NEW YORK MORTGAGE TRUST INC
Form 10-Q
May 08, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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 001-32216

NEW YORK MORTGAGE TRUST, INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland	**47-0934168**
(State or Other Jurisdiction of	(I.R.S. Employer

Incorporation or Organization) Identification No.)

275 Madison Avenue, New York, New York 10016

(Address of Principal Executive Office) (Zip Code)

(212) 792-0107

(Registrant's Telephone Number, Including Area Code)

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer 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

The number of shares of the registrant's common stock, par value $0.01 per share, outstanding on May 1, 2014 was 90,656,546.

NEW YORK MORTGAGE TRUST, INC.

FORM 10-Q

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollar amounts in thousands, except per share data)

	March 31, 2014 (unaudited)	**December 31, 2013**
ASSETS		
Investment securities, available for sale, at fair value (including pledged securities of $828,941 and $853,223, respectively)	$911,324	$912,443
Investment securities, available for sale, at fair value held in securitization trusts	96,124	92,578
Residential mortgage loans held in securitization trusts (net)	159,512	163,237
Distressed residential mortgage loans held in securitization trusts (net)	229,215	254,721
Multi-family loans held in securitization trusts, at fair value	8,221,642	8,111,022
Derivative assets	201,579	197,590
Cash and cash equivalents	76,508	31,798
Receivables and other assets	176,060	135,286
Total Assets (1)	$10,071,964	$9,898,675
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Financing arrangements, portfolio investments	$767,827	$791,125
Residential collateralized debt obligations	154,456	158,410
Multi-family collateralized debt obligations, at fair value	7,975,421	7,871,020
Securitized debt	298,200	304,964
Derivative liabilities	706	1,432
Payable for securities purchased	204,840	191,592
Accrued expenses and other liabilities (including $689 and $951 to related parties, respectively)	59,672	54,466
Subordinated debentures	45,000	45,000
Total liabilities (1)	9,506,122	9,418,009

Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, $0.01 par value, 7.75% Series B cumulative redeemable, $25 liquidation preference per share, 3,450,000 shares authorized, 3,000,000 shares issued and outstanding as of March 31, 2014 and December 31, 2013.	72,397	72,397
Common stock, $0.01 par value, 400,000,000 shares authorized, 75,706,546 and 64,102,029 shares issued and outstanding as of March 31, 2014 and December 31, 2013, respectively	757	641
Additional paid-in capital	480,477	404,555
Accumulated other comprehensive income	11,394	3,073
Retained earnings	817	-
Total stockholders' equity	565,842	480,666
Total Liabilities and Stockholders' Equity	$10,071,964	$9,898,675

(1) Our consolidated balance sheets include assets and liabilities of consolidated variable interest entities ("VIEs") as the Company is the primary beneficiary of these VIEs. As of March 31, 2014 and December 31, 2013, assets of consolidated VIEs totaled $8,777,783 and $8,665,829, respectively, and the liabilities of consolidated VIEs totaled $8,462,489 and $8,365,345, respectively. See Note 7 for further discussion.

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

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollar amounts in thousands, except per share data)

(unaudited)

	For the Three Months Ended March 31, 2014	2013
INTEREST INCOME:		
Investment securities and other	$14,964	$11,065
Multi-family loans held in securitization trusts	74,944	45,319
Distressed residential mortgage loans	4,343	1,439
Residential mortgage loans held in securitization trusts	987	1,306
Total interest income	95,238	59,129
INTEREST EXPENSE:		
Investment securities and other	1,470	1,629
Multi-family collateralized debt obligations	68,747	41,659
Residential collateralized debt obligations	235	298
Securitized debt	4,502	2,092
Subordinated debentures	459	467
Total interest expense	75,413	46,145
NET INTEREST INCOME	19,825	12,984
OTHER INCOME (EXPENSE):		
Provision for loan losses	(489)	(283)
Realized gain (loss) on investment securities and related hedges, net	2,039	(3,162)
Realized gain on distressed residential mortgage loans	8,225	136
Unrealized (loss) gain on investment securities and related hedges, net	(1,736)	2,456
Unrealized gain on multi-family loans and debt held in securitization trusts, net	4,926	7,051
Other income (including $142 and $19 from related parties, respectively)	510	268
Total other income	13,475	6,466
Base management and incentive fees (including $1,090 and $667 to related parties, respectively)	3,778	1,555
Expenses related to distressed residential mortgage loans	1,212	432
Other general and administrative expenses (including $80 and $207 to related parties, respectively)	2,569	1,949
Total general, administrative and other expenses	7,559	3,936

INCOME FROM OPERATIONS BEFORE INCOME TAXES	25,741	15,514
Income tax expense	3,030	131
NET INCOME	22,711	15,383
Preferred stock dividends	1,453	-
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	$21,258	$15,383
Basic income per common share	$0.29	$0.31
Diluted income per common share	$0.29	$0.31
Dividends declared per common share	$0.27	$0.27
Weighted average shares outstanding-basic	74,505	49,611
Weighted average shares outstanding-diluted	74,505	49,611

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

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollar amounts in thousands)

(unaudited)

	For the Three Months Ended March 31, 2014	2013
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	$21,258	$15,383
OTHER COMPREHENSIVE INCOME		
Increase in net unrealized gain on available for sale securities	8,450	192
(Decrease) increase in fair value of derivative instruments utilized for cash flow hedges	(129)	684
OTHER COMPREHENSIVE INCOME	8,321	876
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	$29,579	$16,259

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

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollar amounts in thousands)

(unaudited)

	Common Stock	Preferred Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2013	$ 641	$ 72,397	$ 404,555	$ -	$ 3,073	$ 480,666
Net income	-	-	-	22,711	-	22,711
Stock issuance, net	116	-	75,922		-	76,038
Dividends declared	-	-		(21,894)	-	(21,894)
Increase in net unrealized gain on available for sale securities	-	-	-	-	8,450	8,450
Decrease in fair value of derivative instruments utilized for cash flow hedges	-	-	-	-	(129)	(129)
Balance, March 31, 2014	$ 757	$ 72,397	$ 480,477	$ 817	$ 11,394	$ 565,842

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

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NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollar amounts in thousands)

(unaudited)

	For the Three Months Ended March 31,	
	2014	**2013**
Cash Flows from Operating Activities:		
Net income	$22,711	$15,383
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization	(1,316)	3,738
Realized (gain) loss on investment securities and related hedges, net	(2,039)	3,162
Realized gain on distressed residential mortgage loans	(8,225)	(136)
Unrealized loss (gain) on investment securities and related hedges, net	1,736	(2,456)
Unrealized gain on loans and debt held in multi-family securitization trusts	(4,926)	(7,051)
Net decrease in loans held for sale	14	331
Provision for loan losses	489	283
Income from investments in limited partnerships and limited liability companies	(528)	-
Distributions of income from investments in limited partnership and limited liability companies	289	-
Amortization of stock based compensation, net	208	160
Changes in operating assets and liabilities:		
Receivables and other assets	188	(2,957)
Accrued expenses and other liabilities and accrued expenses, related parties	1,981	1,429
Net cash provided by operating activities	10,582	11,886
Cash Flows from Investing Activities:		
Restricted cash	(34,734)	3,032
Proceeds from sales of investment securities	-	1,254
Purchases of investment securities	(12,486)	(46,753)
Return of capital from investments in limited partnerships and limited liability companies	-	136
Purchases of other assets	(77)	(34)
Funding of mezzanine loan and preferred equity investments	(6,930)	(1,958)
Proceeds from mortgage loans held for investment	-	9
Net payments on other derivative instruments settled during the period	2,171	3,554
Principal repayments received on residential mortgage loans held in securitization trusts	3,985	6,277
Principal repayments and proceeds from sales and refinancing of distressed residential mortgage loans	42,766	1,197
Principal repayments received on multi-family loans held in securitization trusts	16,592	13,023
Principal paydowns on investment securities - available for sale	21,335	33,330
Purchases of distressed residential mortgage loans	(4,780)	-
Net cash provided by investing activities	27,842	13,067

Cash Flows from Financing Activities:		
Payments of financing arrangements	(23,298)	(10,310)
Common stock issuance	76,015	2,338
Costs associated with common stock issued	(185)	(2)
Dividends paid on common stock	(17,295)	(13,384)
Dividends paid on preferred stock	(1,453)	-
Payments made on residential collateralized debt obligations	(3,968)	(6,386)
Payments made on multi-family collateralized debt obligations	(16,592)	(13,019)
Payments made on securitized debt	(6,938)	(79)
Net cash provided by (used in) financing activities	6,286	(40,842)
Net Increase in Cash and Cash Equivalents	44,710	(15,889)
Cash and Cash Equivalents - Beginning of Period	31,798	31,777
Cash and Cash Equivalents - End of Period	$76,508	$15,888
Supplemental Disclosure:		
Cash paid for interest	$87,692	$56,720
Cash paid for income taxes	$1,026	$196
Non-Cash Investment Activities:		
Purchase of investment securities not yet settled	$204,840	$241,584
Non-Cash Financing Activities:		
Dividends declared on common stock to be paid in subsequent period	$20,441	$13,491
Dividends declared on preferred stock to be paid in subsequent period	$1,453	$-
Common stock subscribed included in receivable and other assets	$-	$1,178

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

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NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2014

(unaudited)

1. Organization

New York Mortgage Trust, Inc., together with its consolidated subsidiaries ("NYMT," the "Company," "we," "our" and "us"), a real estate investment trust, or REIT, in the business of acquiring, investing in, financing and managing primarily mortgage-related assets and financial assets. Our objective is to manage a portfolio of investments that will deliver stable distributions to our stockholders over diverse economic conditions. We intend to achieve this objective through a combination of net interest margin and net realized capital gains from our investment portfolio. Our portfolio includes investments in mortgage-related and financial assets, including multi-family CMBS, direct financing to owners of multi-family properties through mezzanine loans and preferred equity investments, residential mortgage loans, including loans sourced from distressed markets, Agency RMBS consisting of fixed-rate, adjustable-rate and hybrid adjustable-rate RMBS and Agency IOs consisting of interest only and inverse interest-only RMBS that represent the right to the interest component of the cash flow from a pool of mortgage loans.

The Company conducts its business through the parent company, NYMT, and several subsidiaries, including special purpose subsidiaries established for residential loan and CMBS securitization purposes, taxable REIT subsidiaries ("TRSs") and qualified REIT subsidiaries ("QRSs"). The Company consolidates all of its subsidiaries under generally accepted accounting principles in the United States of America ("GAAP").

The Company is organized and conducts its operations to qualify as a REIT for federal income tax purposes. As such, the Company will generally not be subject to federal income tax on that portion of its income that is distributed to stockholders if it distributes at least 90% of its REIT taxable income to its stockholders by the due date of its federal income tax return and complies with various other requirements.

2. Summary of Significant Accounting Policies

Definitions – The following defines certain of the commonly used terms in these financial statements: "RMBS" refers to residential adjustable-rate, hybrid adjustable-rate, fixed-rate, interest only and inverse interest only and principal only mortgage-backed securities; "Agency RMBS" refers to RMBS representing interests in or obligations backed by pools of mortgage loans issued or guaranteed by a federally chartered corporation (“GSE”), such as the Federal National Mortgage Association (“Fannie Mae”) or the Federal Home Loan Mortgage Corporation (“Freddie Mac”), or an agency of the U.S. government, such as the Government National Mortgage Association (“Ginnie Mae”); “non-Agency RMBS” refers to RMBS backed by prime jumbo mortgage loans; “IOs” refers collectively to interest only and inverse interest only mortgage-backed securities that represent the right to the interest component of the cash flow from a pool of mortgage loans; “POs” refers to mortgage-backed securities that represent the right to the principal component of the cash flow from a pool of mortgage loans; “Agency IOs” refers to an IO that represents the right to the interest component of the cash flows from a pool of residential mortgage loans issued or guaranteed by a GSE or an agency of the U.S. government; “ARMs” refers to adjustable-rate residential mortgage loans; “Agency ARMs” refers to Agency RMBS comprised of adjustable-rate and hybrid adjustable-rate RMBS; “multi-family CMBS” refers to commercial mortgage-backed securities backed by commercial mortgage loans on multi-family properties, as well as IO or PO securities that represent the right to a specific component of the cash flow from a pool of commercial mortgage loans; and “CLO” refers to collateralized loan obligations.

Basis of Presentation – The accompanying condensed consolidated balance sheet as of December 31, 2013 has been derived from audited financial statements. The accompanying condensed consolidated balance sheet as of March 31, 2014, the accompanying condensed consolidated statements of operations for the three months ended March 31, 2014 and 2013, the accompanying condensed consolidated statements of comprehensive income for the three months ended March 31, 2014 and 2013, the accompanying condensed consolidated statement of changes in stockholders’ equity for the three months ended March 31, 2014 and the accompanying condensed consolidated statements of cash flows for the three months ended March 31, 2014 and 2013 are unaudited. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly the Company’s financial position, results of operations and cash flows have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted in accordance with Article 10 of Regulation S-X and the instructions to Form 10-Q. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the U.S. Securities and Exchange Commission (“SEC”). The results of operations for the three months ended March 31, 2014 are not necessarily indicative of the operating results for the full year.

The accompanying condensed consolidated financial statements have been prepared on the accrual basis of accounting in accordance with GAAP. 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 revenues and expenses during the reporting period. Although the Company's estimates contemplate current conditions and how it expects them to change in the future, it is reasonably possible that actual conditions could be different than anticipated in those estimates, which could materially impact the Company's results of operations and its financial condition. Management has made significant estimates in several areas, including valuation of its CMBS investments, multi-family loans held in securitization trusts and multi-family CDOs, as well as, income recognition on distressed residential mortgage loans purchased at a discount.

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

Principles of Consolidation and Variable Interest Entities – The accompanying condensed consolidated financial statements of the Company include the accounts of all its subsidiaries which are majority-owned, controlled by the Company or a variable interest entity ("VIE") where the Company is the primary beneficiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

A VIE is an entity that lacks one or more of the characteristics of a voting interest entity. A VIE is defined as an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The Company consolidates a VIE when it is the primary beneficiary of such VIE. As primary beneficiary, it has both the power to direct the activities that most significantly impact the economic performance of the VIE and a right to receive benefits or absorb losses of the entity that could be potentially significant to the VIE. The Company is required to reconsider its evaluation of whether to consolidate a VIE each reporting period, based upon changes in the facts and circumstances pertaining to the VIE.

Investment Securities Available for Sale – The Company's investment securities, where the fair value option has not been elected and which are reported at fair value with unrealized gains and losses reported in Other Comprehensive Income ("OCI"), include Agency RMBS, non-Agency RMBS and CLOs. The Company has elected the fair value option for its Agency IOs, which measures unrealized gains and losses through earnings in the accompanying condensed consolidated statements of operations. The fair value option was elected for Agency IOs to mitigate earnings volatility by better matching the accounting for these investment securities with the related derivative instruments which are not designated as hedging instruments for accounting purposes, with unrealized gains and losses recognized through earnings in the accompanying condensed consolidated statements of operations within the Agency IO portfolio.

Our investment securities are classified as available for sale securities. Realized gains and losses recorded on the sale of investment securities available for sale are based on the specific identification method and included in realized gain (loss) on investment securities and related hedges in the accompanying condensed consolidated statements of operations. Purchase premiums or discounts on investment securities are amortized or accreted to interest income over the estimated life of the investment securities using the effective yield method. Adjustments to amortization are made for actual prepayment activity.

The Company accounts for debt securities that are of high credit quality (generally those rated AA or better by a Nationally Recognized Statistical Rating Organization, or NRSRO), at date of acquisition in accordance with Accounting Standards Codification ("ASC") 320-10. The Company accounts for debt securities that are not of high credit quality (i.e., those whose risk of loss is less than remote) or securities that can be contractually prepaid such that we would not recover our initial investment at the date of acquisition in accordance with ASC 325-40. The Company considers credit ratings, the underlying credit risk and other market factors in determining whether the debt securities are of high credit quality; however, securities rated lower than AA or an equivalent rating are not considered of high credit quality and are accounted for in accordance with ASC 325-40. If ratings are inconsistent among NRSROs, the Company uses the lower rating in determining whether the securities are of high credit quality.

The Company assesses its impaired securities on at least a quarterly basis and designates such impairments as either "temporary" or "other-than-temporary" by applying the guidance prescribed in ASC Topic 320-10. When the fair value of an investment security is less than its amortized cost as of the reporting balance sheet date, the security is considered impaired. If the Company intends to sell an impaired security, or it is more likely than not that it will be required to sell the impaired security before its anticipated recovery, then it must recognize an other-than-temporary impairment through earnings equal to the entire difference between the investment's amortized cost and its fair value as of the balance sheet date. If the Company does not expect to sell an other-than-temporarily impaired security, only the portion of the other-than-temporary impairment related to credit losses is recognized through earnings with the remainder recognized as a component of other comprehensive income (loss) on the accompanying condensed consolidated balance sheets. Impairments recognized through other comprehensive income (loss) do not impact earnings. Following the recognition of an other-than-temporary impairment through earnings, a new cost basis is established for the security, which may not be adjusted for subsequent recoveries in fair value through earnings. However, other-than-temporary impairments recognized through earnings may be accreted back to the amortized cost basis of the security on a prospective basis through interest income. The determination as to whether an other-than-temporary impairment exists and, if so, the amount considered other-than-temporarily impaired is subjective, as such determinations are based on both factual and subjective information available at the time of assessment as well the Company's estimates of the future performance and cash flow projections. As a result, the timing and amount of other-than-temporary impairments constitute material estimates that are susceptible to significant change.

In determining the other-than temporary impairment related to credit losses for securities that are not of high credit quality, the Company compares the present value of the remaining cash flows expected to be collected at the purchase date (or last date previously revised) against the present value of the cash flows expected to be collected at the current financial reporting date. The Company considers information available about the past and expected future performance of underlying mortgage loans, including timing of expected future cash flows, prepayment rates, default rates, loss severities and delinquency rates.

Investment Securities Available for Sale Held in Securitization Trusts – The Company's investment securities available for sale held in securitization trusts are comprised of multi-family CMBS consisting of PO securities that represent the first loss tranche of the securitizations from which they were issued, or "first loss tranche", a first loss tranche floating rate security and certain IOs issued from four Freddie Mac-sponsored multi-family K-Series securitizations. These securities are reported at fair value with unrealized gains and losses reported in OCI. Realized gains and losses recorded on the sale of investment securities available for sale held in securitization trusts are based on the specific identification method and included in realized gain (loss) on sale of securities and related hedges in the accompanying condensed consolidated statements of operations. Purchase premiums or discounts are amortized or accreted to interest income over the estimated life of the investment securities using the effective yield method.

Residential Mortgage Loans Held in Securitization Trusts – Residential mortgage loans held in securitization trusts are comprised of certain ARM loans transferred to Consolidated VIEs that have been securitized into sequentially rated classes of beneficial interests. The Company accounted for these securitization trusts as financings which are consolidated into the Company's financial statements. Residential mortgage loans held in securitization trusts are carried at their unpaid principal balances, net of unamortized premium or discount, unamortized loan origination costs and allowance for loan losses. Interest income is accrued and recognized as revenue when earned according to the terms of the mortgage loans and when, in the opinion of management, it is collectible. The accrual of interest on loans is discontinued when, in management's opinion, the interest is not collectible in the normal course of business, but in no case when payment becomes greater than 90 days delinquent. As of March 31, 2014, there were 27 loans on a nonaccrual basis with an unpaid principal balance of approximately $5.5 million. Loans return to accrual status when principal and interest become current and are anticipated to be fully collectible.

We establish an allowance for loan losses based on management's judgment and estimate of credit losses inherent in our portfolio of residential mortgage loans held in securitization trusts. Estimation involves the consideration of various credit-related factors, including but not limited to, macro-economic conditions, current housing market conditions, loan-to-value ratios, delinquency status, historical credit loss severity rates, purchased mortgage insurance, the borrower's current economic condition and other factors deemed to warrant consideration. Additionally, we look at the balance of any delinquent loan and compare that to the current value of the collateralizing property. We utilize various home valuation methodologies including appraisals, broker pricing opinions, internet-based property data services to review comparable properties in the same area or consult with a realtor in the property's area.

Acquired Distressed Residential Mortgage Loans – Distressed residential mortgage loans held in securitization trusts are comprised of pools of fixed and adjustable rate residential mortgage loans acquired by the Company at a discount (that is due, in part, to the credit quality of the borrower). Distressed residential mortgage loans held in securitization trusts are distressed residential mortgage loans transferred to Consolidated VIEs that have been securitized into beneficial interests. The Company accounted for these securitization trusts as financings which are consolidated into the Company's financial statements.

The Company considers the purchase price for the acquired distressed residential mortgage loans to be at fair value at the date of acquisition. These acquired distressed residential mortgage loans were initially recorded at fair value with no allowance for loan losses.

Acquired distressed residential mortgage loans that have evidence of deteriorated credit quality at acquisition are accounted for under ASC Subtopic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality" ("ASC 310-30"). Under ASC 310-30, the acquired loans may be aggregated and accounted for as a pool of loans if the loans being aggregated have common risk characteristics. A pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Once a pool is assembled, it is treated as if it was one loan for purposes of applying the accounting guidance. The Company applied pool accounting on distressed residential mortgage loans acquired starting January 1, 2013; distressed residential mortgage loans acquired prior to 2013 are accounted for individually (i.e., not in pools).

Under ASC 310-30, the excess of cash flows expected to be collected over the carrying amount of the loans, referred to as the “accretable yield,” is accreted into interest income over the life of the loans in each pool or individually using a level yield methodology. Accordingly, our acquired distressed residential mortgage loans accounted for under ASC 310-30 are not subject to classification as nonaccrual classification in the same manner as our residential mortgage loans that were not distressed when acquired by us. Rather, interest income on acquired distressed residential mortgage loans relates to the accretable yield recognized at the pool level or on an individual loan basis, and not to contractual interest payments received at the loan level. The difference between contractually required principal and interest payments and the cash flows expected to be collected, referred to as the “nonaccretable difference,” includes estimates of both the impact of prepayments and expected credit losses over the life of the individual loan, or the pool (for loans grouped into a pool).

The Company monitors actual cash collections against its expectations, and revised cash flow estimates are prepared as necessary. These estimates incorporate assumptions regarding default rates, loss severities, value of the underlying real estate securing the loans, the amounts and timing of prepayments and other factors that reflect then-current market conditions. A decrease in expected cash flows in subsequent periods may indicate that the loan pool or individual loan, as applicable, is impaired thus requiring the establishment of an allowance for loan losses by a charge to the provision for loan losses. An increase in expected cash flows in subsequent periods initially reduces any previously established allowance for loan losses by the increase in the present value of cash flows expected to be collected, and results in a recalculation of the amount of accretable yield for the loan pool. The adjustment of accretable yield due to an increase in expected cash flows is accounted for prospectively as a change in estimate. The additional cash flows expected to be collected are reclassified from the nonaccretable difference to the accretable yield, and the amount of periodic accretion is adjusted accordingly over the remaining life of the loans in the pool or individual loan, as applicable. The impact of (i) prepayments, (ii) changes in variable interest rates, and (iii) any other changes in the timing of expected cash flows are recognized prospectively as adjustments to interest income.

An acquired distressed residential mortgage loan may be resolved either through receipt of payment (in full or in part) from the borrower, the sale of the loan to a third party, or foreclosure of the collateral. For acquired distressed residential mortgage loans held in pools, in the event of a sale of the loan, a gain or loss on sale is recognized and reported based on the difference between the sales proceeds and the carrying amount of the acquired distressed residential mortgage loan. In the case of a foreclosure, an individual loan is removed from the pool at the fair value of the underlying collateral less costs to sell. For loans satisfied by payment in full, the loan is removed from the pool. The Company uses the specific allocation method for the removal of loans as the estimated cash flows and related carrying amount for each individual loan are known. In these cases, the remaining accretable yield is unaffected and any material change in remaining effective yield caused by the removal of the loan from the pool is addressed by the re-assessment of the estimate of cash flows for the pool prospectively. Acquired distressed residential mortgage loans subject to modification are not removed from the pool even if those loans would otherwise be considered troubled debt restructurings because the pool, and not the individual loan, represents the unit of account.

For individual loans not accounted for in pools that are sold or satisfied by payment in full, a gain or loss on sale is recognized and reported based on the difference between the sales proceeds and the carrying amount of the acquired distressed residential mortgage loan. In the case of a foreclosure, the loss is recognized if the carrying value exceeds the fair value of the collateral (less costs to sell). A gain is not recognized if the fair value of collateral