American Capital Agency Corp
Form 10-Q
May 10, 2012

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

FORM 10-Q

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

For the quarterly period ended March 31, 2012

OR

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

Commission file number 001-34057

AMERICAN CAPITAL AGENCY CORP.
(Exact name of registrant as specified in its charter)

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

2 Bethesda Metro Center, 14th Floor
Bethesda, Maryland 20814
(Address of principal executive offices)
(301) 968-9300
(Registrant's telephone number, including area code)

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

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

Large accelerated filer	ý	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 ý

The number of shares of the issuer's common stock, $0.01 par value, outstanding as of April 30, 2012 was 299,992,970

AMERICAN CAPITAL AGENCY CORP.
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PART I.-FINANCIAL INFORMATION

Item 1. Financial Statements

AMERICAN CAPITAL AGENCY CORP.
CONSOLIDATED BALANCE SHEETS
(in millions, except per share data)

	March 31, 2012 (Unaudited)	December 31, 2011
Assets:		
Agency securities, at fair value (including pledged securities of $72,598 and $50,725, respectively)	$80,570	$54,683
U.S. Treasury securities, at fair value (pledged security)	—	101
Cash and cash equivalents	1,762	1,367
Restricted cash	315	336
Derivative assets, at fair value	184	82
Receivable for agency securities sold	1,706	443
Receivable under reverse repurchase agreements	3,613	763
Other assets	267	197
Total assets	$88,417	$57,972
Liabilities:		
Repurchase agreements	$69,816	$47,681
Other debt	50	54
Payable for agency securities purchased	4,852	1,919
Derivative liabilities, at fair value	827	853
Dividend payable	286	314
Obligation to return securities borrowed under reverse repurchase agreements, at fair value	3,816	899
Accounts payable and other accrued liabilities	52	40
Total liabilities	79,699	51,760
Stockholders' equity:		
Preferred stock, $0.01 par value; 10 shares authorized, 0 shares issued and outstanding, respectively	—	—
Common stock, $0.01 par value; 300 shares authorized, 300 and 224 shares issued and outstanding, respectively	3	2
Additional paid-in capital	8,141	5,937
Retained earnings (deficit)	317	(38)
Accumulated other comprehensive income	257	311
Total stockholders' equity	8,718	6,212
Total liabilities and stockholders' equity	$88,417	$57,972

See accompanying notes to consolidated financial statements.

AMERICAN CAPITAL AGENCY CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(in millions, except per share data)

	Three months ended March 31, 2012	2011
Interest income:		
Interest income	$514	$165
Interest expense	106	36
Net interest income	408	129
Other income, net:		
Gain on sale of agency securities, net	216	4
Gain on derivative instruments and other securities, net	47	12
Total other income, net	263	16
Expenses:		
Management fees	22	8
General and administrative expenses	6	3
Total expenses	28	11
Income before income tax	643	134
Provision for income taxes	2	—
Net income	641	134
Other comprehensive (loss) income:		
Unrealized loss on available-for-sale securities, net	(106)	(40)
Unrealized gain on derivative instruments, net	52	61
Other comprehensive (loss) income	(54)	21
Comprehensive income	$587	$155
Weighted average number of common shares outstanding - basic and diluted	241	90
Net income per common share - basic and diluted	$2.66	$1.48
Comprehensive income per share - basic and diluted	$2.44	$1.71
Dividends declared per common share	$1.25	$1.40

See accompanying notes to consolidated financial statements.

AMERICAN CAPITAL AGENCY CORP.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(in millions)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained (Deficit) Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2011	—	$ —	224	$ 2	$ 5,937	$(38)	$ 311	$6,212
Net income	—	—	—	—	—	641	—	641
Other comprehensive income:								
Unrealized loss on available-for-sale securities, net	—	—	—	—	—	—	(106)	(106)
	—	—	—	—	—	—	52	52

Unrealized gain on derivative instruments, net								
Issuance of common stock	—	—	76	1	2,204	—	—	2,205
Common dividends declared	—	—	—	—	—	(286)	—	(286)
Balance, March 31, 2012 (Unaudited)	—	—	300	$ 3	$ 8,141	$317	$ 257	$8,718

See accompanying notes to consolidated financial statements.

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AMERICAN CAPITAL AGENCY CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in millions)

	Three months ended March 31,	
	2012	2011
Operating activities:		
Net income	$641	$134
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of agency securities premiums and discounts, net	100	48
Amortization of accumulated other comprehensive loss on interest rate swaps de-designated as qualifying hedges	52	—
Gain on sale of agency securities, net	(216)	(4)
Gain on derivative instruments and other securities, net	(47)	(12)
Increase in other assets	(70)	(46)
Increase in accounts payable and other accrued liabilities	12	8
Net cash provided by operating activities	472	128
Investing activities:		
Purchases of agency securities	(34,298)	(14,688)
Proceeds from sale of agency securities	8,196	1,900
Principal collections on agency securities	1,895	795
Purchases of U.S. Treasury securities	(2,016)	(410)
Proceeds from sale of U.S. Treasury securities	2,118	411
Proceeds from U.S. Treasury securities sold prior to purchase	11,000	3,200
Purchases of U.S. Treasury securities sold prior to purchase	(8,031)	(3,448)
Proceeds from reverse repurchase agreements	12,375	2,939
Payments made on reverse repurchase agreements	(15,223)	(2,691)
Net (payments) receipts on other derivative instruments not designated as qualifying hedges	(136)	20
Decrease in restricted cash	21	1
Net cash used in investing activities	(24,099)	(11,971)
Financing activities:		
Proceeds from repurchase arrangements, net	22,135	10,314
Repayments on other debt	(4)	(5)
Net proceeds from common stock issuances	2,205	1,753
Cash dividends paid	(314)	(91)
Net cash provided by financing activities	24,022	11,971
Net change in cash and cash equivalents	395	128
Cash and cash equivalents at beginning of period	1,367	173
Cash and cash equivalents at end of period	$1,762	$301

See accompanying notes to consolidated financial statements.

AMERICAN CAPITAL AGENCY CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Unaudited Interim Consolidated Financial Statements

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

Our unaudited consolidated financial statements include the accounts of our wholly-owned subsidiary, American Capital Agency TRS, LLC, and variable interest entities for which the Company is the primary beneficiary. Significant intercompany accounts and transactions have been eliminated. In the opinion of management, all adjustments, consisting solely of normal recurring accruals, necessary for the fair presentation of financial statements for the interim period have been included. The current period’s results of operations are not necessarily indicative of results that ultimately may be achieved for the year.

Note 2. Organization

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

We operate so as to qualify to be taxed as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”). Therefore, substantially all of our assets, other than our taxable REIT subsidiary ("TRS"), consist of qualified real estate assets (as defined under the Internal Revenue Code). As a REIT, we are required to distribute annually 90% of our taxable net income. As long as we qualify as a REIT, we will generally not be subject to U.S. federal or state corporate taxes on our taxable net income to the extent that we distribute all of our annual taxable net income to our stockholders. It is our intention to distribute 100% of our taxable income, after application of available tax attributes, within the limits prescribed by the Internal Revenue Code, which may extend into the subsequent taxable year.

We are externally managed by American Capital AGNC Management, LLC (our “Manager”), an affiliate of American Capital, Ltd. (“American Capital”).

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

Our principal objective is to preserve our net asset value (also referred to as "net book value", "NAV" and "stockholders' equity") while generating attractive risk-adjusted returns for distribution to our stockholders through regular quarterly dividends from the combination of our net interest income and net realized gains and losses on our investments and hedging activities. We fund our investments primarily through short-term borrowings structured as repurchase agreements.

Note 3. Summary of Significant Accounting Policies

Investment Securities

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

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

We estimate the fair value of our investment securities based on a market approach using Level 2 inputs from third-party pricing services and dealer quotes. The third-party pricing services use pricing models that incorporate such factors as coupons, primary and secondary mortgage rates, prepayment speeds, spread to the Treasury and interest rate swap curves, convexity, duration, periodic and life caps and credit enhancements. The dealer quotes incorporate common market pricing methods, including a spread measurement to the Treasury or interest rate swap curve as well as underlying characteristics of the particular security including coupon, periodic and life caps, rate reset period, issuer, additional credit support and expected life of the security. Refer to Note 7 for further discussion of fair value measurements.

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

We did not recognize any OTTI charges on any of our investment securities for the three months ended March 31, 2012 and 2011.

Interest Income

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

We estimate long-term prepayment speeds of our agency securities using a third-party service and market data. The third-party service estimates prepayment speeds using models that incorporate the forward yield curve, current mortgage rates, current mortgage rates of the outstanding loans, loan age, volatility and other factors. We review the prepayment speeds estimated by the third-party service and compare the results to market consensus prepayment speeds, if available. We also consider historical prepayment speeds and current market conditions to validate the reasonableness of the prepayment speeds estimated by the third-party service and based on our Manager's judgment we may make adjustments to their estimates. Actual and anticipated prepayment experience is reviewed quarterly and effective yields are recalculated when differences arise between the previously estimated future prepayments and the amounts actually received plus current anticipated future prepayments. If the actual and anticipated future prepayment experience differs from our prior estimate of prepayments, we are required to record an adjustment in the current

period to the amortization or accretion of premiums and discounts for the cumulative difference in the effective yield through the reporting date.
The yield on our adjustable rate securities further assumes that the securities reset at a rate equal to the underlying index rate in effect as of the date we acquired the security plus the stated margin.
Derivative and other Hedging Instruments
We use a variety of derivative instruments to economically hedge a portion of our exposure to market risks, including interest rate and prepayment risk. The objective of our risk management strategy is to reduce fluctuations in net book value over a range of interest rate scenarios. In particular, we attempt to mitigate the risk of the cost of our variable rate liabilities increasing during a period of rising interest rates. The principal instruments that we use are interest rate swaps and options to enter into interest rate swaps ("interest rate swaptions"). We also purchase or sell to-be-announced agency MBS forward contracts ("TBAs"), specified agency MBS on a forward basis, U.S. Treasury securities and U.S. Treasury futures contracts. We may purchase or write put or call options on TBA securities and invest in other types of mortgage derivatives, such as interest-only securities, and synthetic total return swaps, such as the Markit IOS Synthetic Total Return Swap Index ("Markit IOS Index").
We account for derivative instruments in accordance with ASC Topic 815, Derivatives and Hedging ("ASC 815"). ASC 815 requires an entity to recognize all derivatives as either assets or liabilities in the balance sheet and to measure those instruments at fair value. Hedging instruments that are not derivatives under ASC 815 are accounted for as securities in accordance with ASC 320.
The accounting for changes in the fair value of derivative instruments depends on whether the instruments are designated and qualify as part of a hedging relationship pursuant to ASC 815.
Changes in fair value related to derivatives not in hedge designated relationships are recorded in gain (loss) on derivative instruments and other securities, net; whereas changes in fair value related to derivatives in hedge designated relationships are initially recorded in OCI and later reclassified to income at the time that the hedged transactions affect earnings. Any portion of the changes in fair value due to hedge ineffectiveness is immediately recognized in gain (loss) on derivative instruments and other securities, net.
Derivatives in a gain position are reported as derivative assets at fair value and derivatives in a loss position are reported as derivative liabilities at fair value in our consolidated balance sheets. In our consolidated statements of cash flows, cash receipts and payments related to derivative instruments are classified according to the underlying nature or purpose of the derivative transaction, generally in the operating section for derivatives designated in hedging relationships and the investing section for derivatives not designated in hedging relationships.
The use of derivatives creates exposure to credit risk relating to potential losses that could be recognized in the event that the counterparties to these instruments fail to perform their obligations under the contracts. We attempt to minimize this risk by limiting our counterparties to major financial institutions with acceptable credit ratings, monitoring positions with individual counterparties and adjusting posted collateral as required.
Discontinuation of hedge accounting for interest rate swap agreements
Prior to the third quarter of 2011, we entered into interest rate swap agreements typically with the intention of qualifying for hedge accounting under ASC 815. However, as of September 30, 2011, we elected to discontinue hedge accounting for our interest rate swaps in order to increase our funding flexibility by obviating the need to always match the pricing dates of our repurchase agreements with our swaps as was required under hedge accounting. Our net asset value was not impacted by our election to discontinue hedge accounting since our net asset value is the same irrespective of whether we apply hedge accounting.
Upon discontinuation of hedge accounting, the net deferred loss related to our de-designated interest rate swaps remained in accumulated OCI and is being reclassified from accumulated OCI into interest expense on a straight-line basis over the remaining term of each interest rate swap. Although the reclassification of accumulated OCI into interest expense is similar to as if the interest rate swaps had not been de-designated, the actual net periodic interest costs associated with our de-designated interest rates swaps may be more or less than amounts reclassified into interest expense. The difference, as well as net periodic interest costs on interest rate swaps that were never in a hedge designation, along with subsequent changes in the fair value of our interest rates swaps, is reported in our consolidated statement of comprehensive income in gain (loss) on derivative instruments and other securities, net.
Cash flows from interest rate swaps subsequent to our discontinuance of hedge accounting are classified in investing activities on our consolidated statements of cash flows.

Interest rate swap agreements

We use interest rate swaps to economically hedge the variable cash flows associated with short-term borrowings made under our repurchase agreement facilities. Under our interest rate swap agreements, we typically pay a fixed rate and receive a floating rate based on one or three-month LIBOR ("payer swap") with terms up to 10 years, which has the effect of modifying the repricing characteristics of our repurchase agreements and cash flows on such liabilities.

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

Interest rate swaptions

We purchase interest rate swaptions to help mitigate the potential impact of increases or decreases in interest rates on the performance of our investment portfolio (referred to as "convexity risk"). The interest rate swaptions provide us the option to enter into an interest rate swap agreement for a predetermined notional amount, stated term and pay and receive interest rates in the future. Our swaption agreements typically provide us the option to enter into a pay fixed rate interest rate swap, which we refer as "payer swaptions". We may also enter into swaption agreements that provide us the option to enter into a receive fixed interest rate swap, which we refer to as "receiver swaptions". The premium paid for interest rate swaptions is reported as an asset in our consolidated balance sheets. The premium is valued at an amount equal to the fair value of the swaption that would have the effect of closing the position adjusted for nonperformance risk, if any. The difference between the premium and the fair value of the swaption is reported in gain (loss) on derivative instruments and other securities, net in our consolidated statement of comprehensive income. If a swaption expires unexercised, the loss on the swaption would be equal to the premium paid. If we sell or exercise a swaption, the realized gain or loss on the swaption would be equal to the difference between the cash or the fair value of the underlying interest rate swap received and the premium paid.

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

TBA securities

A TBA security is a futures contract for the purchase ("long position") or sale ("short position") of agency MBS at a predetermined price, face amount, issuer, coupon and stated maturity on an agreed-upon future date. The specific agency MBS delivered into the contract upon the settlement date, published each month by the Securities Industry and Financial Markets Association, are not known at the time of the transaction. The difference between the contract price and the fair value of the TBA security is reported in gain (loss) on derivative instruments and other securities, net in our consolidated statement of comprehensive income. Upon settlement of the TBA contract, the realized gain or loss on the TBA contract is equal to the difference between the fair value of the underlying agency MBS physically delivered and the contract price, or if cash settled, is equal to the net cash amount paid or received.

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

Forward commitments to purchase or sell specified agency MBS

We enter into forward commitments to purchase or sell specified agency MBS from time-to-time as a means of acquiring assets or as a hedge against short-term changes in interest rates. We account for contracts for the purchase or sale of specified agency MBS securities as derivatives if the delivery of the specified agency MBS and settlement extends beyond the shortest period possible for that type of security. Realized and unrealized gains and losses associated with forward commitments are recognized in our consolidated statements of comprehensive income in gain (loss) on derivative instruments and other securities, net.

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

U.S. Treasury securities

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

Total return swaps

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

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

Recent Accounting Pronouncements

In December 2011, the FASB issued ASU No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities (“ASU 2011-11”). The update requires new disclosures about balance sheet offsetting and related arrangements. For derivatives and financial assets and liabilities, the amendments require disclosure of gross asset and liability amounts, amounts offset on the balance sheet, and amounts subject to the offsetting requirements but not offset on the balance sheet. The guidance is effective December 1, 2013 and is to be applied retrospectively. This guidance does not amend the existing guidance on when it is appropriate to offset. As a result, we do not expect this guidance to have a material effect on our financial statements.

Reclassifications

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

Note 4. Investment Securities

The following tables summarize our investments in agency MBS as of March 31, 2012 (dollars in millions):

	March 31, 2012			
Agency MBS	Fannie Mae	Freddie Mac	Ginnie Mae	Total
Available-for-sale agency MBS:				
Agency MBS, par	$55,938	$19,746	$302	$75,986
Unamortized premium	2,588	920	15	3,523
Amortized cost	58,526	20,666	317	79,509
Gross unrealized gains	679	352	3	1,034
Gross unrealized losses	(120)	(20)	—	(140)
Total available-for-sale agency MBS, at fair value	59,085	20,998	320	80,403
Agency MBS remeasured at fair value through earnings:				
Interest-only and principal-only strips, amortized cost (1)	114	64	—	178
Gross unrealized gains	6	2	—	8
Gross unrealized losses	(6)	(13)	—	(19)
Total agency MBS remeasured at fair value through earnings	114	53	—	167
Total agency MBS, at fair value	$59,199	$21,051	$320	$80,570
Weighted average coupon as of March 31, 2012 (2)	3.95 %	4.13 %	3.78 %	3.99 %
Weighted average yield as of March 31, 2012 (3)	3.09 %	2.98 %	1.71 %	3.06 %
Weighted average yield for the three months ended March 31, 2012 (3)	3.32 %	3.33 %	1.84 %	3.32 %

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1. Interest-only agency MBS strips represent the right to receive a specified portion of the contractual interest flows of the underlying unamortized principal balance ("UPB" or "par value") of specific agency CMO securities. Principal-only agency MBS strips represent the right to receive contractual principal flows of the UPB of specific agency CMO securities. The UPB of our interest-only agency MBS strips was $1.0 billion and the weighted average contractual interest we are entitled to receive was 5.56% of this amount as of March 31, 2012. The par value of our principal-only agency MBS strips was $37 million as of March 31, 2012.
2. The weighted average coupon includes the interest cash flows from our interest-only agency MBS strips taken together with the interest cash flows from our fixed-rate, adjustable-rate and CMO agency MBS as a percentage of the par value of our agency MBS (excluding the UPB of our interest-only securities) as of March 31, 2012.
3. Incorporates a weighted average future constant prepayment rate assumption of 9% based on forward rates as of March 31, 2012 and a weighted average reset rate for adjustable rate securities of 2.69%, which is equal to a weighted average underlying index rate of 0.93% based on the current spot rate in effect as of the date we acquired the securities and a weighted average margin of 1.76%.

Agency MBS	March 31, 2012 Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Fixed-Rate	$76,839	$974	$(138)	$77,675
Adjustable-Rate	2,446	56	(2)	2,500
CMO	224	4	—	228
Interest-only and principal-only strips	178	8	(19)	167
Total agency MBS	$79,687	$1,042	$(159)	$80,570

The following tables summarize our investments in agency MBS as of December 31, 2011 (dollars in millions):

Agency MBS	December 31, 2011 Fannie Mae	Freddie Mac	Ginnie Mae	Total
Available-for-sale agency MBS:				
Agency MBS, par	$37,232	$13,736	$258	$51,226
Unamortized premium	1,659	606	12	2,277
Amortized cost	38,891	14,342	270	53,503
Gross unrealized gains	680	324	3	1,007
Gross unrealized losses	(4)	(2)	—	(6)
Available-for-sale agency MBS, at fair value	39,567	14,664	273	54,504
Agency MBS remeasured at fair value through earnings:				
Interest-only strips, amortized cost [1]	124	67	—	191
Gross unrealized gains	6	3	—	9
Gross unrealized losses	(8)	(13)	—	(21)
Agency MBS remeasured at fair value through earnings	122	57	—	179
Total agency MBS, at fair value	$39,689	$14,721	$273	$54,683
Weighted average coupon as of December 31, 2011 [2]	4.18%	4.39%	3.74%	4.23%
Weighted average yield as of December 31, 2011 [3]	3.03%	3.20%	1.71%	3.07%
Weighted average yield for the year ended December 31, 2011 [3]	3.19%	3.20%	2.05%	3.19%

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1. Interest-only securities represent the right to receive a specified portion of the contractual interest flows of the UPB of specific CMO securities. The UPB of our interest-only securities was $1.1 billion and the weighted average contractual interest we are entitled to receive was 5.52% of this amount as of December 31, 2011. The par value of our principal-only agency MBS strips was $40 million as of December 31, 2011.
2. The weighted average coupon includes the interest cash flows from our interest-only securities taken together with the interest cash flows from our fixed-rate, adjustable-rate and CMO securities as a percentage of the par value of our agency securities (excluding the UPB of our interest-only securities) as of December 31, 2011.
3. Incorporates a weighted average future constant prepayment rate assumption of 14% based on forward rates as of December 31, 2011 and a weighted average reset rate for adjustable rate securities of 2.71%, which is equal to a weighted average underlying index rate of 0.94% based on the current spot rate in effect as of the date we acquired the securities and a weighted average margin of 1.77%.

Agency MBS	December 31, 2011 Amortized Cost	Gross Unrealized	Gross Unrealized	Fair Value

		Gain	Loss	
Fixed-Rate	$50,535	$952	$(4)	$51,483
Adjustable-Rate	2,725	51	(2)	2,774
CMO	243	4	—	247
Interest-only strips	191	9	(21)	179
Total agency MBS	$53,694	$1,016	$(27)	$54,683

As of March 31, 2012 and December 31, 2011, we did not have investments in agency debenture securities.

The actual maturities of our agency MBS securities are generally shorter than the stated contractual maturities. Actual maturities are affected by the contractual lives of the underlying mortgages, periodic contractual principal payments and principal prepayments. As of March 31, 2012 and December 31, 2011, our weighted average expected constant prepayment rate ("CPR") over the remaining life of our aggregate agency MBS portfolio was 9% and 14%, respectively. Our estimates differ materially for different types of securities and thus individual holdings have a wide range of projected CPRs. We estimate long-term prepayment assumptions for different securities using third-party services and market data. These third-party services estimate prepayment speeds using models that incorporate the forward yield curve, current mortgage rates, mortgage rates of the outstanding loans, loan age, volatility and other factors. We review the prepayment speeds estimated by the third-party services and compare the results to market consensus prepayment speeds, if available. We also consider historical prepayment speeds and current market conditions to validate reasonableness. As market conditions may change rapidly, we use our judgment in making adjustments for different securities. Various market participants could use materially different assumptions.

The following table summarizes our agency MBS classified as available-for-sale as of March 31, 2012 and December 31, 2011 according to their estimated weighted average life classification (dollars in millions):

	March 31, 2012				December 31, 2011			
Estimated Weighted Average Life of Agency MBS Classified as Available-for-Sale	Fair Value	Amortized Cost	Weighted Average Coupon		Fair Value	Amortized Cost	Weighted Average Coupon	
Less than or equal to 1 year	$2	$2	4.00	%	$283	$274	4.75	%
Greater than 1 year and less than/equal to 3 years	629	614	4.20	%	16,697	16,475	4.10	%
Greater than 3 years and less than/equal to 5 years	22,287	21,740	3.99	%	34,667	33,934	4.10	%
Greater than 5 years	57,485	57,153	3.89	%	2,857	2,820	4.15	%
Total	$80,403	$79,509	3.92	%	$54,504	$53,503	4.11	%

The weighted average life of our interest-only agency MBS strips was 4.2 and 2.3 years as of March 31, 2012 and December 31, 2011, respectively. The weighted average life of our principal-only agency MBS strips was 4.1 and 2.3 years as of March 31, 2012 and December 31, 2011, respectively.

Our agency securities classified as available-for-sale are reported at fair value, with unrealized gains and losses excluded from earnings and reported in OCI, a component of stockholders' equity. The following table summarizes changes in accumulated OCI for our available-for-sale securities for the three months ended March 31, 2012 and 2011 (in millions):

Agency Securities Classified as Available-for-Sale	Beginning OCI Balance		Unrealized Gains and (Losses), Net		Reversal of Prior Period Unrealized (Gains) and Losses, Net on Realization		Ending OCI Balance	
Three months ended March 31, 2012	$1,002		110		(216	)	$896	
Three months ended March 31, 2011	$(28	)	(36	)	(4	)	$(68	)

The following table presents the gross unrealized loss and fair values of our available-for-sale agency securities by length of time that such securities have been in a continuous unrealized loss position as of March 31, 2012 and December 31, 2011 (in millions):

Unrealized Loss Position For

	Less than 12 Months		12 Months or More		Total	
Agency Securities Classified as Available-for-Sale	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
March 31, 2012	$28,771	$(139)	$35	$(1)	$28,806	$(140)
December 31, 2011	$1,135	$(6)	$—	$—	$1,135	$(6)

As of March 31, 2012, we did not intend to sell any of these agency securities and we do not believe it is more likely than not we will be required to sell the agency securities before recovery of their amortized cost basis. The unrealized losses on these agency securities are not due to credit losses given the government-sponsored entity or government guarantees, but are rather due to changes in interest rates and prepayment expectations.

Gains and Losses

The following table is a summary of our net gain from the sale of agency MBS for the three months ended March 31, 2012 and 2011 (in millions):

	Three Months Ended	
Agency MBS	March 31, 2012	March 31, 2011
Agency MBS sold, at cost	$(9,243)	$(1,935)
Proceeds from agency MBS sold [1]	9,459	1,939
Net gains on sale of agency MBS	$216	$4
Gross gains on sale of agency MBS	$220	$19
Gross losses on sale of agency MBS	(4)	(15)
Net gains on sale of agency MBS	$216	$4

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

For the three months ended March 31, 2012 and 2011, we recognized an unrealized gain of $1 million and $3 million, respectively, in gain (loss) on derivative instruments and other securities, net in our consolidated statements comprehensive income for the change in value of investments in interest-only and principal-only agency MBS strips, net of prior period reversals. There were no sales of interest-only or principal-only securities during the three months ended March 31, 2012 and 2011.

Pledged Assets

The following tables summarize our securities pledged as collateral under repurchase agreements, other debt, derivative agreements and prime broker agreements by type as of March 31, 2012 and December 31, 2011 (in millions):

	March 31, 2012				
Securities Pledged [1]	Repurchase Agreements	Other Debt Agreements	Derivative Agreements	Prime Broker Agreements	Total
Fair value	$73,150	$53	$586	$250	$74,039
Accrued interest on pledged securities	224	—	2	1	227
Total	$73,374	$53	$588	$251	$74,266

1. Securities pledged include pledged amounts of $1.4 billion related to agency securities sold but not yet settled as of March 31, 2012.

	December 31, 2011					
Securities Pledged [1]	Repurchase Agreements	Other Debt Agreements	Derivative Agreements	Prime Broker Agreements	U.S. Treasury	Total
Fair value	$50,356	$58	$644	$87	101	$51,246
Accrued interest on pledged securities	161	—	2	—	—	163
Total	$50,517	$58	$646	$87	$101	$51,409

1. Securities pledged include pledged amounts of $319 million related to agency securities sold but not yet settled as of December 31, 2011.

The following table summarizes our securities pledged as collateral under repurchase agreements and other debt by remaining maturity as of March 31, 2012 and 2011 (dollars in millions):

	March 31, 2012			December 31, 2011		
Remaining Maturity of Repurchase Agreements and Other Debt [(1)]	Fair Value of Pledged Securities	Amortized Cost of Pledged Securities	Accrued Interest on Pledged Securities	Fair Value of Pledged Securities	Amortized Cost of Pledged Securities	Accrued Interest on Pledged Securities
30 days or less	$31,559	$31,081	$97	$19,873	$19,462	$63
31 - 59 days	18,070	17,835	57	16,964	16,648	55
60 - 90 days	9,715	9,647	28	8,337	8,179	26
Greater than 90 days	13,859	13,757	42	5,240	5,154	17
Total	$73,203	$72,320	$224	$50,414	$49,443	$161

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1. Securities pledged include pledged amounts of $1.4 billion and $319 million related to agency securities sold but not yet settled as of March 31, 2012 and December 31, 2011, respectively.

Securitizations

All of our CMO securities are backed by fixed or adjustable-rate agency MBS. Fannie Mae or Freddie Mac guarantees the payment of interest and principal and acts as the trustee and administrator of their respective securitization trusts. Accordingly, we are not required to provide the beneficial interest holders of the CMO securities any financial or other support. Our maximum exposure to loss related to our involvement with CMO trusts is the fair value of the CMO securities and interest-only and principal-only securities held by us, less principal amounts guaranteed by Fannie Mae and Freddie Mac.

As of March 31, 2012 and December 31, 2011, the fair value of all of our CMO securities, interest-only securities and principal-only securities, excluding the consolidated CMO trust discussed below, was $395 million and $426 million, respectively, or $398 million and $430 million, respectively, including the net asset value of the consolidated CMO trust discussed below. Our maximum exposure to loss related to our CMO securities and interest-only and principal-only securities, including the consolidated CMO trust, was $143 million and $155 million as of March 31, 2012 and December 31, 2011, respectively.

We are the primary beneficiary of a CMO trust. We are deemed to have a controlling financial interest in the trust because we shared the power to select the assets transferred to the trust with an unrelated third party, but retained a disproportionate economic interest in the trust. As of March 31, 2012 and December 31, 2011, we recognized agency securities with a total fair value of $53 million and $58 million, respectively, and a principal balance of $50 million and $55 million, respectively, and other debt of $50 million and $54 million, respectively, in our accompanying consolidated balance sheets, related to the trust. Our involvement with the trust is limited to the agency securities transferred to the trust and the CMO security subsequently held by us. There are no arrangements that could require us to provide financial support to the CMO trust.

Note 5. Repurchase Agreements and Other Debt

We pledge certain of our agency securities as collateral under repurchase arrangements with financial institutions, the terms and conditions of which are negotiated on a transaction-by-transaction basis. Interest rates on these borrowings are generally based on LIBOR plus or minus a margin and amounts available to be borrowed are dependent upon the fair value of the securities pledged as collateral, which fluctuates with changes in interest rates, type of security and liquidity conditions within the banking, mortgage finance and real estate industries. In response to declines in fair value of pledged securities, lenders may require us to post additional collateral or pay down borrowings to re-establish agreed upon collateral requirements, referred to as margin calls. As of March 31, 2012 and December 31, 2011, we have met all margin call requirements.

The following table summarizes our borrowings under repurchase arrangements and weighted average interest rates classified by original maturities as of March 31, 2012 and December 31, 2011 (dollars in millions):

	March 31, 2012			December 31, 2011		
Original Maturity	Borrowings Outstanding	Average Interest	Weighted Average Days	Borrowings Outstanding	Average Interest	Weighted Average Days

		Rate		to Maturity		Rate		to Maturity
1 month or less	$1,901	0.36	%	8	$2,659	0.43	%	10
1-2 months	15,385	0.35	%	19	9,211	0.41	%	19
2-3 months	21,137	0.34	%	33	15,307	0.39	%	41
3-6 months	18,414	0.37	%	56	16,475	0.37	%	53
6-9 months	8,596	0.45	%	127	2,423	0.45	%	141
9 months or greater	4,383	0.50	%	247	1,606	0.52	%	253
Total / Weighted Average	$69,816	0.37	%	60	$47,681	0.40	%	51

As of March 31, 2012 and December 31, 2011, we did not have an amount at risk with any repurchase agreement counterparty greater than 4% of our stockholders' equity.

Other debt of $50 million and $54 million as of March 31, 2012 and December 31, 2011, respectively, consists of other variable rate debt outstanding at LIBOR plus 25 basis points in connection with the consolidation of a structured transaction for which we are the primary beneficiary in our accompanying financial statements.

Note 6. Derivative and Other Hedging Instruments

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

As of March 31, 2012 and December 31, 2011, our derivative and other hedging instruments were comprised primarily of interest rate swaps, which have the effect of economically modifying the repricing characteristics of our repurchase agreements and cash flows on such liabilities. Our interest rate swaps are used to manage the interest rate risk created by our variable rate short-term repurchase agreements. Under our interest rate swaps, we typically pay a fixed-rate and receive a floating rate based on one-month LIBOR with terms up to 10 years.

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

Derivatives Designated as Hedging Instruments

Prior to September 30, 2011, our interest rate swaps were typically designated as cash flow hedges under ASC 815; however, as of September 30, 2011, we elected to discontinue hedge accounting for our interest rate swaps in order to increase our funding flexibility. For further information regarding our discontinuation of hedge accounting please refer to Note 3.

For the three months ended March 31, 2012, we reclassified $52 million of net deferred losses from accumulated OCI into interest expense related to our de-designated interest rate swaps and recognized an equal, but offsetting, amount in other comprehensive income. Our total net periodic interest costs related to our de-designated interest rate swaps was $83 million. The difference of $31 million as well as periodic interest rate costs on interest rate swaps that we never placed in a hedge designation of $8 million (or $39 million combined) and other swap losses of $5 million are reported in our accompanying consolidated statement of comprehensive income in gain (loss) on derivative instruments and other securities, net. As of March 31, 2012, the net deferred loss in accumulated OCI related to de-designated interest rate swaps was $639 million and the weighted average remaining contractual term was 2.9 years. The net deferred loss expected to be reclassified from OCI into interest expense over the next twelve months is

$202 million.

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The following tables summarize information about our outstanding interest rate swaps designated as hedging instruments under ASC 815 and their effect on our consolidated statement of comprehensive income for the three months ended March 31, 2011 (dollars in millions).

Interest Rate Swaps Designated as Hedging Instruments	Beginning Notional Amount	Additions	Expirations / Terminations	Ending Notional Amount
Three months ended March 31, 2011	$6,450	8,500	—	$14,950

Interest Rate Swaps Designated as Hedging Instruments:	Amount of Gain or (Loss) Recognized in OCI (Effective Portion)	Location of Gain or (Loss) Reclassified from OCI into Earnings (Effective Portion)	Amount of (Gain) or Loss Reclassified from OCI into Earnings (Effective Portion)	Location of Gain or (Loss) Recognized in Earnings (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Earnings (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Three Months Ended March 31, 2011	$ 35	Interest expense	23	Gain (loss) on derivative instruments and other securities, net	$ —

During the three months ended March 31, 2011, we also held forward contracts to purchase TBA and specified agency securities that were designated as cash flow hedges pursuant to ASC 815. The following tables summarize information about these securities and their effect on our consolidated statement of comprehensive income for the three months ended March 31, 2011 (dollars in millions). We did not designate any such agreements as cash flow hedges during the three months ended March 31, 2012.

Purchases of TBAs and Forward Settling Agency Securities Designated as Hedging Instruments	Beginning Notional Amount	Additions	Settlement / Expirations	Ending Notional Amount	Fair Value as of Period End	Average Maturity as of Period End (Months)
Three months ended March 31, 2011	$245	$—	$(245)	$—	$—	—

Purchases of TBAs and Forward Settling Agency Securities Designated as Hedging Instruments	Amount of Gain or (Loss) Recognized in OCI for Cash Flow Hedges (Effective Portion)	Amount of (Gain) or Loss Recognized in OCI for Cash Flow Hedges and Reclassified to OCI for Available-for-Sale Securities (Effective Portion)	Location of Gain or (Loss) Recognized in Earnings (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Earnings (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Three months ended March 31, 2011	$ —	$ 3	Gain (loss) on derivative instruments and other securities, net	$ —

Derivatives Not Designated as Hedging Instruments

The table below summarizes fair value information about our derivatives outstanding that were not designated as hedging instruments as of March 31, 2012 and December 31, 2011 (in millions).

Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	March 31, 2012	December 31, 2011
Interest rate swaps	Derivative assets, at fair value	$65	$13
Payer swaptions	Derivative assets, at fair value	78	11
U.S. Treasury futures - short	Derivative assets, at fair value	24	—
Purchase of TBA and forward settling agency securities	Derivative assets, at fair value	12	54
Sale of TBA and forward settling agency securities	Derivative assets, at fair value	4	3
Markit IOS total return swaps - long	Derivative assets, at fair value	1	1
		$184	$82
Interest rate swaps	Derivative liabilities, at fair value	$(806)	$(795)
U.S. Treasury futures - short	Derivative liabilities, at fair value	—	(14)
Sale of TBA and forward settling agency securities	Derivative liabilities, at fair value	(19)	(44)
Markit IOS total return swaps - short	Derivative liabilities, at fair value	(2)	—
		$(827)	$(853)

Additionally, as of March 31, 2012 and December 31, 2011, we had obligations to return U.S. Treasury securities borrowed under reverse repurchase agreements accounted for as securities borrowing transactions for a fair value of $3.8 billion and $899 million, respectively. The borrowed securities were used to cover short sales of U.S. Treasury securities from which we received total proceeds of $3.9 billion and $880 million, respectively. The change in fair value of the borrowed securities is recorded in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income.

The tables below summarize the effect of derivative instruments not designated as hedges under ASC 815 on our consolidated statements of comprehensive income for the three months ended March 31, 2012 and 2011 (in millions):

	Three Months Ended March 31, 2012				
Derivatives Not Designated as Hedging Instruments	Notional Amount as of December 31, 2011	Additions	Settlement, Expiration or Exercise	Notional Amount as of March 31, 2012	Amount of Gain/(Loss) Recognized in Income on Derivatives[(1)]
Purchase of TBA and forward settling agency securities	$3,699	22,313	(24,225)	$1,787	$ 67
Sale of TBA and forward settling agency securities	$3,803	30,829	(25,579)	$9,053	(51)
Interest rate swaps	$30,250	7,850	—	$38,100	(44)
Payer swaptions	$3,200	7,950	(650)	$10,500	3
Short sales of U.S. Treasury securities	$880	10,990	(8,005)	$3,865	52
U.S. Treasury futures - short	$783	1,653	(783)	$1,653	21
Markit IOS total return swaps - long	$41	—	(2)	$39	1
Markit IOS total return swaps - short	$206	—	(12)	$194	(3)
					$ 46

1. Excludes $1 million gain on interest-only and principal-only securities re-measured at fair value through earnings recognized in gain (loss) on derivative instruments and other securities, net in our consolidated statement of

comprehensive income for the three months ended March 31, 2012.

Derivatives Not Designated as Hedging Instruments	Three Months Ended March 31, 2011 Notional Amount as of December 31, 2010	Additions	Settlement, Expiration or Exercise	Notional Amount as of March 31, 2011	Amount of Gain/(Loss) Recognized in Income on Derivatives[1]
Purchase of TBA and forward settling agency securities	$512	12,268	(8,464)	$4,316	$ (16)
Sale of TBA and forward settling agency securities	$1,361	18,321	(14,282)	$5,400	19
Interest rate swaps	$50	—	100	$150	(1)
Payer swaptions	$850	1,550	(300)	$2,100	(5)
Receiver Swaptions	$—	250	—	$250	—
Short sales of U.S. Treasury securities	$250	2,915	(3,165)	$—	1
Put Options	$—	(200)	200	$—	1
Markit IOS total return swaps - long	$—	1,089	(74)	$1,015	9
					$ 8

1. Excludes $3 million gain on interest-only securities re-measured at fair value through earnings and a $1 million net gain consisting of a loss for hedge ineffectiveness on our outstanding interest rate swaps and a gain on U.S. Treasury securities recognized in gain (loss) on derivative instruments and other securities, net in our consolidated statement of comprehensive income for the three months ended March 31, 2011.

The following tables summarize our interest rate swap agreements outstanding as of March 31, 2012 and December 31, 2011 (dollars in millions).

Payer Interest Rate Swaps Not Designated as Hedging Instruments[1]	March 31, 2012 Notional Amount	Average Fixed Pay Rate	Average Receive Rate	Net Estimated Fair Value	Average Maturity (Years)
Three years or less	$15,600	1.25 %	0.28 %	$(252)	2.1
Greater than 3 years and less than/equal to 5 years	14,950				