UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

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	**(IRS Employer**
incorporation or organization)	**Identification No.)**
6101 Condor Drive, Moorpark, California	**93021**
(Address of principal executive offices)	**(Zip Code)**

(818) 224-7442

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes 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 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

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

Class	Outstanding at May 6, 2014
Common Shares of Beneficial Interest, $0.01 par value	**73,989,941**

PENNYMAC MORTGAGE INVESTMENT TRUST

FORM 10-Q

March 31, 2014

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	March 31, 2014	December 31, 2013
	(in thousands, except share data)	
ASSETS		
Cash	$ 11,871	$ 27,411
Short-term investments	91,338	92,398
Mortgage-backed securities at fair value pledged to secure securities sold under agreements to repurchase	198,110	197,401
Mortgage loans acquired for sale at fair value (includes $339,153 and $454,210 pledged to secure mortgage loans acquired for sale under agreements to repurchase)	344,680	458,137
Mortgage loans at fair value (includes $1,913,828 and $1,963,266 pledged to secure mortgage loans sold under agreements to repurchase)	2,079,020	2,076,665
Mortgage loans under forward purchase agreements at fair value pledged to secure borrowings under forward purchase agreements	202,661	218,128
Mortgage loans at fair value held by variable interest entity (includes $522,684 and $516,473 pledged to secure agreement to repurchase and asset-backed secured financing of the variable interest entity at fair value)	529,680	523,652
Excess servicing spread purchased from PennyMac Financial Services, Inc. at fair value	151,019	138,723
Derivative assets	7,928	7,976
Real estate acquired in settlement of loans (includes $81,615 and $89,404 pledged to secure real estate acquired in settlement of loans sold under agreements to repurchase)	172,987	138,942
Real estate acquired in settlement of loans under forward purchase agreements pledged to secure forward purchase agreements	13,890	9,138
Mortgage servicing rights (includes $36,181 and $26,452 carried at fair value)	301,427	290,572
Servicing advances	60,024	59,573
Due from PennyMac Financial Services, Inc.	3,590	6,009
Other assets	59,312	66,192
Total assets	$ 4,227,537	$ 4,310,917
LIABILITIES		
Assets sold under agreements to repurchase	$ 1,887,778	$ 2,039,605
Borrowings under forward purchase agreements	216,614	226,580
Asset-backed secured financing of the variable interest entity at fair value	166,514	165,415

Exchangeable senior notes	250,000	250,000
Derivative liabilities	961	1,961
Accounts payable and accrued liabilities	72,413	71,561
Due to PennyMac Financial Services, Inc.	20,812	18,636
Income taxes payable	58,309	59,935
Liability for losses under representations and warranties	10,854	10,110
Total liabilities	2,684,255	2,843,803
Commitments and contingencies		
SHAREHOLDERS EQUITY		
Common shares of beneficial interest authorized, 500,000,000 common shares of $0.01 par value; issued and outstanding, 73,929,541 and 70,458,082 common shares, respectively	739	705
Additional paid-in capital	1,466,347	1,384,468
Retained earnings	76,196	81,941
Total shareholders equity	1,543,282	1,467,114
Total liabilities and shareholders equity	$ 4,227,537	$ 4,310,917

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

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PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Quarter ended March 31, 2014	2013
	(in thousands, except share data)	
Net investment income		
Net gain on mortgage loans acquired for sale	$ 9,971	$ 29,279
Loan origination fees	2,356	5,473
Net interest income:		
Interest income	39,346	16,875
Interest expense	19,775	11,236
	19,571	5,639
Net gain on investments	42,585	63,980
Net loan servicing fees	7,421	6,011
Results of real estate acquired in settlement of loans	(6,626)	(3,253)
Other	1,317	687
Net investment income	76,595	107,816
Expenses		
Expenses payable to PennyMac Financial Services, Inc.:		
Loan fulfillment fees	8,902	28,244
Loan servicing fees	14,591	7,726
Management fees	8,074	6,492
Professional services	1,731	2,384
Compensation	2,942	2,089
Other	4,066	4,946
Total expenses	40,306	51,881
Income before provision for income taxes	36,289	55,935
(Benefit from) provision for income taxes	(1,584)	2,639
Net income	$ 37,873	$ 53,296
Earnings per share		
Basic	$ 0.52	$ 0.90
Diluted	$ 0.50	$ 0.90
Weighted-average shares outstanding		
Basic	71,527	58,927
Diluted	80,289	59,319
Dividends declared per share	$ 0.59	$ 0.57

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

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PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (UNAUDITED)

	Number of shares	Par value	Additional paid-in capital	Retained earnings	Total
			(in thousands)		
Balance at December 31, 2012	58,904	$ 589	$ 1,129,858	$ 70,889	$ 1,201,336
Net income				53,296	53,296
Share-based compensation	86	1	1,451		1,452
Cash dividends, $0.57 per share				(33,577)	(33,577)
Underwriting and offering costs			(78)		(78)
Balance at March 31, 2013	58,990	$ 590	$ 1,131,231	$ 90,608	$ 1,222,429
Balance at December 31, 2013	70,458	$ 705	$ 1,384,468	$ 81,941	$ 1,467,114
Net income				37,873	37,873
Share-based compensation	85		1,814		1,814
Cash dividends, $0.59 per share				(43,618)	(43,618)
Proceeds from offerings of common shares	3,387	34	80,983		81,017
Underwriting and offering costs			(918)		(918)
Balance at March 31, 2014	73,930	$ 739	$ 1,466,347	$ 76,196	$ 1,543,282

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

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PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Quarter ended March 31, 2014	2013
	(in thousands)	
Cash flows from operating activities		
Net income	$ 37,873	$ 53,296
Adjustments to reconcile net income to net cash used by operating activities:		
Net gain on mortgage loans acquired for sale at fair value	(9,971)	(29,279)
Accrual of unearned discounts on mortgage-backed securities at fair value	(240)	
Capitalization of interest and advances on mortgage loans at fair value	(12,470)	(5,230)
Accrual of interest on excess servicing spread	(2,862)	
Amortization of credit facility commitment fees and debt issuance costs	2,360	1,143
Accrual of costs related to forward purchase agreements	2,200	
Net gain on investments	(46,727)	(63,980)
Change in fair value, amortization and impairment of mortgage servicing rights	10,020	4,539
Results of real estate acquired in settlement of loans	6,626	3,253
Share-based compensation expense	1,814	1,452
Purchases of mortgage loans acquired for sale at fair value	(5,046,603)	(8,849,152)
Sales of mortgage loans acquired for sale at fair value to nonaffiliates	2,026,306	5,134,736
Sales of mortgage loans acquired for sale to PennyMac Financial Services, Inc.	3,130,531	3,548,397
Increase in servicing advances	(5,647)	(5,504)
Decrease (increase) in due from PennyMac Financial Services, Inc.	3,196	(1,161)
Decrease (increase) in other assets	17,434	(2,210)
Decrease in accounts payable and accrued liabilities	(1,124)	(20,142)
Increase in payable to PennyMac Financial Services, Inc.	2,212	2,532
(Decrease) increase in income taxes payable	(1,626)	2,165
Net cash provided by (used in) operating activities	113,302	(225,145)
Cash flows from investing activities		
Net decrease (increase) in short-term investments	1,060	(6,007)
Repayments of mortgage-backed securities at fair value	1,978	
Purchases of mortgage loans at fair value	(256,280)	(200,473)
Repayments and sales of mortgage loans at fair value	246,839	61,421
Repayments of mortgage loans under forward purchase agreements at fair value	5,329	
Repayments of mortgage loans at fair value held by variable interest entity	5,453	
Purchase of excess servicing spread from PennyMac Financial Services, Inc.	(20,526)	
Repayment of excess spread investment	7,413	
Purchases of derivative financial instruments	(259)	
Sales of real estate acquired in settlement of loans	31,772	32,024
Purchase of real estate acquired in settlement of loans	(3,049)	
Sales of real estate acquired in settlement of loans under forward purchase agreements	1,620	

Increase in margin deposits and restricted cash	(21,857)	(1,493)
Net cash used in investing activities	(507)	(114,528)

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

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PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED) (UNAUDITED)

	Quarter ended March 31, 2014	2013
	(in thousands)	
Cash flows from financing activities		
Sale of assets under agreement to repurchase	6,814,735	8,510,958
Repurchases of assets sold under agreements to repurchase	(6,966,561)	(8,152,010)
Repayments of borrowings under forward purchase agreements	(13,124)	
Repayments of asset-backed secured financing of the variable interest entity at fair value	(1,805)	
Proceeds from issuance of common shares	81,017	
Payment of common share underwriting and offering costs	(918)	(78)
Payment of contingent underwriting fees payable	(109)	
Payment of dividends	(41,570)	(33,577)
Net cash (used in) provided by financing activities	(128,335)	325,293
Net decrease in cash	(15,540)	(14,380)
Cash at beginning of period	27,411	33,756
Cash at end of period	$ 11,871	$ 19,376

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

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PENNYMAC MORTGAGE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 Organization and Basis of Presentation

PennyMac Mortgage Investment Trust (PMT or the Company) was organized in Maryland on May 18, 2009, and commenced operations on August 4, 2009, when it completed its initial offerings of common shares of beneficial interest (shares). The Company is a specialty finance company, which, through its subsidiaries (all of which are wholly-owned), invests primarily in residential mortgage loans and mortgage-related assets.

The Company operates in two segments: correspondent lending and investment activities:

The correspondent lending segment represents the Company s operations aimed at serving as an intermediary between mortgage lenders and the capital markets by purchasing, pooling and reselling newly originated prime credit quality mortgage loans either directly or in the form of mortgage-backed securities (MBS), using the services of PNMAC Capital Management, LLC (PCM or Manager) and PennyMac Loan Services, LLC (PLS or Servicer), both subsidiaries of PennyMac Financial Services, Inc. (PFSI).

Most of the loans the Company has acquired in its correspondent lending activities have been eligible for sale to government-sponsored entities such as the Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) or through government agencies such as the Government National Mortgage Association (Ginnie Mae). Fannie Mae, Freddie Mac and Ginnie Mae are each referred to as an Agency and, collectively, as the Agencies.

The investment activities segment represents the Company s investments in mortgage-related assets, which include distressed mortgage loans, real estate acquired in settlement of loans (REO), MBS, mortgage servicing rights (MSRs) and excess servicing spread (ESS). The Company seeks to maximize the value of the distressed mortgage loans that it acquires through proprietary loan modification programs, special servicing or other initiatives focused on keeping borrowers in their homes. Where this is not possible, such as in the case of many nonperforming mortgage loans, the Company seeks to effect property resolution in a timely, orderly and economically efficient manner, including through the use of resolution alternatives to foreclosure.

The Company is externally managed by PCM, an investment adviser registered with the Securities and Exchange Commission (the SEC) that specializes in and focuses on residential mortgage loans. Under the terms of a management agreement, PCM is paid a management fee with a base component and a performance incentive component.

The Company believes that it qualifies, and has elected to be taxed, as a real estate investment trust (REIT) under the Internal Revenue Code of 1986, as amended (the Internal Revenue Code), beginning with its taxable period ended on December 31, 2009. To maintain its tax status as a REIT, the Company has to distribute at least 90% of its taxable income in the form of qualifying distributions to shareholders.

The Company conducts substantially all of its operations and makes substantially all of its investments through its subsidiary, PennyMac Operating Partnership, L.P. (the Operating Partnership), and the Operating Partnership s subsidiaries. A wholly-owned subsidiary of the Company is the sole general partner, and the Company is the sole limited partner, of the Operating Partnership.

The accompanying consolidated financial statements have been prepared in compliance with accounting principles generally accepted in the United States (U.S. GAAP) as codified in the Financial Accounting Standards Board s (FASB) *Accounting Standards Codification* for interim financial information and with the SEC s instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, these financial statements and notes do not include all of the information required by U.S. GAAP for complete financial statements. The interim consolidated information should be read together with the Company s Annual Report on Form 10-K for the year ended December 31, 2013 (the Annual Report). Intercompany accounts and transactions have been eliminated.

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

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Reclassification of previously presented balances

Certain prior period amounts have been reclassified to conform to the current presentation. Specifically:

Interest expense is included with *Interest income* under a new caption, *Net interest income,* to better reflect the Company s results due to growth in its portfolio of interest-earning assets. This reclassification results in the presentation of *Net interest income* in *Net investment income* and a decrease in *Expenses.*

Loan servicing fees payable to PennyMac Financial Services, Inc. is presented without the inclusion of other servicing expenses payable to nonaffiliates. Previously, *Loan servicing expense* included amounts payable to PFSI and to nonaffiliates. Amounts payable to nonaffiliates have been reclassified to *Other expenses*.

Other minor amounts were reclassified to *Other expenses*, to conform to the current period presentation.

Following is a summary of the reclassifications:

	Quarter ended March 31, 2013		
	As reported	As previously reported	Reclassification
		(in thousands)	
Net interest income (new caption):			
Interest income	$ 16,875	$ 16,875	$
Interest expense	11,236		11,236
	5,639	16,875	(11,236)
Net investment income	$ 107,816	$ 119,052	$ (11,236)
Expenses:			
Interest expense	$	$ 11,236	$ (11,236)
Expenses payable to PennyMac Financial Services, Inc.:			
Loan servicing fees	7,726	8,090	(364)
Other	4,946	4,690	256
Total expenses	$ 51,881	$ 63,117	$ (11,236)

These reclassifications did not change previously reported income before provision for income taxes, (benefit from) provision for income taxes, net income, reported consolidated balance sheet amounts, including shareholders equity, or consolidated cash flows.

Note 2 Concentration of Risks

As discussed in Note 1 *Organization and Basis of Presentation* above, PMT s operations and investing activities are centered in mortgage-related assets, a substantial portion of which are distressed at acquisition. Many of the mortgage loans in its targeted asset class are purchased at discounts reflecting their distressed state or perceived higher risk of default, as well as a greater likelihood of collateral documentation deficiencies.

Because of the Company s investment focus, PMT is exposed, to a greater extent than traditional mortgage investors, to the risks that borrowers may be in economic distress and/or may have become unemployed, bankrupt or otherwise unable or unwilling to make payments when due, and to the effects of fluctuations in the residential real estate market on the performance of its investments. Factors influencing these risks include, but are not limited to:

- changes in the overall economy and unemployment rates and residential real estate values in the markets where the properties securing the Company s mortgage loans are located;

- PCM s ability to identify and the Company s loan servicers ability to execute optimal resolutions of problem mortgage loans;

- the accuracy of valuation information obtained during the Company s due diligence activities;
- PCM s ability to effectively model, and to develop appropriate model assumptions that properly anticipate, future outcomes;
- the level of government support for problem loan resolution and the effect of current and future proposed and enacted legislative and regulatory changes on the Company s ability to effect cures or resolutions to distressed loans; and
- regulatory, judicial and legislative support of the foreclosure process, and the resulting effect on the Company s ability to acquire and liquidate the real estate securing its portfolio of distressed mortgage loans in a timely manner or at all.

Due to these uncertainties, there can be no assurance that risk management activities identified and executed on PMT s behalf will prevent significant losses arising from the Company s investments in real estate-related assets.

A substantial portion of the distressed mortgage loans and REO purchased by the Company has been acquired from or through one or more subsidiaries of Citigroup Inc. The following tables present purchases for the Company s investment portfolio of mortgage loans and REO (including purchases under forward purchase agreements), and the portion thereof representing assets purchased from or through one or more subsidiaries of Citigroup Inc.:

	Quarter ended March 31,	
	2014	2013
	(in thousands)	
Investment portfolio purchases:		
Mortgage loans	$ 257,200	$ 200,473
REO	3,087	
	$ 260,287	$ 200,473
Investment portfolio purchases above through one or more subsidiaries of Citigroup Inc.:		
Mortgage loans	$	$ 200,473
REO	38	
	$ 38	$ 200,473

Following is a summary of the Company s holdings of assets purchased through one or more subsidiaries of Citigroup Inc.:

	March 31, 2014	December 31, 2013
	(in thousands)	
Mortgage loans	$ 927,107	$ 1,138,131
Mortgage loans - forward	202,661	218,128
REO	88,081	84,726
REO - forward	13,032	8,705
	$ 1,230,881	$ 1,449,690

During the year ended December 31, 2013, the Company entered into forward purchase agreements with Citigroup Global Markets Realty Corp. (CGM), a subsidiary of Citigroup Inc., to purchase certain nonperforming mortgage loans and REO (collectively, the CGM Assets). The CGM Assets were acquired by CGM from unaffiliated money center banks and are held in a trust subsidiary by CGM pending payment by the Company.

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The Company recognized these assets and related obligations as of the dates of the agreements and recognizes all subsequent income and changes in value relating to such assets. As a result of recognizing these assets, the Company s consolidated statements of income and cash flows include the following amounts related to the forward purchase agreements:

	Quarter ended March 31,			
	2014		2013	
	(in thousands)			
Statements of income:				
Interest income on mortgage loans	$	2,154	$	
Interest expense	$	1,580	$	
Net gain on investments	$	(940)	$	
Results of REO	$	(400)	$	
Loan servicing fees	$	316	$	
Statements of cash flows:				
Repayments of mortgage loans	$	5,329	$	
Sales of REO	$	1,622	$	
Repayments of borrowings under forward purchase agreements	$	(13,124)	$	

The Company has no other variable interests in the trust entity or other exposure to the creditors of the trust entity that could expose the Company to loss.

Note 3 Transactions with Related Parties

Following is a summary of the base management and performance incentive fees payable to PFSI recorded by the Company:

	Quarter ended March 31,			
	2014		2013	
	(in thousands)			
Management fee:				
Base	$	5,521	$	4,364
Performance incentive		2,553		2,128
	$	8,074	$	6,492

In the event of termination, PFSI may be entitled to a termination fee in certain circumstances. The termination fee is equal to three times the sum of (a) the average annual base management fee, and (b) the average annual (or, if the period is less than 24 months, annualized) performance incentive fee earned by PFSI, in each case during the 24-month period before termination.

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Following is a summary of mortgage loan servicing fees payable to PFSI:

	Quarter ended March 31, 2014	Quarter ended March 31, 2013
	(in thousands)	
Mortgage loan servicing fees payable to PFSI:		
Mortgage loans acquired for sale at fair value:		
Base	$ 17	$ 77
Activity-based	26	72
	43	149
Distressed mortgage loans:		
Base	4,966	3,875
Activity-based	6,386	1,877
	11,352	5,752
MSRs:		
Base	3,148	1,763
Activity-based	48	62
	3,196	1,825
	$ 14,591	$ 7,726

Following is a summary of correspondent lending activity between the Company and PFSI:

	Quarter ended March 31, 2014	Quarter ended March 31, 2013
	(in thousands)	
Fulfillment fees expense payable to PFSI	$ 8,902	$ 28,244
Unpaid principal balance of loans fulfilled by PFSI	$ 1,919,578	$ 4,786,826
Sourcing fees received from PFSI	$ 892	$ 1,010
Fair value of loans sold to PFSI	$ 3,130,530	$ 3,548,397
At period end:		
Mortgage loans included in mortgage loans acquired for sale pending sale to PFSI	$ 48,909	$ 542,490

Following is a summary of investment activity between the Company and PFSI:

Quarter ended March 31,

	2014	2013
	(in thousands)	
Purchases of excess servicing spread	$ 20,526	$
Interest income from excess servicing spread	$ 2,862	$
Excess servicing spread recapture recognized	$ 1,890	$
MSR recapture recognized	$ 8	$ 133

Other Transactions

In connection with the initial public offering of PMT s common shares (IPO) on August 4, 2009, the Company entered into an agreement with PFSI pursuant to which the Company agreed to reimburse PFSI for the $2.9 million payment that it made to the IPO underwriters if the Company satisfied certain performance measures over a specified period (the Conditional

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Reimbursement). Effective February 1, 2013, the Company amended the terms of the reimbursement agreement to provide for the reimbursement of PFSI of the Conditional Reimbursement if the Company is required to pay PFSI performance incentive fees under the management agreement at a rate of $10 in reimbursement for every $100 of performance incentive fees earned. The reimbursement of the Conditional Reimbursement is subject to a maximum reimbursement in any particular 12-month period of $1.0 million and the maximum amount that may be reimbursed under the agreement is $2.9 million. During the quarter ended March 31, 2014, the Company paid $36,000 to PFSI.

The reimbursement agreement also provides for the payment to the underwriters in such offering of the payment that the Company agreed to make to them at the time of the offering if the Company satisfied certain performance measures over a specified period. As PFSI earns performance incentive fees under the management agreement, such underwriters will be paid at a rate of $20 of payments for every $100 of performance incentive fees earned by PFSI. The payment to the underwriters is subject to a maximum reimbursement in any particular 12-month period of $2.0 million and the maximum amount that may be paid under the agreement is $5.9 million. During the quarter ended March 31, 2014, the Company paid $72,000 to the underwriters.

In the event the termination fee is payable to PFSI under the management agreement and PFSI and the underwriters have not received the full amount of the reimbursements and payments under the reimbursement agreement, such amount will be paid in full. The term of the reimbursement agreement expires on February 1, 2019.

The Company reimburses PFSI and its affiliates for other expenses, including common overhead expenses and other expenses incurred on its behalf by PFSI, in accordance with the terms of its management agreement as summarized below:

	Quarter ended March 31, 2014 (in thousands)	Quarter ended March 31, 2013 (in thousands)
Reimbursement of:		
Common overhead incurred by PFSI	$ 2,578	$ 2,606
Expenses incurred on the Company s behalf	445	1,358
	$ 3,023	$ 3,964
Payments and settlements during the period (1)	$ 18,386	$ 33,362

(1) Payments and settlements include payments for management fees and correspondent lending activities itemized in the preceding tables and netting settlements made pursuant to master netting agreements between the Company and PFSI.

Amounts due to PFSI are summarized below:

	March 31, 2014	December 31, 2013
	(in thousands)	

Contingent underwriting fees	$ 1,752	$ 1,788
Servicing fees	8,222	5,915
Management fees	8,074	8,924
Allocated expenses	2,764	2,009
	$ 20,812	$ 18,636

Amounts due from affiliates totaling $3.6 million and $6.0 million at March 31, 2014 and December 31, 2013, respectively. At March 31, 2014, the balance represent payments receivable relating to cash flows from the Company s investment in ESS and amounts receivable relating to unsettled MSR and ESS recaptures. At March 31, 2013, amounts due from affiliates represent amounts receivable pursuant to loan sales to PFSI and reimbursable expenses paid on the affiliates behalf by the Company.

PFSI held 75,000 of the Company s common shares of beneficial interest at both March 31, 2014 and December 31, 2013.

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Note 4 Earnings Per Share

Basic earnings per share is determined using the two-class method. Under the two-class method, all earnings (distributed and undistributed) are allocated to common shares and participating securities, based on their respective rights to receive dividends. Basic earnings per share is determined using net income reduced by income attributable to the participating securities and divided by the weighted-average common shares outstanding during the period. The Company grants restricted share units which entitle the recipients to receive dividend equivalents during the vesting period on a basis equivalent to the dividends paid to holders of shares. Unvested share-based compensation awards containing non-forfeitable rights to receive dividends or dividend equivalents (collectively, dividends) are classified as participating securities and are included in the basic earnings per share calculation using the two-class method.

Diluted earnings per share is determined by dividing net income attributable to diluted shareholders, which adds back to net income the interest expense, net of applicable income taxes, on the Company s exchangeable senior notes (the Notes), by the weighted-average shares outstanding, assuming all potentially dilutive securities were issued. In periods in which the Company records a loss, potentially dilutive securities are excluded from the diluted loss per share calculation, as their effect on loss per share is anti-dilutive.

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

	Quarter ended March 31, 2014	Quarter ended March 31, 2013
	(in thousands, except per share amounts)	
Basic earnings per share:		
Net income	$ 37,873	$ 53,296
Effect of participating securities share-based compensation awards	(408)	(518)
Net income attributable to common shareholders	$ 37,465	$ 52,778
Weighted-average shares outstanding	71,527	58,927
Basic earnings per share	$ 0.52	$ 0.90
Diluted earnings per share:		
Net income	$ 37,873	$ 53,296
Interest on exchangeable senior notes, net of income taxes	2,079	
Net income attributable to diluted shareholders	$ 39,952	$ 53,296
Weighted-average shares outstanding	71,527	58,927
Potentially dilutive securities:		
Shares issuable pursuant exchange of the Notes	8,379	
Shares issuable under share-based compensation	383	392
	80,289	59,319

Diluted weighted-average number of shares outstanding				
Diluted earnings per share	$	0.50	$	0.90

Note 5 Loan Sales

The Company is a variable interest holder in various special purpose entities that relate to its loan transfer and financing activities. The Company has segregated its involvement with variable interest entities (VIEs) between those VIEs which the Company does not consolidate and those VIEs which the Company consolidates.

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Unconsolidated VIEs with Continuing Involvement

The following table summarizes cash flows between the Company and transferees upon sale of loans in transactions where PMT maintains continuing involvement with the mortgage loans as well as unpaid principal balance information at period end:

	Quarter ended March 31, 2014	Quarter ended March 31, 2013
	(in thousands)	
Cash flows:		
Proceeds from sales	$ 2,026,306	$ 5,134,736
Servicing fees received (1)	$ 16,838	$ 9,136
Period end information:		
Unpaid principal balance of mortgage loans outstanding	$ 27,192,550	$ 16,642,130
Unpaid principal balance of delinquent mortgage loans:		
30-89 days delinquent	$ 70,365	$ 38,272
90 or more days delinquent		
Not in foreclosure or bankruptcy	$ 7,700	$ 2,731
In foreclosure or bankruptcy	$ 10,569	$ 1,526

(1) Net of guarantee fees

Consolidated VIE

On September 30, 2013, the Company completed a securitization transaction in which a wholly-owned VIE issued $537.0 million in offered certificates backed by fixed rate prime jumbo mortgage loans of PMT Loan Trust 2013-J1, at a 3.9% weighted yield. The Company retained $366.8 million of those certificates. Management concluded that the Company is the primary beneficiary of the VIE and, as a result, the Company consolidates the VIE. Consolidation of the VIE results in the securitized mortgage loans remaining on the consolidated balance sheets of the Company and the certificates issued by the VIE to nonaffiliates being accounted for as secured financing. The certificates are secured solely by the assets of the VIE and not by any other assets of the Company. The assets of the VIE are the only source of funds for repayment of the certificates.

The following table presents a summary of the assets and liabilities of the VIE. Intercompany balances have been eliminated for purposes of this presentation.

Assets and Liabilities of Consolidated VIE

	March 31, 2014	December 31, 2013
	(in thousands)	

Assets		
Mortgage loans at fair value held by VIE	$ 529,680	$ 523,652
Interest receivable, included in *Other assets*	1,718	1,584
Total	$ 531,398	$ 525,236
Liabilities		
Asset-backed secured financing of the variable interest entity at fair value	$ 166,514	$ 165,415
Interest payable, included in *Accounts payable and accrued liabilities*	497	497
Total	$ 167,011	$ 165,912

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Note 6 Netting of Financial Instruments

The Company uses derivative financial instruments to manage exposure to interest rate risk created by its interest rate lock commitments (IRLC), mortgage loans acquired for sale at fair value, MBS, ESS and MSRs. All derivative financial instruments are recorded on the balance sheet at fair value. The Company has elected to net derivative asset and liability positions, and cash collateral obtained (or posted) by (or to) its counterparties when subject to a legally enforceable master netting arrangement. The derivative financial instruments that are not subject to master netting arrangements are IRLCs.

Offsetting of Derivative Assets

Following is a summary of net derivative assets. As discussed above, all derivatives with the exception of IRLCs are subject to master netting arrangements.

	March 31, 2014			December 31, 2013		
	Gross amounts of recognized assets	Gross amounts offset in the consolidated balance sheet	Net amounts of assets presented in the consolidated balance sheet	Gross amounts of recognized assets	Gross amounts offset in the consolidated balance sheet	Net amounts of assets presented in the consolidated balance sheet
	(in thousands)					
Derivatives subject to master netting arrangements:						
MBS put options	$ 1,027	$	$ 1,027	$ 272	$	$ 272
MBS call options	93		93			
Forward purchase contracts	777		777	1,229		1,229
Forward sale contracts	5,434		5,434	16,385		16,385
Treasury futures	328		328			
Put options on Eurodollar futures	432		432	566		566
Call options on Eurodollar futures	66		66			
Netting		(3,738)	(3,738)		(12,986)	(12,986)
	8,157	(3,738)	4,419	18,452	(12,986)	5,466
Derivatives not subject to master netting arrangements:						
Interest rate lock commitments	3,509		3,509	2,510		2,510
	$ 11,666	$ (3,738)	$ 7,928	$ 20,962	$ (12,986)	$ 7,976

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Derivative Assets and Collateral Held by Counterparty

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

	March 31, 2014				December 31, 2013			
		Gross amounts not offset in the consolidated balance sheet				Gross amounts not offset in the consolidated balance sheet		
	Net amount of assets presented in the balance sheet	Financial instruments	Cash collateral received	Net amount	Net amount of assets presented in the balance sheet	Financial instruments	Cash collateral received	Net amount
	(in thousands)							
Interest rate lock commitments	$ 3,509	$	$	$ 3,509	$ 2,510	$	$	$ 2,510
RBS Securities	892			892				
RJ O Brien	826			826	566			566
Citibank	725			725				
Bank of America, N.A.	594			594	1,024			1,024
Wells Fargo	245			245	378			378
Credit Suisse First Boston Mortgage Capital LLC	234			234				
Daiwa Capital Markets	141			141	608			608
Fannie Mae Capital Markets					432			432
Morgan Stanley Bank, N.A.					546			546
Cantor Fitzgerald LP					613			613
Other	762			762	1,299			1,299
Total	$ 7,928	$	$	$ 7,928	$ 7,976	$	$	$ 7,976

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Offsetting of Derivative Liabilities and Financial Liabilities

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

	March 31, 2014			December 31, 2013		
	Gross amounts of recognized liabilities	Gross amounts offset in the balance sheet	Net amounts of liabilities presented in the balance sheet	Gross amounts of recognized liabilities	Gross amounts offset in the balance sheet	Net amounts of liabilities presented in the balance sheet
			(in thousands)			
Derivatives subject to master netting arrangements:						
Forward purchase contracts	$ 3,547	$	$ 3,547	$ 7,420	$	$ 7,420
Forward contracts	1,219		1,219	1,295		1,295
MBS options	333		333			
Netting		(4,376)	(4,376)		(8,015)	(8,015)
	5,099	(4,376)	723	8,715	(8,015)	700
Derivatives not subject to master netting arrangements:						
Interest rate lock commitments	238		238	1,261		1,261
	5,337	(4,376)	961	9,976	(8,015)	1,961
Assets sold under agreements to repurchase	1,887,778		1,887,778	2,039,605		2,039,605
	$ 1,893,115	$ (4,376)	$ 1,888,739	$ 2,049,581	$ (8,015)	$ 2,041,566

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Derivative Liabilities, Financial Liabilities and Collateral Held by Counterparty

The following table summarizes by significant counterparty the amount of derivative liabilities and assets sold under agreements to repurchase after considering master netting arrangements and financial instruments or cash pledged that do not meet the accounting guidance qualifying for offset. All assets sold under agreements to repurchase represent sufficient collateral or exceed the liability amount recorded on the consolidated balance sheet.

	March 31, 2014				December 31, 2013			
		Gross amounts not offset in the consolidated balance sheet				Gross amounts not offset in the consolidated balance sheet		
	Net amount of liabilities presented in the consolidated balance sheet	Financial instruments	Cash collateral pledged	Net amount	Net amount of liabilities presented in the consolidated balance sheet	Financial instruments	Cash collateral pledged	Net amount
	(in thousands)							
Citibank	$ 778,460	$ (778,460)	$	$	$ 945,015	$ (944,856)	$	$ 159
Credit Suisse First Boston Mortgage Capital LLC	443,362	(443,362)			523,546	(523,546)		
Bank of America, N.A.	334,772	(334,772)			408,452	(408,452)		
Deutsche Bank					110			110
Daiwa Capital Markets	130,825	(130,825)			132,525	(132,525)		
Morgan Stanley Bank, N.A.	109,884	(109,707)		177	30,226	(30,226)		
RBS Securities	90,652	(90,652)						
JP Morgan					228			228
Interest rate lock commitments	238			238	1,261			1,261
Other	546			546	203			203
Total	$ 1,888,739	$ (1,887,778)	$	$ 961	$ 2,041,566	$ (2,039,605)	$	$ 1,961

Note 7 Fair Value

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

Fair Value Accounting Elections

Management identified all of its non-cash financial assets and MSRs relating to loans with initial interest rates of more than 4.5% to be accounted for at estimated fair value. Management has elected to account for these financial statement items at fair value so such changes in fair value will be reflected in income as they occur and more timely reflect the results of the Company s performance. Management has also identified its asset-backed secured financing of the variable interest entity to be accounted for at fair value to reflect the generally offsetting changes in fair value of these borrowings to changes in fair value of mortgage loans held by variable interest entity which are also carried at fair value.

For MSRs relating to mortgage loans with initial interest rates of less than or equal to 4.5%, management concluded that such assets present different risks to the Company than MSRs relating to mortgage loans with initial interest rates of more than 4.5% and therefore require a different risk management approach. Management s risk management efforts relating to these assets are aimed at moderating the effects of non-interest rate risks on fair value, such as the effect of changes in home prices on the assets values. Management has identified these assets for accounting at the lower of amortized cost or fair value.

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The Company s risk management efforts in connection with MSRs relating to mortgage loans with initial interest rates of more than 4.5% are generally aimed at moderating the effects of changes in interest rates on the assets values. During the quarters ended March 31, 2014 and 2013, derivatives were used to hedge the fair value changes of the MSRs.

For assets sold under agreements to repurchase, borrowings under forward purchase agreements and the Notes, management has determined that historical cost accounting is more appropriate because under this method debt issuance costs are amortized over the term of the debt, thereby matching the debt issuance cost to the periods benefiting from the usage of the debt.

Financial Statement Items Measured at Fair Value on a Recurring Basis

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

	March 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
	(in thousands)			
Assets:				
Short-term investments	$ 91,338	$	$	$ 91,338
Mortgage-backed securities at fair value		198,110		198,110
Mortgage loans acquired for sale at fair value		344,680		344,680
Mortgage loans at fair value			2,079,020	2,079,020
Mortgage loans under forward purchase agreements at fair value			202,661	202,661
Mortgage loans at fair value held by variable interest entity		529,680		529,680
Excess servicing spread purchased from PennyMac Financial Services, Inc.			151,019	151,019
Derivative assets:				
Interest rate lock commitments			3,509	3,509
MBS put options		1,027		1,027
MBS call options		93		93
Forward purchase contracts		777		777
Forward sales contracts		5,434		5,434
Treasury futures		328		328
Put options on Eurodollar futures		432		432
Call options on Eurodollar futures		66		66
Total derivative assets before netting		8,157	3,509	11,666
Netti				