AGNC Investment Corp.
Form 10-Q
August 03, 2017

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 June 30, 2017
OR
¨ 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 earlier period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

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

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller Reporting Company	¨

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 July 31, 2017 was 355,550,574.

AGNC INVESTMENT CORP.
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PART I. FINANCIAL INFORMATION

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

	June 30, 2017 (Unaudited)	December 31, 2016
Assets:		
Agency securities, at fair value (including pledged securities of $41,263 and $43,943, respectively)	$ 45,226	$ 45,393
Agency securities transferred to consolidated variable interest entities, at fair value (pledged securities)	737	818
Credit risk transfer securities, at fair value	572	164
Non-Agency securities, at fair value (including pledged securities of $0 and $90, respectively)	31	124
U.S. Treasury securities, at fair value (including pledged securities of $0 and $173, respectively)	—	182
REIT equity securities, at fair value	4	—
Cash and cash equivalents	1,122	1,208
Restricted cash and cash equivalents	261	74
Derivative assets, at fair value	214	355
Receivable for securities sold (including pledged securities of $348 and $21, respectively)	353	21
Receivable under reverse repurchase agreements	7,489	7,716
Goodwill and other intangible assets, net	553	554
Other assets	149	271
Total assets	$ 56,711	$ 56,880
Liabilities:		
Repurchase agreements	$ 39,058	$ 37,858
Federal Home Loan Bank advances	—	3,037
Debt of consolidated variable interest entities, at fair value	405	460
Payable for securities purchased	2,005	—
Derivative liabilities, at fair value	73	256
Dividends payable	71	66
Obligation to return securities borrowed under reverse repurchase agreements, at fair value	7,221	7,636
Accounts payable and other liabilities	133	211
Total liabilities	48,966	49,524
Stockholders' equity:		
Preferred stock - $0.01 par value; 10.0 shares authorized:		
Redeemable Preferred Stock; $0.01 par value; 6.9 shares issued and outstanding (aggregate liquidation preference of $348)	336	336
Common stock - $0.01 par value; 600 shares authorized;		
355.6 and 331.0 shares issued and outstanding, respectively	4	3
Additional paid-in capital	10,435	9,932
Retained deficit	(2,800)	(2,518)
Accumulated other comprehensive loss	(230)	(397)

Total stockholders' equity	7,745	7,356
Total liabilities and stockholders' equity	$ 56,711	$ 56,880

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Interest income:				
Interest income	$293	$318	$589	$613
Interest expense	112	101	210	200
Net interest income	181	217	379	413
Other gain (loss), net:				
Gain (loss) on sale of investment securities, net	15	55	(69)	53
Unrealized gain on investment securities measured at fair value through net income, net	9	—	25	11
Loss on derivative instruments and other securities, net	(169)	(367)	(209)	(1,311)
Management fee income	4	—	7	—
Total other loss, net:	(141)	(312)	(246)	(1,247)
Expenses:				
Management fee expense	—	25	—	52
Compensation and benefits	10	—	20	—
Other operating expenses	6	15	13	21
Total operating expenses	16	40	33	73
Net income (loss)	24	(135)	100	(907)
Dividend on preferred stock	7	7	14	14
Net income (loss) available (attributable) to common stockholders	$17	$(142)	$86	$(921)
Net income (loss)	$24	$(135)	$100	$(907)
Other comprehensive income:				
Unrealized gain on available-for-sale securities, net	121	370	167	1,135
Unrealized gain on derivative instruments, net	—	12	—	31
Other comprehensive income	121	382	167	1,166
Comprehensive income	145	247	267	259
Dividend on preferred stock	7	7	14	14
Comprehensive income available to common stockholders	$138	$240	$253	$245
Weighted average number of common shares outstanding - basic	346.4	331.0	338.8	332.7
Weighted average number of common shares outstanding - diluted	346.5	331.0	338.9	332.7
Net income (loss) per common share - basic and diluted	$0.05	$(0.43)	$0.25	$(2.77)
Dividends declared per common share	$0.54	$0.60	$1.08	$1.20

See accompanying notes to consolidated financial statements.

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

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount				
Balance, December 31, 2015	6.9	$ 336	337.5	$ 3	$ 10,048	$ (2,350)	$ (66)	$ 7,971
Net loss	—	—	—	—	—	(907)	—	(907)
Other comprehensive income:								
Unrealized gain on available-for-sale securities, net	—	—	—	—	—	—	1,135	1,135
Unrealized gain on derivative instruments, net	—	—	—	—	—	—	31	31
Repurchase of common stock	—	—	(6.5)	—	(116)	—	—	(116)
Preferred dividends declared						(14)		(14)
Common dividends declared	—	—	—	—	—	(398)	—	(398)
Balance, June 30, 2016	6.9	$ 336	331.0	$ 3	$ 9,932	$ (3,669)	$ 1,100	$ 7,702
Balance, December 31, 2016	6.9	$ 336	331.0	$ 3	$ 9,932	$ (2,518)	$ (397)	$ 7,356
Net income	—	—	—	—	—	100	—	100
Other comprehensive income:								
Unrealized gain on available-for-sale securities, net	—	—	—	—	—	—	167	167
Stock-based compensation	—	—	—	—	1	—	—	1
Issuance of common stock	—	—	24.5	1	502	—	—	503
Preferred dividends declared	—	—	—	—	—	(14)	—	(14)
Common dividends declared	—	—	—	—	—	(368)	—	(368)
Balance, June 30, 2017	6.9	$ 336	355.6	$ 4	$ 10,435	$ (2,800)	$ (230)	$ 7,745

Amounts may not foot due to rounding.
See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2017	2016
Operating activities:		
Net income (loss)	$100	$(907)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of premiums and discounts on mortgage-backed securities, net	185	284
Amortization of accumulated other comprehensive loss on interest rate swaps de-designated as qualifying hedges	—	31
Amortization of intangible assets	2	—
Stock based compensation	1	—
(Gain) loss on sale of investment securities, net	69	(53)
Unrealized gain on investment securities measured at fair value through net income, net	(25)	(11)
Loss on derivative instruments and other securities, net	209	1,311
Decrease in other assets	121	24
Increase in accounts payable and other accrued liabilities	17	9
Net cash provided by operating activities	679	688
Investing activities:		
Purchases of Agency mortgage-backed securities	(9,065)	(13,453)
Purchases of credit risk transfer and non-Agency securities	(611)	—
Proceeds from sale of Agency mortgage-backed securities	7,636	11,076
Proceeds from sale of credit risk transfer and non-Agency securities	318	—
Principal collections on Agency mortgage-backed securities	3,262	3,681
Principal collections on credit risk transfer and non-Agency securities	4	9
Purchases of U.S. Treasury securities	(7,320)	(1,819)
Proceeds from sale of U.S. Treasury securities	6,873	2,947
Net proceeds from (payments on) reverse repurchase agreements	227	(1,269)
Net payments on derivative instruments	(464)	(609)
Purchases of REIT equity securities	(4)	—
Proceeds from sale of REIT equity securities	—	4
Increase in restricted cash and cash equivalents	—	(141)
Other investing cash flows, net	102	—
Net cash provided by investing activities	958	426
Financing activities:		
Proceeds from repurchase arrangements	164,939	134,605
Payments on repurchase agreements	(163,696)	(134,389)
Proceeds from Federal Home Loan Bank advances	—	2,098
Payments on Federal Home Loan Bank advances	(3,037)	(2,814)
Payments on debt of consolidated variable interest entities	(55)	(64)
Net proceeds from common stock issuances	503	—
Payments for common stock repurchases	—	(116)
Cash dividends paid	(377)	(413)
Net cash used in financing activities	(1,723)	(1,093)
Net change in cash and cash equivalents	(86)	21
Cash and cash equivalents at beginning of period	1,208	1,110

Cash and cash equivalents at end of period	$ 1,122	$ 1,131

See accompanying notes to consolidated financial statements.

AGNC INVESTMENT CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Note 1. Unaudited Interim Consolidated Financial Statements
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. Actual results could differ from those estimates.
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. In the opinion of management, all adjustments, consisting solely of normal recurring accruals, necessary for the fair presentation of financial statements for the interim period have been included. The current period's results of operations are not necessarily indicative of results that ultimately may be achieved for the year.

Note 2. Organization
We were organized in Delaware on January 7, 2008, and commenced operations on May 20, 2008 following the completion of our initial public offering ("IPO"). Our common stock is traded on The NASDAQ Global Select Market under the symbol "AGNC."
We operate so as to qualify to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). As a REIT, we are required to distribute annually 90% of our taxable net income. As 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 net income to the extent that we distribute our annual taxable net income to our stockholders on a timely basis. It is our intention to distribute 100% of our taxable net 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 residential mortgage-backed securities for which the principal and interest payments are guaranteed by a U.S. Government-sponsored enterprise or a U.S. Government agency ("Agency RMBS") on a leveraged basis. 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 (see Note 3 for further details).
Our principal objective is to provide our stockholders with attractive risk-adjusted returns through a combination of monthly dividends and net asset value (also referred to as "net book value" or "NAV") accretion. We generate income from the interest earned on our investment assets, net of associated borrowing and hedging activities, and net realized gains and losses on our investments and hedging activities. We fund our investments primarily through borrowings structured as repurchase agreements.
Prior to July 1, 2016, we were externally managed by AGNC Management, LLC (our "Manager"). On July 1, 2016, we completed the acquisition of all of the outstanding membership interests of AGNC Mortgage Management, LLC ("AMM"), the parent company of our Manager, from American Capital Asset Management, LLC ("ACAM"), a wholly owned portfolio company of American Capital, Ltd. ("ACAS"). AMM is also the parent company of MTGE Management, LLC, the external manager of MTGE Investment Corp. ("MTGE") (NASDAQ: MTGE). Following the closing of the acquisition of AMM, we became internally managed and are no longer affiliated with ACAS.

Note 3. Summary of Significant Accounting Policies
Investment Securities

The Agency RMBS in which we invest 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") or the Government National Mortgage Association ("Ginnie Mae") (collectively referred to as "GSEs").

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 other 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 are able to 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, which invest in Agency and non-Agency securities and/or other real estate related assets. As of June 30, 2017, our investments in REIT equity securities consisted 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 (loss) ("OCI"). Unrealized gains and losses on securities classified as trading or for which we elected the fair value option are reflected 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. During fiscal year 2017, we elected 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 such time as we receive full repayment of principal or we dispose of the security.

We estimate the fair value of our investment securities based on a market approach using "Level 2" inputs from third-party pricing services and non-binding dealer quotes derived from common market pricing methods. Such methods incorporate, but are not limited to, reported trades and executable bid and asked prices for similar securities, benchmark interest rate curves, such as the spread to the U.S. Treasury rate and interest rate swap curves, convexity, duration and the underlying characteristics of the particular security, including coupon, periodic and life caps, rate reset period, issuer, additional credit support and expected life of the security. Refer to Note 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. Actual and anticipated prepayment experience is reviewed quarterly and effective yields are recalculated when differences arise between (i) our previously estimated future prepayments and (ii) the actual prepayments to date plus our currently 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 ("ASC 860"), we account for repurchase transactions as collateralized financing transactions, which are carried at their contractual amounts (cost), plus accrued interest, as specified in the respective transactions. Our repurchase agreements typically have maturities of less than one year, but may extend up to five years or more. Interest rates under our repurchase agreements generally correspond to one, three or six 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 Derivatives 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 generally mature daily. The fair value of our reverse repurchase agreements is assumed to equal cost as the interest rates are 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 principal instruments that we use are interest rate swaps and options to enter into interest rate swaps ("swaptions"). We also utilize U.S. Treasury securities and U.S. Treasury futures contracts, primarily through short sales, and forward contracts for the purchase or sale of Agency RMBS in the "to-be-announced" market ("TBA securities"). We may also purchase or write put or call options on TBA securities and utilize other types of derivative instruments to hedge a portion of our risk.

We enter into TBA contracts as a means of investing in and financing Agency securities (thereby increasing our "at risk" leverage) or as a means of disposing of or reducing our exposure to Agency securities (thereby reducing our "at risk" leverage). Under TBA contracts, we agree to purchase or sell, for future delivery, Agency securities with certain principal and interest terms and certain types of collateral, but the particular Agency securities to be delivered are not identified until shortly before the TBA settlement date. We may also choose, prior to settlement, to move the settlement of these securities out to a later date by entering into an offsetting position (referred to as a "pair off"), net settling the paired off positions for cash, and simultaneously purchasing or selling a similar TBA contract for a later settlement date. This transaction is commonly referred to as a "dollar roll." The Agency securities purchased or sold for a forward settlement date are typically priced at a discount to Agency securities for settlement in the current

month. This difference (or discount) is referred to as the "price drop." The price drop is the economic equivalent of net interest carry income on the underlying Agency securities over the roll period (interest income less implied financing cost) and is commonly referred to as "dollar roll income/loss." Consequently, forward purchases of Agency securities and dollar roll transactions represent a form of off-balance sheet financing.

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 on such agreements 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.

Discontinuation of hedge accounting for interest rate swap agreements

Prior to fiscal year 2011, we entered into interest rate swap agreements typically with the intention of qualifying for hedge accounting under ASC 815. However, during fiscal year 2011, we elected to discontinue hedge accounting for our interest rate swaps. Upon discontinuation of hedge accounting, the net deferred loss related to our de-designated interest rate swaps remained in accumulated OCI and was reclassified from accumulated OCI into interest expense on a straight-line basis over the remaining term of each interest rate swap through December 2016.

Interest rate swap agreements

We use interest rate swaps to hedge the variable cash flows associated with our borrowings made under repurchase agreement facilities. Under our interest rate swap agreements, we typically pay a fixed rate and receive a floating rate based on one, three or six-month LIBOR ("payer swaps") with terms up to 20 years. The floating rate we receive under our swap agreements has the effect of offsetting the repricing characteristics of our repurchase agreements and cash flows on such liabilities. Our swap agreements are privately negotiated in the over−the−counter ("OTC") market. Swap agreements entered into after May 2013 are centrally cleared through the Chicago Mercantile Exchange ("CME"), a registered commodities exchange.

We estimate the fair value of our centrally cleared interest rate swaps using the daily settlement price determined by the respective exchange. Centrally cleared swaps are valued by the exchange using a pricing model that references the underlying rates including the overnight index swap rate and LIBOR forward rate to produce the daily settlement price.

Our centrally cleared swaps require that we post an “initial margin” to our counterparties for an amount determined by the CME, which is generally intended to be set at a level sufficient to protect the CME from the maximum estimated single-day price movement in that market participant’s contracts. We exchange cash “variation margin” with our counterparties on our centrally cleared swaps based upon daily changes in the fair value as measured by the CME. Beginning in 2017, as a result of a CME amendment to its rule book governing its central clearing activities, the daily exchange of variation margin associated with a CME centrally cleared derivative instrument is characterized as the daily settlement of the derivative instrument itself, as opposed to a pledge of collateral. Accordingly, beginning in 2017, we account for the daily receipt or payment of variation margin associated with our centrally cleared interest rate swaps as a direct reduction to the carrying value of the interest rate swap asset or liability. Thus, the carrying amount of centrally cleared interest rate swaps reflected in our consolidated balance sheets is equal to the unsettled fair value of such instruments.

We estimate the fair value of our non-centrally cleared swaps using a combination of inputs from counterparty and third-party pricing models to estimate the net present value of the future cash flows using the forward interest rate yield curve in effect as of the end of the measurement period. We also incorporate 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 consider the impact of netting and credit enhancements, such as collateral postings and guarantees, and have concluded that our own and our counterparty risk is not significant to the overall valuation of

these agreements.
Interest rate swaptions
We purchase interest rate swaptions generally 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, which we refer as "payer swaptions." We may also enter into swaption agreements that provide us the option to enter into a receive-fixed interest rate swap, which we

refer to as "receiver swaptions." The premium paid for interest rate swaptions is reported as an asset in our consolidated balance sheets. The premium is valued at an amount equal to the fair value of the swaption that would have the effect of closing the position adjusted for nonperformance risk, if any. The difference between the premium and the fair value of the swaption is reported in gain (loss) on derivative instruments and other securities, net in our consolidated 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.

Our interest rate swaption agreements are privately negotiated in the OTC market and are not subject to central clearing. 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.

TBA securities

A TBA security is a forward contract for the purchase ("long position") or sale ("short position") of Agency RMBS at a predetermined price, face amount, issuer, coupon and stated maturity on an agreed-upon future date. The specific Agency RMBS delivered into the contract upon the settlement date, published each month by the Securities Industry and Financial Markets Association, are not known at the time of the transaction. We enter into TBA contracts primarily as a means of acquiring or disposing of Agency securities and utilize TBA dollar roll transactions to finance Agency RMBS purchases.

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 take physical delivery of the Agency security upon settlement of the contract. We account for TBA dollar roll transactions as a series of derivative transactions. Gains, losses and dollar roll income associated with our TBA contracts and dollar roll transactions are recognized in our consolidated statements of comprehensive income in gain (loss) on derivative instruments and other securities, net. We estimate the fair value of 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 two stockholder derivative lawsuits alleging that certain of our current and former directors and officers breached fiduciary duties and wasted corporate assets in connection with 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 June 30, 2017, 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 2014-09, Revenue from Contracts with Customers (Topic 606): ASU 2014-09 is a comprehensive revenue recognition standard that supersedes virtually all existing revenue guidance under U.S. GAAP. The standard's core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Revenue recognition with respect to financial instruments is not within the scope of ASU 2014-09 and our review of each of our revenue streams indicates that it will not have a significant impact on our consolidated financial statements. ASU 2014-09 is effective on January 1, 2018.

ASU 2016-13, Financial Instruments - Credit Losses (Topic 606): 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.

ASU 2016-18, Statement of Cash Flows (Topic 230) - Restricted Cash: ASU 2016-18 requires that a statement of cash flows explain the change during the 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 statement of cash flows. ASU 2016-18 will be effective on January 1, 2018 and is not expected to have a significant impact on our consolidated financial statements.

Note 4. Investment Securities

As of June 30, 2017 and December 31, 2016, our investment portfolio consisted of $46.6 billion and $46.5 billion of investment securities, at fair value, respectively, and $17.3 billion and $11.2 billion of TBA securities, at fair value, respectively. Our TBA position is reported at its net carrying value of $(12) million and $(147) million as of June 30, 2017 and December 31, 2016, 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 June 30, 2017 and December 31, 2016, our investment securities had a net unamortized premium balance of $2.2 billion and $2.1 billion, respectively, including interest and principal-only securities.

The following tables summarize our investment securities as of June 30, 2017 and December 31, 2016, excluding TBA securities, (dollars in millions). Note 6 contains details of our TBA securities as of June 30, 2017 and December 31, 2016.

Investment Securities	June 30, 2017		December 31, 2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Agency RMBS:				
Fixed rate	$44,883	$44,643	$45,145	$44,736
Adjustable rate	327	334	371	379
CMO	714	722	796	801
Interest-only and principal-only strips	240	264	268	295
Total Agency RMBS	46,164	45,963	46,580	46,211
Non-Agency RMBS	8	8	102	101
CMBS	23	23	23	23
CRT securities	549	572	161	164
Total investment securities	$46,744	$46,566	$46,866	$46,499

Investment Securities	June 30, 2017 Agency RMBS Fannie Mae	Freddie Mac	Ginnie Mae	Non-Agency RMBS	CMBS	CRT	Total
Available-for-sale securities:							
Par value	$26,924	$8,610	$39	$8	$—	$—	$35,581
Unamortized discount	(27)	(3)	—	—	—	—	(30)
Unamortized premium	1,242	467	—	—	—	—	1,709
Amortized cost	28,139	9,074	39	8	—	—	37,260
Gross unrealized gains	164	45	1	—	—	—	210
Gross unrealized losses	(305)	(135)	—	—	—	—	(440)
Total available-for-sale securities, at fair value	27,998	8,984	40	8	—	—	37,030
Securities remeasured at fair value through earnings:							
Par value	7,648	811	—	—	24	529	9,012
Unamortized discount	(38)	—	—	—	(1)	—	(39)
Unamortized premium	432	59	—	—	—	20	511
Amortized cost	8,042	870	—	—	23	549	9,484
Gross unrealized gains	42	3	—	—	—	23	68
Gross unrealized losses	(13)	(3)	—	—	—	—	(16)
Total securities remeasured at fair value through earnings	8,071	870	—	—	23	572	9,536
Total securities, at fair value	$36,069	$9,854	$40	$8	$23	$572	$46,566
Weighted average coupon as of June 30, 2017	3.68%	3.70%	2.76%	2.50%	6.55%	5.14%	3.70%
Weighted average yield as of June 30, 2017 [1]	2.83%	2.74%	2.00%	3.00%	7.53%	5.31%	2.84%

1. Incorporates a weighted average future constant prepayment rate assumption of 9% based on forward rates as of June 30, 2017.

Investment Securities	December 31, 2016 Agency RMBS Fannie Mae	Freddie Mac	Ginnie Mae	Non-Agency RMBS	CMBS	CRT	Total
Available-for-sale securities:							
Par value	$34,244	$10,008	$44	$101	$—	$—	$44,397
Unamortized discount	(43)	(3)	—	—	—	—	(46)
Unamortized premium	1,518	544	—	1	—	—	2,063
Amortized cost	35,719	10,549	44	102	—	—	46,414
Gross unrealized gains	176	48	1	—	—	—	225
Gross unrealized losses	(442)	(179)	—	(1)	—	—	(622)
Total available-for-sale securities, at fair value	35,453	10,418	45	101	—	—	46,017
Securities remeasured at fair value through earnings:							
Par value	171	—	—	—	24	157	352
Unamortized discount	(35)	—	—	—	(1)	—	(36)
Unamortized premium	118	14	—	—	—	4	136
Amortized cost	254	14	—	—	23	161	452
Gross unrealized gains	28	3	—	—	—	3	34
Gross unrealized losses	(3)	(1)	—	—	—	—	(4)
	279	16	—	—	23	164	482

Total securities remeasured at fair value through earnings							
Total securities, at fair value	$35,732	$10,434	$45	$101	$23	$164	$46,499
Weighted average coupon as of December 31, 2016	3.59 %	3.67 %	2.75 %	3.42 %	6.55 %	5.25 %	3.61 %
Weighted average yield as of December 31, 2016 [1]	2.77 %	2.72 %	2.00 %	3.27 %	7.54 %	6.28 %	2.77 %

1. Incorporates a weighted average future constant prepayment rate assumption of 8% based on forward rates as of December 31, 2016.

As of June 30, 2017 and December 31, 2016, our investments in CRT and non-Agency securities had the following credit ratings:

	June 30, 2017			December 31, 2016		
CRT and Non-Agency Security Credit Ratings [1]	CRT	RMBS	CMBS	CRT	RMBS	CMBS
AAA	$—	$ 8	$ —	$—	$ 99	$ —
BBB	—	—	23	—	—	23
BB	78	—	—	—	—	—
B	490	—	—	164	2	—
Not Rated	4	—	—	—	—	—
Total	$572	$ 8	$ 23	$164	$ 101	$ 23

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 June 30, 2017, our CRT securities had floating rate coupons ranging from 3.8% to 7.6%, referenced to loans originated between 2012 and 2016 with weighted average coupons ranging from 3.6% to 4.2%. As of December 31, 2016, our CRT securities had floating rate coupons ranging from 4.6% to 7.1%, referenced to loans originated between 2015 and 2016 with weighted average coupons ranging from 4.0% to 4.2%.

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 June 30, 2017 and December 31, 2016, the weighted average expected constant prepayment rate ("CPR") over the remaining life of our aggregate investment portfolio was 9% and 8%, respectively. Our estimates differ materially for different types of securities and thus individual holdings have a wide range of projected CPRs.

The following table summarizes our investments as of June 30, 2017 and December 31, 2016 according to their estimated weighted average life classification (dollars in millions):

	June 30, 2017				December 31, 2016			
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	$1,450	$ 1,427	3.96%	2.61%	$419	$ 416	4.33%	2.27%
> 3 years and ≤ 5 years	10,297	10,218	3.41%	2.47%	13,601	13,509	3.38%	2.44%
> 5 years and ≤10 years	33,326	33,634	3.77%	2.92%	30,513	30,979	3.74%	2.89%
> 10 years	1,493	1,465	3.89%	3.91%	1,966	1,962	3.17%	3.27%
Total	$46,566	$ 46,744	3.70%	2.84%	$46,499	$ 46,866	3.61%	2.77%

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 June 30, 2017 and December 31, 2016 (in millions):

	Unrealized Loss Position For					
	Less than 12 Months		12 Months or More		Total	
Securities Classified as Available-for-Sale		Unrealized	Estimated	Unrealized		Unrealized

	Estimated Fair Value	Loss	Fair Value	Loss	Estimated Fair Value	Loss
June 30, 2017	$21,606	$ (374)	$1,813	$ (66)	$23,419	$ (440)
December 31, 2016	$28,397	$ (554)	$1,719	$ (68)	$30,116	$ (622)

We did not recognize any OTTI charges on our investment securities for the six months ended June 30, 2017 and 2016. 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 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 and six months ended June 30, 2017 and 2016 by investment classification of accounting (see Note 3) (in millions).

	Three Months Ended June 30,					
	2017			2016		
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	$(586)	$(2,401)	$(2,987)	$(7,508)	$—	$(7,508)
Proceeds from investment securities sold [1]	582	2,420	3,002	7,563	—	7,563
Net gain (loss) on sale of investment securities	$(4)	$19	$15	$55	$—	$55
Gross gain on sale of investment securities	$19	$3	$22	$55	$—	$55
Gross loss on sale of investment securities	(7)	—	(7)	—	—	—
Net gain (loss) on sale of investment securities	$12	$3	$15	$55	$—	$55

	Six Months Ended June 30,					
	2017			2016		
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	$(5,735)	$(2,620)	$(8,355)	$(11,023)	$—	$(11,023)
Proceeds from investment securities sold [1]	5,647	2,639	8,286	11,076	—	11,076
Net gain (loss) on sale of investment securities	$(88)	$19	$(69)	$53	$—	$53
Gross gain on sale of investment securities	$23	$3	$26	$60	$—	$60
Gross loss on sale of investment securities	(95)	—	(95)	(7)	—	(7)
Net gain (loss) on sale of investment securities	$(72)	$3	$(69)	$53	$—	$53

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 June 30, 2017 and December 31, 2016, we held investments in CMO trusts, which are variable interest entities ("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 $0.7 billion as of June 30, 2017 and $0.8 billion as of December 31, 2016 and debt with a total fair value and approximate unpaid principal balance of $0.4 billion as of June 30, 2017 and $0.5 billion as of December 31, 2016 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 June 30, 2017 and December 31, 2016, the fair value of our CMO securities and interest and principal-only securities was $1.0 billion and $1.1 billion, respectively, excluding the consolidated CMO trusts discussed above, or $1.3 billion and $1.5 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 $160 million and $182 million as of June 30, 2017 and December 31, 2016, respectively.

Note 5. Repurchase Agreements and Other Secured Borrowings

We pledge certain of 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

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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 June 30, 2017, we had met all margin call requirements. For additional information regarding our pledged assets, please refer to Note 7.

Repurchase Agreements

As of June 30, 2017 and December 31, 2016, we had $39.1 billion and $37.9 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 90 days have floating interest rates based on an index plus or minus a fixed spread. Substantially all of our repurchase agreements were used to fund purchases of Agency securities ("Agency repo"). The remainder of our repurchase agreements were used to fund temporary holdings of U.S. Treasury securities ("U.S. Treasury repo").

The following table summarizes our borrowings under repurchase agreements by their remaining maturities as of June 30, 2017 and December 31, 2016 (dollars in millions):

	June 30, 2017			December 31, 2016		
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	$18,710	1.22 %	12	$17,481	0.90 %	11
> 1 to ≤ 3 months	8,495	1.23 %	55	10,011	0.93 %	55
> 3 to ≤ 6 months	5,023	1.20 %	134	2,030	1.02 %	136
> 6 to ≤ 9 months	1,617	1.19 %	203	1,270	0.98 %	214
> 9 to ≤ 12 months	541	1.53 %	296	1,566	1.08 %	299
> 12 to ≤ 24 months	1,447	1.60 %	562	1,203	1.28 %	538
> 24 to ≤ 36 months	2,300	1.61 %	927	1,300	1.36 %	865
> 36 to ≤ 48 months	925	1.63 %	1,286	2,200	1.32 %	1,168
> 48 to < 60 months	—	—	—	625	1.38 %	1,506
Total Agency repo	39,058	1.27 %	154	37,686	0.98 %	187
U.S. Treasury repo:						
> 1 day to ≤ 1 month	—	—	—	172	(0.30)%	17
Total	$39,058	1.27 %	154	$37,858	0.98 %	186

As of June 30, 2017 and December 31, 2016, $450 million and $150 million, respectively, of our Agency repurchase agreements matured overnight and none of our repurchase agreements were due on demand.

Federal Home Loan Bank Advances

As of December 31, 2016, we had $3.0 billion of outstanding secured Federal Home Loan Bank ("FHLB") advances, with a weighted average borrowing rate of 0.73%. Our FHLB advances matured in February 2017, coinciding with the termination of our wholly-owned captive insurance subsidiary's FHLB membership in February 2017 pursuant to the Federal Housing Finance Agency's ("FHFA") final rule on FHLB membership released in January 2016. As a result, we had no outstanding secured FHLB advances as of June 30, 2017.

Debt of Consolidated Variable Interest Entities

As of June 30, 2017 and December 31, 2016, debt of consolidated VIEs, at fair value, was $405 million and $460 million, respectively, and had a weighted average interest rate of LIBOR plus 37 and 36 basis points, respectively, and a principal balance of $397 million and $452 million, respectively. The actual maturities of our debt of consolidated VIEs are generally shorter than the stated contractual maturities. The actual maturities are affected by the contractual lives of the underlying Agency RMBS securitizing the debt of our consolidated VIEs and periodic principal prepayments of such underlying securities. The estimated weighted average life of the debt of our consolidated VIEs as of June 30, 2017 and December 31, 2016 was 5.5 years and 5.8 years, respectively.

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 June 30, 2017 and December 31, 2016 (in millions):

Derivative and Other Hedging Instruments	Balance Sheet Location	June 30, 2017	December 31, 2016
Interest rate swaps	Derivative assets, at fair value	$ 73	$ 321
Swaptions	Derivative assets, at fair value	86	22
TBA securities	Derivative assets, at fair value	46	4
U.S. Treasury futures - short	Derivative assets, at fair value	9	8
Total derivative assets, at fair value		$ 214	$ 355
Interest rate swaps	Derivative liabilities, at fair value	$	