AGNC Investment Corp.
Form 10-Q
May 07, 2018

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, 2018
OR

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

Commission file number 001-34057
AGNC INVESTMENT CORP.
(Exact name of registrant as specified in its charter)

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

2 Bethesda Metro Center, 12th Floor
Bethesda, Maryland 20814
(Address of principal executive offices)
(301) 968-9315
(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 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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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	¨

Emerging growth company ¨

If an emerging growth company, indicate by check mark if 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 ý

The number of shares of the issuer's common stock, $0.01 par value, outstanding as of April 30, 2018 was 391,327,480.

AGNC INVESTMENT CORP.
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
AGNC INVESTMENT CORP.
CONSOLIDATED BALANCE SHEETS
(in millions, except per share data)

	March 31, 2018 (Unaudited)	December 31, 2017
Assets:		
Agency securities, at fair value (including pledged securities of $51,434 and $53,055, respectively)	$ 54,141	$ 55,506
Agency securities transferred to consolidated variable interest entities, at fair value (pledged securities)	621	662
Credit risk transfer securities, at fair value	884	876
Non-Agency securities, at fair value	36	36
U.S. Treasury securities, at fair value	224	—
REIT equity securities, at fair value	42	29
Cash and cash equivalents	972	1,046
Restricted cash	386	317
Derivative assets, at fair value	410	205
Receivable under reverse repurchase agreements	10,770	10,961
Goodwill and other intangible assets, net	550	551
Other assets	185	187
Total assets	$ 69,221	$ 70,376
Liabilities:		
Repurchase agreements	$ 48,956	$ 50,296
Debt of consolidated variable interest entities, at fair value	336	357
Payable for investment securities purchased	457	95
Derivative liabilities, at fair value	32	28
Dividends payable	80	80
Obligation to return securities borrowed under reverse repurchase agreements, at fair value	10,352	10,467
Accounts payable and other liabilities	670	299
Total liabilities	60,883	61,622
Stockholders' equity:		
7.750% Series B Cumulative Redeemable Preferred Stock (aggregate liquidation preference of $175)	169	169
7.000% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (aggregate liquidation preference of $325)	315	315
Common stock - $0.01 par value; 600.0 shares authorized; 391.3 shares issued and outstanding	4	4
Additional paid-in capital	11,174	11,173
Retained deficit	(2,358)	(2,562)
Accumulated other comprehensive loss	(966)	(345)
Total stockholders' equity	8,338	8,754
Total liabilities and stockholders' equity	$ 69,221	$ 70,376

See accompanying notes to consolidated financial statements.

2

AGNC INVESTMENT CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(in millions, except per share data)

	Three Months Ended March 31,	
	2018	2017
Interest income:		
Interest income	$431	$296
Interest expense	206	98
Net interest income	225	198
Other gain (loss), net:		
Loss on sale of investment securities, net	(2)	(84)
Unrealized gain (loss) on investment securities measured at fair value through net income, net	(523)	16
Gain (loss) on derivative instruments and other securities, net	738	(40)
Management fee income	4	4
Total other gain (loss), net:	217	(104)
Expenses:		
Compensation and benefits	10	10
Other operating expenses	8	8
Total operating expenses	18	18
Net income	424	76
Dividend on preferred stock	9	7
Net income available to common stockholders	$415	$69
Net income	$424	$76
Other comprehensive income (loss):		
Unrealized gain (loss) on available-for-sale securities, net	(621)	46
Comprehensive income (loss)	(197)	122
Dividend on preferred stock	9	7
Comprehensive income (loss) available (attributable) to common stockholders	$(206)	$115
Weighted average number of common shares outstanding - basic	391.3	331.0
Weighted average number of common shares outstanding - diluted	391.5	331.1
Net income per common share - basic and diluted	$1.06	$0.21
Dividends declared per common share	$0.54	$0.54

See accompanying notes to consolidated financial statements.

AGNC INVESTMENT CORP.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)
(in millions)

	8.000% Series A Cumulative Redeemable Preferred Stock	7.750% Series B Cumulative Redeemable Preferred Stock	7.000% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock	Common Stock		Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total
				Shares	Amount				
Balance, December 31, 2016	$ 167	$ 169	$ —	331.0	$ 3	$ 9,932	$ (2,518)	$ (397)	$ 7,356
Net income	—	—	—	—	—	—	76	—	76
Other comprehensive income:									
Unrealized gain on available-for-sale securities, net	—	—	—	—	—	—	—	46	46
Preferred dividends declared	—	—	—	—	—	—	(7)		(7)
Common dividends declared	—	—	—	—	—	—	(179)	—	(179)
Balance, March 31, 2017	$ 167	$ 169	$ —	331.0	$ 3	$ 9,932	$ (2,628)	$ (351)	$ 7,292
Balance, December 31, 2017	$ —	$ 169	$ 315	391.3	$ 4	$ 11,173	$ (2,562)	$ (345)	$ 8,754
Net income	—	—	—	—	—	—	424	—	424
Other comprehensive loss:									
Unrealized loss on available-for-sale securities, net	—	—	—	—	—	—	—	(621)	(621)
Stock-based compensation	—	—	—	—	—	1	—	—	1
Preferred dividends declared	—	—	—	—	—	—	(9)	—	(9)
Common dividends declared	—	—	—	—	—	—	(211)	—	(211)
Balance, March 31, 2018	$ —	$ 169	$ 315	391.3	$ 4	$ 11,174	$ (2,358)	$ (966)	$ 8,338

See accompanying notes to consolidated financial statements.

AGNC INVESTMENT CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in millions)

	Three Months Ended March 31,	
	2018	2017
Operating activities:		
Net income	$424	$76
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premiums and discounts on mortgage-backed securities, net	69	89
Amortization of intangible assets	1	1
Stock-based compensation	1	—
Loss on sale of investment securities, net	2	84
Unrealized (gain) loss on investment securities measured at fair value through net income, net	523	(16)
(Gain) loss on derivative instruments and other securities, net	(738)	40
Decrease in other assets	3	125
Increase (decrease) in accounts payable and other accrued liabilities	3	(9)
Net cash provided by operating activities	288	390
Investing activities:		
Purchases of Agency mortgage-backed securities	(2,287)	(4,573)
Purchases of credit risk transfer and non-Agency securities	(215)	(317)
Proceeds from sale of Agency mortgage-backed securities	1,181	4,424
Proceeds from sale of credit risk transfer and non-Agency securities	208	193
Principal collections on Agency mortgage-backed securities	1,661	1,636
Principal collections on credit risk transfer and non-Agency securities	—	4
Payments on U.S. Treasury securities	(1,345)	(1,748)
Proceeds from U.S. Treasury securities	1,403	2,999
Net proceeds from (payments on) reverse repurchase agreements	231	(1,192)
Net proceeds from (payments on) derivative instruments	466	(72)
Purchases of REIT equity securities	(16)	—
Net cash provided by (used in) investing activities	1,287	1,354
Financing activities:		
Proceeds from repurchase arrangements	243,168	77,864
Payments on repurchase agreements	(244,507)	(76,347)
Payments on Federal Home Loan Bank advances	—	(3,037)
Payments on debt of consolidated variable interest entities	(21)	(28)
Cash dividends paid	(220)	(186)
Net cash provided by (used in) financing activities	(1,580)	(1,734)
Net change in cash, cash equivalents and restricted cash	(5)	10
Cash, cash equivalents and restricted cash at beginning of period	1,363	1,282
Cash, cash equivalents and restricted cash at end of period	$1,358	$1,292

See accompanying notes to consolidated financial statements.

AGNC INVESTMENT CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

The unaudited interim consolidated financial statements of AGNC Investment 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. 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.

Our unaudited interim consolidated financial statements include the accounts of all of our wholly-owned subsidiaries and variable interest entities for which we are the primary beneficiary. Significant intercompany accounts and transactions have been eliminated.

Adoption of Accounting Standard Updates

As of January 1, 2018, we adopted Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606), and ASU 2016-18, Statement of Cash Flows (Topic 230) - Restricted Cash. The adoption of ASU 2014-09 resulted in reclassification of expense reimbursements from MTGE Investment Corp. ("MTGE") from an other operating expense offset to management fee income on the consolidated statements of comprehensive income. Net income was not impacted. The adoption of ASU 2016-18 resulted in the presentation of restricted cash with cash and cash equivalents on the consolidated statements of cash flows when reconciling the total beginning and ending amounts. Our prior period results have been revised to conform to the current presentation.

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. Our common stock is traded on The Nasdaq Global Select Market under the symbol "AGNC."

We operate 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"). As a REIT, we are required to distribute annually 90% of our taxable income. So long as we continue to qualify as a REIT, we will generally not be subject to U.S. Federal or state corporate taxes on our taxable income to the extent that we distribute our annual taxable income to our stockholders on a timely basis. 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 tax year.

We earn income primarily from investing in Agency residential mortgage-backed securities ("Agency RMBS") for which the principal and interest payments are guaranteed by a U.S. Government-sponsored enterprise or a U.S. Government agency. We may also invest in other types of mortgage and mortgage-related securities, such as credit risk transfer ("CRT") securities and non-Agency residential and commercial mortgage-backed securities ("non-Agency RMBS" and "CMBS," respectively), where repayment of principal and interest is not guaranteed by a U.S. Government-sponsored enterprise or U.S. Government agency. We fund our investments primarily through borrowings structured as repurchase agreements.

Our principal objective is to provide our stockholders with attractive risk-adjusted returns through a combination of monthly dividends and tangible net book value accretion. We generate income from the interest earned on our investments, net of associated borrowing and hedging costs, and net realized gains and losses on our investment and hedging activities.

Note 3. Summary of Significant Accounting Policies

Investment Securities

Agency RMBS consist of residential mortgage pass-through securities and collateralized mortgage obligations ("CMOs") guaranteed by the Federal National Mortgage Association ("Fannie Mae"), Federal Home Loan Mortgage Corporation ("Freddie Mac," and together with Fannie Mae, the "GSEs") or the Government National Mortgage Association ("Ginnie Mae").

CRT securities are risk sharing instruments issued by the GSEs, and similarly structured transactions issued by third-party market participants, that transfer a portion of the risk associated with credit losses within pools of conventional residential mortgage loans from the GSEs and/or third parties to private investors. Unlike Agency RMBS, full repayment of the original principal balance of CRT securities is not guaranteed by a GSE or U.S. Government agency; rather, "credit risk transfer" is achieved by writing down the outstanding principal balance of the CRT securities if credit losses on a related pool of loans exceed certain thresholds. By reducing the amount that they are obligated to repay to holders of CRT securities, the GSEs and/or other third parties offset credit losses on the related loans.

Non-Agency RMBS and CMBS (together, "Non-Agency MBS") are backed by residential and commercial mortgage loans, respectively, packaged and securitized by a private institution, such as a commercial bank. Non-Agency MBS typically benefit from credit enhancements derived from structural elements, such as subordination, overcollateralization or insurance, but nonetheless carry a higher level of credit exposure than Agency RMBS.

Mortgage-related securities may also include investments in the common stock of other publicly traded mortgage REITs, including MTGE, that primarily invest in Agency securities, non-Agency securities, other mortgage related instruments and/or real estate on a leveraged basis. As of March 31, 2018, our investments in REIT equity securities consisted solely of MTGE common stock.

Accounting Standards Codification ("ASC") Topic 320, Investments—Debt and Equity Securities, 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. Alternatively, we may elect the fair value option of accounting for such securities pursuant to ASC Topic 825, Financial Instruments. All of our securities are reported at fair value as they have either been designated as available-for-sale or trading or we have elected the fair value option of accounting. Unrealized gains and losses on securities classified as available-for-sale are reported in accumulated other comprehensive income ("OCI"). Unrealized gains and losses on securities classified as trading or for which we elected the fair value option are reported in net income through other gain (loss) during the period in which they occur. Upon the sale of a security designated as available-for-sale, 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.

Prior to fiscal year 2017, we primarily designated our investment securities as available-for-sale. On January 1, 2017, we began electing the fair value option of accounting for all investment securities acquired after fiscal year 2016. In our view, this election simplifies the accounting for investment securities and more appropriately reflects the results of our operations for a particular reporting period, as the fair value changes for these assets are presented in a manner consistent with the presentation and timing of the fair value changes of our hedging instruments. We are not permitted to change the designation of securities acquired prior to January 1, 2017; accordingly, such securities will continue to be classified as available-for-sale securities until we receive full repayment of principal or we dispose of the security.

We estimate the fair value of our investment securities based on prices provided by multiple third-party pricing services and non-binding dealer quotes (collectively "pricing sources"). These pricing sources use various valuation approaches, including market and income approaches, using "Level 2" inputs. The pricing sources primarily utilize a matrix pricing technique that interpolates the estimated fair value of our Agency RMBS based on observed quoted prices for forward contracts in the Agency RMBS "to-be-announced" market ("TBA securities") of the same coupon, maturity and issuer, adjusted to reflect the specific characteristics of the pool of mortgages underlying the Agency security, which may include maximum loan balance, loan vintage, loan-to-value ratio, geography and other characteristics as may be appropriate. The pricing sources may also utilize discounted cash flow model-derived pricing techniques to estimate the fair value of investment securities. Such models incorporate market-based discount rate assumptions based on observable inputs such as recent trading activity, credit data, volatility statistics, benchmark interest rate curves and other market data that are current as of the measurement date and may include certain unobservable inputs, such as assumptions of future levels of prepayment, defaults and loss severities. We review the pricing estimates obtained from the pricing sources and perform procedures to validate their reasonableness. Refer to Note 8 for further discussion of fair value measurements.

We evaluate our investments designated as available-for-sale for other-than-temporary impairment ("OTTI") on at least a quarterly basis. The determination of whether a security is other-than-temporarily impaired may involve judgments and assumptions based on subjective and objective factors. When a security is impaired, an OTTI is considered to have occurred if any one of the following three conditions exists as of the financial reporting date: (i) we intend to sell the security (that is, a decision has been made to sell the security), (ii) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis or (iii) we do not expect to recover the security's amortized cost basis, even if we do not intend to sell the security and it is not more likely than not that we will be required to sell the security. A general allowance for unidentified impairments in a portfolio of securities is not permitted.

Interest Income

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

We estimate long-term prepayment speeds of our mortgage securities using a third-party service and market data. The third-party service provider estimates prepayment speeds using models that incorporate the forward yield curve, current mortgage rates, mortgage rates of the outstanding loans, age and size of the outstanding loans, loan-to-value ratios, interest rate 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 third-party estimates and, based on our judgment, we may adjust the estimates. We review our actual and anticipated prepayment experience on at least a quarterly basis and effective yields are recalculated when differences arise between (i) our previously estimated future prepayments and (ii) actual prepayments to date and our current estimated future prepayments. If the actual and estimated 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.

At the time we purchase CRT securities and non-Agency MBS that are not of high credit quality, we determine an effective yield based on our estimate of the timing and amount of future cash flows and our cost basis. Our initial cash flow estimates for these investments are based on our observations of current information and events and include assumptions related to interest rates, prepayment rates and the impact of default and severity rates on the timing and amount of credit losses. On at least a quarterly basis, we review the estimated cash flows and make appropriate adjustments, based on inputs and analysis received from external sources, internal models, and our judgment regarding such inputs and other factors. Any resulting changes in effective yield are recognized prospectively based on the current amortized cost of the investment as adjusted for credit impairment, if any.

Repurchase Agreements

We finance the acquisition of securities for our investment portfolio primarily through repurchase transactions under master repurchase agreements. Pursuant to ASC Topic 860, Transfers and Servicing, we account for repurchase transactions as collateralized financing transactions, which are carried at their contractual amounts (cost), plus accrued interest. Our repurchase agreements typically have maturities of less than one year, but may extend up to five years or more. Interest rates on our repurchase agreements generally correspond to one or three-month LIBOR plus or minus a fixed spread. The fair value of our repurchase agreements is assumed to equal cost as the interest rates are considered to be at market.

Reverse Repurchase Agreements and Obligation to Return Securities Borrowed under Reverse Repurchase Agreements

We borrow securities to cover short sales of U.S. Treasury securities through reverse repurchase transactions under our master repurchase agreements (see Derivative Instruments below). 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. Our reverse repurchase agreements typically have maturities of 30 days or less. The fair value of our reverse repurchase agreements is assumed to equal cost as the interest rates generally reset daily.

Derivative Instruments

We use a variety of derivative instruments to hedge a portion of our exposure to market risks, including interest rate, prepayment, extension and liquidity risks. 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 primary instruments that we use are interest rate swaps, options to enter into interest rate swaps ("swaptions"), U.S. Treasury securities and U.S. Treasury futures contracts. We also use forward contracts in the Agency RMBS "to-be-announced" market, or TBA securities,

to invest in and finance Agency securities as well as to periodically reduce our exposure to Agency RMBS.
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 our accompanying consolidated balance sheets and to measure those instruments at fair value.
Our derivative agreements generally contain provisions that allow for netting or setting off derivative assets and liabilities with the counterparty; however, we report related assets and liabilities on a gross basis in our consolidated balance sheets. Derivative

instruments in a gain position are reported as derivative assets at fair value and derivative instruments in a loss position are reported as derivative liabilities at fair value in our consolidated balance sheets. Changes in fair value of derivative instruments and periodic settlements related to our derivative instruments are recorded in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income. Cash receipts and payments related to derivative instruments are classified in our consolidated statements of cash flows according to the underlying nature or purpose of the derivative transaction, generally in the investing section.

The use of derivative instruments creates exposure to credit risk relating to potential losses that could be recognized if the counterparties to these instruments fail to perform their obligations under the contracts. Our derivative agreements require that we post or receive collateral to mitigate such risk. We also attempt to minimize our risk of loss by limiting our counterparties to major financial institutions with acceptable credit ratings, monitoring positions with individual counterparties and adjusting posted collateral as required.

Interest rate swap agreements

We use interest rate swaps to hedge the variable cash flows associated with our borrowings made under repurchase agreements. 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 swaps") with terms up to 20 years. Our swap agreements are privately negotiated in the over-the-counter ("OTC") market.

The majority of our interest rate swaps are centrally cleared through a registered commodities exchange. We value centrally cleared interest rate swaps using the daily settlement price, or fair value, determined by the clearing exchange based on a pricing model that references observable market inputs, including LIBOR, swap rates and the forward yield curve. Our centrally cleared swaps require that we post an "initial margin" amount determined by the clearing exchange, which is generally intended to be set at a level sufficient to protect the exchange from the interest rate swap's maximum estimated single-day price movement. We also exchange daily settlements of "variation margin" based upon changes in fair value, as measured by the exchange. Pursuant to rules governing central clearing activities, we recognize variation margin settlements as a direct reduction of the carrying value of the interest rate swap asset or liability.

We value non-centrally cleared swaps using a combination of third-party valuations obtained from pricing services and the swap counterparty. The third-party valuations are model-driven using observable inputs, including LIBOR, swap rates and the forward yield curve. We also consider both our own and our counterparties' nonperformance risk in estimating the fair value of our interest rate swaps. In considering the effect of nonperformance risk, we assess 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 larger, more rapid changes in interest rates on the performance of our investment portfolio. 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 ("payer swaptions"). We may also enter into swaption agreements that provide us the option to enter into a receive-fixed interest rate swap ("receiver swaptions").

Our interest rate swaption agreements are privately negotiated in the OTC market and are not subject to central clearing. The premium paid for interest rate swaptions is reported as an asset in our consolidated balance sheets. We estimate the fair value of interest rate swaptions using a combination of inputs from counterparty and third-party pricing models 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, adjusted for non-performance risk, if any. The difference between the premium paid and the fair value of the swaption is reported in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income. If a swaption expires unexercised, the realized 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.

TBA securities

A TBA security is a forward contract for the purchase or sale of Agency RMBS at a predetermined price, face amount, issuer, coupon and stated maturity on an agreed-upon future date. The specific Agency RMBS to be delivered into the contract are not known until shortly before the settlement date. We may choose, prior to settlement, to move the settlement of these securities out to a later date by entering into an offsetting TBA position, net settling the offsetting positions for cash, and simultaneously purchasing or selling a similar TBA contract for a later settlement date (together referred to as a "dollar roll transaction"). The Agency securities purchased or sold for a forward settlement date are typically priced at a discount to equivalent securities settling in the current month. This difference, or "price drop," is the economic equivalent to interest income on the underlying Agency securities, less an implied funding cost, over the forward settlement period (referred to as "dollar roll income"). Consequently, forward purchases of Agency securities and dollar roll transactions represent a form of off-balance sheet financing.

We account for TBA contracts as derivative instruments since either the TBA contracts do not settle in the shortest period of time possible or we cannot assert that it is probable at inception and throughout the term of the TBA contract that we will physically settle the TBA contract on the settlement date. We account for TBA dollar roll transactions as a series of derivative transactions. Gains, losses and dollar roll income associated with our TBA contracts are recognized in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income. We estimate the fair value of TBA securities based on similar methods used to value our Agency RMBS securities.

U.S. Treasury securities

We purchase and 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 our accompanying consolidated balance sheets 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 and U.S. Treasury futures contracts are recognized in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income.

Loss Contingencies

We evaluate the existence of any pending or threatened litigation or other potential claims against the Company in accordance with ASC Topic 450, Contingencies, which requires that we assess the likelihood and range of potential outcomes of any such matters. We are the defendant in three stockholder derivative lawsuits alleging that certain of our current and former directors and officers breached fiduciary duties and wasted corporate assets relating to past renewals of the management agreement with our former external manager and the internalization of our management, which occurred on July 1, 2016. Although the outcomes of these cases cannot be predicted with certainty, we do not believe that these cases have merit or will result in a material liability, and, as of March 31, 2018, we did not accrue a loss contingency related to these matters.

Recent Accounting Pronouncements

We consider the applicability and impact of all Accounting Standards Updates ("ASUs") issued by the Financial Accounting Standards Board. ASUs not listed below were determined to be either not applicable, are not expected to have a significant impact on our consolidated financial statements when adopted, or did not have a significant impact on our consolidated financial statements upon adoption.

ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): ASU 2016-13 changes the impairment model for most financial assets and certain other instruments. Allowances for credit losses on available-for-sale debt securities will be recognized, rather than direct reductions in the amortized cost of the investments. The new model also requires the estimation of lifetime expected credit losses and corresponding recognition of allowance for losses on trade and other receivables, held-to-maturity debt securities, loans, and other instruments held at amortized cost. The ASU requires certain recurring disclosures and is effective for annual periods, and interim periods within those annual periods, beginning on or after December 15, 2019, with early adoption permitted for annual periods, and interim periods within those annual periods, beginning on or after December 15, 2018. ASU 2016-13 is not expected to have a significant impact on our consolidated financial statements.

Note 4. Investment Securities

As of March 31, 2018 and December 31, 2017, our investment portfolio consisted of \$55.7 billion and \$57.1 billion of investment securities, at fair value, respectively, and \$13.6 billion and \$15.7 billion of TBA securities, at fair value, respectively. Our TBA position is reported at its net carrying value of \$82 million and \$3 million as of March 31, 2018 and December 31, 2017, respectively, in derivative assets / (liabilities) on our accompanying consolidated balance sheets. The net carrying value of our TBA position represents the difference between the fair value of the underlying Agency security in the TBA contract and the cost basis or the forward price to be paid or received for the underlying Agency security.

As of March 31, 2018 and December 31, 2017, our investment securities had a net unamortized premium balance of $2.6 billion and $2.7 billion, respectively, including interest and principal-only securities.

The following tables summarize our investment securities as of March 31, 2018 and December 31, 2017, excluding TBA securities, (dollars in millions). Details of our TBA securities as of each of the respective dates are included in Note 6.

Investment Securities	March 31, 2018 Amortized Cost	March 31, 2018 Fair Value	December 31, 2017 Amortized Cost	December 31, 2017 Fair Value
Agency RMBS:				
Fixed rate	$55,266	$53,696	$55,477	$55,026
Adjustable rate	265	268	278	283
CMO	595	590	629	631
Interest-only and principal-only strips	202	208	213	228
Total Agency RMBS	56,328	54,762	56,597	56,168
Non-Agency RMBS	7	7	7	7
CMBS	28	29	28	29
CRT securities	848	884	834	876
Total investment securities	$57,211	$55,682	$57,466	$57,080

	March 31, 2018						
	Agency RMBS			Non-Agency			
Investment Securities	Fannie Mae	Freddie Mac	Ginnie Mae	RMBS	CMBS	CRT	Total
Available-for-sale securities:							
Par value	$22,893	$7,430	$32	$7	$—	$—	$30,362
Unamortized discount	(24)	(3)	—	—	—	—	(27)
Unamortized premium	1,083	414	—	—	—	—	1,497
Amortized cost	23,952	7,841	32	7	—	—	31,832
Gross unrealized gains	13	6	1	—	—	—	20
Gross unrealized losses	(713)	(273)	—	—	—	—	(986)
Total available-for-sale securities, at fair value	23,252	7,574	33	7	—	—	30,866
Securities remeasured at fair value through earnings:							
Par value	13,472	9,948	—	—	29	814	24,263
Unamortized discount	(33)	(2)	—	—	(1)	(1)	(37)
Unamortized premium	672	446	—	—	—	35	1,153
Amortized cost	14,111	10,392	—	—	28	848	25,379
Gross unrealized gains	11	5	—	—	1	37	54
Gross unrealized losses	(360)	(256)	—	—	—	(1)	(617)
Total securities remeasured at fair value through earnings	13,762	10,141	—	—	29	884	24,816
Total securities, at fair value	$37,014	$17,715	$33	$7	$29	$884	$55,682
Weighted average coupon as of March 31, 2018	3.66%	3.69%	2.87%	2.50%	6.55%	5.50%	3.70%
Weighted average yield as of March 31, 2018 [1]	2.88%	2.93%	2.02%	3.05%	7.36%	5.51%	2.93%

1. Incorporates a weighted average future constant prepayment rate assumption of 7.6% based on forward rates as of March 31, 2018.

Investment Securities	December 31, 2017 Agency RMBS Fannie Mae	Freddie Mac	Ginnie Mae	Non-Agency RMBS	CMBS	CRT	Total
Available-for-sale securities:							
Par value	$24,200	$8,219	$34	$7	$—	$—	$32,460
Unamortized discount	(25)	(3)	—	—	—	—	(28)
Unamortized premium	1,119	447	—	—	—	—	1,566
Amortized cost	25,294	8,663	34	7	—	—	33,998
Gross unrealized gains	98	22	1	—	—	—	121
Gross unrealized losses	(325)	(141)	—	—	—	—	(466)
Total available-for-sale securities, at fair value	25,067	8,544	35	7	—	—	33,653
Securities remeasured at fair value through earnings:							
Par value	13,558	7,956	—	—	29	801	22,344
Unamortized discount	(34)	—	—	—	(1)	—	(35)
Unamortized premium	711	415	—	—	—	33	1,159
Amortized cost	14,235	8,371	—	—	28	834	23,468
Gross unrealized gains	26	2	—	—	1	42	71
Gross unrealized losses	(70)	(42)	—	—	—	—	(112)
Total securities remeasured at fair value through earnings	14,191	8,331	—	—	29	876	23,427
Total securities, at fair value	$39,258	$16,875	$35	$7	$29	$876	$57,080
Weighted average coupon as of December 31, 2017	3.67 %	3.73 %	2.84 %	2.50 %	6.55 %	5.26 %	3.71 %
Weighted average yield as of December 31, 2017 [1]	2.84 %	2.87 %	2.02 %	3.08 %	7.30 %	5.19 %	2.89 %

1. Incorporates a weighted average future constant prepayment rate assumption of 8.4% based on forward rates as of December 31, 2017.

As of March 31, 2018 and December 31, 2017, our investments in CRT and non-Agency securities had the following credit ratings:

CRT and Non-Agency Security Credit Ratings [1]	March 31, 2018 CRT	RMBS	CMBS	December 31, 2017 CRT	RMBS	CMBS
AAA	$—	$ 7	$ —	$—	$ 7	$ —
BBB	26	—	29	20	—	29
BB	139	—	—	136	—	—
B	698	—	—	691	—	—
Not Rated	21	—	—	29	—	—
Total	$884	$ 7	$ 29	$876	$ 7	$ 29

1. Represents the lowest of Standard and Poor's ("S&P"), Moody's and Fitch credit ratings, stated in terms of the S&P equivalent rating as of each date.

Our CRT securities reference the performance of loans underlying Agency RMBS issued by Fannie Mae or Freddie Mac, which were subject to their underwriting standards. As of March 31, 2018, our CRT securities had floating and fixed rate coupons ranging from 3.7% to 8.8%, referenced to loans originated between 2012 and 2018 with weighted average coupons ranging from 3.6% to 4.4%. As of December 31, 2017, our CRT securities had floating rate coupons ranging from 3.9% to 8.5%, referenced to loans originated between 2012 and 2017 with weighted average coupons ranging from 3.6% to 4.4%.

The actual maturities of our investment securities are generally shorter than their 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, 2018 and December 31, 2017, the weighted average expected constant prepayment rate ("CPR") over the remaining life of our aggregate investment portfolio was 7.6% and 8.4%, respectively. Our estimates can differ materially for different securities and thus our individual holdings have a wide range of projected CPRs. The following table summarizes our investments as of March 31, 2018 and December 31, 2017 according to their estimated weighted average life classification (dollars in millions):

	March 31, 2018				December 31, 2017			
Estimated Weighted Average Life of Investment Securities	Fair Value	Amortized Cost	Weighted Average Coupon	Weighted Average Yield	Fair Value	Amortized Cost	Weighted Average Coupon	Weighted Average Yield
≥ 1 year and ≤ 3 years	$2,671	$ 2,683	3.91%	2.61%	$2,712	$ 2,693	3.90%	2.67%
> 3 years and ≤ 5 years	6,283	6,395	3.23%	2.36%	7,499	7,518	3.31%	2.39%
> 5 years and ≤10 years	42,171	43,513	3.75%	2.98%	45,977	46,398	3.75%	2.95%
> 10 years	4,557	4,620	3.79%	3.52%	892	857	4.87%	4.74%
Total	$55,682	$ 57,211	3.70%	2.93%	$57,080	$ 57,466	3.71%	2.89%

The following table presents the gross unrealized loss and fair values of securities classified as available-for-sale by length of time that such securities have been in a continuous unrealized loss position as of March 31, 2018 and December 31, 2017 (in millions):

	Unrealized Loss Position For					
	Less than 12 Months		12 Months or More		Total	
Securities Classified as Available-for-Sale	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
March 31, 2018	$9,782	$ (133)	$18,946	$ (853)	$28,728	$ (986)
December 31, 2017	$3,582	$ (15)	$20,577	$ (451)	$24,159	$ (466)

We did not recognize OTTI charges on our investment securities for the three months ended March 31, 2018 and 2017. As of the end of each respective reporting period, a decision had not been made to sell any of our securities in an unrealized loss position and we did not believe it was more likely than not that we would be required to sell such securities before recovery of their amortized cost basis. The unrealized losses on our securities were not due to credit losses given the GSE or U.S. Government agency guarantees, but rather were due to changes in interest rates and prepayment expectations. However, as we continue to actively manage our portfolio, we may recognize additional realized losses on our investment securities upon selecting specific securities to sell.

Gains and Losses on Sale of Investment Securities

The following table is a summary of our net gain (loss) from the sale of investment securities for the three months ended March 31, 2018 and 2017 by investment classification of accounting (in millions):

	Three Months Ended March 31,					
	2018			2017		
Investment Securities	Available-for-Sale Securities [2]	Fair Value Option Securities	Total	Available-for-Sale Securities [2]	Fair Value Option Securities	Total
Investment securities sold, at cost	$(387)	$(1,003)	$(1,390)	$(5,149)	$ (219)	$(5,368)
Proceeds from investment securities sold [1]	388	1,000	1,388	5,065	219	5,284
Net gain (loss) on sale of investment securities	$1	$(3)	$(2)	$(84)	$ —	$(84)
Gross gain on sale of investment securities	$3	$7	$10	$4	$ —	$4
Gross loss on sale of investment securities	(2)	(10)	(12)	(88)	—	(88)
Net gain (loss) on sale of investment securities	$1	$(3)	$(2)	$(84)	$ —	$(84)

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

2. See Note 10 for a summary of changes in accumulated OCI.

Securitizations and Variable Interest Entities

As of March 31, 2018 and December 31, 2017, we held investments in CMO trusts, which are VIEs. We have consolidated certain of these CMO trusts in our consolidated financial statements where we have determined we are the primary beneficiary of the trusts. All of our CMO securities are backed by fixed or adjustable-rate Agency RMBS. 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 and principal-only securities held by us, less principal amounts guaranteed by Fannie Mae and Freddie Mac.
In connection with our consolidated CMO trusts, we recognized Agency securities with a total fair value and approximate unpaid principal balance of $0.6 billion and $0.7 billion as of March 31, 2018 and December 31, 2017, respectively, and debt with a total fair value and approximate unpaid principal balance of $0.3 billion and $0.4 billion, respectively, in our accompanying consolidated balance sheets. We re-measure our consolidated debt at fair value through earnings in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income. Our involvement with the consolidated trusts is limited to the Agency securities transferred by us upon the formation of the trusts and the CMO securities subsequently held by us. There are no arrangements that could require us to provide financial support to the trusts.
As of March 31, 2018 and December 31, 2017, the fair value of our CMO securities and interest and principal-only securities was $0.8 billion and $0.9 billion, respectively, excluding the consolidated CMO trusts discussed above, or $1.1 billion and $1.2 billion, respectively, including the net asset value of our consolidated CMO trusts. Our maximum exposure to loss related to our CMO securities and interest and principal-only securities, including our consolidated CMO trusts, was $91 million and $124 million as of March 31, 2018 and December 31, 2017, respectively.

Note 5. Repurchase Agreements and Other Secured Borrowings

We pledge our securities as collateral under our borrowing agreements with financial institutions. Interest rates on our 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. If the fair value of our pledged securities declines, lenders will typically require us to post additional collateral or pay down borrowings to re-establish agreed upon collateral requirements, referred to as "margin calls." Similarly, if the fair value of our pledged securities increases, lenders may release collateral back to us. As of March 31, 2018, we had met all margin call requirements. For additional information regarding our pledged assets, please refer to Note 7.

Repurchase Agreements

As of March 31, 2018 and December 31, 2017, we had $49.0 billion and $50.3 billion, respectively, of repurchase agreements outstanding. The terms and conditions of our repurchase agreements are typically negotiated on a transaction-by-transaction basis. Our repurchase agreements with original maturities greater than one year have floating interest rates based on an index plus or minus a fixed spread. The following table summarizes our borrowings under repurchase agreements by their remaining maturities as of March 31, 2018 and December 31, 2017 (dollars in millions):

	March 31, 2018			December 31, 2017		
Remaining Maturity	Repurchase Agreements	Weighted Average Interest Rate	Weighted Average Days to Maturity	Repurchase Agreements	Weighted Average Interest Rate	Weighted Average Days to Maturity
Agency repo:						
≤ 1 month	$24,939	1.79 %	14	$19,771	1.59 %	11
> 1 to ≤ 3 months	12,881	1.70 %	57	16,150	1.50 %	50
> 3 to ≤ 6 months	3,381	1.76 %	134	7,287	1.50 %	130
> 6 to ≤ 9 months	485	2.07 %	214	2,361	1.66 %	225
> 9 to ≤ 12 months	3,678	1.96 %	297	202	1.64 %	297
> 12 to ≤ 24 months	2,267	2.29 %	596	1,700	1.84 %	468
> 24 to ≤ 36 months	1,325	2.26 %	937	2,200	1.80 %	803
> 36 to ≤ 48 months	—	— %	—	625	1.90 %	1,141
Total Agency repo	$48,956	1.82 %	109	$50,296	1.57 %	116

As of March 31, 2018 and December 31, 2017, $3.7 billion and $5.3 billion, respectively, of our Agency repurchase agreements matured overnight and none of our repurchase agreements were due on demand.

Note 6. Derivative and Other Hedging Instruments

We hedge a portion of our interest rate risk by entering into interest rate swaps, interest rate swaptions and U.S. Treasury securities and U.S. Treasury futures contracts, primarily through short sales. We may also utilize TBA securities, options and other types of derivative instruments to hedge a portion of our risk. 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.

Derivative and Other Hedging Instrument Assets (Liabilities), at Fair Value

The table below summarizes fair value information about our derivative and other hedging instrument assets/(liabilities) as of March 31, 2018 and December 31, 2017 (in millions):

Derivative and Other Hedging Instruments	Balance Sheet Location	March 31, 2018	December 31, 2017
Interest rate swaps	Derivative assets, at fair value	$174	$ 81
Swaptions	Derivative assets, at fair value	153	75
TBA securities	Derivative assets, at fair value	83	30
U.S. Treasury futures - short	Derivative assets, at fair value	—	19
Total derivative assets, at fair value		$410	$ 205
Interest rate swaps	Derivative liabilities, at fair value	$(1)	$ (1)
TBA securities	Derivative liabilities, at fair value	(1)	(27)
U.S. Treasury futures - short	Derivative liabilities, at fair value	(30)	—
Total derivative liabilities, at fair value		$(32)	$ (28)
U.S. Treasury securities - long	U.S. Treasury securities, at fair value	$224	$ —
U.S. Treasury securities - short	Obligation to return securities borrowed under reverse repurchase agreements, at fair value	(10,352)	(10,467)
Total U.S. Treasury securities, net at fair value		$(10,128)	$ (10,467)

The following tables summarize certain characteristics of our derivative and other hedging instruments outstanding as of March 31, 2018 and December 31, 2017 (dollars in millions):

Interest Rate Swaps	March 31, 2018				December 31, 2017			
	Notional Amount [1]	Average Fixed Pay Rate [2]	Average Receive Rate	Average Maturity (Years)	Notional Amount [1]	Average Fixed Pay Rate [2]	Average Receive Rate	Average Maturity (Years)
≤ 3 years	$21,075	1.51%	1.90%	1.5	$21,025	1.40%	1.46%	1.5
> 3 to ≤ 5 years	8,375	1.84%	1.87%	4.1	6,825	1.82%	1.43%	4.1
> 5 to ≤ 7 years	5,075	2.16%	1.96%	6.0	5,775	2.02%	1.44%	5.9
> 7 to ≤ 10 years	7,550	2.17%	1.88%	8.9	6,650	2.10%	1.42%	9.1
> 10 years	3,175	2.49%	1.91%	12.9	3,425	2.49%	1.45%	12.9
Total	$45,250	1.82%	1.90%	4.5	$43,700	1.74%	1.44%	4.5

1. As of March 31, 2018 and December 31, 2017, notional amount includes forward starting swaps of $2.5 billion and $4.6 billion, respectively, with an average forward start date of 0.4 and 0.3 years, respectively.
2. Average fixed pay rate includes forward starting swaps. Excluding forward starting swaps, the average fixed pay rate was 1.77% and 1.68% as of March 31, 2018 and December 31, 2017, respectively.

Swaptions	Option			Underlying Payer Swap			
Current Option Expiration Date	Cost Basis	Fair Value	Average Months to Current Option Expiration Date [1]	Notional Amount	Average Fixed Pay Rate	Average Receive Rate (LIBOR)	Average Term (Years)
March 31, 2018							
≤ 1 year	$110	$104	7	$5,050	2.74%	3M	8.0
> 1 year ≤ 2 years	24	29	16	1,200	2.83%	3M	8.1
> 2 year ≤ 3 years	18	20	27	500	2.78%	3M	10.0
Total	$152	$153	10	$6,750	2.76%	3M	8.2
December 31, 2017							
≤ 1 year	$118	$46	7	$5,100	2.71%	3M	8.8
> 1 year ≤ 2 years	23	16	18	1,050	2.71%	3M	8.7
> 2 year ≤ 3 years	18	13	30	500	2.78%	3M	10.0
Total	$159	$75	10	$6,650	2.72%	3M	8.9

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1. As of March 31, 2018 and December 31, 2017, ≤ 1 year notional amount includes $700 million of Bermudan swaptions where the options may be exercised on predetermined dates up to their final exercise date, which is six months prior to the underlying swaps' maturity date.

U.S. Treasury Securities	March 31, 2018			December 31, 2017		
Maturity	Face Amount Net Long / (Short)	Cost Basis	Fair Value	Face Amount Net Long / (Short)	Cost Basis	Fair Value
5 years	$50	$50	$54	$(288)	$(286)	$(283)
7 years	(6,451)	(6,419)	(6,235)	(6,131)	(6,106)	(6,029)
10 years	(4,172)	(4,122)	(3,947)	(4,280)	(4,230)	(4,155)
Total U.S. Treasury securities, net	$(10,573)	$(10,491)	$(10,128)	$(10,699)	$(10,622)	$(10,467)

U.S. Treasury Futures	March 31, 2018				December 31, 2017			
Maturity	Notional Amount - Long (Short)	Cost Basis	Fair Value	Net Carrying Value [1]	Notional Amount - Long (Short)	Cost Basis	Fair Value	Net Carrying Value [1]
5 years	$(730)	$(831)	$(836)	$ (5)	$(730)	$(852)	$(848)	$ 4
10 years	(1,650)	(1,974)	(1,999)	(25)	(2,180)	(2,718)	(2,703)	15
Total U.S. Treasury futures	$(2,380)	$(2,805)	$(2,835)	$ (30)	$(2,910)	$(3,570)	$(3,551)	$ 19

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1. Net carrying value represents the difference between the fair market value and the cost basis (or the forward price to be paid/(received) for the underlying U.S. Treasury security) of the U.S. Treasury futures contract as of period-end and is reported in derivative assets/(liabilities), at fair value in our consolidated balance sheets.

TBA Securities by Coupon	March 31, 2018 Notional Amount - Long (Short)	Cost Basis	Fair Value	Net Carrying Value [1]	December 31, 2017 Notional Amount - Long (Short)	Cost Basis	Fair Value	Net Carrying Value [1]
15-Year TBA securities:								
2.5%	$403	$390	$394	$ 4	$1,373	$1,372	$1,370	$ (2)
3.0%	2,774	2,756	2,768	12	3,161	3,225	3,217	(8)
3.5%	750	761	764	3	414	428	428	—
Total 15-Year TBA securities	3,927	3,907	3,926	19	4,948	5,025	5,015	(10)
30-Year TBA securities:								
3.0%	3,822	3,690	3,726	36	4,317	4,303	4,312	9
3.5%	3,272	3,259	3,276	17	3,932	4,027	4,034	7
4.0%	2,650	2,709	2,719	10	2,338	2,449	2,446	(3)
4.5%	(35)	(36)	(36)	—	(61)	(65)	(65)	—
Total 30-Year TBA securities, net	9,709	9,622	9,685	63	10,526	10,714	10,727	13
Total TBA securities, net	$13,636	$13,529	$13,611	$ 82	$15,474	$15,739	$15,742	$ 3

1. Net carrying value represents the difference between the fair market value and the cost basis (or the forward price to be paid/(received) for the underlying Agency security) of the TBA contract as of period-end and is reported in derivative assets/(liabilities), at fair value in our consolidated balance sheets.

Gain (Loss) From Derivative Instruments and Other Securities, Net

The following table summarizes changes in our derivative and other hedge portfolio and their effect on our consolidated statements of comprehensive income for the three months ended March 31, 2018 and 2017 (in millions):

Derivative and Other Hedging Instruments	Beginning Notional Amount	Additions	Settlement, Termination, Expiration or Exercise	Ending Notional Amount	Gain/(Loss) on Derivative Instruments and Other Securities, Net [1]
Three months ended March 31, 2018:					
TBA securities, net	$ 15,474	43,669	(45,507)	$13,636	$ (292)
Interest rate swaps	$ 43,700	3,150	(1,600)	$	