American Capital Agency Corp
Form 10-Q
August 09, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2011

OR

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

Commission file number 001-34057

AMERICAN CAPITAL AGENCY CORP.

(Exact name of registrant as specified in its charter)

Delaware	**26-1701984**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**

2 Bethesda Metro Center, 14th Floor

Bethesda, Maryland 20814

(Address of principal executive offices)

(301) 968-9300

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports 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 earlier 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 x No ¨

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

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

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

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

The number of shares of the issuer s common stock, $0.01 par value, outstanding as of July 31, 2011 was 178,511,759

AMERICAN CAPITAL AGENCY CORP.

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ITEM 1. ***Financial Statements***

AMERICAN CAPITAL AGENCY CORP.

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	June 30, 2011 (Unaudited)	December 31, 2010
Assets:		
Agency securities, at fair value (including pledged assets of $35,117,998 and $12,270,909, respectively)	$ 39,925,707	$ 13,510,280
Cash and cash equivalents	625,850	173,258
Restricted cash	188,772	76,094
Interest receivable	139,265	56,485
Derivative assets, at fair value	86,064	76,593
Receivable for agency securities sold	1,251,624	258,984
Principal payments receivable	29,254	75,524
Receivable under reverse repurchase agreements	1,388,188	247,438
Other assets	1,846	1,173
Total assets	$ 43,636,570	$ 14,475,829
Liabilities:		
Repurchase agreements	$ 33,505,142	$ 11,680,092
Other debt	61,757	72,927
Payable for agency securities purchased	3,336,485	727,374
Derivative liabilities, at fair value	290,286	78,590
Dividend payable	180,360	90,798
Obligation to return securities borrowed under reverse repurchase agreements, at fair value	1,459,298	245,532
Accounts payable and other accrued liabilities	26,596	8,452
Total liabilities	38,859,924	12,903,765
Stockholders equity:		
Preferred stock, $0.01 par value; 10,000 shares authorized, 0 shares issued and outstanding, respectively		
Common stock, $0.01 par value; 300,000 and 150,000 shares authorized, 178,509 and 64,856 shares issued and outstanding, respectively	1,785	649
Additional paid-in capital	4,682,070	1,561,908
Retained earnings	73,841	78,116
Accumulated other comprehensive income (loss)	18,950	(68,609)
Total stockholders equity	4,776,646	1,572,064
Total liabilities and stockholders equity	$ 43,636,570	$ 14,475,829

See accompanying notes to consolidated financial statements.

AMERICAN CAPITAL AGENCY CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME

(Unaudited)

(in thousands, except per share data)

	For the three months ended June 30,		For the six months ended June 30,	
	2011	2010	2011	2010
Interest income:				
Interest income	$ 264,728	$ 50,589	$ 429,221	$ 89,386
Interest expense	63,816	17,348	99,464	32,858
Net interest income	200,912	33,241	329,757	56,528
Other (loss) income, net:				
Gain on sale of agency securities, net	93,892	29,585	98,112	56,993
Loss on derivative instruments and trading securities, net	(100,013)	(21,867)	(88,484)	(15,947)
Total other (loss) income, net	(6,121)	7,718	9,628	41,046
Expenses:				
Management fees	12,423	2,314	20,877	4,098
General and administrative expenses	4,546	1,787	7,143	3,468
Total expenses	16,969	4,101	28,020	7,566
Net income	$ 177,822	$ 36,858	$ 311,365	$ 90,008
Net income per common share basic and diluted	$ 1.36	$ 1.23	$ 2.82	$ 3.28
Weighted average number of common shares outstanding basic and diluted	130,467	29,872	110,496	27,451
Dividends declared per common share	$ 1.40	$ 1.40	$ 2.80	$ 2.80
Comprehensive income:				
Net income	$ 177,822	$ 36,858	$ 311,365	$ 90,008
Other comprehensive income:				
Unrealized gain on available-for-sale securities, net	318,899	59,484	279,097	61,417
Unrealized loss on derivative instruments, net	(252,664)	(38,906)	(191,538)	(52,382)
Other comprehensive income	66,235	20,578	87,559	9,035
Comprehensive income	$ 244,057	$ 57,436	$ 398,924	$ 99,043

See accompanying notes to consolidated financial statements.

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AMERICAN CAPITAL AGENCY CORP.

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(in thousands)

	Preferred Stock		Common Stock				Accumulated Other	
					Additional		Comprehensive	
					Paid-in	Retained	(Loss)	
	Shares	Amount	Shares	Amount	Capital	Earnings	Income	Total
Balance, December 31, 2010		$	64,856	$ 649	$ 1,561,908	$ 78,116	$ (68,609)	$ 1,572,064
Net income						133,543		133,543
Other comprehensive income (loss):								
Unrealized loss on available- for-sale securities, net							(39,802)	(39,802)
Unrealized gain on designated derivative instruments, net							61,126	61,126
Issuance of common stock			63,964	639	1,752,173			1,752,812
Issuance of restricted stock			9					
Stock-based compensation					38			38
Common dividends declared						(135,280)		(135,280)
Balance, March 31, 2011 (Unaudited)			128,829	1,288	3,314,119	76,379	(47,285)	3,344,501
Net income						177,822		177,822
Other comprehensive income (loss):								
Unrealized gain on available- for-sale securities, net							318,899	318,899
Unrealized loss on derivative instruments, net							(252,664)	(252,664)
Issuance of common stock			49,680	497	1,367,907			1,368,404
Stock-based compensation					44			44
Common dividends declared						(180,360)		(180,360)
Balance, June 30, 2011 (Unaudited)		$	178,509	$ 1,785	$ 4,682,070	$ 73,841	$ 18,950	$ 4,776,646

See accompanying notes to consolidated financial statements.

AMERICAN CAPITAL AGENCY CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	For the six months ended June 30, 2011	2010
Operating activities:		
Net income	$ 311,365	$ 90,008
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of agency securities premiums and discounts, net	126,942	35,192
Amortization of interest rate swap termination fee		6,278
Stock-based compensation	82	42
Gain on sale of agency securities, net	(98,112)	(56,993)
Loss on derivative instruments and trading securities, net	88,484	15,947
Increase in interest receivable	(82,780)	(13,060)
Increase in other assets	(673)	(382)
Increase (decrease) in accounts payable and other accrued liabilities	18,144	(1,263)
Net cash provided by operating activities	363,452	75,769
Investing activities:		
Purchases of agency securities	(37,811,048)	(8,191,504)
Proceeds from sale of agency securities	11,489,300	4,534,061
Purchases of trading securities	(3,021,675)	(279,164)
Proceeds from sale of trading securities	3,050,224	280,607
Proceeds from U.S. Treasury securities sold, not yet purchased	8,552,609	
Purchase of U.S. Treasury securities sold, not yet purchased	(7,338,951)	
Proceeds from reverse repurchase agreements	15,920,855	
Payments made on reverse repurchase agreements	(17,061,605)	
Net proceeds from (payments on) other derivative instruments not designated as qualifying hedges	(109,274)	(6,122)
Principal collections on agency securities	1,822,367	599,776
Net cash used in investing activities	(24,507,198)	(3,062,346)
Financing activities:		
Cash dividends paid	(226,079)	(71,515)
Increase in restricted cash	(112,678)	(18,249)
Proceeds from repurchase arrangements, net	21,825,050	2,792,508
Repayments on other debt	(11,170)	
Net proceeds from common stock issuances	3,121,215	231,111
Net cash provided by financing activities	24,596,338	2,933,855
Net change in cash and cash equivalents	452,592	(52,722)
Cash and cash equivalents at beginning of period	173,258	202,803
Cash and cash equivalents at end of period	$ 625,850	$ 150,081

See accompanying notes to consolidated financial statements.

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AMERICAN CAPITAL AGENCY CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Unaudited Interim Consolidated Financial Statements

The interim consolidated financial statements of American Capital Agency Corp. (together with its consolidated subsidiary, is referred throughout this report as the Company , we , us and our) are prepared in accordance with U.S. generally accepted accounting principles (GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Our unaudited consolidated financial statements include the accounts of our wholly-owned subsidiary, American Capital Agency TRS, LLC, and variable interest entities for which the Company is the primary beneficiary. Significant intercompany accounts and transactions have been eliminated. In the opinion of management, all adjustments, consisting solely of normal recurring accruals, necessary for the fair presentation of financial statements for the interim period have been included. The current period s results of operations are not necessarily indicative of results that ultimately may be achieved for the year. Through June 30, 2011, there has been no activity in American Capital Agency TRS, LLC.

Note 2. Organization

We were organized in Delaware on January 7, 2008, and commenced operations on May 20, 2008 following the completion of our initial public offering (IPO). Our common stock is traded on The NASDAQ Global Select Market under the symbol AGNC .

We have elected to be taxed as a real estate investment trust (REIT) under the Internal Revenue Code of 1986, as amended (the Code). As such, we are required to distribute annually 90% of our taxable net income. As long as we qualify as a REIT, we will generally not be subject to U.S. federal or state corporate taxes on our taxable net income to the extent that we distribute all of our annual taxable net income to our stockholders. We are externally managed by American Capital AGNC Management, LLC (our Manager), an affiliate of American Capital, Ltd. (American Capital).

We earn income primarily from investing in residential mortgage pass-through securities and collateralized mortgage obligations (CMOs) on a leveraged basis. These investments consist of securities for which the principal and interest payments are guaranteed by government-sponsored entities (GSEs), such as the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), or by a U.S. Government agency, such as the Government National Mortgage Association (Ginnie Mae). We refer to these types of securities as agency securities and the specific agency securities in which we invest as our investment portfolio.

Our principal objective is to preserve our net asset value while generating attractive risk-adjusted returns for distribution to our stockholders through regular quarterly dividends from our net interest income, which is the spread between the interest income earned on our interest earning assets and the interest costs of our borrowings and hedging activities, and net realized gains and losses on our investments and other supplemental hedging activities. We fund our investments primarily through short-term borrowings structured as repurchase agreements.

Note 3. Summary of Significant Accounting Policies

Investments in Agency Securities

Accounting Standards Codification (ASC) Topic 320, *Investments Debt and Equity Securities* (ASC 320), requires that at the time of purchase, we designate a security as held-to-maturity, available-for-sale or trading, depending on our ability and intent to hold such security to maturity. Securities classified as trading and available-for-sale are reported at fair value, while securities classified as held-to-maturity are reported at amortized cost. We may, from time to time, sell any of our agency securities as part of our overall management of our investment portfolio. Accordingly, we typically designate our agency securities as available-for-sale. All securities classified as available-for-sale are reported at fair value, with unrealized gains and losses reported in other comprehensive income (loss) (OCI), a component of stockholders equity. Upon the sale of a security, we determine the cost of the security and the amount of unrealized gains or losses to reclassify out of accumulated OCI into earnings based on the specific identification method.

Interest-only securities and inverse interest-only securities (collectively referred to as interest-only securities) represent our right to receive a specified proportion of the contractual interest flows of specific agency and CMO securities. Principal-only securities represent our right to receive the contractual principal flows of specific agency and CMO securities. Interest-only and principal-only securities are measured at fair value through earnings in gain (loss) on derivative instruments and trading securities, net in our consolidated statements of operations and comprehensive income. Our investments in interest-only and principal-only securities are included in agency securities, at fair value on the accompanying consolidated balance sheets.

We estimate the fair value of our agency securities based on a market approach using Level 2 inputs from third-party pricing services and dealer quotes. The third-party pricing services use pricing models that incorporate such factors as coupons, primary and secondary mortgage rates, prepayment speeds, spread to the Treasury and interest rate swap curves, convexity, duration, periodic and life caps and credit enhancements. The dealer quotes incorporate common market pricing methods, including a spread measurement to the Treasury or interest rate swap curve as well as underlying characteristics of the particular security including coupon, periodic and life caps, rate reset period, issuer, additional credit support and expected life of the security.

We evaluate securities for other-than-temporary impairment (OTTI) on at least a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. Based on the criteria in ASC 320, the determination of whether a security is other-than-temporarily impaired involves judgments and assumptions based on subjective and objective factors. When an agency security is impaired, an OTTI is considered to have occurred if (i) we intend to sell the agency security (i.e. a decision has been made as the reporting date) or (ii) it is more likely than not that we will be required to sell the agency security before recovery of its amortized cost basis. If we intend to sell the security or if it is more likely than not that we will be required to sell the agency security before recovery of its amortized cost basis, the entire amount of the impairment loss, if any, is recognized in earnings as a realized loss and the cost basis of the security is adjusted to its fair value.

We did not recognize any OTTI charges on any of our agency securities for six months ended June 30, 2011 and 2010.

Interest Income

Interest income is accrued based on the outstanding principal amount of the agency securities and their contractual terms. Premiums and discounts associated with the purchase of agency securities are amortized or accreted into interest income over the projected lives of the securities, including contractual payments and estimated prepayments using the interest method in accordance with ASC Subtopic 310-20, *Receivables Nonrefundable Fees and Other Costs* (ASC 310-20).

We estimate long-term prepayment speeds using a third-party service and market data. The third-party service estimates prepayment speeds using models that incorporate the forward yield curve, current mortgage rates, current mortgage rates of the outstanding loans, loan age, volatility and other factors. We review the

prepayment speeds estimated by the third-party service and compare the results to market consensus prepayment speeds, if available. We also consider historical prepayment speeds and current market conditions to validate the reasonableness of the prepayment speeds estimated by the third-party service and based on our Manager s judgment we may make adjustments to their estimates. Actual and anticipated prepayment experience is reviewed quarterly and effective yields are recalculated when differences arise between the previously estimated future prepayments and the amounts actually received plus current anticipated future prepayments. If the actual and anticipated future prepayment experience differs from our prior estimate of prepayments, we are required to record an adjustment in the current period to the amortization or accretion of premiums and discounts for the cumulative difference in the effective yield through the reporting date.

In addition, pursuant to ASC 310-20, the yield on our adjustable rate securities assumes that the securities reset at a rate equal to the underlying index rate in effect as of the date we acquired the security plus the stated margin. Consequently, future reset rate assumptions incorporated in our asset yields may differ materially from future reset rates implied by the forward yield curve and the actual reset rates ultimately achieved. Further, notwithstanding changes to our actual and projected constant prepayment rate (CPR) assumptions, the lower our reset rate assumption is pursuant to ASC 310-20 than the current fixed rate in effect, the greater the rate of premium amortization we will recognize over the initial fixed rate period.

Our adjustable rate portfolio was acquired for a premium above par value and most securities were acquired during a period of historically low index rates. Accordingly, the majority of the premium balance on our adjustable rate securities will be amortized prior to their first reset date, regardless of actual or forecasted prepayment speeds and changes in the underlying index rates prior to actual reset. Adjustable rate securities acquired during a different interest rate environment may experience a different premium amortization pattern even as current index rates remain near their historical lows.

Derivative and other Hedging Instruments

We maintain a risk management strategy, under which we use a variety of strategies to hedge some of our exposure to interest rate risk. The objective of our risk management strategy is to reduce fluctuations in book value and generate additional income distributable to stockholders. In particular, we attempt to mitigate the risk of the cost of our variable rate liabilities increasing during a period of rising interest rates. The principal instruments that we use are interest rate swaps and options to enter into interest rate swaps (interest rate swaptions). We also purchase or sell to-be-announced forward contracts (TBAs), forward contracts for specified agency securities, U.S. Treasury securities and U.S. Treasury futures contracts, purchase or write put or call options on TBA securities and invest in other types of mortgage derivatives, such as interest-only securities, and synthetic total return swaps, such as the Markit IOS Synthetic Total Return Swap Index (Markit IOS Index).

We account for derivative instruments in accordance with ASC Topic 815, *Derivatives and Hedging* (ASC 815). ASC 815 requires an entity to recognize all derivatives as either assets or liabilities in the balance sheet and to measure those instruments at fair value. Hedging instruments that are not derivatives under ASC 815 are accounted for in accordance with ASC 320.

The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives that are intended to hedge exposure to variability in expected future cash flows are considered cash flow hedges. For derivatives designated in qualifying cash flow hedging relationships, the effective portion of the fair value adjustments is initially recorded in OCI (a component of stockholders equity) and reclassified to income at the time that the hedged transactions affect earnings. The ineffective portion of the fair value adjustments is immediately recognized in gain (loss) on derivative instruments and trading securities, net. When the underlying hedged transaction ceases to exist, any amounts that have been previously recorded in accumulated OCI would be reclassified to net income and all subsequent changes in the fair value of the instrument would be included in gain (loss) on derivative instruments and trading securities, net for each period until the derivative instrument matures or is settled. For derivatives not designated in hedging

relationships under ASC 815, the fair value adjustments are recorded in gain (loss) on derivative instruments and trading securities, net. Derivatives in a gain position are reported as derivative assets at fair value and derivatives in a loss position are reported as derivative liabilities at fair value in our consolidated balance sheets. In our consolidated statements of cash flows, cash receipts and payments related to derivative instruments are classified according to the underlying nature or purpose of the derivative transaction, generally in the operating section for derivatives designated in hedging relationships and the investing section for derivatives not designated in hedging relationships.

The use of derivatives creates exposure to credit risk relating to potential losses that could be recognized in the event that the counterparties to these instruments fail to perform their obligations under the contracts. We attempt to minimize this risk by limiting our counterparties to major financial institutions with acceptable credit ratings and monitoring positions with individual counterparties.

Interest rate swap agreements

We use interest rate swaps to hedge the variable cash flows associated with short-term borrowings made under our repurchase agreement facilities. We generally enter into such derivatives with the intention of qualifying for hedge accounting under ASC 815.

We estimate the fair value of interest rate swaps based on inputs from a third-party pricing model. The third-party pricing model incorporates such factors as the Treasury curve, LIBOR rates, and the pay rate on the interest rate swaps. We also incorporate both our own and our counterparties nonperformance risk in estimating the fair value of our interest rate swap and swaption agreements. In considering the effect of nonperformance risk, we consider the impact of netting and credit enhancements, such as collateral postings and guarantees, and have concluded that our own and our counterparty risk is not significant to the overall valuation of these agreements.

Interest rate swaptions

We may purchase interest rate swaptions to help mitigate the potential impact of increases or decreases in interest rates on the performance of our investment portfolio (referred to as convexity risk). The interest rate swaptions provide us 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. The premium paid for interest rate swaptions is reported as an asset in our consolidated balance sheets. The premium is valued at an amount equal to the fair value of the swaption that would have the effect of closing the position adjusted for nonperformance risk, if any. The difference between the premium and the fair value of the swaption is reported in gain (loss) on derivative instruments and trading securities, net in our consolidated statement of operations and comprehensive income. If a swaption expires unexercised, the loss on the swaption would be equal to the premium paid. If we sell or exercise a swaption, the realized gain or loss on the swaption would be equal to the difference between the cash or the fair value of the underlying interest rate swap received and the premium paid.

We estimate the fair value of interest rate swaptions based on the fair value of the future interest rate swap that we have the option to enter into as well as the remaining length of time that we have to exercise the option.

TBA securities

A TBA security is a futures contract for the purchase or sale of agency securities at a predetermined price, face amount, issuer, coupon and stated maturity on an agreed-upon future date. The specific agency securities delivered into the contract upon the settlement date, published each month by the Securities Industry and Financial Markets Association, are not known at the time of the transaction. TBA securities are exempt from ASC 815 and are accounted for under ASC 320 if there is no other way to purchase or sell that security, if delivery of that security and settlement will occur within the shortest period possible for that type of security and if it is probable at inception and throughout the term of the individual contract that physical delivery of the

security will occur (referred to as the regular-way exception). Alternatively, we may designate the TBA security as a qualifying cash flow hedge under ASC 815 if the regular-way exception is not met and at the time of the purchase or sale of the security, and throughout the term of the individual contract, it is probable that the forecasted transaction will occur and the hedging relationship is expected to be highly effective. For TBA security contracts that we have entered into, we have generally not asserted that physical settlement is probable or that the forecasted transaction is probable of occurring and, therefore, we typically have not designated these forward commitments as hedging instruments. Realized and unrealized gains and losses associated with TBA contracts not subject to the regular-way exception or not designated as hedging instruments are recognized in our consolidated statement of operations and comprehensive income in the line item gain (loss) on derivative instruments and trading securities, net.

We estimate the fair value of TBA securities based on similar methods used to value agency securities.

Put and call options on TBA securities

We may purchase put and call options on TBA securities to hedge against short-term changes in interest rates. Under a purchased put option, we have the right to sell to the counterparty a specified TBA security at a predetermined price on the option exercise date in exchange for a premium at execution. Under a purchased call option, we have the right to purchase from the counterparty a specified TBA security at a predetermined price on the option exercise date in exchange for a premium at execution. The premium paid for a put or call option is reported as an asset in our consolidated balance sheets. The premium is valued at an amount equal to the fair value of the option that would have the effect of closing the position adjusted for nonperformance risk, if any. The difference between the premium and the fair value of the option is reported in gain (loss) on derivative instruments and trading securities, net in our consolidated statement of operations and comprehensive income. When a purchased put or call option expires unexercised, a realized loss is reported in our consolidated statement of operations and comprehensive income equal to the premium paid. When a purchased put or call option is exercised, a realized gain or loss is reported in our consolidated statement of operations and comprehensive income equal to the difference between the premium paid and the fair value of the exercised put or call option. In addition, a derivative asset is recorded in our consolidated balance sheet for the TBA security resulting from the put or call option exercise.

We may also write put and call options on TBA securities. Under a written put option, the counterparty has the right to sell us a specified TBA security at a predetermined price on the option exercise date in exchange for a premium at execution. Under a written call option, the counterparty has the right to purchase from us a specified TBA security at a predetermined price on the option exercise date in exchange for a premium at execution. The premium received from writing a put or call option is reported as a liability in our consolidated balance sheets. The premium is valued at an amount equal to the fair value of the option that would have the effect of closing the position adjusted for nonperformance risk, if any. The difference between the premium and the fair value of the option is reported in gain (loss) on derivative instruments and trading securities, net in our consolidated statement of operations and comprehensive income. When a written put or call option expires unexercised, a realized gain is reported in our consolidated statement of operations equal to the premium received. When we terminate a written put or call option, a realized gain or loss is reported in our consolidated statement of operations equal to the difference between the termination payment and the premium received. When a written put or call option is exercised, a realized gain or loss is reported in our consolidated statement of operations equal to the difference between the premium received and the fair value of the exercised put or call option. In addition, a derivative asset or liability is recorded in our consolidated balance sheet for the TBA security resulting from the put or call option exercise.

We estimate the fair value of put and call options on TBA securities based on the fair value of the underlying TBA security as well as the remaining length of time to exercise the option.

Forward commitments to purchase or sell specified agency securities

We may enter into a forward commitment to purchase or sell specified agency securities as a means of acquiring assets or as a hedge against short-term changes in interest rates. Contracts for the purchase or sale of specified agency securities are accounted for as derivatives if the delivery of the specified agency security and settlement extends beyond the shortest period possible for that type of security. We may designate the forward commitment as a qualifying cash flow hedge if at the time of the purchase or sale of the security, and throughout the term of the individual contract, it is probable that physical delivery of the security will occur. Realized and unrealized gains and losses associated with forward commitments not designated as hedging instruments are recognized in our consolidated statement of operations and comprehensive income in the line item gain (loss) on derivative instruments and trading securities, net.

We estimate the fair value of forward commitments to purchase or sell specified agency securities based on similar methods used to value agency securities as well as the remaining length of time of the forward commitment.

U.S. Treasury securities

We may purchase or sell short U.S. Treasury securities and U.S. Treasury futures contracts to help mitigate the potential impact of changes in interest rates on the performance of our portfolio. We may borrow securities to cover short sales of U.S. Treasury securities under reverse repurchase agreements. We account for these as securities borrowing transactions and recognize an obligation to return the borrowed securities at fair value on the balance sheet based on the value of the underlying borrowed securities as of the reporting date. Realized and unrealized gains and losses associated with purchases and short sales of U.S. Treasury securities are recognized in gains (losses) on derivative instruments and trading securities, net in our consolidated statements of operations and comprehensive income.

Total return swaps

We may enter into total return swaps to obtain exposure to a security or market sector without owning such security or investing directly in that market sector. Total return swaps are agreements in which there is an exchange of cash flows whereby one party commits to make payments based on the total return (coupon plus the mark-to-market movement) of an underlying instrument or index in exchange for fixed or floating rate interest payments. To the extent the total return of the instrument or index underlying the transaction exceeds or falls short of the offsetting interest rate obligation, we will receive a payment from or make a payment to the counterparty.

The primary total return swap index in which we invest is the Markit IOS Index. Total return swaps based on the Markit IOS index are intended to synthetically replicate the performance of interest-only securities. We determine the fair value of our total return swaps based on published index prices. Realized and unrealized gains and losses associated with changes in market value of the underlying index and coupon interest are recognized in gain (loss) on derivative instruments and trading securities, net in our consolidated statements of operations and comprehensive income.

Variable Interest Entities

ASC Topic 810, *Consolidation* (ASC 810), requires a qualitative assessment in determining the primary beneficiary of a variable interest entities (VIEs) and ongoing assessments of control over such entities as well as additional disclosures for entities that have variable interests in VIEs.

We may enter into transactions involving a CMO trust (e.g. a VIE) whereby we transfer agency securities to an investment bank in exchange for cash proceeds and at the same time enter into a commitment with the same investment bank to purchase to-be-issued securities collateralized by the agency securities transferred. We will consolidate a CMO trust (as it relates to the assets transferred or contributed by us and the related liabilities issued by the trust) if we are the CMO trust s primary beneficiary; that is, if we have a variable interest (or

combination of variable interests) that provides us with a controlling financial interest in the CMO trust. An entity is deemed to have a controlling financial interest if the entity has the power to direct the activities of a VIE that most significantly impacts the VIE s economic performance and the obligation to absorb losses of or right to receive benefits from the VIE that could potentially be significant to the VIE. In determining if we have a controlling financial interest, we evaluate whether we share the power to control the selection of financial assets transferred to the CMO trust with an unrelated party. We may share power in the selection of assets for certain CMO trusts (i.e., both we and the unrelated party must consent to the transfer of such assets to the CMO trust); however, if our economic interest in the CMO trust is disproportionate to the shared power, we may be deemed to be the primary beneficiary.

Recent Accounting Pronouncements

In April 2011, the Financial Accounting Standards Board (FASB) issued ASU No. 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements (ASU 2011-03),* which is intended to improve the accounting for repurchase agreements by removing from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, as well as implementation guidance related to that criterion. ASU 2011-03 is effective for the first interim or annual period beginning on or after December 15, 2011 and the guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. We do not believe the adoption of ASU 2011-03 will have a material impact on our consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04)* which largely aligns fair value measurement and disclosure requirements between International Financial Reporting Standards and US GAAP. For US GAAP, the update mainly represents clarifications to Topic 820 as well as some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. ASU 2011-04 clarifies that (i) the highest and best use concept only applies to nonfinancial assets (ii) an instrument classified in shareholders equity should be measured from the perspective of a market participant holding that instrument as an asset and (iii) quantitave disclosure is required for unobservable inputs used in Level 3 measurements. ASU 2011-04 changes the guidance in Topic 820 so that (i) the fair value of a group of financial assets and financial liabilities with similar risk exposures may be measured on the basis of the entity s net risk exposure (ii) premiums or discounts may be applied in a fair value measurement under certain circumstances but blockage factors are not permitted and (iii) additional Level 3 disclosures are required, including a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. We do not believe the adoption of ASU 2011-04 will have a material impact on our consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income (ASU 2011-05),* which is intended to make the presentation of items within OCI more prominent. ASU 2011-05 requires companies to present comprehensive income in either one continuous statement or two separate but consecutive financial statements. Upon the effectiveness of ASU 2011-05, companies will no longer be allowed to present OCI in the statement of stockholders equity. In addition, reclassification adjustments between OCI and net income must be presented seperately on the face of the financial statements. The new guidance does not change the components of OCI or the calculation of earnings per share. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted and the amendments should be applied retrospectively. We do not believe the adoption of ASU 2011-05 will have a material impact on our consolidated financial statements.

Reclassifications

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

Note 4. Agency Securities

The following tables summarize our investments in agency securities as of June 30, 2011 (dollars in thousands):

	As of June 30, 2011			
	Fannie Mae	**Freddie Mac**	**Ginnie Mae**	**Total**
Available-for-sale securities:				
Agency securities, par	$ 23,109,832	$ 14,729,370	$ 107,989	$ 37,947,191
Unamortized discount	(989)	(1,074)		(2,063)
Unamortized premium	915,068	563,089	4,227	1,482,384
Amortized cost	24,023,911	15,291,385	112,216	39,427,512
Gross unrealized gains	219,434	113,221	1,613	334,268
Gross unrealized losses	(51,171)	(31,926)	(20)	(83,117)
Available-for-sale securities, at fair value	24,192,174	15,372,680	113,809	39,678,663
Agency securities remeasured at fair value through earnings:				
Interest-only and principal-only securities, amortized cost(1)	154,706	84,940		239,646
Gross unrealized gains	5,879	5,975		11,854
Gross unrealized losses	(2,160)	(2,296)		(4,456)
Agency securities measured at fair value through earnings, at fair value	158,425	88,619		247,044
Total agency securities, at fair value	$ 24,350,599	$ 15,461,299	$ 113,809	$ 39,925,707
Weighted average coupon as of June 30, 2011(2)	4.47%	4.39%	4.16%	4.44%
Weighted average yield as of June 30, 2011(3)	3.44%	3.47%	2.15%	3.45%
Weighted average yield for the three months ended June 30, 2011(3)	3.36%	3.35%	2.15%	3.35%

(1) Interest-only securities represent the right to receive a specified portion of the contractual interest flows of the underlying unamortized principal balance (UPB or par value) of specific CMO securities. Principal-only securities represent the right to receive contractual principal flows of the UPB of specific CMO securities. The UPB of our interest-only securities was $1.3 billion and the weighted average contractual interest we are entitled to receive was 5.58% of this amount as of June 30, 2011. The UPB of our principal-only securities was $46 million as of June 30, 2011.

(2) The weighted average coupon includes the interest cash flows from our interest-only securities taken together with the interest cash flows from our fixed-rate, adjustable-rate and CMO securities as a percentage of the par value of our agency securities (excluding the UPB of our interest-only securities) as of June 30, 2011.

(3) Incorporates an average future constant prepayment rate assumption of 10% based on forward rates as of June 30, 2011 and an average reset rate for adjustable rate securities of 2.72%, which is equal to the average underlying index rate of 0.91% based on the current spot rate in effect as of the date we acquired the securities and an average margin of 1.81%.

	As of June 30, 2011			
	Amortized Cost	**Gross Unrealized Gain**	**Gross Unrealized Loss**	**Fair Value**
Fixed-Rate	$ 34,605,297	$ 274,763	$ (79,436)	$ 34,800,624
Adjustable-Rate	4,563,144	53,477	(3,681)	4,612,940
CMO	259,071	6,028		265,099
Interest-only and principal-only securities	239,646	11,854	(4,456)	247,044
Total agency securities	$ 39,667,158	$ 346,122	$ (87,573)	$ 39,925,707

The following tables summarize our investments in agency securities as of December 31, 2010 (dollars in thousands):

	As of December 31, 2010			
	Fannie Mae	**Freddie Mac**	**Ginnie Mae**	**Total**
Agency securities classified as available-for-sale:				
Agency securities, par	$ 8,207,464	$ 4,599,712	$ 100,408	$ 12,907,584
Unamortized discount	(930)	(1,044)		(1,974)
Unamortized premium	350,747	220,465	4,670	575,882
Amortized cost	8,557,281	4,819,133	105,078	13,481,492
Gross unrealized gains	56,181	11,929	384	68,494
Gross unrealized losses	(53,893)	(42,356)	(196)	(96,445)
Available-for-sale securities, at fair value	8,559,569	4,788,706	105,266	13,453,541
Agency securities remeasured at fair value through earnings:				
Interest-only securities, amortized cost(1)	18,957	33,447		52,404
Gross unrealized gains	1,559	3,356		4,915
Gross unrealized losses	(91)	(489)		(580)
Agency securities measured at fair value through earnings, at fair value	20,425	36,314		56,739
Total agency securities, at fair value	$ 8,579,994	$ 4,825,020	$ 105,266	$ 13,510,280
Weighted average coupon as of December 31, 2010(2)	4.63%	4.83%	4.37%	4.70%
Weighted average yield as of December 31, 2010(3)	3.34%	3.28%	2.14%	3.31%
Weighted average yield for the year ended December 31, 2010(3)	3.49%	3.42%	2.22%	3.44%

(1) Interest-only securities represent the right to receive a specified portion of the contractual interest flows of the UPB of specific CMO securities. The UPB of our interest-only securities was $0.5 billion and the weighted average contractual interest we are entitled to receive was 4.95% of this amount as of December 31, 2010.

(2) The weighted average coupon includes the interest cash flows from our interest-only securities taken together with the interest cash flows from our fixed-rate, adjustable-rate and CMO securities as a percentage of the par value of our agency securities (excluding the UPB of our interest-only securities) as of December 31, 2010.

(3) Incorporates an average future constant prepayment rate assumption of 12% based on forward rates as of December 31, 2010 and an average reset rate for adjustable rate securities of 2.76%, which is equal to the average underlying index rate of 0.94% based on the current spot rate in effect as of the date we acquired the securities and an average margin of 1.82%.

	As of December 31, 2010			
	Amortized Cost	**Gross Unrealized Gain**	**Gross Unrealized Loss**	**Fair Value**
Fixed-Rate	$ 9,144,352	$ 39,844	$ (82,717)	$ 9,101,479
Adjustable-Rate	3,942,937	20,955	(13,728)	3,950,164
CMO	394,203	7,695		401,898
Interest-only securities	52,404	4,915	(580)	56,739
Total agency securities	$ 13,533,896	$ 73,409	$ (97,025)	$ 13,510,280

Actual maturities of agency securities are generally shorter than the stated contractual maturities. Actual maturities are affected by the contractual lives of the underlying mortgages, periodic principal payments and principal prepayments. The following table summarizes our agency securities classified as available-for-sale as of June 30, 2011 and December 31, 2010, according to their estimated weighted average life classification (dollars in thousands):

	As of June 30, 2011			As of December 31, 2010		
Weighted Average Life	**Fair Value**	**Amortized Cost**	**Weighted Average Coupon**	**Fair Value**	**Amortized Cost**	**Weighted Average Coupon**
Less than or equal to one year	$ 43,212	$ 43,350	3.81%	$	$	%
Greater than one year and less than or equal to three years	1,056,763	1,035,249	4.95%	133,123	132,520	5.05%
Greater than three years and less than or equal to five years	4,188,329	4,134,240	4.48%	3,841,282	3,821,992	4.92%
Greater than five years	34,390,359	34,214,673	4.19%	9,479,136	9,526,980	4.31%
Total	$ 39,678,663	$ 39,427,512	4.24%	$ 13,453,541	$ 13,481,492	4.49%

The weighted average life of our interest-only securities was 5.4 and 6.2 years as of June 30, 2011 and December 31, 2010, respectively. The weighted average life of our principal-only securities was 4.0 years as of June 30, 2011.

The weighted average lives of the agency securities as of June 30, 2011 and December 31, 2010 incorporates anticipated future prepayment assumptions. As of June 30, 2011, our weighted average expected constant prepayment rate (CPR) over the remaining life of our aggregate investment portfolio is 10%. Our estimates differ materially for different types of securities and thus individual holdings have a wide range of projected CPRs. We estimate long-term prepayment assumptions for different securities using third-party services and market data. These third-party services estimate prepayment speeds using models that incorporate the forward yield curve, current mortgage rates, mortgage rates of the outstanding loans, loan age, volatility and other factors. We review the prepayment speeds estimated by the third-party services and compare the results to market consensus prepayment speeds, if available. We also consider historical prepayment speeds and current market conditions to validate reasonableness. As market conditions may change rapidly, we use our judgment in making adjustments for different securities. Various market participants could use materially different assumptions.

Our agency securities classified as available-for-sale are reported at fair value, with unrealized gains and losses excluded from earnings and reported in OCI, a component of stockholders equity. The following table summarizes changes in accumulated OCI for available-for-sale securities for the three and six months ended June 30, 2011 and 2010 (in thousands):

	Beginning Balance	**Unrealized Gains and (Losses)**	**Reversal of Prior Period Unrealized (Gains) and Losses on Realization**	**Ending Balance**
Three months ended June 30, 2011	$ (67,751)	412,252	(93,350)	$ 251,151
Three months ended June 30, 2010	$ 37,951	88,547	(29,063)	$ 97,435
Six months ended June 30, 2011	$ (27,950)	376,671	(97,570)	$ 251,151
Six months ended June 30, 2010	$ 36,018	117,888	(56,471)	$ 97,435

The following table presents the gross unrealized loss and fair values of our available-for-sale agency securities by length of time that such securities have been in a continuous unrealized loss position as of June 30, 2011 and December 31, 2010 (in thousands):

	Less than 12 Months		Unrealized Loss Position For 12 Months or More		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
June 30, 2011	$ 12,995,097	$ (83,117)	$	$	$ 12,995,097	$ (83,117)
December 31, 2010	$ 7,498,384	$ (96,445)	$	$	$ 7,498,384	$ (96,445)

As of June 30, 2011, we did not intend to sell any of these agency securities and we believe it is not more likely than not we will be required to sell the agency securities before recovery of their amortized cost basis. The unrealized losses on these agency securities are not due to credit losses given the government-sponsored entity or government guarantees but are rather due to changes in interest rates and prepayment expectations.

Gains and Losses

The following table is a summary of our net gain from sale of agency securities for the three and six months ended June 30, 2011 and 2010 (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Agency securities sold, at cost	$ (10,448,371)	$ (2,624,277)	$ (12,383,828)	$ (4,741,787)
Proceeds from agency securities sold(1)	10,542,263	2,653,862	12,481,940	4,798,780
Net gains on sale of agency securities	$ 93,892	$ 29,585	$ 98,112	$ 56,993
Gross gains on sale of agency securities	$ 95,684	$ 31,327	$ 109,233	$ 61,381
Gross losses on sale of agency securities	(1,792)	(1,742)	(11,121)	(4,388)
Net gains on sale of agency securities	$ 93,892	$ 29,585	$ 98,112	$ 56,993

(1) Proceeds include cash received during the period, plus receivable for agency securities sold during the period as of period end.

For the three and six months ended June 30, 2011, we recognized an unrealized gain of $0.3 and $3.1 million, and for the three and six months ended June 30, 2010 we recognized an unrealized loss of $9.0 and $8.0 million, respectively, in gain (loss) on derivative instruments and trading securities, net in our consolidated statements of operations and comprehensive income for the change in value of investments in interest-only and principal-only securities. For the three and six months ended June 30, 2011, we recognized a realized gain of $0.5 and $0.5 million in gain on agency securities, respectively, net in our consolidated statements of operations and comprehensive income for the sales of interest-only and principal-only securities. There were no sales of interest-only or principal-only securities during the six months ended June 30, 2010.

Pledged Assets

The following tables summarize our agency securities pledged as collateral under repurchase agreements, other debt, derivative agreements and prime broker agreements by type as of June 30, 2011 and December 31, 2010 (in thousands):

	As of June 30, 2011			
Agency Securities Pledged(1)	**Fannie Mae**	**Freddie Mac**	**Ginnie Mae**	**Total**
Under Repurchase Agreements				
Fair value	$ 21,323,526	$ 13,795,825	$ 108,778	$ 35,228,129
Amortized cost	21,145,673	13,713,743	107,269	34,966,685
Accrued interest on pledged agency securities	71,278	45,431	357	117,066
Under Other Debt Agreements				
Fair value	66,143			66,143
Amortized cost	65,158			65,158
Accrued interest on pledged agency securities	270			270
Under Derivative Agreements				
Fair value	96,737	196,953		293,690
Amortized cost	95,510	195,220		290,730
Accrued interest on pledged agency securities	941	1,470		2,411
Under Prime Broker Agreements				
Fair value	46,181	56,828		103,009
Amortized cost	45,698	56,020		101,718
Accrued interest on pledged agency securities	166	193		359
Total Fair Value of Agency Securities Pledged and Accrued Interest	**$ 21,605,242**	**$ 14,096,700**	**$ 109,135**	**$ 35,811,075**

(1) Agency securities pledged include pledged amounts of $573.0 million related to agency securities sold but not yet settled as of June 30, 2011.

	As of December 31, 2010			
Agency Securities Pledged(2)	**Fannie Mae**	**Freddie Mac**	**Ginnie Mae**	**Total**
Under Repurchase Agreements				
Fair value	$ 7,707,046	$ 4,554,541	$ 95,066	$ 12,356,653
Amortized cost	7,709,785	4,591,245	94,860	12,395,890
Accrued interest on pledged agency securities	27,589	15,642	332	43,563
Under Other Debt Agreements				
Fair value	77,906			77,906
Amortized cost	77,460			77,460
Accrued interest on pledged agency securities	325			325
Under Derivative Agreements				
Fair value	36,651	30,306		66,957
Amortized cost	36,343	30,382		66,725
Accrued interest on pledged agency securities	156	118		274
Under Prime Broker Agreements				
Fair value	6,061	5,997	2,032	14,090
Amortized cost	6,061	6,061	2,024	14,146
Accrued interest on pledged agency securities	28	21	8	57
Total Fair Value of Agency Securities Pledged and Accrued Interest	**$ 7,855,762**	**$ 4,606,625**	**$ 97,438**	**$ 12,559,825**

(2) Agency securities pledged include pledged amounts of $244.7 million related to agency securities sold but not yet settled as of December 31, 2010.

The following table summarizes our agency securities pledged as collateral under repurchase agreements and other debt by remaining maturity as of June 30, 2011 and December 31, 2010 (dollars in thousands):

	As of June 30, 2011(1)			As of December 31, 2010(1)		
Remaining Maturity	**Fair Value**	**Amortized Cost**	**Accrued Interest on Pledged Agency Securities**	**Fair Value**	**Amortized Cost**	**Accrued Interest on Pledged Agency Securities**
30 days or less	$ 32,110,768	$ 31,862,025	$ 106,734	$ 9,909,121	$ 9,943,239	$ 35,151
31 - 59 days	3,179,965	3,166,352	10,587	2,525,438	2,530,111	8,737
60 - 90 days						
Greater than 90 days	3,539	3,466	15			
Total	$ 35,294,272	$ 35,031,843	$ 117,336	$ 12,434,559	$ 12,473,350	$ 43,888

(1) Agency securities pledged include pledged amounts of $573.0 million and $244.7 million related to agency securities sold but not yet settled as of June 30, 2011 and December 31, 2010, respectively.

Securitizations

All of our CMO securities are backed by fixed or adjustable-rate agency securities and Fannie Mae or Freddie Mac guarantees the payment of interest and principal and acts as the trustee and administrator of their respective securitization trusts. Our involvement with the consolidated CMO trust described below is limited to the agency securities transferred to the trust by the investment bank and the CMO securities subsequently held by us. Accordingly, we are not required to provide the beneficial interest holders of the CMO securities any financial or other support. Whether or not we were involved with the formation of the CMO or purchased the securities from third parties in separate transactions, our maximum exposure to loss related to our involvement with CMO trusts is the fair value of the CMO securities and interest-only securities held by us. As of June 30, 2011 and December 31, 2010, the fair value of all of our CMO securities, interest-only securities and principal-only securities, excluding the consolidated CMO trust discussed below, was $512.1 million and $458.6 million, respectively, or $516.4 million and $463.6 million, respectively, including the net asset value of the consolidated CMO trust discussed below.

During fiscal year 2010, we entered into a CMO transaction whereby we transferred agency securities with a cost basis of $85.9 million to an investment bank in exchange for cash proceeds of $80.8 million and at the same time entered into a commitment with the same investment bank to purchase a to-be-issued interest-only strip collateralized by the agency securities transferred for $5.1 million. The investment bank contributed the transferred agency securities to a securitization trust held by Fannie Mae in exchange for CMO securities issued by the trust. Once the transferred agency securities were transferred to the securitization trust, Fannie Mae may only remove such securities upon certain events. Pursuant to the pre-existing commitment, the investment bank transferred to us the interest-only security issued by the trust. Our primary purpose for entering into this transaction was to eliminate the need to finance the principal class by transferring it to third parties, while still retaining the underlying economics of a financed transaction for the transferred securities, which we viewed as favorable. We concluded that we were the primary beneficiary of the CMO trust based on our disproportionate economic interest and, accordingly, we consolidated the CMO trust as it related to the agency securities transferred by us and the related liabilities issued by the trust. The effect of consolidating the CMO trust was that the interest-only security received was eliminated and we continued to recognize the assets transferred to the securitization trust in our total agency securities held and recorded a corresponding liability for the debt issued by the securitization trust, which is classified as other debt in our accompanying consolidated balance sheets. As of June 30, 2011, we recognized agency securities with a total fair value of $66.1 million and a principal balance of $62.3 million collateralized the remaining debt outstanding issued by the securitization trust of $61.8 million. As of December 31, 2010, we recognized agency securities with a total fair value of $77.9 million and a principal balance of $73.5 million collateralized the remaining debt outstanding issued by the securitization trust of $72.9 million. Such agency securities can only be used to settle this debt and the holder(s) of the debt issued by the

securitization trust have no recourse to us. Further, there are no arrangements that could require us to provide financial support to this securitization trust. The consolidation did not materially impact our accompanying consolidated statements of operations and comprehensive income and consolidated statements of cash flows.

Note 5. Repurchase Agreements and Other Debt

We pledge certain of our agency securities as collateral under repurchase arrangements with financial institutions, the terms and conditions of which are negotiated on a transaction-by-transaction basis. Interest rates on these borrowings are generally based on LIBOR plus or minus a margin and amounts available to be borrowed are dependent upon the fair value of the agency securities pledged as collateral, which fluctuates with changes in interest rates, type of security and liquidity conditions within the banking, mortgage finance and real estate industries. In response to declines in fair value of pledged agency securities, lenders may require us to post additional collateral or pay down borrowings to re-establish agreed upon collateral requirements, referred to as margin calls. As of June 30, 2011 and December 31, 2010, we have met all margin call requirements. Due to their short-term nature, repurchase agreements are carried at cost, which approximates fair value.

The following table summarizes our borrowings under repurchase arrangements and weighted average interest rates classified by original maturities as of June 30, 2011 and December 31, 2010 (dollars in thousands):

	As of June 30, 2011			As of December 31, 2010		
Original Maturity	**Borrowings Outstanding**	**Average Interest Rate**	**Weighted Average Days to Maturity**	**Borrowings Outstanding**	**Average Interest Rate**	**Weighted Average Days to Maturity**
30 days or less	$ 13,475,727	0.23%	13	$ 3,306,175	0.32%	12
31 - 60 days	11,844,846	0.23%	28	5,648,155	0.31%	20
61 - 90 days	4,202,460	0.24%	22	1,496,452	0.29%	33
Greater than 90 days	3,982,109	0.25%	15	1,229,310	0.29%	43
Total / Weighted Average	$ 33,505,142	0.23%	20	$ 11,680,092	0.31%	22

As of June 30, 2011 and December 31, 2010, we did not have an amount at risk with any counterparty greater than 10% of our stockholders equity. We do not anticipate any defaults by our repurchase agreement counterparties.

Other debt of $61.8 million and $72.9 million as of June 30, 2011 and December 31, 2010, respectively, consists of other variable rate debt outstanding at LIBOR plus 25 basis points in connection with the consolidation of a structured transaction for which we are the primary beneficiary in our accompanying financial statements (see Note 4).

Note 6. Derivative and Other Hedging Instruments

In connection with our risk management strategy, we hedge a portion of our interest rate risk by entering into derivative and other hedging instrument contracts. We may enter into agreements for interest rate swap agreements, interest rate swaptions, interest rate cap or floor contracts and futures or forward contracts. We may also purchase or short TBA and U.S. Treasury securities, purchase or write put or call options on TBA securities or we may invest in other types of mortgage derivative securities, such as interest-only securities, and synthetic total return swaps, such as the IOS Index. Our risk management strategy attempts to manage the overall risk of the portfolio, reduce fluctuations in book value and generate additional income distributable to stockholders. For additional information regarding our derivative instruments and our overall risk management strategy, please refer to the discussion of derivative and other hedging instruments in Note 3.

As of June 30, 2011 and December 31, 2010, our derivative and other hedging instruments were comprised primarily of interest rate swaps, which have the effect of modifying the repricing characteristics of our repurchase agreements and cash flows on such liabilities. Our interest rate swaps are used to manage the interest

rate risk created by our variable rate short-term repurchase agreements. Under our interest rate swaps, we typically pay a fixed-rate and receive a floating rate based on one-month LIBOR with terms usually ranging up to 5 years. Our interest rate swaps are generally designated as cash flow hedges under ASC 815.

Derivative and other hedging instruments entered into in addition to interest rate swap agreements are intended to supplement our use of interest rate swaps and we do not currently expect our use of these instruments to be the primary protection against interest rate risk for our portfolio. These instruments are accounted for as either derivatives, but are not typically designated as hedges under ASC 815, or trading securities. Therefore, any changes in the fair values of the contracts prior to their settlement date are included in earnings. We do not use derivative or other hedging instruments for speculative purposes.

Derivatives Designated as Hedging Instruments

As of June 30, 2011 and December 31, 2010, we had net interest rate swap liabilities of $233.1 million and $37.7 million, respectively. The tables below summarize information about our outstanding interest rate swaps as of June 30, 2011 and December 31, 2010 (dollars in thousands):

Interest Rate Swaps Designated as Hedging Instruments	Balance Sheet Location	As of June 30, 2011	As of December 31, 2010
Interest rate swap assets	Derivative assets, at fair value	$ 30,321	$ 33,695
Interest rate swap liabilities	Derivative liabilities, at fair value	(263,443)	(71,417)
		$ (233,122)	$ (37,722)

Remaining Term for Interest Rate Swaps Designated as Hedging Instruments(1)	As of June 30, 2011 Notional Amount	Average Fixed Pay Rate	Average Receive Rate	Net Estimated Fair Value	Average Maturity (Years)
1 year or less	$ 900,000	1.72%	0.19%	$ (8,794)	0.6
Greater than 1 year and less than 3 years	6,100,000	1.22%	0.19%	(59,576)	2.3
Greater than 3 years and less than 5 years	11,600,000	1.76%	0.19%	(127,063)	4.0
Greater than 5 years	3,400,000	2.25%	0.19%	(37,689)	5.1
Total	$ 22,000,000	1.69%	0.19%	$ (233,122)	3.5

(1) Remaining term includes the effect of deferred start dates for forward starting swaps of $7.9 billion ranging from one to six months from June 30, 2011.

Remaining Term for Interest Rate Swaps Designated as Hedging Instruments	As of December 31, 2010 Notional Amount	Average Fixed Pay Rate	Average Receive Rate	Net Estimated Fair Value	Average Maturity (Years)
1 year or less	$ 750,000	1.40%	0.26%	$ (5,595)	0.7
Greater than 1 year and less than 3 years	2,850,000	1.54%	0.26%	(32,865)	2.5