PennyMac Mortgage Investment Trust
Form 10-K
February 29, 2016
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2015

Or

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

For the transition period from __________ to __________

Commission file number: 001-34416

PennyMac Mortgage Investment Trust

(Exact name of registrant as specified in its charter)

Maryland	**27-0186273**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
6101 Condor Drive, Moorpark, California	**93021**
(Address of principal executive offices)	**(Zip Code)**

(818) 224-7442

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares of Beneficial Interest, $0.01 Par Value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer 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

As of June 30, 2015 the aggregate market value of the registrant s common shares of beneficial interest, $0.01 par value (common shares), held by nonaffiliates was $1,283,938,438 based on the closing price as reported on the New York Stock Exchange on that date.

As of February 19, 2016, there were 72,246,828 common shares of the registrant outstanding.

Documents Incorporated By Reference

Document	Parts Into Which Incorporated
Definitive Proxy Statement for 2016 Annual Meeting of Shareholders	Part III

Table of Contents

PENNYMAC MORTGAGE INVESTMENT TRUST

FORM 10-K

December 31, 2015

TABLE OF CONTENTS

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

You should not place undue reliance on any forward-looking statement and should consider the following uncertainties and risk factors, as well as the risks, risk factors and uncertainties discussed elsewhere in this Report and any subsequent Quarterly Reports on Form 10-Q.

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

- changes in our investment objectives or investment or operational strategies, including any new lines of business or new products and services that may subject us to additional risks;
- volatility in our industry, the debt or equity markets, the general economy or the real estate finance and real estate markets specifically, whether the result of market events or otherwise;

events or circumstances which undermine confidence in the financial markets or otherwise have a broad impact on financial markets, such as the sudden instability or collapse of large depository institutions or other significant corporations, terrorist attacks, natural or man-made disasters, or threatened or actual armed conflicts;

changes in general business, economic, market, employment and political conditions, or in consumer confidence and spending habits from those expected;

declines in real estate or significant changes in U.S. housing prices or activity in the U.S. housing market;

the availability of, and level of competition for, attractive risk-adjusted investment opportunities in mortgage loans and mortgage-related assets that satisfy our investment objectives;

the inherent difficulty in winning bids to acquire mortgage loans, and our success in doing so;

the concentration of credit risks to which we are exposed;

the degree and nature of our competition;

our dependence on our manager and servicer, potential conflicts of interest with such entities and their affiliates, and the performance of such entities;

changes in personnel and lack of availability of qualified personnel at our manager, servicer or their affiliates;

the availability, terms and deployment of short-term and long-term capital;

the adequacy of our cash reserves and working capital;

our ability to maintain the desired relationship between our financing and the interest rates and maturities of our assets;

Table of Contents

the timing and amount of cash flows, if any, from our investments;

unanticipated increases or volatility in financing and other costs, including a rise in interest rates;

the performance, financial condition and liquidity of borrowers;

the ability of our servicer, which also provides us with fulfillment services, to approve and monitor correspondent sellers and underwrite loans to investor standards;

incomplete or inaccurate information or documentation provided by customers or counterparties, or adverse changes in the financial condition of our customers and counterparties;

our indemnification and repurchase obligations in connection with mortgage loans we purchase and later sell or securitize:

the quality and enforceability of the collateral documentation evidencing our ownership and rights in the assets in which we invest;

increased rates of delinquency, default and/or decreased recovery rates on our investments;

our ability to foreclose on our investments in a timely manner or at all;

increased prepayments of the mortgages and other loans underlying our mortgage-backed securities (MBS) or relating to our mortgage servicing rights (MSRs), excess servicing spread (ESS) and other investments;

the degree to which our hedging strategies may or may not protect us from interest rate volatility;

the effect of the accuracy of or changes in the estimates we make about uncertainties, contingencies and asset and liability valuations when measuring and reporting upon our financial condition and results of operations;

our failure to maintain appropriate internal controls over financial reporting;

technologies for loans and our ability to mitigate security risks and cyber intrusions;

our ability to obtain and/or maintain licenses and other approvals in those jurisdictions where required to conduct our business;

our ability to detect misconduct and fraud;

our ability to comply with various federal, state and local laws and regulations that govern our business;

developments in the secondary markets for our mortgage loan products;

legislative and regulatory changes that impact the mortgage loan industry or housing market;

changes in regulations or the occurrence of other events that impact the business, operations or prospects of government agencies such as the Government National Mortgage Association (Ginnie Mae), the Federal Housing Administration (the FHA) or the Veterans Administration (the VA), the U.S. Department of Agriculture (USDA), or government-sponsored entities such as the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac) (Fannie Mae, Freddie Mac and Ginnie Mae are each referred to as an Agency and, collectively, as the Agencies), or such changes that increase the cost of doing business with such entities;

the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) and its implementing regulations and regulatory agencies, and any other legislative and regulatory changes that impact the business, operations or governance of mortgage lenders and/or publicly-traded companies;

the Consumer Financial Protection Bureau (CFPB) and its issued and future rules and the enforcement thereof;

changes in government support of homeownership;

changes in government or government-sponsored home affordability programs;

limitations imposed on our business and our ability to satisfy complex rules for us to qualify as a real estate investment trust (REIT) for U.S. federal income tax purposes and qualify for an exclusion from the Investment Company Act of 1940 (the Investment Company Act) and the ability of certain of our subsidiaries to qualify as REITs or as taxable REIT subsidiaries (TRSs) for U.S. federal income tax purposes, as applicable, and our ability and the ability of our subsidiaries to operate effectively within the limitations imposed by these rules;

changes in governmental regulations, accounting treatment, tax rates and similar matters (including changes to laws governing the taxation of REITs, or the exclusions from registration as an investment company);

3

Table of Contents

our ability to make distributions to our shareholders in the future;

the effect of public opinion on our reputation;

the occurrence of natural disasters or other events or circumstances that could impact our operations; and

our organizational structure and certain requirements in our charter documents.

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

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

PART I

Item 1. Business

The following description of our business should be read in conjunction with the information included elsewhere in this Report. This description contains forward-looking statements that involve risks and uncertainties. Actual results could differ significantly from the projections and results discussed in the forward-looking statements due to the factors described under the caption Risk Factors and elsewhere in this Report. References in this Report to we, our, us, PMT, or the Company refer to PennyMac Mortgage Investment Trust and its consolidated subsidiaries, unless otherwise indicated.

Our Company

We are a specialty finance company that invests primarily in residential mortgage loans and mortgage-related assets. We were organized in Maryland on May 18, 2009, and began operations on August 4, 2009. We conduct our operations through two segments: correspondent production and investment activities. For financial information concerning our reportable segments see Note 33, *Segments and Related Information*, in the Consolidated Financial Statements. We conduct substantially all of our operations, and make substantially all of our investments, through PennyMac Operating Partnership, L.P. (our Operating Partnership) and its subsidiaries. A wholly-owned subsidiary of ours is the sole general partner, and we are the sole limited partner, of our Operating Partnership.

The management of our business and execution of our operations is performed on our behalf by subsidiaries of PennyMac Financial Services, Inc. (PFSI or PennyMac). PFSI is a specialty financial services firm with a comprehensive mortgage platform and integrated business focused on the production and servicing of U.S. residential mortgage loans and the management of investments related to the U.S. residential mortgage market. Specifically:

We are managed by PNMAC Capital Management, LLC (PCM or our Manager), an indirect wholly-owned subsidiary of PennyMac and an investment adviser registered with the Securities and Exchange Commission (SEC) that specializes in, and focuses on, U.S. residential mortgage assets.

All of the loans we acquire in our correspondent production operations (as described below) are fulfilled on our behalf by another indirect wholly-owned PennyMac subsidiary, PennyMac Loan Services, LLC (PLS or our Servicer), which also services the loans we hold in our residential mortgage investment portfolio and the loans for which we retain the obligation to service as a result of our correspondent production.

Our objective is to provide attractive risk-adjusted returns to our investors over the long-term, primarily through dividends and secondarily through capital appreciation. Our targeted investments are in the U.S. mortgage market, including credit sensitive assets such as distressed mortgage loans, credit risk transfer (CRT) securities related to our correspondent production, non-Agency subordinate bonds, small-balance commercial real estate (including multifamily) loans and subordinate interests; and interest rate sensitive assets such as MSRs, ESS, MBS, and non-Agency senior MBS.

In addition to our investment activities, we are engaged in correspondent production, which is the acquisition of newly originated, prime credit quality, first-lien residential mortgage loans that have been underwritten to investor guidelines, pooling such loans into MBS and selling the resulting securities into the secondary markets. We purchase Agency-eligible loans and jumbo loans. A jumbo loan is a loan in an amount that exceeds the maximum loan amount for eligible loans under Agency guidelines. We then sell or securitize Agency-eligible loans meeting the guidelines of Fannie Mae and Freddie Mac on a servicing-retained basis whereby we retain the related MSRs; government loans (insured by the FHA or guaranteed by the VA), which we sell to PLS, a Ginnie Mae approved issuer and servicer; and jumbo mortgage loans, which, generally on a servicing-retained basis, we securitize or sell to third parties.

Table of Contents

Our correspondent production business has grown through purchases from approved mortgage originators that meet specific criteria related to management experience, financial strength, risk management controls and loan quality. The management team at PLS has prior experience with the majority of these mortgage originators. As of December 31, 2015, 432 sellers have been approved, primarily independent mortgage originators and small banks located across the United States. We purchased approximately $46.4 billion at fair value of loans in 2015, including $14.4 billion of conventional loans and $31.9 billion of government-insured loans. In the third quarter of 2015, we were the third largest correspondent lender in the United States as ranked by Inside Mortgage Finance.

We have elected to be taxed as a REIT for U.S. federal income tax purposes and we intend to maintain our exclusion from regulation under the Investment Company Act. Therefore, we are required to invest a substantial majority of our assets in loans secured by real estate and in real estate-related assets. Subject to maintaining our REIT qualification and our Investment Company Act exclusion, we do not have any limitations on the amounts we may invest in any of our targeted asset classes.

Our Manager and Our Servicers

We are externally managed and advised by PCM pursuant to a management agreement. PCM specializes in and focuses on residential mortgage loans. PCM also serves as the investment manager to two private investment funds, which we refer to as the PennyMac funds, with investment objectives and policies relating to distressed mortgage loans that are substantially similar to ours. The combined net assets of the entities managed by PCM, including our shareholders equity, amounted to approximately $1.7 billion as of December 31, 2015.

PCM is responsible for administering our business activities and day-to-day operations, including developing our investment strategies, sourcing and acquiring mortgage loans and mortgage-related assets for our investment portfolio, and developing the appropriate approach to be taken by PLS for each loan as it performs its specialty servicing. Pursuant to the terms of the management agreement, PCM provides us with our senior management team, including our officers and support personnel. PCM is subject to the supervision and oversight of our board of trustees and has the functions and authority specified in the management agreement.

Our Manager s senior management team has extensive experience in the residential mortgage industry and expertise across each of the critical capabilities that we believe are required to successfully acquire and manage both performing and nonperforming mortgage loans, including sourcing, valuation, due diligence, portfolio strategy, servicing (including modification and refinance fulfillment of outstanding loans and acquisition and liquidation of properties securing settled mortgage loans) and secondary marketing.

We also have a loan servicing agreement with PLS, pursuant to which PLS provides primary and special servicing for our portfolio of residential mortgage loans. PLS s loan servicing activities include collecting principal, interest and escrow account payments, if any, with respect to mortgage loans, as well as managing loss mitigation, which may include, among other things, collection activities, loan workouts, modifications and refinancings, foreclosures, short sales and sales of real estate owned properties (REO). Servicing fee rates are based on the delinquency status and other characteristics of the mortgage loans serviced and total servicing compensation is established at levels that our Manager believes are competitive with those charged by other primary servicers and specialty servicers. PLS also provides special servicing to the PennyMac funds and the entities in which the PennyMac funds have invested. PLS acted as the servicer for mortgage loans with an aggregate unpaid principal balance (UPB) of approximately $160.3 billion as of December 31, 2015.

We have a commercial mortgage loan servicing agreement with Midland Loan Services, a Division of PNC Bank, National Association (Midland), pursuant to which Midland provides the master servicing for commercial mortgage loans that we acquire and may also provide special servicing, as necessary. We also have a commercial mortgage loan servicing oversight agreement with PLS, pursuant to which PLS provides oversight of Midland, including vendor management, review of reports and procedures for accuracy and timeliness, and monitoring Midland s activities and performance.

Table of Contents

Investment Strategy and Targeted Asset Classes

Our Manager continually evaluates the markets for investment opportunities on our behalf. To date, we have invested in mortgage loans, a substantial portion of which are distressed and acquired at discounts to their unpaid principal balances; MSRs; ESS; mortgage-related securities; small balance (typically under $10 million) commercial real estate loans; and other mortgage-related, real estate and financial assets. We also expect to invest in newly originated multifamily loans. A substantial portion of our investments are not rated by any rating agency.

Our targeted asset classes and the principal investments we make and/or expect to make in each class are as follows:

Asset class	Principal investments
Credit Sensitive Assets	Distressed loan investments (including REO)
	GSE credit risk transfer
	Non-Agency subordinate bonds
	Small balance (typically under $10 million) commercial real estate loans that finance multifamily and other commercial real estate or securities backed by such loans
Interest Rate Sensitive Assets	MSRs
	ESS arising from MSRs (including recapture)
	Agency MBS
	Non-Agency senior MBS
	Mortgage-related derivatives, including, but not limited to, options, futures and derivatives on MBS
	United States Treasury securities

Over time, our targeted asset classes may change as a result of changes in the opportunities that are available in the market, among other factors. We may not invest in certain of the investments described above if we believe those types of investments will not provide us with attractive opportunities or if we believe other types of our targeted assets provide us with better opportunities.

Our Portfolios

Investment Activities

Our portfolio of mortgage investments was comprised of the following:

	December 31,				
	2015	2014	2013	2012	2011
			(in thousands)		
Credit Sensitive Assets					

Distressed mortgage loans at fair value					
Performing	$ 877,438	$ 664,266	$ 647,266	$ 404,016	$ 209,599
Nonperforming	1,222,956	1,535,317	1,647,527	785,955	615,977
REO	350,642	303,228	148,080	88,078	103,549
Credit risk transfer agreements	147,593				
Agency debt			12,000		
Small balance commercial mortgage loans	14,590				
	2,613,219	2,502,811	2,454,873	1,278,049	929,125
Interest Rate Sensitive Assets					
MSRs	459,741	357,780	290,572	126,776	6,031
ESS	412,425	191,166	138,723		
Agency MBS	225,150	195,518	197,401		72,813
Non-Agency senior MBS	97,323	111,845			
Interest rate hedges(1)	2,282	3,016	4,766	3,260	(3,834)
	1,196,921	859,325	631,462	130,036	75,010
	$ 3,810,140	$ 3,362,136	$ 3,086,335	$ 1,408,085	$ 1,004,135

(1) Total derivative assets, excluding interest rate lock commitments (IRLC) and net of derivative liabilities.

Correspondent Production

In our correspondent production activities, we acquire newly originated loans from mortgage lenders, sell the loans to an Agency or other third party, sell the loans to PLS in the case of government loans, or otherwise pool loans into MBS, sell the resulting securities into the MBS markets and retain the MSRs. During 2015, we purchased $46.4 billion at fair value of newly originated mortgage loans, compared to $28.4 billion during 2014.

Following is a summary of our correspondent production activities:

	Year ended December 31,				
	2015	2014	2013	2012	2011
			(in thousands)		
Correspondent mortgage loan purchases:					
Government-insured or guaranteed	$ 31,945,396	$ 16,523,216	$ 16,068,253	$ 8,969,220	$ 623,540
Agency-eligible	14,360,888	11,474,345	15,358,372	13,463,121	660,862
Jumbo	117,714	383,854	582,996	10,795	34,361
Commercial mortgage loans	14,811				
	$ 46,438,809	$ 28,381,415	$ 32,009,621	$ 22,443,136	$ 1,318,763
UPB of correspondent mortgage loan purchases	$ 44,357,875	$ 27,147,444	$ 30,949,758	$ 21,480,593	$ 1,273,314
Gain on mortgage loans acquired for sale(1)	$ 51,016	$ 35,647	$ 98,669	$ 147,675	$ 7,633
Fair value of correspondent loans in inventory at year end pending sale to:					
PFSI	$ 669,288	$ 209,325	$ 112,360	$ 153,326	$ 46,266
Nonaffiliates	614,507	428,397	345,777	821,858	185,750
	$ 1,283,795	$ 637,722	$ 458,137	$ 975,184	$ 232,016

(1) Gain on mortgage loans acquired for sale includes the initial MSR capitalization, recognition of initial and changes in the fair value of commitments to purchase loans (IRLCs), changes in the fair value of mortgage loans purchased during the period from purchase through the date of sale and changes in the fair value of derivative financial instruments acquired to manage the risk of changes in fair value of our inventory of mortgage loans and IRLCs.

PCM has worked to expand our sources of assets to position us to take advantage of market opportunities and market changes. Examples of such investments, which are in various stages of analysis, planning or implementation, include:

Creation and acquisition of MSRs and ESS related to MSRs. We believe that MSR and ESS investments may allow us to earn attractive current returns and to leverage the mortgage loan servicing and origination capabilities of PLS to enhance the assets value. We intend to continue to retain the MSRs that we receive as a portion of the proceeds from our sale or securitization of mortgage loans through our correspondent production operation.

Recapture of MSRs. Pursuant to the terms of the MSR recapture agreement entered into with PFSI effective February 1, 2013, if PFSI refinances mortgage loans for which we previously created and held the MSRs through our correspondent production activities, PFSI is generally required to transfer and convey to us, at no cost to us, the MSRs with respect to new mortgage loans originated in those refinancings (or, under certain circumstances, other mortgage loans) that have an aggregate unpaid principal balance that is not less than 30% of the aggregate unpaid principal balance of all the mortgage loans so originated.

Acquisition of small balance (typically under $10 million) commercial real estate loans that finance multifamily and other commercial real estate or securities backed by such mortgage loans.

To the extent that we transfer correspondent production mortgage loans into private label securitizations, we may retain a portion of the securities and residual interests created in such securitization transactions. We expect our future securitizations will be accounted for as secured borrowings.

Our Financing Strategy

We have pursued growth of our investment portfolio by using a combination of equity and borrowings, generally in the form of borrowings under agreements to repurchase. We use borrowings to finance our investments and not to speculate on changes in interest rates.