018, which continue to be reflected in the Company’s Consolidated Statements of Financial Condition in Loans. At September 30, 2018, the subsidiary had an Other secured financing of $150.0 million to the third party financial institution.

The Company also owns variable interests in an entity that invests in MSRs and has structured its operations, funding and capitalization into pools of assets and liabilities, each referred to as a “silo.” Owners of variable interests in a given silo are entitled to all of the returns and subjected to the risk of loss on the investments and operations of that silo and have no substantive recourse to the assets of any other silo. While the Company previously held 100% of the voting interests in this entity, in August 2017, the Company sold 100% of such interests, and entered into an agreement with the entity’s affiliated portfolio manager giving the Company the power over the silo in which it owns all of the beneficial interests. As a result, the Company is considered to be the primary beneficiary and consolidates this silo.

The Company’s exposure to the obligations of its VIEs is generally limited to the Company’s investment in the VIEs of $1.6 billion at September 30, 2018. Assets of the VIEs may only be used to settle obligations of the VIEs. Creditors of the VIEs have no recourse to the general credit of the Company. The Company is not contractually required to provide and has not provided any form of financial support to the VIEs. No gains or losses were recognized upon consolidation of existing VIEs. Interest income and expense are recognized using the effective interest method.

The statements of financial condition of the Company's VIEs, excluding the credit facility VIEs and OBX Trusts, that are reflected in the Company's Consolidated Statements of Financial Condition at September 30, 2018 and December 31, 2017 are as follows:

	September 30, 2018		
	Commercial Trusts	Residential Trusts	MSR Silo
Assets	(dollars in thousands)		
Cash and cash equivalents	$—	$—	$28,441
Commercial real estate debt	3,521,945	—	—
Residential mortgage loans	—	107,764	97,825
Mortgage servicing rights	—	—	588,833
Interest receivable	13,432	555	—
Other assets	—	—	33,522
Total assets	$3,535,377	$108,319	$748,621
Liabilities			
Securitized debt (non-recourse)	$3,240,043	$29,698	$—
Other secured financing	—	—	70,221
Interest payable	6,383	70	—
Other liabilities	—	148	2,160
Total liabilities	$3,246,426	$29,916	$72,381

	December 31, 2017		
	Commercial Trusts	Residential Trusts	MSR Silo
Assets	(dollars in thousands)		
Cash and cash equivalents	$—	$—	$42,293
Commercial real estate debt	2,826,357	—	—
Residential mortgage loans	—	478,811	19,667
Mortgage servicing rights	—	—	580,860
Interest receivable	10,339	1,599	—
Derivative assets	—	—	1
Other assets	—	1,418	32,354
Total assets	$2,836,696	$481,828	$675,175
Liabilities			
Securitized debt (non-recourse)	$2,620,952	$350,819	$—
Other secured financing	—	—	10,496
Interest payable	4,554	931	—
Other liabilities	—	112	4,856
Total liabilities	$2,625,506	$351,862	$15,352

The statements of comprehensive income (loss) of the Company’s VIEs, excluding the credit facility VIEs and OBX Trusts, that are reflected in the Company’s Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2018 and 2017 are as follows:

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	Three Months Ended September 30, 2018		
	Commercial Trusts	Residential Trusts	MSR Silo
Net interest income:	(dollars in thousands)		
Interest income	$36,387	$ 1,723	$2,678
Interest expense	25,068	773	438
Net interest income	11,319	950	2,240
Net realized gains (losses) on disposal of investments	—	147	(516)
Net unrealized gains (losses) on instruments measured at fair value through earnings	220	242	(13,364)
Other income (loss)	(4,217)	(70)	26,866
Less: General and administrative expenses	—	21	481
Net income (loss)	$7,322	1,248	14,745

	Three Months Ended September 30, 2017		
	Commercial Trusts	Residential Trusts	MSR Silo
Net interest income:	(dollars in thousands)		
Interest income	$28,841	$ 1,145	$514
Interest expense	15,791	282	121
Net interest income	13,050	863	393
Net realized gains (losses) on disposal of investments	—	(229)	(1,430)
Net gains (losses) on trading assets	—	—	(19)
Net unrealized gains (losses) on instruments measured at fair value through earnings	(2,256)	(20)	(36,226)
Other income (loss)	(6,073)	(89)	32,001
Less: General and administrative expenses	(1)	34	560
Net income (loss)	$4,722	$ 491	$(5,841)

	Nine Months Ended September 30, 2018		
	Commercial Trusts	Residential Mortgage Loan Trusts	MSR Silo
Net interest income:	(dollars in thousands)		
Interest income	$85,325	$ 6,280	$4,126
Interest expense	54,265	3,621	875
Net interest income	31,060	2,659	3,251
Net realized gains (losses) on disposal of investments	—	2,049	(1,826)
Net gains (losses) on other derivatives	—	—	70
Net unrealized gains (losses) on instruments measured at fair value through earnings	1,332	(925)	3,101
Other income (loss)	(12,986)	(221)	83,924
Less: General and administrative expenses	—	50	1,408
Net income (loss)	$19,406	$ 3,512	$87,112

Nine Months Ended September 30, 2017

	Commercial Trusts	Residential Mortgage Loan Trusts	MSR Silo
Net interest income:	(dollars in thousands)		
Interest income	$81,508	$ 3,685	$1,005
Interest expense	42,046	854	243
Net interest income	39,462	2,831	762
Net realized gains (losses) on disposal of investments	—	(611)	(1,915)
Net gains (losses) on trading assets	—	—	(17)
Net unrealized gains (losses) on instruments measured at fair value through earnings	2,833	1,682	(83,340)
Other income (loss)	(18,595)	(280)	99,927
Less: General and administrative expenses	—	71	2,500
Net income (loss)	$23,700	$ 3,551	$12,917

The geographic concentrations of credit risk exceeding 5% of the total loan unpaid principal balances related to the Company's VIEs, excluding the credit facility VIEs and OBX Trusts, at September 30, 2018 are as follows:

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FREMF Trusts			Residential Mortgage Loan Trusts		
Property Location	Principal Balance	% of Balance	Property Location	Principal Balance	% of Balance
(dollars in thousands)					
Texas	$478,593	13.7 %	California	$48,718	44.9 %
Maryland	448,646	12.8 %	Texas	13,981	12.9 %
California	360,279	10.3 %	Illinois	8,297	7.6 %
Virginia	347,002	9.9 %	Washington	7,559	7.0 %
Pennsylvania	281,384	8.1 %	Florida	5,424	5.0 %
New York	280,925	8.0 %	Other [1]	24,501	22.6 %
North Carolina	251,187	7.2 %			
Massachusetts	179,440	5.1 %			
Other [1]	867,774	24.9 %			
Total	$3,495,230	100.0 %		$108,480	100.0 %

[1] No individual state greater than 5%.

9. REAL ESTATE

Real estate investments are carried at historical cost less accumulated depreciation. Historical cost includes all costs necessary to bring the asset to the condition and location necessary for its intended use, including financing during the construction period. Costs directly related to acquisitions deemed to be business combinations are expensed. Ordinary repairs and maintenance which are not reimbursed by tenants are expensed as incurred. Major replacements and improvements that extend the useful life of the asset are capitalized and depreciated over their useful life.

Real estate investments are depreciated using the straight-line method over the estimated useful lives of the assets, summarized as follows:

Category	Term
Building and building improvements	1 - 44 years
Furniture and fixtures	1 - 4 years

There was no real estate acquired in settlement of residential mortgage loans at September 30, 2018 or December 31, 2017 other than real estate held by securitization trusts that the Company was required to consolidate. The Company would be considered to have received physical possession of residential real estate property collateralizing a residential mortgage loan, so that the loan is derecognized and the real estate property would be recognized, if either (i) the Company obtains legal title to the residential real estate property upon completion of a foreclosure or (ii) the borrower conveys all interest in the residential real estate property to the Company to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement.

Real estate investments, including REO, that do not meet the criteria to be classified as held for sale are separately presented in the Consolidated Statements of Financial Condition as held for investment. Real estate held for sale is reported at the lower of its carrying value or its estimated fair value less estimated costs to sell. Once a property is determined to be held for sale, depreciation is no longer recorded.

The Company's real estate portfolio (REO and real estate held for investment) is reviewed on a quarterly basis, or more frequently as necessary, to assess whether there are any indicators that the value of its operating real estate may be impaired or that its carrying value may not be recoverable. A property's value is considered impaired if the Company's estimate of the aggregate future undiscounted cash flows to be generated by the property is less than the carrying value of the property. In conducting this review, the Company considers U.S. macroeconomic factors, including real estate sector conditions, together with asset specific and other factors. To the extent impairment has occurred and is considered to be other than temporary, the loss will be measured as the excess of the carrying amount of the property over the calculated fair value of the property.

The Company acquired real estate holdings in connection with the MTGE Acquisition during the three and nine months ended September 30, 2018; refer to the “Acquisition of MTGE Investment Corp.” Note for additional information. There were no acquisitions of real estate holdings during the three and nine months ended September 30, 2017. The Company sold one of its

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wholly-owned triple net leased properties during the nine months ended September 30, 2017 for $12.0 million and recognized a gain on sale of $5.1 million.

The weighted average amortization period for intangible assets and liabilities at September 30, 2018 is 5.0 years. Above market leases and leasehold intangible assets are included in Goodwill and intangible assets, net and below market leases are included in Other liabilities in the Consolidated Statements of Financial Condition.

	September 30, 2018	December 31, 2017
Real Estate, Net	(dollars in thousands)	
Land	$128,742	$ 111,012
Buildings and improvements	580,932	330,959
Furniture, fixtures and equipment	11,205	—
Subtotal	720,879	441,971
Less: accumulated depreciation	(60,795)	(48,920)
Total real estate held for investment, at amortized cost, net	660,084	393,051
Equity in unconsolidated joint ventures	92,930	92,902
Total Real Estate, Net	$753,014	$ 485,953

Depreciation expense was $4.5 million and $11.9 million for the three and nine months ended September 30, 2018, respectively. Depreciation expense was $4.0 million and $11.8 million for the three and nine months ended September 30, 2017, respectively. Depreciation expense is included in Other income (loss) in the Consolidated Statements of Comprehensive Income (Loss).

Rental Income
The minimum rental amounts due under leases are generally either subject to scheduled fixed increases or adjustments. The leases generally also require that the tenants reimburse the Company for certain operating costs. Rental income is included in Other income (loss) in the Company’s Consolidated Statements of Comprehensive Income (Loss).

Approximate future minimum rents to be received over the next five years and thereafter for non-cancelable operating leases in effect at September 30, 2018 for consolidated investments in real estate are as follows:

	September 30, 2018
	(dollars in thousands)
2018 (remaining)	$12,627
2019	49,246
2020	44,973
2021	40,940
2022	36,393
Later years	223,175
Total	$407,354

10. DERIVATIVE INSTRUMENTS

Derivative instruments include, but are not limited to, interest rate swaps, options to enter into interest rate swaps ("swaptions"), TBA derivatives, options on TBA securities ("MBS options"), U.S. Treasury and Eurodollar futures contracts and certain forward purchase commitments. The Company may also enter into other types of mortgage derivatives such as interest-only securities, credit derivatives referencing the commercial mortgage-backed securities index and synthetic total return swaps.

In connection with the Company's investment/market rate risk management strategy, the Company economically hedges a portion of its interest rate risk by entering into derivative financial instrument contracts, which include interest rate swaps, swaptions and futures contracts. The Company may also enter into TBA derivatives, MBS options and U.S. Treasury or Eurodollar futures contracts, certain forward purchase commitments and credit derivatives to economically hedge its exposure to market risks. The purpose of using derivatives is to manage overall portfolio risk with the potential to generate additional income for distribution to stockholders. These derivatives are subject to changes in market values resulting from changes in interest rates, volatility, Agency mortgage-backed security spreads to U.S. Treasuries and market liquidity. The use of derivatives also creates exposure to credit risk relating to potential losses that could be recognized if the counterparties to these instruments fail to perform their obligations under the stated contract. Additionally, the Company may have to pledge cash or assets as collateral for the derivative transactions, the amount of which may vary based on the market value and terms of the derivative contract. In the case of MAC interest rate swaps, the Company may make or receive a payment at the time of entering into such interest rate swap to compensate for the out of market nature of such interest rate swap. Similar to other interest rate swaps, the Company may have to pledge cash or assets as collateral for the MAC interest rate swap transactions. In the event of a default by the counterparty, the Company could have difficulty obtaining its pledged collateral as well as receiving payments in accordance with the terms of the derivative contracts.

Derivatives are accounted for in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 815, Derivatives and Hedging, which requires recognition of all derivatives as either assets or liabilities at fair value in the Consolidated Statements of Financial Condition with changes in fair value recognized in the Consolidated Statements of Comprehensive Income (Loss). The changes in the estimated fair value are presented within Net gains (losses) on other derivatives with the exception of interest rate swaps which are separately presented. None of the Company's derivative transactions have been designated as hedging instruments for accounting purposes.

The Company also maintains collateral in the form of cash on margin with counterparties to its interest rate swaps and other derivatives. In accordance with a clearing organization's rulebook, the Company presents the fair value of centrally cleared interest rate swaps net of variation margin pledged under such transactions. At September 30, 2018, $1.6 billion of variation margin was reported as a reduction to interest rate swaps, at fair value.

Interest Rate Swap Agreements – Interest rate swap agreements are the primary instruments used to mitigate interest rate risk. In particular, the Company uses interest rate swap agreements to manage its exposure to changing interest rates on its repurchase agreements by economically hedging cash flows associated with these borrowings. Interest rate swap agreements may or may not be cleared through a derivatives clearing organization ("DCO"). Uncleared interest rate swaps are fair valued using internal pricing models and compared to the counterparty market values. Centrally cleared interest rate swaps are generally fair valued using the DCO's market values. We may use market agreed coupon ("MAC") interest rate swaps in which we may receive or make a payment at the time of entering into the swap to compensate for the out of the market nature of such interest rate swap. MAC interest rate swaps are also centrally cleared and fair valued using internal pricing models and compared to the DCO's market value.

Swaptions – Swaptions are purchased or sold to mitigate the potential impact of increases or decreases in interest rates. Interest rate swaptions provide the option to enter into an interest rate swap agreement for a predetermined notional amount, stated term and pay and receive interest rates in the future. They are not centrally cleared. The premium paid or received for swaptions is reported as an asset or liability in the Consolidated Statements of Financial Condition. If a swaption expires unexercised, the realized gain (loss) on the swaption would be equal to the premium received or paid. If the Company sells or exercises a swaption, the realized gain or loss on the swaption would be equal to the difference between the cash received or the fair value of the underlying interest rate swap received and the premium paid.

The fair value of swaptions is estimated using internal pricing models and compared to the counterparty market value.

TBA Dollar Rolls – TBA dollar roll transactions are accounted for as a series of derivative transactions. The fair value of TBA derivatives is based on methods similar to those used to value Agency mortgage-backed securities.

MBS Options – MBS options are generally options on TBA contracts, which help manage mortgage market risks and volatility while providing the potential to enhance returns. MBS options are over-the-counter traded instruments and those written on current-coupon mortgage-backed securities are typically the most liquid. MBS options are measured at fair value using internal pricing models and compared to the counterparty market value at the valuation date.

Futures Contracts – Futures contracts are derivatives that track the prices of specific assets or benchmark rates. Short sales of futures contracts help to mitigate the potential impact of changes in interest rates on the portfolio performance. The Company maintains margin accounts which are settled daily with Futures Commission Merchants (“FCMs”). The margin requirement varies based on the market value of the open positions and the equity retained in the account. Futures contracts are fair valued based on exchange pricing.

Forward Purchase Commitments – The Company may enter into forward purchase commitments with counterparties whereby the Company commits to purchasing residential mortgage loans at a particular price, provided the residential mortgage loans close with the counterparties. The counterparties are required to deliver the committed loans on a “best efforts” basis.

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Credit Derivatives – The Company may enter into credit derivatives referencing the commercial mortgage-backed securities index, such as the CMBX index, and synthetic total return swaps. Refer to the section titled “Glossary of Terms” located in Part I, Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for additional information related to the CMBX index.

The table below summarizes fair value information about our derivative assets and liabilities at September 30, 2018 and December 31, 2017:

Derivatives Instruments	September 30, 2018	December 31, 2017
Derivative Assets:	(dollars in thousands)	
Interest rate swaps	$97,002	$ 30,272
Interest rate swaptions	65,356	36,150
TBA derivatives	13,535	29,067
Futures contracts	221,516	218,361
Purchase commitments	189	35
Credit derivatives (1)	7,243	—
	$404,841	$ 313,885
Derivative Liabilities:		
Interest rate swaps	$311,729	$ 569,129
TBA derivatives	64,900	21,776
Futures contracts	482	12,285
Purchase commitments	797	157
Credit derivatives (1)	1,886	4,507
	$379,794	$ 607,854

(1) The notional amount of the credit derivatives in which the Company purchased protection was $70.0 million at September 30, 2018. The maximum potential amount of future payments is the notional amount of $466.0 million and $125.0 million at September 30, 2018 and December 31, 2017, respectively, plus any coupon shortfalls on the underlying tranche. The credit derivative tranches referencing the basket of bonds had a range of ratings between AAA and BBB-.

The following table summarizes certain characteristics of the Company’s interest rate swaps at September 30, 2018 and December 31, 2017:

	September 30, 2018					
Maturity	Current Notional (1)	Weighted Average Pay Rate		Weighted Average Receive Rate		Weighted Average Years to Maturity
(dollars in thousands)						
0 - 3 years	$34,361,800	1.76	%	2.36	%	1.38
3 - 6 years	16,854,750	2.25	%	2.34	%	4.44
6 - 10 years	15,746,900	2.48	%	2.26	%	8.62
Greater than 10 years	4,151,400	3.60	%	2.27	%	17.13
Total / Weighted Average	$71,114,850	2.10	%	2.33	%	4.34

December 31, 2017

Maturity	Current Notional [1]	Weighted Average Pay Rate [2] [3]		Weighted Average Receive Rate [2]		Weighted Average Years to Maturity [2]
(dollars in thousands)						
0 - 3 years	$6,532,000	1.56	%	1.62	%	2.08
3 - 6 years	14,791,800	2.12	%	1.57	%	4.51
6 - 10 years	10,179,000	2.35	%	1.58	%	8.04
Greater than 10 years	3,826,400	3.65	%	1.51	%	18.47
Total / Weighted Average	$35,329,200	2.22	%	1.58	%	6.72

(1) There were no forward starting swaps at September 30, 2018. Notional amount includes $8.1 billion of forward starting pay fixed
swaps at December 31, 2017.

(2) Excludes forward starting swaps.

(3) Weighted average fixed rate on forward starting pay fixed swaps was 1.86% at December 31, 2017.

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The following table presents swaptions outstanding at September 30, 2018 and December 31, 2017.

	September 30, 2018				
	Current Underlying Notional	Weighted Average Underlying Pay Rate	Weighted Average Underlying Receive Rate	Weighted Average Underlying Years to Maturity	Weighted Average Months to Expiration
	(dollars in thousands)				
Long	$4,500,000	3.18 %	3M LIBOR	10.21	5.09

	December 31, 2017				
	Current Underlying Notional	Weighted Average Underlying Pay Rate	Weighted Average Underlying Receive Rate	Weighted Average Underlying Years to Maturity	Weighted Average Months to Expiration
	(dollars in thousands)				
Long	$6,000,000	2.62 %	3M LIBOR	9.97	4.49

The following table summarizes certain characteristics of the Company's TBA derivatives at September 30, 2018 and December 31, 2017:

	September 30, 2018			
Purchase and sale contracts for derivative TBAs	Notional	Implied Cost Basis	Implied Market Value	Net Carrying Value
(dollars in thousands)				
Purchase contracts	$16,209,160	$16,304,558	$16,253,193	$(51,365)

	December 31, 2017			
Purchase and sale contracts for derivative TBAs	Notional	Implied Cost Basis	Implied Market Value	Net Carrying Value
(dollars in thousands)				
Purchase contracts	$15,828,000	$16,381,826	$16,390,251	$8,425
Sale contracts	(250,000)	(254,804)	(255,938)	(1,134)
Net TBA derivatives	$15,578,000	$16,127,022	$16,134,313	$7,291

The following table summarizes certain characteristics of the Company's futures contracts at September 30, 2018 and December 31, 2017:

	September 30, 2018		
	Notional - Long Positions	Notional - Short Positions	Weighted Average Years to Maturity
	(dollars in thousands)		
U.S. Treasury futures - 2 year	$—	$(1,166,000)	2.00
U.S. Treasury futures - 5 year	—	(6,359,400)	4.41
U.S. Treasury futures - 10 year and greater	—	(12,346,600)	7.18

Total	$—	$(19,872,000)	5.99

	December 31, 2017		
	Notional - Long Positions	Notional - Short Positions	Weighted Average Years to Maturity
	(dollars in thousands)		
2-year swap equivalent Eurodollar contracts	$—	$(17,161,000)	2.00
U.S. Treasury futures - 5 year	—	(4,217,400)	4.41
U.S. Treasury futures - 10 year and greater	—	(4,914,500)	7.01
Total	$—	$(26,292,900)	3.32

The Company presents derivative contracts on a gross basis on the Consolidated Statements of Financial Condition. Derivative contracts may contain legally enforceable provisions that allow for netting or setting off receivables and payables with each counterparty.

The following tables present information about derivative assets and liabilities that are subject to such provisions and can potentially be offset on our Consolidated Statements of Financial Condition at September 30, 2018 and December 31, 2017, respectively.

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	September 30, 2018			
		Amounts Eligible for Offset		
	Gross Amounts	Financial Instruments	Cash Collateral	Net Amounts
Assets:	(dollars in thousands)			
Interest rate swaps, at fair value	$97,002	$(45,805)	$ —	$51,197
Interest rate swaptions, at fair value	65,356	—	—	65,356
TBA derivatives, at fair value	13,535	(13,535)	—	—
Futures contracts, at fair value	221,516	(482)	—	221,034
Purchase commitments	189	—	—	189
Credit derivatives	7,243	(1,886)	—	5,357
Liabilities:				
Interest rate swaps, at fair value	$311,729	$(45,805)	$ —	$265,924
TBA derivatives, at fair value	64,900	(13,535)	—	51,365
Futures contracts, at fair value	482	(482)	—	—
Purchase commitments	797	—	—	797
Credit derivatives	1,886	(1,886)	—	—

	December 31, 2017			
		Amounts Eligible for Offset		
	Gross Amounts	Financial Instruments	Cash Collateral	Net Amounts
Assets:	(dollars in thousands)			
Interest rate swaps, at fair value	$30,272	$(27,379)	$ —	$2,893
Interest rate swaptions, at fair value	36,150	—	—	36,150
TBA derivatives, at fair value	29,067	(12,551)	—	16,516
Futures contracts, at fair value	218,361	(12,285)	—	206,076
Purchase commitments	35	—	—	35
Liabilities:				
Interest rate swaps, at fair value	$569,129	$(27,379)	$ —	$541,750
TBA derivatives, at fair value	21,776	(12,551)	—	9,225
Futures contracts, at fair value	12,285	(12,285)	—	—
Purchase commitments	157	—	—	157
Credit derivatives	4,507	—	(3,520)	987

The effect of interest rate swaps on the Consolidated Statements of Comprehensive Income (Loss) is as follows:

	Location on Consolidated Statements of Comprehensive Income (Loss)		
	Net Interest Component	Realized Gains (Losses) on	Unrealized Gains (Losses) on

	of Interest Rate Swaps	Termination or Maturity of Interest Rate Swaps	Interest Rate Swaps
Three Months Ended:	(dollars in thousands)		
September 30, 2018	$51,349	$ 575	$417,203
September 30, 2017	$(88,211)	$ —	$56,854
Nine Months Ended:			
September 30, 2018	$34,664	$ 1,409	$1,737,963
September 30, 2017	$(288,837)	$ (58)	$28,471

The effect of other derivative contracts on the Company's Consolidated Statements of Comprehensive Income (Loss) is as follows:

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	Three Months Ended September 30, 2018		
Derivative Instruments	Realized Gains (Losses)	Unrealized Gains (Losses)	Amount of Gains (Losses) Recognized in Net Gains (Losses) on Other Derivatives
(dollars in thousands)			
Net TBA derivatives	$8,569	$(85,741)	$(77,172)
Net interest rate swaptions	(28,754)	(17,663)	(46,417)
Futures	(114,317)	327,787	213,470
Purchase commitments	—	(841)	(841)
Credit derivatives	3,096	1,676	4,772
Total			$93,812

	Three Months Ended September 30, 2017		
Derivative Instruments	Realized Gains (Losses)	Unrealized Gains (Losses)	Amount of Gains (Losses) Recognized in Net Gains (Losses) on Other Derivatives
(dollars in thousands)			
Net TBA derivatives	$110,067	$29,728	$139,795
Net interest rate swaptions	—	(9,137)	(9,137)
Futures	(70,054)	92,784	22,730
Purchase commitments	—	(108)	(108)
Credit derivatives	495	433	928
Total			$154,208

	Nine Months Ended September 30, 2018		
Derivative Instruments	Realized Gains (Losses)	Unrealized Gains (Losses)	Amount of Gains (Losses) Recognized in Net Gains (Losses) on Other Derivatives

(dollars in thousands)			
Net TBA derivatives	$(299,560)	$(56,701)	$(356,261)
Net interest rate swaptions	(85,854)	53,557	(32,297)
Futures	443,314	14,959	458,273
Purchase commitments	—	(416)	(416)
Credit derivatives	7,498	4,060	11,558
Total			$80,857

	Nine Months Ended September 30, 2017		
Derivative Instruments	Realized Gains (Losses)	Unrealized Gains (Losses)	Amount of Gain (Losses) Recognized in Net Gains (Losses) on Other Derivatives
(dollars in thousands)			
Net TBA derivatives	$215,529	$39,964	$255,493
Net interest rate swaptions	—	(19,574)	(19,574)
Futures	(128,478)	31,492	(96,986)
Purchase commitments	—	165	165
Credit derivatives	632	356	988
Total			$140,086

Certain of the Company’s derivative contracts are subject to International Swaps and Derivatives Association Master Agreements or other similar agreements which may contain provisions that grant counterparties certain rights with respect to the applicable agreement upon the occurrence of certain events such as (i) a decline in stockholders’ equity in excess of specified thresholds or dollar amounts over set periods of time, (ii) the Company’s failure to maintain its REIT status, (iii) the Company’s failure to comply with limits on the amount of leverage, and (iv) the Company’s stock being delisted from the New York Stock Exchange.

Upon the occurrence of any one of items (i) through (iv), or another default under the agreement, the counterparty to the applicable agreement has a right to terminate the agreement in accordance with its provisions. The aggregate fair value of all derivative instruments with the aforementioned features are in a net asset position at September 30, 2018.

11. FAIR VALUE MEASUREMENTS

The Company follows fair value guidance in accordance with GAAP to account for its financial instruments that are accounted for at fair value. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

GAAP requires classification of financial instruments into a three-level hierarchy based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest priority input that is significant to the fair value measurement of the instrument. Financial assets and liabilities recorded at fair value on the Consolidated Statements of Financial Condition or disclosed in the related notes are categorized based on the inputs to the valuation techniques as follows:

Level 1– inputs to the valuation methodology are quoted prices (unadjusted) for identical assets and liabilities in active markets.

Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – inputs to the valuation methodology are unobservable and significant to overall fair value.

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The Company designates its securities as trading, available-for-sale or held-to-maturity depending upon the type of security and the Company's intent and ability to hold such security to maturity. Securities classified as available-for-sale and trading are reported at fair value on a recurring basis.

The following is a description of the valuation methodologies used for instruments carried at fair value. These methodologies are applied to assets and liabilities across the three-level fair value hierarchy, with the observability of inputs determining the appropriate level.

Residential Securities, interest rate swaps, swaptions and other derivatives are valued using quoted prices or internally estimated prices for similar assets using internal models. The Company incorporates common market pricing methods, including a spread measurement to the Treasury curve as well as underlying characteristics of the particular security including coupon, prepayment speeds, periodic and life caps, rate reset period and expected life of the security in its estimates of fair value. Fair value estimates for residential mortgage loans are generated by a discounted cash flow model and are primarily based on observable market-based inputs including discount rates, prepayment speeds, delinquency levels, and credit losses. Management reviews and indirectly corroborates its estimates of the fair value derived using internal models by comparing its results to independent prices provided by dealers in the securities and/or third party pricing services. Certain liquid asset classes, such as Agency fixed-rate pass-throughs, may be priced using independent sources such as quoted prices for TBA securities.

Futures contracts are valued using quoted prices for identical instruments in active markets and are classified as Level 1.

Residential Securities, residential mortgage loans, interest rate swap and swaption markets and MBS options are considered to be active markets such that participants transact with sufficient frequency and volume to provide transparent pricing information on an ongoing basis. The liquidity of the Residential Securities, interest rate swaps, swaptions, TBA derivatives and MBS options markets and the similarity of the Company's securities to those actively traded enable the Company to observe quoted prices in the market and utilize those prices as a basis for formulating fair value measurements. Consequently, the Company has classified Residential Securities, interest rate swaps, swaptions, TBA derivatives and MBS options as Level 2 inputs in the fair value hierarchy.

The fair value of commercial mortgage-backed securities classified as available-for-sale is determined based upon quoted prices of similar assets in recent market transactions and requires the application of judgment due to differences in the underlying collateral. Consequently, Commercial real estate debt investments carried at fair value are classified as Level 2.

For the fair value of securitized debt of consolidated VIEs, refer to the Note titled "Variable Interest Entities" for additional information.

The Company classifies its investments in MSRs as Level 3 in the fair value measurements hierarchy. Fair value estimates for these investments are obtained from models, which use significant unobservable inputs in their valuations. These valuations primarily utilize discounted cash flow models that incorporate unobservable market data inputs including prepayment rates, delinquency levels, costs to service and discount rates. Model valuations are then compared to valuations obtained from third-party pricing providers. Management reviews the valuations received from third-party pricing providers and uses them as a point of comparison to modeled values. The valuation of MSRs requires significant judgment by management and the third-party pricing providers. Assumptions used for which there is a lack of observable inputs may significantly impact the resulting fair value and therefore the Company's financial statements.

The following tables present the estimated fair values of financial instruments measured at fair value on a recurring basis. There were no transfers between levels of the fair value hierarchy during the periods presented.

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	September 30, 2018			
	Level 1	Level 2	Level 3	Total
Assets:	(dollars in thousands)			
Securities				
Agency mortgage-backed securities	$—	$89,290,128	$—	$89,290,128
Credit risk transfer securities	—	688,521	—	688,521
Non-Agency mortgage-backed securities	—	1,173,467	—	1,173,467
Commercial mortgage-backed securities	—	186,495	—	186,495
Loans				
Residential mortgage loans	—	1,217,139	—	1,217,139
Mortgage servicing rights	—	—	588,833	588,833
Assets transferred or pledged to securitization vehicles	—	4,287,821	—	4,287,821
Derivative assets				
Interest rate swaps	—	97,002	—	97,002
Other derivatives	221,516	86,323	—	307,839
Total assets	$221,516	$97,026,896	$588,833	$97,837,245
Liabilities:				
Debt issued by securitization vehicles	$—	$3,799,542	$—	$3,799,542
Derivative liabilities				
Interest rate swaps	—	311,729	—	311,729
Other derivatives	482	67,583	—	68,065
Total liabilities	$482	$4,178,854	$—	$4,179,336

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets:	(dollars in thousands)			
Securities				
Agency mortgage-backed securities	$—	$90,551,763	$—	$90,551,763
Credit risk transfer securities	—	651,764	—	651,764
Non-Agency mortgage-backed securities	—	1,097,294	—	1,097,294
Commercial mortgage-backed securities	—	262,751	—	262,751
Loans				
Residential mortgage loans	—	958,546	—	958,546
Mortgage servicing rights	—	—	580,860	580,860
Assets transferred or pledged to securitization vehicles	—	3,306,133	—	3,306,133
Derivative assets				
Interest rate swaps	—	30,272	—	30,272
Other derivatives	218,361	65,252	—	283,613
Total assets	$218,361	$96,923,775	$580,860	$97,722,996
Liabilities:				
Debt issued by securitization vehicles	$—	$2,971,771	$—	$2,971,771
Derivative liabilities				
Interest rate swaps	—	569,129	—	569,129
Other derivatives	12,285	26,440	—	38,725
Total liabilities	$12,285	$3,567,340	$—	$3,579,625

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Quantitative Information about Level 3 Fair Value Measurements

The Company considers unobservable inputs to be those for which market data is not available and that are developed using the best information available to us about the assumptions that market participants would use when pricing the asset. Relevant inputs vary depending on the nature of the instrument being measured at fair value. The sensitivities of significant unobservable inputs along with interrelationships between and among the significant unobservable inputs and their impact on the fair value measurements are described below. The effect of a change in a particular assumption in the sensitivity analysis below is considered independently from changes in any other assumptions. In practice, simultaneous changes in assumptions may not always have a linear effect on the inputs discussed below. Interrelationships may also exist between observable and unobservable inputs. Such relationships have not been included in the discussion below. For each of the individual relationships described below, the inverse relationship would also generally apply. For MSRs, in general, increases in the discount, prepayment or delinquency rates or in annual servicing costs in isolation would result in a lower fair value measurement. A decline in interest rates could lead to higher-than-expected prepayments of mortgages underlying the Company’s investments in MSRs, which in turn could result in a decline in the estimated fair value of MSRs. Refer to the Note titled “Mortgage Servicing Rights” for additional information.

The table below presents information about the significant unobservable inputs used for recurring fair value measurements for Level 3 MSRs. The table does not give effect to the Company’s risk management practices that might offset risks inherent in these Level 3 investments.

Valuation Technique	Unobservable Input [1]	September 30, 2018	December 31, 2017
		Range (Weighted Average)	
Discounted cash flow	Discount rate	9.0% -12.0% (9.4%)	10.0% -15.0% (10.4%)
	Prepayment rate	4.5% - 11.3% (7.1%)	4.6% - 22.3% (9.4%)
	Delinquency rate	0.0% - 5.0% (2.3%)	0.0% - 13.0% (2.2%)
	Cost to service	\$82 - \$132 (\$105)	\$84 - \$181 (\$102)

[1] Represents rates, estimates and assumptions that the Company believes would be used by market participants when valuing these assets.

The following table summarizes the estimated fair values for financial assets and liabilities that are not carried at fair value at September 30, 2018 and December 31, 2017.

	Level in Fair Value Hierarchy	September 30, 2018 Carrying Value	September 30, 2018 Fair Value	December 31, 2017 Carrying Value	December 31, 2017 Fair Value
Financial assets:	(dollars in thousands)				
Loans					
Commercial real estate debt and preferred equity, held for investment	3	1,435,865	1,446,062	1,029,327	1,035,095
Commercial loans held for sale, net	3	42,325	43,055	—	—
Corporate debt	2	1,528,874	1,531,546	1,011,275	1,014,139
Financial liabilities:					
Repurchase agreements	1,2	$79,073,026	$79,073,026	$77,696,343	$77,697,828
Other secured financing	1,2	4,108,547	4,108,801	3,837,528	3,837,595
Mortgages payable	3	511,588	494,690	309,686	310,218

12. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The Company’s acquisitions are accounted for using the acquisition method if the acquisition is deemed to be a business. Under the acquisition method, net assets and results of operations of acquired companies are included in the consolidated financial statements from the date of acquisition. The purchase prices are allocated to the assets acquired, including identifiable intangible assets, and the liabilities assumed based on their estimated fair values at the date of acquisition. The excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Conversely, any excess of the fair value of the net assets acquired over the purchase price is recognized as a bargain purchase gain.

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The Company tests goodwill for impairment on an annual basis and at interim periods when events or circumstances may make it more likely than not that an impairment has occurred. If a qualitative analysis indicates that there may be an impairment, a quantitative analysis is performed. The quantitative impairment test for goodwill utilizes a two-step approach, whereby the Company compares the carrying value of each identified reporting unit to its fair value. If the carrying value of the reporting unit is greater than its fair value, the second step is performed, where the implied fair value of goodwill is compared to its carrying value. The Company recognizes an impairment charge for the amount by which the carrying amount of goodwill exceeds its fair value.
At September 30, 2018 and December 31, 2017, Goodwill totaled $71.8 million. Goodwill is tested for impairment at least annually.

Intangible assets, net

Finite life intangible assets are amortized over their expected useful lives. The following table presents the activity of finite lived intangible assets for the nine months ended September 30, 2018.

Intangible Assets, net	
(dollars in thousands)	
Balance at December 31, 2017	$23,220
Intangible assets acquired	14,483
Less: amortization expense	(6,475)
Balance at September 30, 2018	$31,228

13. SECURED FINANCING

Reverse Repurchase and Repurchase Agreements – The Company finances a significant portion of its assets with repurchase agreements. At the inception of each transaction, the Company assesses each of the specified criteria in ASC 860, Transfers and Servicing, and has determined that each of the financing agreements meet the specified criteria in this guidance.

The Company enters into reverse repurchase agreements to earn a yield on excess cash balances. The Company obtains collateral in connection with the reverse repurchase agreements in order to mitigate credit risk exposure to its counterparties.

Reverse repurchase agreements and repurchase agreements with the same counterparty and the same maturity are presented net in the Consolidated Statements of Financial Condition when the terms of the agreements meet the criteria to permit netting. The Company reports cash flows on repurchase agreements as financing activities and cash flows on reverse repurchase agreements as investing activities in the Consolidated Statements of Cash Flows.
The Company had outstanding $79.1 billion and $77.7 billion of repurchase agreements with weighted average borrowing rates of 2.05% and 1.89%, after giving effect to the Company's interest rate swaps used to hedge cost of funds, and weighted average remaining maturities of 55 days and 58 days at September 30, 2018 and December 31, 2017, respectively.

At September 30, 2018 and December 31, 2017, the repurchase agreements had the following remaining maturities, collateral types and weighted average rates:

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	September 30, 2018						
	Agency Mortgage-Backed Securities	CRTs	Non-Agency Mortgage-Backed Securities	Commercial Loans	Commercial Mortgage-Backed Securities	Total Repurchase Agreements	Weighted Average Rate
	(dollars in thousands)						
1 day	$16,400,345	$—	$ —	$ —	$ —	$16,400,345	2.38 %
2 to 29 days	19,476,641	365,101	252,960	—	80,474	20,175,176	2.18 %
30 to 59 days	7,256,371	—	65,567	—	—	7,321,938	2.26 %
60 to 89 days	17,159,885	71,919	155,479	—	36,076	17,423,359	2.38 %
90 to 119 days	6,518,313	—	—	—	—	6,518,313	2.20 %
Over 120 days (1)	10,330,866	—	—	764,543	138,486	11,233,895	2.48 %
Total	$77,142,421	$437,020	$ 474,006	$ 764,543	$ 255,036	$79,073,026	2.32 %

	December 31, 2017						
	Agency Mortgage-Backed Securities	CRTs	Non-Agency Mortgage-Backed Securities	Commercial Loans	Commercial Mortgage-Backed Securities	Total Repurchase Agreements	Weighted Average Rate
	(dollars in thousands)						
1 day	$—	$—	$ —	$ —	$ —	$—	—
2 to 29 days	33,421,609	263,528	253,290	—	18,125	33,956,552	1.69 %
30 to 59 days	10,811,515	7,229	3,658	—	6,375	10,828,777	1.44 %
60 to 89 days	13,800,743	7,214	47,830	—	—	13,855,787	1.59 %
90 to 119 days	10,128,006	—	—	—	—	10,128,006	1.39 %
Over 120 days (1)	8,542,108	—	—	385,113	—	8,927,221	1.77 %
Total	$76,703,981	$277,971	$ 304,778	$ 385,113	$ 24,500	$77,696,343	1.61 %

(1) Approximately 0% and 1% of the total repurchase agreements had a remaining maturity over 1 year at September 30, 2018 and December 31, 2017, respectively.

The following table summarizes the gross amounts of reverse repurchase agreements and repurchase agreements, amounts offset in accordance with netting arrangements and net amounts of repurchase agreements and reverse repurchase agreements as presented in the Consolidated Statements of Financial Condition at September 30, 2018 and December 31, 2017. Refer to the "Derivative Instruments" Note for information related to the effect of netting arrangements on the Company's derivative instruments.

	September 30, 2018		December 31, 2017	
	Reverse Repurchase Agreements	Repurchase Agreements	Reverse Repurchase Agreements	Repurchase Agreements
	(dollars in thousands)			
Gross Amounts	$1,484,704	$79,323,026	$1,250,000	$78,946,343
Amounts Offset	(250,000)	(250,000)	(1,250,000)	(1,250,000)
Netted Amounts	$1,234,704	$79,073,026	$—	$77,696,343

Other Secured Financing - The Company also finances a portion of its financial assets with advances from the Federal Home Loan Bank of Des Moines ("FHLB Des Moines"). Borrowings from FHLB Des Moines are reported in Other secured financing in the Company's Consolidated Statements of Financial Condition. At September 30, 2018, $3.6 billion of the advances matures between one to three years. At December 31, 2017, $2.1 billion of advances from the FHLB Des Moines matures beyond three years and $1.4 billion matures between one to three years. The weighted average rate of the advances from the FHLB Des Moines was 2.41% and 1.49% at September 30, 2018 and December 31, 2017, respectively. The Company held $147.9 million of capital stock in the FHLB Des Moines at September 30, 2018 and December 31, 2017, which is reported at cost and included in Other assets on the Company's Consolidated Statements of Financial Condition.

Investments pledged as collateral under secured financing arrangements and interest rate swaps, excluding residential and senior securitized commercial mortgage loans of consolidated VIEs, had an estimated fair value and accrued interest of $87.2 billion and $280.7 million, respectively, at September 30, 2018 and $87.0 billion and $267.3 million, respectively, at December 31, 2017.

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The fair value of collateral received in connection with reverse repurchase agreements was $482.3 million and $0 as of September 30, 2018 and December 31, 2017, respectively. The Company did not sell or repledge any of the collateral received as of September 30, 2018 and December 31, 2017.

Mortgages Payable - Mortgages payable at September 30, 2018 and December 31, 2017, were as follows:

	September 30, 2018					
Property	Mortgage Carrying Value	Mortgage Principal	Interest Rate	Fixed/Floating Rate	Maturity Date	Priority
(dollars in thousands)						
Joint Ventures	$332,317	$334,789	2.75% - 4.96%	Fixed	2024 - 2029	First liens
Tennessee	12,319	12,350	4.01%	Fixed	9/6/2019	First liens
Virginia	96,266	98,127	2.34% - 4.55%	Fixed	2019-2053	First liens
Utah (fixed)	7,297	7,218	3.69%	Fixed	6/1/2053	First liens
Utah (floating)	9,691	9,706	L+3.50%	Floating	1/31/2019	First liens
Minnesota Wisconsin	13,470	13,506	3.69%	Fixed	6/1/2053	First liens