PENNYMAC FINANCIAL SERVICES, INC.
Form 10-Q
August 02, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

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: 001-35916

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PennyMac Financial Services, Inc.

(Exact name of registrant as specified in its charter)

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| | |
|---|---|
| Delaware | 80-0882793 |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |

| | |
|---|---|
| 3043 Townsgate Road, Westlake Village, California | 91361 |
| (Address of principal executive offices) | (Zip Code) |

(818) 224-7442

(Registrant's telephone number, including area code)

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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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

| Class | Outstanding at July 31, 2018 |
|---|---|
| Class A Common Stock, $0.0001 par value | 25,101,553 |
| Class B Common Stock, $0.0001 par value | 45 |

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PENNYMAC FINANCIAL SERVICES, INC.

FORM 10-Q

June 30, 2018

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## SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

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

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

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

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

You should not place undue reliance on any forward looking statement and should consider the following uncertainties and risks, as well as the risks and uncertainties discussed elsewhere in this Report and the section entitled “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission (“SEC”) on March 9, 2018.

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

- the continually changing federal, state and local laws and regulations applicable to the highly regulated industry in which we operate;

- lawsuits or governmental actions if we do not comply with the laws and regulations applicable to our businesses;

- the mortgage lending and servicing-related regulations promulgated by the Consumer Financial Protection Bureau (“CFPB”) and its enforcement of these regulations;
- our dependence on U.S. government sponsored entities and changes in their current roles or their guarantees or guidelines;
- changes to government mortgage modification programs;
- certain banking regulations that may limit our business activities;
- foreclosure delays and changes in foreclosure practices;
- the licensing and operational requirements of states and other jurisdictions applicable to our businesses, to which our bank competitors are not subject;
- changes in macroeconomic and U.S. real estate market conditions;
- difficulties inherent in growing loan production volume;
- difficulties inherent in adjusting the size of our operations to reflect changes in business levels;

- any required additional capital and liquidity to support business growth that may not be available on acceptable terms, if at all;
- changes in prevailing interest rates;
- increases in loan delinquencies and defaults;
- our dependence on the success of the multifamily market for future originations of commercial mortgage loans and other commercial real estate-related loans;
- our reliance on PennyMac Mortgage Investment Trust ("PMT") as a significant source of financing for, and revenue related to, our mortgage banking business;
- our obligation to indemnify third party purchasers or repurchase loans if loans that we originate, acquire, service or assist in the fulfillment of, fail to meet certain criteria or characteristics or under other circumstances;
- our ability to realize the anticipated benefit of potential future acquisitions of mortgage servicing rights ("MSRs");
- our obligation to indemnify PMT and the Investment Funds if our services fail to meet certain criteria or characteristics or under other circumstances;
- decreases in the returns on the assets that we select and manage for our clients, and our resulting management and incentive fees;
- the extensive amount of regulation applicable to our investment management segment;
- conflicts of interest in allocating our services and investment opportunities among ourselves and our Advised Entities;
- the effect of public opinion on our reputation;
- our recent growth;
- our ability to effectively identify, manage, monitor and mitigate financial risks;

- our initiation of new business activities or expansion of existing business activities;

- our ability to detect misconduct and fraud;

- our ability to mitigate cybersecurity risks and cyber incidents;

- our exposure to risks of loss resulting from adverse weather conditions and man-made or natural disasters; and

- our organizational structure and certain requirements in our charter documents.

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

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PENNYMAC FINANCIAL SERVICES, INC.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| | (in thousands, except share amounts) | |
| ASSETS | | |
| Cash (includes $152,382 and $20,765 pledged to creditors) | $ 189,663 | $ 37,725 |
| Short-term investments at fair value | 98,571 | 170,080 |
| Mortgage loans held for sale at fair value (includes $2,498,583 and $3,081,987 pledged to creditors) | 2,527,231 | 3,099,103 |
| Derivative assets | 92,471 | 78,179 |
| Servicing advances, net (includes valuation allowance of $61,825 and $59,958; $94,715 and $114,643 pledged to creditors) | 258,900 | 318,066 |
| Carried Interest due from Investment Funds pledged to creditors | 370 | 8,552 |
| Investment in PennyMac Mortgage Investment Trust at fair value | 1,424 | 1,205 |
| Mortgage servicing rights (includes $2,486,157 and $638,010 at fair value; $2,333,750 and $2,098,067 pledged to creditors) | 2,486,157 | 2,119,588 |
| Real estate acquired in settlement of loans | 2,300 | 2,447 |
| Furniture, fixtures, equipment and building improvements, net (includes $20,656 and $23,915 pledged to creditors) | 29,607 | 29,453 |
| Capitalized software, net (includes $1,347 and $1,568 pledged to creditors) | 31,913 | 25,729 |
| Assets purchased from PennyMac Mortgage Investment Trust under agreements to resell pledged to creditors | 138,582 | 144,128 |
| Receivable from PennyMac Mortgage Investment Trust | 19,661 | 27,119 |
| Receivable from Investment Funds | 12 | 417 |
| Mortgage loans eligible for repurchase | 879,621 | 1,208,195 |
| Other | 85,223 | 98,107 |
| Total assets | $ 6,841,706 | $ 7,368,093 |
| LIABILITIES | | |
| Assets sold under agreements to repurchase | $ 1,825,813 | $ 2,381,538 |
| Mortgage loan participation purchase and sale agreements | 528,368 | 527,395 |
| Notes payable | 1,140,546 | 891,505 |
| Obligations under capital lease | 13,032 | 20,971 |
| Excess servicing spread financing payable to PennyMac Mortgage Investment Trust at fair value | 229,470 | 236,534 |
| Derivative liabilities | 4,094 | 5,796 |
| Accounts payable and accrued expenses | 114,005 | 106,716 |
| Mortgage servicing liabilities at fair value | 10,253 | 14,120 |
| Payable to Investment Funds | 404 | 2,427 |
| Payable to PennyMac Mortgage Investment Trust | 99,309 | 136,998 |

| | | |
|---|---|---|
| Payable to exchanged Private National Mortgage Acceptance Company, LLC unitholders under tax receivable agreement | 46,903 | 44,011 |
| Income taxes payable | 67,357 | 52,160 |
| Liability for mortgage loans eligible for repurchase | 879,621 | 1,208,195 |
| Liability for losses under representations and warranties | 20,587 | 20,053 |
| Total liabilities | 4,979,762 | 5,648,419 |
| | | |
| Commitments and contingencies – Note 14 | | |
| | | |
| STOCKHOLDERS' EQUITY | | |
| Class A common stock—authorized 200,000,000 shares of $0.0001 par value; issued and outstanding, 25,008,655 and 23,529,970 shares, respectively | 3 | 2 |
| Class B common stock—authorized 1,000 shares of $0.0001 par value; issued and outstanding, 45 and 46 shares, respectively | — | — |
| Additional paid-in capital | 229,941 | 204,103 |
| Retained earnings | 299,951 | 265,306 |
| Total stockholders' equity attributable to PennyMac Financial Services, Inc. common stockholders | 529,895 | 469,411 |
| Noncontrolling interest in Private National Mortgage Acceptance Company, LLC | 1,332,049 | 1,250,263 |
| Total stockholders' equity | 1,861,944 | 1,719,674 |
| Total liabilities and stockholders' equity | $ 6,841,706 | $ 7,368,093 |

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

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PENNYMAC FINANCIAL SERVICES, INC.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

| | Quarter ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | (in thousands, except earnings per share) | | | |
| Revenues | | | | |
| Net gains on mortgage loans held for sale at fair value: | | | | |
| From non-affiliates | $ 46,019 | $ 99,597 | $ 105,047 | $ 188,248 |
| From PennyMac Mortgage Investment Trust | 14,927 | (1,506) | 27,313 | (3,201) |
| | 60,946 | 98,091 | 132,360 | 185,047 |
| Mortgage loan origination fees: | | | | |
| From non-affiliates | 22,886 | 28,303 | 46,241 | 52,498 |
| From PennyMac Mortgage Investment Trust | 1,542 | 1,890 | 2,750 | 3,269 |
| | 24,428 | 30,193 | 48,991 | 55,767 |
| Fulfillment fees from PennyMac Mortgage Investment Trust | 14,559 | 21,107 | 26,503 | 37,677 |
| Net mortgage loan servicing fees: | | | | |
| Mortgage loan servicing fees: | | | | |
| From non-affiliates | 138,871 | 112,348 | 274,354 | 218,815 |
| From PennyMac Mortgage Investment Trust | 9,431 | 10,099 | 20,450 | 20,585 |
| From Investment Funds | 3 | 543 | 3 | 1,039 |
| Ancillary and other fees | 13,637 | 11,202 | 27,808 | 23,068 |
| | 161,942 | 134,192 | 322,615 | 263,507 |
| Amortization, impairment and change in fair value of mortgage servicing rights and mortgage servicing liabilities | (47,257) | (94,435) | (84,220) | (152,360) |
| Change in fair value of excess servicing spread payable to PennyMac Mortgage Investment Trust | (996) | 7,156 | (7,917) | 9,929 |
| | (48,253) | (87,279) | (92,137) | (142,431) |
| Net mortgage loan servicing fees | 113,689 | 46,913 | 230,478 | 121,076 |
| Management fees, net: | | | | |
| From PennyMac Mortgage Investment Trust | 5,728 | 5,638 | 11,424 | 10,646 |
| From Investment Funds | (64) | 369 | 15 | 735 |
| | 5,664 | 6,007 | 11,439 | 11,381 |
| Carried Interest from Investment Funds | (168) | 241 | (348) | 113 |
| Net interest income (expense): | | | | |
| Interest income: | | | | |
| From non-affiliates | 53,206 | 32,948 | 93,845 | 55,002 |
| From PennyMac Mortgage Investment Trust | 1,898 | 2,025 | 3,874 | 3,830 |
| | 55,104 | 34,973 | 97,719 | 58,832 |
| Interest expense: | | | | |
| To non-affiliates | 28,706 | 32,511 | 61,517 | 57,338 |
| To PennyMac Mortgage Investment Trust | 3,910 | 4,366 | 7,844 | 9,013 |
| | 32,616 | 36,877 | 69,361 | 66,351 |
| Net interest income (expense) | 22,488 | (1,904) | 28,358 | (7,519) |
| | 108 | 76 | 290 | 215 |

| | | | | |
|---|---|---|---|---|
| Change in fair value of investment in and dividends received from PennyMac Mortgage Investment Trust | | | | |
| Results of real estate acquired in settlement of loans | 13 | (119) | (15) | (144) |
| Other | 2,571 | 1,116 | 4,443 | 2,581 |
| Total net revenues | 244,298 | 201,721 | 482,499 | 406,194 |
| Expenses | | | | |
| Compensation | 98,540 | 82,967 | 200,553 | 168,207 |
| Servicing | 28,490 | 24,702 | 54,789 | 51,545 |
| Technology | 15,154 | 11,581 | 29,774 | 22,937 |
| Occupancy and equipment | 6,507 | 5,965 | 12,884 | 11,007 |
| Professional services | 5,587 | 4,523 | 11,325 | 8,341 |
| Loan origination | 5,144 | 5,116 | 7,259 | 9,249 |
| Marketing | 2,218 | 2,483 | 4,379 | 4,219 |
| Other | 7,960 | 6,424 | 13,842 | 10,697 |
| Total expenses | 169,600 | 143,761 | 334,805 | 286,202 |
| Income before provision for income taxes | 74,698 | 57,960 | 147,694 | 119,992 |
| Provision for income taxes | 6,293 | 7,214 | 12,363 | 14,860 |
| Net income | 68,405 | 50,746 | 135,331 | 105,132 |
| Less: Net income attributable to noncontrolling interest | 50,568 | 40,267 | 100,875 | 83,774 |
| Net income attributable to PennyMac Financial Services, Inc. common stockholders | $ 17,837 | $ 10,479 | $ 34,456 | $ 21,358 |
| Earnings per share | | | | |
| Basic | $ 0.71 | $ 0.45 | $ 1.41 | $ 0.93 |
| Diluted | $ 0.70 | $ 0.44 | $ 1.38 | $ 0.91 |
| Weighted average shares outstanding | | | | |
| Basic | 24,959 | 23,388 | 24,399 | 23,006 |
| Diluted | 78,825 | 77,650 | 78,947 | 77,641 |

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

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PENNYMAC FINANCIAL SERVICES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

| | Class A Common Stock | | | | Noncontrolling interest in Private National Mortgage | Total |
|---|---|---|---|---|---|---|
| | Number of shares (in thousands) | Par value | Additional paid-in capital | Retained earnings | Acceptance Company, LLC | stockholders' equity |
| Balance at December 31, 2016 | 22,427 | $ 2 | $ 182,772 | $ 164,549 | $ 1,052,033 | $ 1,399,356 |
| Net income | — | — | — | 21,358 | 83,774 | 105,132 |
| Stock and unit-based compensation | — | — | 3,450 | — | 7,256 | 10,706 |
| Issuance of Class A common stock in settlement of directors' fees | — | — | 108 | — | 61 | 169 |
| Exchange of Class A units of Private National Mortgage Acceptance Company, LLC to Class A common stock of PennyMac Financial Services, Inc. | 1,046 | — | 16,927 | — | (16,927) | — |
| Tax effect of exchange of Class A units of Private National Mortgage Acceptance Company, LLC to Class A common stock of PennyMac Financial Services, Inc. | — | — | (4,111) | — | — | (4,111) |
| Balance at June 30, 2017 | 23,473 | $ 2 | $ 199,146 | $ 185,907 | $ 1,126,197 | $ 1,511,252 |
| | | | | | | |
| Balance at December 31, 2017 | 23,530 | $ 2 | $ 204,103 | $ 265,306 | $ 1,250,263 | $ 1,719,674 |
| Cumulative effect of change in accounting principle – accounting for all existing classes of mortgage servicing rights at fair value | — | — | — | 189 | 587 | 776 |
| Balance at January 1, 2018 | 23,530 | 2 | 204,103 | 265,495 | 1,250,850 | 1,720,450 |
| Net income | — | — | — | 34,456 | 100,875 | 135,331 |
| Stock and unit-based compensation | 230 | — | 7,728 | — | 8,340 | 16,068 |
| Issuance of Class A common stock in settlement of directors' fees | — | — | 51 | — | 109 | 160 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Repurchase of Class A common stock | (236) | — | (4,826) | — | — | (4,826) |
| Exchange of Class A units of Private National Mortgage Acceptance Company, LLC to Class A common stock of PennyMac Financial Services, Inc. by noncontrolling interest unitholders and issued as equity compensation | 1,485 | 1 | 28,124 | — | (28,125) | — |
| Tax effect of exchange and repurchases of Class A units of Private National Mortgage Acceptance Company, LLC to Class A common stock of PennyMac Financial Services, Inc., net | — | — | (5,239) | — | — | (5,239) |
| Balance at June 30, 2018 | 25,009 | $ 3 | $ 229,941 | $ 299,951 | $ 1,332,049 | $ 1,861,944 |

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

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PENNYMAC FINANCIAL SERVICES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| | Six months ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| | (in thousands) | |
| Cash flow from operating activities | | |
| Net income | $ 135,331 | $ 105,132 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Net gains on mortgage loans held for sale at fair value | (132,360) | (185,047) |
| Accrual of servicing rebate payable to Investment Funds | — | 100 |
| Amortization, impairment and change in fair value of mortgage servicing rights, mortgage servicing liabilities and excess servicing spread | 92,137 | 142,431 |
| Carried Interest from Investment Funds | 348 | (113) |
| Capitalization of interest on mortgage loans held for sale at fair value | (39,390) | (21,615) |
| Accrual of interest on excess servicing spread financing | 7,844 | 9,013 |
| Amortization of premiums and debt issuance costs | (13,385) | 7,122 |
| Change in fair value of investment in common shares of PennyMac Mortgage Investment Trust | (219) | (144) |
| Results of real estate acquired in settlement in loans | 15 | 144 |
| Stock-based compensation expense | 12,235 | 10,390 |
| Provision for servicing advance losses | 12,097 | 18,030 |
| Loss from disposition of fixed assets and impairment of capitalized software | — | 377 |
| Depreciation and amortization | 5,647 | 4,117 |
| Purchase of mortgage loans held for sale from PennyMac Mortgage Investment Trust | (19,267,316) | (21,244,194) |
| Originations of mortgage loans held for sale | (2,518,992) | (2,353,899) |
| Purchase of mortgage loans from Ginnie Mae securities and early buyout investors for modification and subsequent sale | (2,002,582) | (1,814,080) |
| Sale and principal payments of mortgage loans held for sale to non-affiliates | 22,832,809 | 24,497,179 |
| Sale of mortgage loans held for sale to PennyMac Mortgage Investment Trust | 1,427,637 | 40,222 |
| Repurchase of mortgage loans subject to representations and warranties | (12,974) | (11,520) |
| Settlement of repurchase agreeement derivatives | 7,478 | — |
| Decrease in servicing advances | 47,980 | 38,821 |
| Collection of Carried Interest | 7,834 | — |
| Sale of real estate acquired in settlement of loans | 2,130 | — |
| Decrease (increase) in receivable from PennyMac Mortgage Investment Trust | 5,873 | (1,092) |
| Decrease (increase) in receivable from Investment Funds | 405 | (211) |
| Decrease (increase) in other assets | 7,792 | (29,492) |
| Increase (decrease) in accounts payable and accrued expenses | 5,349 | (30,395) |
| Decrease in payable to Investment Funds | (2,023) | (5,157) |
| Decrease in payable to PennyMac Mortgage Investment Trust | (38,580) | (37,650) |
| Payments to exchanged Private National Mortgage Acceptance Company, LLC unitholders under tax receivable agreement | — | (6,221) |
| Increase in income taxes payable | 12,778 | 14,824 |

| | | |
|---|---|---|
| Net cash provided by (used in) operating activities | 595,898 | (852,928) |
| Cash flow from investing activities | | |
| Decrease (increase) in short-term investments | 71,509 | (59,476) |
| Net settlement of derivative financial instruments used for hedging | (126,918) | (30,949) |
| Purchase of mortgage servicing rights | (30,129) | (159,465) |
| Purchase of furniture, fixtures, equipment and leasehold improvements | (4,321) | (4,668) |
| Acquisition of capitalized software | (7,664) | (7,719) |
| Net change in assets purchased from PMT under agreement to resell | 5,546 | — |
| Increase in margin deposits | (3,774) | (12,071) |
| Net cash used in investing activities | (95,751) | (274,348) |
| Cash flow from financing activities | | |
| Sale of assets under agreements to repurchase | 20,763,584 | 13,332,610 |
| Repurchase of assets sold under agreements to repurchase | (21,319,387) | (12,046,244) |
| Issuance of mortgage loan participation certificates | 12,486,542 | 10,491,796 |
| Repayment of mortgage loan participation certificates | (12,485,880) | (10,919,650) |
| Advances on notes payable | 650,000 | 435,000 |
| Repayment of notes payable | (400,000) | (153,073) |
| Advances of obligations under capital lease | — | 10,298 |
| Repayment of obligations under capital lease | (7,939) | (7,081) |
| Repayment of excess servicing spread financing | (24,309) | (28,910) |
| Payment of debt issuance costs | (9,788) | (11,059) |
| Issuance of common stock pursuant to exercise of stock options | 3,833 | 316 |
| Repurchase of common stock | (4,826) | — |
| Net cash (used in) provided by financing activities | (348,170) | 1,104,003 |
| Net increase (decrease) in cash and restricted cash | 151,977 | (23,273) |
| Cash and restricted cash at beginning of period | 38,173 | 99,642 |
| Cash and restricted cash at end of period | $ 190,150 | $ 76,369 |
| Cash and restricted cash at end of period are comprised of the following: | | |
| Cash | $ 189,663 | $ 75,978 |
| Restricted cash included in Other assets | 487 | 391 |
| | $ 190,150 | $ 76,369 |

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

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PENNYMAC FINANCIAL SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## Note 1—Organization

PennyMac Financial Services, Inc. (“PFSI” or the “Company”) was formed as a Delaware corporation on December 31, 2012. Pursuant to a reorganization, the Company became a holding corporation and its primary asset is an equity interest in Private National Mortgage Acceptance Company, LLC (“PennyMac”). The Company is the managing member of PennyMac and operates and controls all of the businesses and affairs of PennyMac subject to the consent rights of other members under certain circumstances, and consolidates the financial results of PennyMac and its subsidiaries.

PennyMac is a Delaware limited liability company which, through its subsidiaries, engages in mortgage banking and investment management activities. PennyMac’s mortgage banking activities consist of residential mortgage loan production and mortgage loan servicing. PennyMac’s investment management activities and a portion of its mortgage loan servicing activities are conducted on behalf of investment vehicles that invest in residential mortgage loans and related assets. PennyMac’s primary wholly owned subsidiaries are:

· PNMAC Capital Management, LLC (“PCM”)—a Delaware limited liability company registered with the Securities and Exchange Commission (“SEC”) as an investment adviser under the Investment Advisers Act of 1940, as amended. PCM enters into investment management agreements with entities that invest in residential mortgage loans and related assets.

Presently, PCM has a management agreement with PennyMac Mortgage Investment Trust (“PMT”), a publicly held real estate investment trust (“REIT”). Previously, PCM had management agreements with PNMAC Mortgage Opportunity Fund, LLC (the “Registered Fund”) and PNMAC Mortgage Opportunity Fund, L.P. (the “Master Fund”), both formerly registered under the Investment Company Act of 1940, as amended, an affiliate of these registered funds, and PNMAC Mortgage Opportunity Fund Investors, LLC (the Private Fund”) (collectively, the “Investment Funds”). Together, the Investment Funds and PMT are referred to as the “Advised Entities.” In 2017 and through the six months ended June 30, 2018, the Investment Funds sold or liquidated all of their remaining investments. The Registered Fund and the Master Fund obtained orders of de-registration on July 25, 2018, and the management agreements with the Registered Fund, the Master Fund and the Private Fund expired or were otherwise terminated on or before August 2, 2018. PCM expects to complete liquidation of the Investment Funds during 2018.

· PennyMac Loan Services, LLC (“PLS”) — a Delaware limited liability company that services portfolios of residential mortgage loans on behalf of non-affiliates and PMT, purchases, originates and sells new prime credit quality residential mortgage loans and engages in other mortgage banking activities for its own account and the account of

PMT.

PLS is approved as a seller/servicer of mortgage loans by the Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Mortgage Corporation (“Freddie Mac”) and as an issuer of securities guaranteed by the Government National Mortgage Association (“Ginnie Mae”). PLS is a licensed Federal Housing Administration Nonsupervised Title II Lender with the U.S. Department of Housing and Urban Development (“HUD”) and a lender/servicer with the Veterans Administration (“VA”) and U.S. Department of Agriculture (“USDA”) (each an “Agency” and collectively the “Agencies”).

- PNMAC Opportunity Fund Associates, LLC (“PMOFA”)—a Delaware limited liability company and the general partner of the Master Fund. PMOFA is entitled to incentive fees representing allocations of profits (“Carried Interest”) from the Master Fund.

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## Note 2—Basis of Presentation and Accounting Changes

### Basis of Presentation

The accompanying consolidated financial statements have been prepared in compliance with accounting principles generally accepted in the United States ("GAAP") as codified in the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") for interim financial information and with the SEC's instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, these financial statements and notes do not include all of the information required by GAAP for complete financial statements. This interim consolidated information should be read together with the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

The accompanying unaudited consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, income, and cash flows for the interim periods, but are not necessarily indicative of income to be anticipated for the full year ending December 31, 2018. Intercompany accounts and transactions have been eliminated.

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

### Accounting Changes

During the six months ended June 30, 2018, the Company adopted changes to the accounting principles used in the preparation of its financial statements summarized below.

#### Mortgage Servicing Rights

Effective January 1, 2018, the Company has elected to change the accounting for the classes of mortgage servicing rights ("MSRs") it had accounted for using the amortization method through December 31, 2017, to the fair value method as allowed in the Transfers and Servicing topic of the FASB's ASC. The Company determined that a single accounting treatment across all MSRs is consistent with lender valuation under its financing arrangements and simplifies the Company's hedging activities. As the result of this change, the Company recorded an adjustment to increase its investment in MSRs by $848,000, an increase in its liability for income taxes payable of $72,000 and in increase in stockholders' equity of $776,000.

Revenue Recognition

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Subtopic 606) ("ASU 2014-09"), which supersedes the guidance in the Revenue Recognition topic of the ASC. Effective January 1, 2018, the Company adopted ASU 2014-09 as amended using the modified retrospective method. The adoption of ASU 2014-09 did not require the Company to record a cumulative effect adjustment to its beginning retained earnings.

The Company's revenues from contracts with customers that are subject to ASU 2014-09 include fulfillment fees, management fees, Carried Interest and certain reimbursed overhead costs. Other revenue and income streams are not subject to ASU 2014-09 as they are financial instruments or other contractual rights and obligations accounted for under the Receivables, Investments and Debt and Equity Securities, Transfers and Servicing, Financial Instruments and Derivatives and Hedging topics of the ASC.

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Fulfillment Fees

Fulfillment fees represent fees the Company collects for services it performs on behalf of PMT in connection with the acquisition, packaging and sale of mortgage loans. Fulfillment fee amounts are based upon a negotiated fee schedule and the unpaid principal balance of the mortgage loans purchased by PMT. The Company's obligation under the agreement is fulfilled when PMT completes the sale or securitization of a mortgage loan it purchases. Fulfillment fees are generally collected within 30 days of purchase by PMT, although a portion of the fulfillment fees may not be collected until 30 days following sale or securitization to the extent such sale or securitization does not occur in the month of purchase. Fulfillment fee revenue is recognized in the month the fee is earned. Fulfillment fees receivable contract assets are disclosed in Note 4—Transactions with Affiliates.

Management fees

Management fees represent compensation to the Company for its management services provided to the Advised Entities. Management fees are earned based on the Investment Funds' net assets and PMT's shareholders' equity amounts and profitability in excess of specified thresholds, and are recognized as services are provided and are paid to the Company on a quarterly basis within 30 days of the end of the quarter. Management fees receivable contract assets are disclosed in Note 4—Transactions with Affiliates.

Carried Interest

The Company's Carried Interest arrangements with the Investment Funds represent capital allocations to the Company. As a result, the Company has concluded as part of its assessment of the effect of the adoption of ASU 2014-09 that its Carried Interest represents an equity method investment subject to the Investments – Equity Method and Joint Ventures topic of the ASC. Therefore, effective January 1, 2018, the Company recharacterized its Carried Interest as financial instruments under the equity method of accounting. Carried Interest balances are disclosed in Note 9—Carried Interest Due from Investment Funds.

Expense reimbursements

Under the Company's management agreement with PMT, PMT is required to pay its pro rata portion of rent, telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses of the Company and its affiliates required for PMT's and its subsidiaries' operations. These expenses are allocated based on the ratio of PMT's proportion of gross assets compared to all remaining gross assets managed by the Company as calculated at each fiscal quarter end. Before the adoption of ASU 2014-09, the Company accounted for such reimbursements as reductions to expenses. With the adoption of ASU 2014-09, the Company is required to include such expense reimbursements in its net revenues. As a result of the adoption of ASU 2014-09, certain overhead reimbursement amounts were reclassified from the following expense line items to Other revenue as summarized below:

| Income statement line | Quarter ended June 30, 2018 | Six months ended June 30, 2018 |
|---|---|---|
| | (in thousands) | |
| Occupancy and equipment | $ 647 | $ 1,236 |
| Technology | 302 | 522 |
| Compensation | 120 | 240 |
| Other | 227 | 419 |
| Total expense reimbursements included in Other revenue | $ 1,296 | $ 2,417 |

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Cash Flows

During the six months ended June 30, 2018, the Company adopted ASU 2016-18, Statement of Cash Flows (Topic 230) – Restricted Cash ("ASU 2016-18"). ASU 2016-18 requires that a statement of cash flows explain the change during the reporting period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the consolidated statement of cash flows. Accordingly, the Company retrospectively changed the presentation of its consolidated statements of cash flows to conform to the requirements of ASU 2016-18. For the purpose of reporting statement of cash flows, the Company has identified tenant security deposits relating to rental properties owned by PMT and managed by the Company as restricted cash. The tenant security deposits are included in Other asset on the Company's consolidated balance sheets. As the result of adoption of ASU 2016-18, the Company's consolidated statements of cash flows for the six months ended June 30, 2017 changed as follows:

| | As previously reported | Effect of adoption of ASU 2016-18 | As reported |
|---|---|---|---|
| | (in thousands) | | |
| Cash flow from operating activities | $ (853,044) | $ 116 | $ (852,928) |
| Cash and restricted cash at quarter end | $ 75,978 | $ 391 | $ 76,369 |

Note 3—Concentration of Risk

A substantial portion of the Company's activities relate to the Advised Entities. Revenues generated from these entities (generally comprised of gains on mortgage loans held for sale, mortgage loan origination fees, fulfillment fees, mortgage loan servicing fees, change in fair value of excess servicing spread financing ("ESS"), management fees, Carried Interest, net interest charged to these entities and change in fair value of investment and dividend received from PMT) totaled 18% and 21% of total net revenue for the quarters ended June 30, 2018 and 2017, respectively, and 16% and 19% for the six months ended June 30, 2018 and 2017, respectively.

Note 4—Transactions with Affiliates

Transactions with PMT

Operating Activities

Mortgage Loan Production Activities and Mortgage Servicing Rights (“MSR”) Recapture

The Company sells newly originated loans to PMT under a mortgage loan purchase agreement. Historically, the Company has used the mortgage loan purchase agreement for the purpose of selling to PMT prime jumbo residential mortgage loans. Beginning in the quarter ended September 30, 2017, the Company also sells non-government insured or guaranteed mortgage loans to PMT under the mortgage loan purchase agreement.

Pursuant to the terms of an amended and restated MSR recapture agreement, effective September 12, 2016, if the Company refinances mortgage loans for which PMT previously held the MSRs, the Company is generally required to transfer and convey cash in an amount equal to 30% of the fair market value of the MSRs related to all the mortgage loans so originated. The MSR recapture agreement expires, unless terminated earlier in accordance with the agreement, on September 12, 2020, subject to automatic renewal for additional 18-month periods, unless terminated earlier in accordance with the terms of the agreement.

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The Company provides fulfillment and other services to PMT under an amended and restated mortgage banking services agreement for which it receives a fulfillment fee. Pursuant to the terms of mortgage banking services agreement, the monthly fulfillment fee is an amount that shall equal (a) no greater than the product of (i) 0.35% and (ii) the aggregate initial unpaid principal balance (the "Initial UPB") of all mortgage loans purchased in such month, plus (b) in the case of all mortgage loans other than mortgage loans sold to or securitized through Fannie Mae or Freddie Mac, no greater than the product of (i) 0.50% and (ii) the aggregate Initial UPB of all such mortgage loans sold and securitized in such month; provided, however, that no fulfillment fee shall be due or payable to the Company with respect to any mortgage loans underwritten to the Ginnie Mae Mortgage Backed Securities ("MBS") Guide. PMT does not hold the Ginnie Mae approval required to issue Ginnie Mae MBS and act as a servicer. Accordingly, under the agreement, the Company currently purchases mortgage loans underwritten in accordance with the Ginnie Mae MBS Guide "as is" and without recourse of any kind from PMT at PMT's cost less an administrative fee plus accrued interest and a sourcing fee ranging from two to three and one-half basis points, generally based on the average number of calendar days mortgage loans are held by PMT before being purchased by the Company.

In consideration for the mortgage banking services provided by the Company with respect to PMT's acquisition of mortgage loans under the Company's early purchase program, the Company is entitled to fees accruing (i) at a rate equal to $1,500 per year per early purchase facility administered by the Company, and (ii) in the amount of $35 for each mortgage loan that PMT acquires thereunder. The mortgage banking services agreement expires, unless terminated earlier in accordance with the agreement, on September 12, 2020, subject to automatic renewal for additional 18-month periods.

Following is a summary of mortgage loan production activities and MSR recapture between the Company and PMT:

| | Quarter ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | (in thousands) | | | |
| Net gain (loss) on mortgage loans held for sale at fair value: | | | | |
| Net gain on mortgage loans held for sale to PMT | $ 15,863 | $ — | $ 29,674 | $ — |
| Mortgage servicing rights and excess servicing spread recapture incurred | (936) | (1,506) | (2,361) | (3,201) |
| | $ 14,927 | $ (1,506) | $ 27,313 | $ (3,201) |
| Sale of mortgage loans held for sale to PMT | $ 646,311 | $ 18,692 | $ 1,427,637 | $ 40,222 |
| Fulfillment fee revenue | $ 14,559 | $ 21,107 | $ 26,503 | $ 37,677 |
| Unpaid principal balance of mortgage loans fulfilled for PMT subject to fulfillment fees | $ 5,396,370 | $ 5,918,027 | $ 9,622,001 | $ 10,549,933 |
| Sourcing fees paid to PMT | $ 2,891 | $ 3,204 | $ 5,532 | $ 6,065 |
| Unpaid principal balance of mortgage loans purchased from PMT | $ 9,639,495 | $ 10,641,243 | $ 18,487,368 | $ 20,215,960 |

| | | | | |
|---|---|---|---|---|
| Tax service fees received from PMT included in Mortgage loan origination fees | $ 1,542 | $ 1,890 | $ 2,750 | $ 3,269 |
| Early purchase program fees earned from PMT included in Mortgage loan servicing fees | $ — | $ 1 | $ — | $ 6 |

Mortgage Loan Servicing

The Company has a mortgage loan servicing agreement with PMT ("Servicing Agreement"). The Servicing Agreement provides for servicing fees of per loan monthly amounts based on the delinquency, bankruptcy and/or foreclosure status of the serviced mortgage loan or the real estate acquired in settlement of loans ("REO"). The Company also remains entitled to customary ancillary income and market-based fees and charges relating to mortgage loans it services for PMT. These include boarding and deboarding fees, liquidation and disposition fees, assumption, modification and origination fees and a percentage of late charges.

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· The base servicing fee rates for distressed whole mortgage loans range from $30 per month for current loans up to $85 per month for loans where the borrower has declared bankruptcy. The base servicing fee rate for REO is $75 per month.

· To the extent the Company facilitates rentals of PMT's REO under its REO rental program, the Company collects an REO rental fee of $30 per month per REO, an REO property lease renewal fee of $100 per lease renewal, and a property management fee in an amount equal to the Company's cost if property management services and/or any related software costs are outsourced to a third-party property management firm or 9% of gross rental income if the Company provides property management services directly. The Company is also entitled to retain any tenant paid application fees and late rent fees and seek reimbursement for certain third-party vendor fees.

· Except as otherwise provided in the MSR recapture agreement, when the Company effects a refinancing of a mortgage loan on behalf of PMT and not through a third-party lender and the resulting mortgage loan is readily saleable, or the Company originates a loan to facilitate the disposition of a REO, the Company is entitled to receive from PMT market-based fees and compensation consistent with pricing and terms the Company offers unaffiliated parties on a retail basis.

· Because PMT has a small number of employees and limited infrastructure, the Company is required to provide a range of services and activities significantly greater in scope than the services provided in connection with a customary servicing arrangement. For these services, the Company receives a supplemental servicing fee of $25 per month for each distressed mortgage loan. The Company is entitled to reimbursement for all customary, good faith reasonable and necessary out-of-pocket expenses incurred by the Company in performance of its servicing obligations.

· The Company is entitled to retain any incentive payments made to it and to which it is entitled under the U.S. Department of Treasury's Home Affordable Modification Plan; provided, however, that with respect to any such incentive payments paid to the Company in connection with a mortgage loan modification for which PMT previously paid the Company a modification fee, the Company is required to reimburse PMT an amount equal to the incentive payments.

· The Company is also entitled to certain activity-based fees for distressed whole mortgage loans that are charged based on the achievement of certain events. These fees range from $750 for a streamline modification to $1,750 for a liquidation and $500 for a deed-in-lieu of foreclosure. The Company is not entitled to earn more than one liquidation fee, reperformance fee or modification fee per mortgage loan in any 18-month period.

· The base servicing fees for non-distressed mortgage loans are calculated through a monthly per-loan dollar amount, with the actual dollar amount for each loan based on whether the mortgage loan is a fixed-rate or adjustable-rate loan. The base servicing fee rates are $7.50 per month and $8.50 per month for fixed-rate loans and adjustable-rate loans, respectively.

The Servicing Agreement expires on September 12, 2020, subject to automatic renewal for additional 18-month periods, unless terminated earlier in accordance with the terms of the agreement.

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Following is a summary of mortgage loan servicing fees earned from PMT:

| | Quarter ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | (in thousands) | | | |
| Mortgage loans acquired for sale at fair value: | | | | |
| Base and supplemental | $ 96 | $ 82 | $ 152 | $ 147 |
| Activity-based | 149 | 176 | 271 | 319 |
| | 245 | 258 | 423 | 466 |
| Mortgage loans at fair value: | | | | |
| Base and supplemental | 709 | 1,754 | 1,714 | 3,713 |
| Activity-based | 463 | 1,767 | 2,543 | 4,157 |
| | 1,172 | 3,521 | 4,257 | 7,870 |
| Mortgage servicing rights: | | | | |
| Base and supplemental | 7,900 | 6,188 | 15,549 | 12,025 |
| Activity-based | 114 | 132 | 221 | 224 |
| | 8,014 | 6,320 | 15,770 | 12,249 |
| | $ 9,431 | $ 10,099 | $ 20,450 | $ 20,585 |
| Property management fees received from PMT included in Other income | $ 112 | $ 95 | $ 211 | $ 166 |

Investment Management Activities

The Company has a management agreement with PMT ("Management Agreement"). The Management Agreement provides that:

· The base management fee is calculated quarterly and is equal to the sum of (i) 1.5% per year of PMT's average shareholders' equity up to $2 billion, (ii) 1.375% per year of PMT's average shareholders' equity in excess of $2 billion and up to $5 billion, and (iii) 1.25% per year of PMT's average shareholders' equity in excess of $5 billion.

· The performance incentive fee is calculated quarterly at a defined annualized percentage of the amount by which PMT's "net income," on a rolling four quarter basis and before deducting the incentive fee, exceeds certain levels of return on "equity."

The performance incentive fee is equal to the sum of: (a) 10% of the amount by which PMT's net income for the quarter exceeds (i) an 8% return on equity plus the "high watermark," up to (ii) a 12% return on PMT's equity; plus (b) 15% of the amount by which PMT's net income for the quarter exceeds (i) a 12% return on PMT's equity plus the "high watermark," up to (ii) a 16% return on PMT's equity; plus (c) 20% of the amount by which PMT's net income for the quarter exceeds a 16% return on equity plus the "high watermark."

For the purpose of determining the amount of the performance incentive fee:

"Net income" is defined as net income or loss attributable to PMT's common shares of beneficial interest computed in accordance with GAAP adjusted for certain other non cash charges determined after discussions between the Company and PMT's independent trustees and approval by a majority of PMT's independent trustees.

"Equity" is the weighted average of the issue price per common share of all of PMT's public offerings, multiplied by the weighted average number of common shares outstanding (including restricted share units) in the rolling four quarter period.

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The “high watermark” is the quarterly adjustment that reflects the amount by which the net income (stated as a percentage of return on equity) in that quarter exceeds or falls short of the lesser of 8% and the average Fannie Mae 30 year MBS yield (the “Target Yield”) for the four quarters then ended. If the net income is lower than the Target Yield, the high watermark is increased by the difference. If the net income is higher than the Target Yield, the high watermark is reduced by the difference. Each time a performance incentive fee is earned, the high watermark returns to zero. As a result, the threshold amounts required for the Company to earn a performance incentive fee are adjusted cumulatively based on the performance of PMT’s net income over (or under) the Target Yield, until the net income in excess of the Target Yield exceeds the then current cumulative high watermark amount, and a performance incentive fee is earned.

The base management fee and the performance incentive fee are both receivable quarterly in arrears. The performance incentive fee may be paid in cash or a combination of cash and PMT’s common shares (subject to a limit of no more than 50% paid in common shares), at PMT’s option.

The Management Agreement expires on September 12, 2020, subject to automatic renewal for additional 18-month periods, unless terminated earlier in accordance with the terms of the agreement. In the event of termination of the Management Agreement between PMT and the Company, the Company may be entitled to a termination fee in certain circumstances. The termination fee is equal to three times the sum of (a) the average annual base management fee, and (b) the average annual performance incentive fee earned by the Company, in each case during the 24-month period immediately preceding the date of termination.

Following is a summary of the base management and performance incentive fees earned from PMT:

| | Quarter ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | (in thousands) | | | |
| Base management | $ 5,728 | $ 5,334 | $ 11,424 | $ 10,342 |
| Performance incentive | — | 304 | — | 304 |
| | $ 5,728 | $ 5,638 | $ 11,424 | $ 10,646 |

Expense Reimbursement

Under the Management Agreement, PMT reimburses the Company for its organizational and operating expenses, including third-party expenses, incurred on PMT’s behalf, it being understood that the Company and its affiliates shall allocate a portion of their personnel’s time to provide certain legal, tax and investor relations services for the direct benefit of PMT. With respect to the allocation of the Company's and its affiliates' personnel, from and after September 12, 2016, the Company shall be reimbursed $120,000 per fiscal quarter, such amount to be reviewed annually and not preclude reimbursement for any other services performed by the Company or its affiliates.

PMT is also required to pay its pro rata portion of rent, telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses of the Company and its affiliates required for PMT's and its subsidiaries' operations. These expenses will be allocated based on the ratio of PMT's proportion of gross assets compared to all remaining gross assets managed by the Company as calculated at each fiscal quarter end.

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The Company received reimbursements from PMT for expenses as follows:

| | Quarter ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | (in thousands) | | | |
| Reimbursement of: | | | | |
| Common overhead incurred by the Company (1) | $ 1,176 | $ 1,593 | $ 2,177 | $ 3,027 |
| Compensation | 120 | — | 240 | — |
| Expenses incurred on (the Company's) PMT's behalf, net | (514) | 398 | 59 | 653 |
| | $ 782 | $ 1,991 | $ 2,476 | $ 3,680 |
| Payments and settlements during the quarter (2) | $ 15,957 | $ 16,070 | $ 23,615 | $ 40,463 |

(1) The Company adopted ASU 2014-09 using the modified retrospective method effective January 1, 2018. Adoption of ASU 2014-09 using the modified retrospective method required the Company to include those reimbursements from PMT in Other revenue starting January 1, 2018.

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

Conditional Reimbursement of Underwriting Fees

In connection with its initial public offering of common shares of beneficial interest on August 4, 2009 (“IPO”), PMT conditionally agreed to reimburse the Company up to $2.9 million for underwriting fees paid to the IPO underwriters by the Company on PMT’s behalf. In the event a termination fee is payable to the Company under the Management Agreement, and the Company has not received the full amount of the reimbursements and payments under the reimbursement agreement, such amount will be paid in full. The term of the reimbursement agreement expires on February 1, 2019. The Company received no reimbursement of underwriting fees from PMT during the six months ended June 30, 2018 and 2017.

Investing Activities

Master Repurchase Agreement

On December 19, 2016, the Company, through PLS, entered into a master repurchase agreement with one of PMT's wholly-owned subsidiaries, PennyMac Holdings, LLC ("PMH") (the "PMH Repurchase Agreement"), pursuant to which PMH may borrow from the Company for the purpose of financing PMH's participation certificates representing beneficial ownership in ESS. PLS then re-pledges such participation certificates to PNMAC GMSR ISSUER TRUST (the "Issuer Trust") under a master repurchase agreement by and among PLS, the Issuer Trust and PennyMac, as guarantor (the "PC Repurchase Agreement"). The Issuer Trust was formed for the purpose of allowing PLS to finance MSRs and ESS relating to such MSRs (the "GNMA MSR Facility").

In connection with the GNMA MSR Facility, PLS pledges and/or sells to the Issuer Trust participation certificates representing beneficial interests in MSRs and ESS pursuant to the terms of the PC Repurchase Agreement. In return, the Issuer Trust (a) has issued to PLS, pursuant to the terms of an indenture, the Series 2016-MSRVF1 Variable Funding Note, dated December 19, 2016, known as the "PNMAC GMSR ISSUER TRUST MSR Collateralized Notes, Series 2016-MSRVF1" (the "VFN"), and (b) has issued and may, from time to time pursuant to the terms of any supplemental indenture, issue to institutional investors additional term notes ("Term Notes"), in each case secured on a pari passu basis by the participation certificates relating to the MSRs and ESS. The maximum principal balance of the VFN is $1,000,000,000.

The principal amount paid by PLS for the participation certificates under the PMH Repurchase Agreement is based upon a percentage of the market value of the underlying ESS. Upon PMH's repurchase of the participation certificates, PMH is required to repay PLS the principal amount relating thereto plus accrued interest (at a rate reflective of the current market and consistent with the weighted average note rate of the VFN and any outstanding Term Notes) to the date of such repurchase. PLS is then required to repay the Issuer Trust the corresponding amount under the PC Repurchase Agreement.

Prior to the Company's entry into the PMH Repurchase Agreement and PC Repurchase Agreement in connection with the GNMA MSR Facility, the Company was a party to a repurchase agreement with Credit Suisse First Boston Mortgage Capital LLC ("CSFB") (the "MSR Repo"), pursuant to which it financed Ginnie Mae MSRs and servicing advance receivables and pledged to CSFB all of its rights and interests in any Ginnie Mae MSRs it owned or acquired, and a separate acknowledgement agreement with respect thereto, by and among Ginnie Mae, CSFB and the Company.

In connection with the MSR Repo described above, the Company and PMT entered into an underlying loan and security agreement, dated as of April 30, 2015, pursuant to which PMT was able to borrow up to $150 million from the Company for the purpose of financing ESS (the "Underlying LSA"). In order to secure its borrowings, PMT pledged its ESS to the Company under the Underlying LSA and the Company, in turn, re-pledged such ESS to CSFB under the MSR Repo. The principal amount of the borrowings under the Underlying LSA was based upon a percentage of the market value of the ESS pledged by PMT, subject to the $150 million sublimit described above. Pursuant to the Underlying LSA, PMT granted to the Company a security interest in all of its right, title and interest in, to and under the ESS pledged to secure the borrowings.

The Company and PMT agreed in connection with the Underlying LSA that PMT was required to repay the Company the principal amount of borrowings plus accrued interest to the date of such repayment, and the Company was required to repay CSFB the corresponding amount under the MSR Repo. Interest accrued on PMT's note relating to the Underlying LSA at a rate based on CSFB's cost of funds under the MSR Repo. PMT was also required to pay the Company a fee for the structuring of the Underlying LSA in an amount equal to the portion of the corresponding fee paid by the Company to CSFB and allocable to the $150 million relating to the ESS. The Underlying LSA was replaced by the PMH Repurchase Agreement upon the closing of the GNMA MSR facility.

The Company holds an investment in PMT in the form of 75,000 common shares of beneficial interest.

Following is a summary of investing activities between the Company and PMT:

| | Quarter ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | (in thousands) | | | |
| Interest income relating to Assets purchased from PennyMac Mortgage Investment Trust under agreements to resell | $ 1,898 | $ 2,025 | $ 3,874 | $ 3,830 |
| Common shares of beneficial interest of PennyMac Mortgage Investment Trust: | | | | |
| Dividends received from PennyMac Mortgage Investment Trust | $ 36 | $ 35 | $ 71 | $ 71 |

| | | | | |
|---|---|---|---|---|
| Change in fair value of investment in common shares of PennyMac Mortgage Investment Trust | 72 | 41 | 219 | 144 |
| | $ 108 | $ 76 | $ 290 | $ 215 |

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| | (in thousands) | |
| Assets purchased from PennyMac Mortgage Investment Trust under agreements to resell | $ 138,582 | $ 144,128 |
| Common shares of beneficial interest of PennyMac Mortgage Investment Trust: | | |
| Fair value | $ 1,424 | $ 1,205 |
| Number of shares | 75 | 75 |

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Financing Activities

Spread Acquisition and MSR Servicing Agreements

On December 19, 2016, the Company amended and restated a master spread acquisition and MSR servicing agreement with PMT (the "Spread Acquisition Agreement"), pursuant to which the Company may sell to PMT, from time to time, the right to receive participation certificates representing beneficial ownership in ESS arising from Ginnie Mae MSRs acquired by the Company, in which case the Company generally would be required to service or subservice the related mortgage loans for Ginnie Mae. The primary purpose of the amendment and restatement was to facilitate the continued financing of the ESS owned by PMT in connection with the parties' participation in the GNMA MSR Facility.

To the extent the Company refinances any of the mortgage loans relating to the ESS it has acquired, the Spread Acquisition Agreement also contains recapture provisions requiring that the Company transfer to PMT, at no cost, the ESS relating to a certain percentage of the unpaid principal balance of the newly originated mortgage loans. However, under the Spread Acquisition Agreement, in any month where the transferred ESS relating to newly originated Ginnie Mae mortgage loans is not equivalent to at least 90% of the product of the excess servicing fee rate and the unpaid principal balance of the refinanced mortgage loans, the Company is also required to transfer additional ESS or cash in the amount of such shortfall. Similarly, in any month where the transferred ESS relating to modified Ginnie Mae mortgage loans is not equivalent to at least 90% of the product of the excess servicing fee rate and the unpaid principal balance of the modified mortgage loans, the Spread Acquisition Agreement contains provisions that require the Company to transfer additional ESS or cash in the amount of such shortfall. To the extent the fair market value of the aggregate ESS to be transferred for the applicable month is less than $200,000, the Company may, at its option, wire cash to PMT in an amount equal to such fair market value in lieu of transferring such ESS.

Following is a summary of financing activities between the Company and PMT:

| | Quarter ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | (in thousands) | | | |
| Excess servicing spread financing: | | | | |
| Issuance pursuant to recapture agreement | $ 580 | $ 1,380 | $ 1,484 | $ 2,953 |
| Repayment | $ 12,018 | $ 14,278 | $ 24,309 | $ 28,910 |
| Change in fair value | $ 996 | $ (7,156) | $ 7,917 | $ (9,929) |
| Interest expense | $ 3,910 | $ 4,366 | $ 7,844 | $ 9,013 |
| Recapture incurred pursuant to refinancings by the Company of mortgage loans subject to excess servicing spread financing included in Net gains on | $ 524 | $ 1,271 | $ 1,354 | $ 2,674 |

mortgage loans held for sale at fair value

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| | (in thousands) | |
| Excess servicing spread financing at fair value | $ 229,470 | $ 236,534 |

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Receivable from and Payable to PMT

Amounts receivable from and payable to PMT are summarized below:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| | (in thousands) | |
| Receivable from PMT: | | |
| Management fees | $ 5,728 | $ 5,901 |
| Fulfillment fees | 4,696 | 346 |
| Allocated expenses and expenses incurred on PMT's behalf | 3,496 | 11,542 |
| Servicing fees | 3,110 | 6,583 |
| Correspondent production fees | 1,633 | 1,735 |
| Conditional Reimbursement | 870 | 870 |
| Interest on assets purchased under agreements to resell | 128 | 142 |
| | $ 19,661 | $ 27,119 |
| Payable to PMT: | | |
| Deposits made by PMT to fund servicing advances | $ 95,299 | $ 132,844 |
| Mortgage servicing rights recapture payable | 153 | 282 |
| Other | 3,857 | 3,872 |
| | $ 99,309 | $ 136,998 |

Investment Funds

Management Agreements

The Company had investment management agreements with the Investment Funds pursuant to which it received management fees consisting of base management fees and Carried Interest. The management fees were based on the lesser of the funds’ net asset values or aggregate capital contributions. The base management fees accrued at annual rates ranging from 1.5% to 2.0% of the applicable amounts on which they were based.

The Carried Interest that the Company recognizes from the Investment Funds is determined by the Investment Funds’ performance and its contractual rights to share in the Investments Funds’ returns in excess of