CAPSTEAD MORTGAGE CORP
Form 10-K
February 26, 2016

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

FORM 10-K

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

For the fiscal year ended: December 31, 2015

OR

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

For the transition period from ____________ to ______________

Commission File Number: 001-08896

CAPSTEAD MORTGAGE CORPORATION
(Exact name of Registrant as specified in its Charter)

Maryland	75 2027937
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

8401 North Central Expressway, Suite 800, Dallas, TX	75225-4404
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (214) 874-2323

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock ($0.01 par value)	New York Stock Exchange
$7.50% Series E Cumulative Redeemable Preferred Stock ($0.10 par value)	New York Stock Exchange

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO
Indicate by check mark whether the Registrant (1) has filed all documents and reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. YES NO
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during

the preceding 12 months (or for such shorter period that Registrant was required to submit and post such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K:

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). YES NO

At June 30, 2015 the aggregate market value of the common stock held by nonaffiliates was $1,046,834,773.

Number of shares of Common Stock outstanding at February 26, 2016: 95,947,090

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's definitive Proxy Statement, to be issued in connection with the 2016 Annual Meeting of Stockholders of the Registrant, are incorporated by reference into Part III.

CAPSTEAD MORTGAGE CORPORATION
2015 FORM 10-K ANNUAL REPORT
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PART I

ITEM 1. BUSINESS

Capstead Mortgage Corporation operates as a self-managed real estate investment trust for federal income tax purposes (a “REIT”) and is based in Dallas, Texas. Unless the context otherwise indicates, Capstead Mortgage Corporation, together with its subsidiaries, is referred to as “Capstead” or the “Company.” Capstead was incorporated in the state of Maryland in 1985 and its common and preferred stocks are listed on the New York Stock Exchange under the symbols “CMO” and “CMOPRE,” respectively.

Capstead’s investment strategy involves managing a leveraged portfolio of residential mortgage pass-through securities consisting almost exclusively of relatively short-duration adjustable-rate mortgage (“ARM”) securities issued and guaranteed by government-sponsored enterprises, either Fannie Mae or Freddie Mac, or by an agency of the federal government, Ginnie Mae. Residential mortgage pass-through securities guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae, referred to as “Agency Securities,” are considered to have limited, if any, credit risk because of federal government support. This strategy differentiates Capstead from its peers because ARM loans underlying its investment portfolio can reset to more current interest rates within a relatively short period of time. This positions the Company to benefit from a potential recovery in financing spreads that typically contract during periods of rising interest rates and can result in smaller fluctuations in portfolio values compared to portfolios containing a significant amount of longer-duration ARM and fixed-rate mortgage securities. Duration is a common measure of market price sensitivity to interest rate movements. A shorter duration generally indicates less interest rate risk.

For further discussion of the Company’s business and financial condition, see Item 7 of this report, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” which is incorporated herein by reference.

Competition

As a residential mortgage REIT that focuses on investing in ARM Agency Securities, Capstead competes for the acquisition of suitable investments with other mortgage REITs, commercial banks, savings banks, insurance companies, and institutional investors such as private equity funds, mutual funds, pension funds and sovereign wealth funds. Many of these entities have lower yield requirements as well as greater financial resources and access to capital than the Company. Increased competition for the acquisition of ARM Agency Securities can result in higher pricing levels for such assets. In addition, the availability of ARM Agency Securities for purchase in the secondary markets varies substantially with changes in market conditions and ARM origination levels, which have not kept pace with related runoff in recent years. Although higher pricing levels generally correspond to a higher book value per common share for the Company, higher prices paid for acquisitions can adversely affect portfolio yields and future profitability.

In addition, the federal government, through the Federal Reserve as well as Fannie Mae and Freddie Mac, has accumulated substantial holdings of primarily fixed-rate Agency Securities, largely in order to provide stimulus to the economy through what has been referred to as quantitative easing programs. These programs have had the effect of supporting higher pricing for the entire Agency Securities market, including pricing for ARM Agency Securities. While the Federal Reserve ceased adding to its holdings of fixed-rate Agency Securities late in 2014, it continues to provide economic stimulus by replacing portfolio runoff through open market purchases. The Federal Reserve has indicated that it intends to eventually cease replacing portfolio runoff. This action, or a more dramatic reduction in government holdings of fixed-rate Agency Securities in the future, could result in lower pricing levels for Agency Securities, adversely affecting the Company’s book value per common share.

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Regulation and Related Matters

Operating as a REIT investing in Agency Securities subjects Capstead to various federal tax and regulatory requirements. For further discussion, see Item 7 of this report, "Management's Discussion and Analysis of Financial Condition and Results of Operations," on pages 28 through 32 under the captions "Risks Related to Capstead's Status as a REIT and Other Tax Matters" and "Risk Factors Related to Capstead's Corporate Structure," which is incorporated herein by reference.

Employees

As of December 31, 2015, Capstead had 13 full-time employees and one part-time employee.

Website Access to Company Reports and Other Company Information

Capstead makes available on its website at www.capstead.com or www.capstead.reit, free of charge, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, investor presentations and press releases, including any amendments to such documents as soon as reasonably practicable after such materials are electronically filed or furnished to the Securities and Exchange Commission ("SEC") or otherwise publicly released.

The SEC maintains an Internet site (www.sec.gov) through which investors may view materials filed with the SEC. Investors may also read and copy any materials filed with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

The Company makes available on its website charters for the committees of its board of directors, its Board of Directors' Guidelines, its Amended and Restated Bylaws, its Code of Business Conduct and Ethics, its Financial Code of Professional Conduct and other information, including amendments to such documents and waivers, if any, to the codes. Such information will also be furnished, free of charge, upon written request to Capstead Mortgage Corporation, Attention: Stockholder Relations, 8401 North Central Expressway, Suite 800, Dallas, Texas 75225-4404.

Cautionary Statement Concerning Forward-Looking Statements

This document contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words "believe," "anticipate," "expect," "estimate," "intend," "will be," "will likely continue," "will likely result," or words or phrases of similar meaning. Forward-looking statements are based largely on the expectations of management and are subject to a number of risks and uncertainties including, but not limited to, the following:

- changes in general economic conditions;
- fluctuations in interest rates and levels of mortgage prepayments;
- the effectiveness of risk management strategies;
- the impact of differing levels of leverage employed;
- liquidity of secondary markets and credit markets;
- the availability of financing at reasonable levels and terms to support investing on a leveraged basis;
- the availability of new investment capital;
- the availability of suitable qualifying investments from both an investment return and regulatory perspective;
- changes in legislation or regulation affecting Fannie Mae, Freddie Mac, Ginnie Mae, the Federal Home Loan Bank system and similar federal government agencies and related guarantees;

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- other changes in legislation or regulation affecting the mortgage and banking industries;
- changes in market conditions as a result of Federal Reserve monetary policy or federal government fiscal challenges;
- deterioration in credit quality and ratings of existing or future issuances of Fannie Mae, Freddie Mac or Ginnie Mae securities;
- changes in legislation or regulation affecting exemptions for mortgage REITs from regulation under the Investment Company Act of 1940; and
- increases in costs and other general competitive factors.

In addition to the above considerations, actual results and liquidity are affected by other risks and uncertainties which could cause actual results to be significantly different from those expressed or implied by any forward-looking statements included herein. It is not possible to identify all of the risks, uncertainties and other factors that may affect future results. In light of these risks and uncertainties, the forward-looking events and circumstances discussed herein may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements. Forward-looking statements speak only as of the date the statement is made and the Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, readers of this document are cautioned not to place undue reliance on any forward-looking statements included herein.

ITEM 1A. RISK FACTORS

Under the captions "Risk Factors" and "Critical Accounting Policies" on pages 23 through 32 and 32 through 34, respectively, of Item 7 are discussions of risk factors and critical accounting policies affecting Capstead's financial condition and results of operations that are an integral part of this report which are incorporated herein by reference. Readers are strongly urged to consider the potential impact of these factors and accounting policies on the Company while reading this document.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Capstead's headquarters are located in Dallas, Texas in office space leased by the Company.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. MINING SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The New York Stock Exchange trading symbol for Capstead's common stock is CMO. As of December 31, 2015, the Company had 1,139 common stockholders of record and depository companies held shares of common stock for 36,468 beneficial owners.

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The high and low sales prices and dividends declared on Capstead's common stock were as follows:

	Year ended December 31, 2015			Year ended December 31, 2014		
	Sales Prices		Dividends	Sales Prices		Dividends
	High	Low	Declared	High	Low	Declared
First quarter	$12.58	$11.55	$ 0.31	$13.15	$11.97	$ 0.34
Second quarter	12.01	11.04	0.31	13.43	12.52	0.34
Third quarter	11.75	9.71	0.26	13.32	12.20	0.34
Fourth quarter	10.54	8.64	0.26	13.14	12.24	0.34

Set forth below is a graph comparing the yearly percentage change in the cumulative total return on Capstead's common stock, with the yearly percentage change in the cumulative total return of the Russell 2000 Index and the NAREIT Mortgage REIT Index for the five years ended December 31, 2015 assuming the investment of $100 on December 31, 2010 and the reinvestment of dividends. The stock price and dividend performance reflected in the graph is not necessarily indicative of future performance.

	Year ended December 31					
	2010	2011	2012	2013	2014	2015
Capstead Mortgage Corporation	$100.00	$113.41	$117.11	$136.37	$154.10	$122.10
Russell 2000 Index	100.00	95.82	111.49	154.78	162.35	155.18
NAREIT Mortgage REIT Index	100.00	97.58	116.99	114.70	135.21	123.21

See Item 11 of this report for information regarding equity compensation plans which is incorporated herein by reference. Capstead did not issue any unregistered securities during the past three fiscal years.

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ITEM 6. SELECTED FINANCIAL DATA

This table summarizes selected financial information, including key operating data (in thousands, except percentages, ratios and per share data). For additional information, refer to the audited consolidated financial statements and notes thereto included under Item 8 and "Management's Discussion and Analysis of Financial Condition and Results of Operations," included under Item 7 of this report.

	As of or for the year ended December 31				
	2015	2014	2013	2012	2011
Selected statement of income data:					
Interest income on residential mortgage investments (before investment premium amortization)	$337,179	$328,621	$341,009	$352,608	$311,154
Investment premium amortization	(121,190)	(101,872)	(125,872)	(96,677)	(68,077)
Related interest expense	(85,521)	(65,155)	(66,368)	(69,101)	(57,328)
	130,468	161,594	148,769	186,830	185,749
Other interest income (expense) [(a)]	(8,113)	(8,173)	(8,165)	(7,790)	(8,192)
	122,355	153,421	140,604	179,040	177,557
Other revenue (expense)	(14,030)	(12,601)	(14,117)	(15,414)	(17,353)
Net income	$108,325	$140,820	$126,487	$163,626	$160,204
Net income per diluted common share [(b)]	$0.97	$1.33	$0.93	$1.50	$1.75
Cash dividends per share of common stock	1.14	1.36	1.24	1.49	1.76
Average number of diluted shares of common stock outstanding	95,701	95,629	95,393	95,012	79,696
Selected balance sheet data:					
Residential mortgage investments	$14,154,737	$13,908,104	$13,475,874	$13,860,158	$12,264,906
Total assets	14,446,366	14,386,951	14,013,751	14,466,947	12,842,204
Secured borrowings	12,958,394	12,806,843	12,482,900	12,784,238	11,352,444
Long-term investment capital ("LTIC"):					
Unsecured borrowings (net of related investments in statutory trusts prior to dissolution in December 2013)	97,986	97,882	97,783	97,662	97,560
Preferred stockholders' equity	197,172	183,936	165,756	188,992	184,514
Common stockholders' equity	1,101,152	1,206,835	1,200,027	1,308,133	1,108,193
Book value per common share (unaudited)	11.42	12.52	12.47	13.58	12.52
Key operating data: (unaudited)					
Portfolio acquisitions (principal amount)	3,761,789	3,191,256	3,187,534	4,206,459	5,673,803
Portfolio runoff (principal amount)	3,421,026	2,801,144	3,483,756	2,784,687	2,127,812
Common equity capital raised	–	–	–	142,036	231,673
Common stock repurchases	–	–	7,292	35,062	–
Year-end portfolio leverage ratio [(c)]	9.28:1	8.60:1	8.53:1	8.02:1	8.17:1
Average financing spreads on residential mortgage investments [(d)]	0.89%	1.17%	1.07%	1.38%	1.68%
Average total financing spreads [(d)]	0.81	1.06	0.96	1.26	1.56

Average mortgage prepayment rates, (expressed as constant prepayment rates, or CPRs)	20.37	17.28	21.45	17.60	16.58
Return on average LTIC	7.91	9.97	8.73	11.00	13.16
Return on average common equity capital	7.86	10.37	7.08	11.15	13.94

(a) Consists principally of interest on unsecured borrowings and is presented net of earnings of related statutory trusts prior to dissolution in December 2013.

(b) Net income per diluted common share in 2013 includes reductions in net income available to common stockholders totaling $0.23 per common share related to convertible preferred stock redemption preference premiums paid and dividends accruing on then-outstanding shares of convertible preferred stock from the May 2013 initial issuance of the Company's Series E preferred stock through the June 2013 redemption of the convertible preferred stock.

(c) Year-end portfolio leverage ratios were calculated by dividing secured borrowings by long-term investment capital.

(d) Financing spreads on residential mortgage investments is a non-GAAP financial measure based solely on yields on Capstead's residential mortgage investments, net of secured borrowing rates adjusted for currently-paying interest rate swap agreements held for hedging purposes. This measure differs from total financing spreads, an all-inclusive GAAP measure that includes yields on all interest-earning assets, as well as rates paid on all interest-bearing liabilities, principally unsecured borrowings. See Item 7 on page 15 for the Company's rationale for using this non-GAAP financial measure and a reconciliation to its related GAAP financial measure, total financing spreads.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Capstead operates as a self-managed REIT earning income from investing in a leveraged portfolio of residential mortgage pass-through securities consisting almost exclusively of short-duration ARM Agency Securities, which reset to more current interest rates within a relatively short period of time and are considered to have limited, if any, credit risk. By investing in short-duration ARM Agency Securities, the Company is positioned to benefit from potential recoveries in financing spreads that typically contract during periods of rising interest rates and experience smaller fluctuations in portfolio values compared to leveraged portfolios containing a significant amount of longer-duration ARM or fixed-rate mortgage securities. Duration is a common measure of market price sensitivity to interest rate movements. A shorter duration generally indicates less interest rate risk.

Capstead finances its residential mortgage investments primarily by borrowing under repurchase arrangements with commercial banks and other financial institutions supported by its long-term investment capital. In August 2015 the Company began supplementing its traditional borrowings with advances from the Federal Home Loan Bank ("FHLB") of Cincinnati; however, in early 2016 the FHLB system regulator issued a ruling largely curtailing the mortgage REIT industry's access to such advances. In response, the Company has migrated all but $750 million of its $2.88 billion of FHLB advances outstanding at year-end back to repurchase arrangements as of February 26, 2016 and anticipates migrating remaining balances away from the FHLB by November 2016.

Long-term investment capital totaled $1.40 billion at December 31, 2015, consisting of $1.10 billion of common and $197 million of perpetual preferred stockholders' equity and $98 million of unsecured borrowings that mature in 2035 and 2036 (recorded amounts). Long-term investment capital decreased by $92 million during 2015 primarily as a result of lower unrealized portfolio gains ($98 million) and dividend distributions in excess of earnings ($16 million), partially offset by lower unrealized losses on interest rate swap agreements held for hedging purposes ($7 million), newly-issued Series E preferred capital ($13 million) and amounts related to long-term equity-based awards. On January 27, 2016 Capstead's board of directors authorized the repurchase of up to $100 million in common stock when such repurchases are deemed appropriate relative to portfolio reinvestment options and liquidity needs. No shares were repurchased pursuant to this program as of February 26, 2016.

Capstead's holdings of residential mortgage investments increased by $247 million to $14.15 billion during 2015 while secured borrowings increased by $152 million to $12.96 billion. Portfolio leverage (secured borrowings divided by long-term investment capital) increased to 9.28 to one at December 31, 2015 from 8.60 to one at December 31, 2014. Most of the increase in portfolio leverage was a consequence of the decline in long-term investment capital largely attributable to lower unrealized portfolio gains. Management believes borrowing at current levels represents an appropriate use of leverage for a portfolio consisting of seasoned, short-duration ARM Agency Securities.

Capstead's net income totaled $108 million or $0.97 per diluted common share in 2015, compared to $141 million or $1.33 per share in 2014. Financing spreads on residential mortgage investments* averaged 0.89% during 2015, compared to 1.17% during 2014. Net income and financing spreads were negatively affected by (a) increased investment premium amortization resulting from higher levels of mortgage prepayments primarily as a result of lower mortgage rates available earlier in 2015, and (b) higher unhedged borrowing rates and interest rate swap costs primarily attributable to expectations for Federal Reserve action to raise short-term interest rates, as well as greater use of higher-rate, longer-maturity secured borrowings. Higher annual incentive compensation due in large part to the Company's outperformance relative to its peers also contributed to lower earnings in 2015.

* As discussed in note (d) to page six, financing spreads on residential mortgage investments is a non-GAAP financial measure based solely on yields on residential mortgage investments, net of secured borrowing rates adjusted for

currently-paying interest rate swap agreements held for hedging purposes. See page 15 for further discussion and a reconciliation to the related GAAP financial measure, total financing spreads.

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The size and composition of Capstead's investment portfolio depends on investment strategies being implemented by management, as well as overall market conditions, including the availability of attractively priced investments and suitable financing to leverage the Company's investment capital. Market conditions are influenced by, among other things, current and future expectations for short-term interest rates, mortgage prepayments and market liquidity.

Risk Factors and Critical Accounting Policies

Under the captions "Risk Factors" and "Critical Accounting Policies" are discussions of risk factors and critical accounting policies affecting Capstead's financial condition and earnings that are an integral part of this discussion and analysis. Readers are strongly urged to consider the potential impact of these factors and accounting policies on the Company and its financial results.

Book Value per Common Share

The following table illustrates the progression of Capstead's book value per share of common stock as well as changes in book value expressed as percentages of beginning book value for the indicated periods:

	As of and for the year ended December 31					
	2015		2014		2013	
Book value per share of common stock,beginning of year	$12.52		$12.47		$13.58	
Change in unrealized gains and losses on mortgage securities classified as available-for-sale	(1.02)		0.28		(1.05)	
Change in unrealized gains and losses on interest rate swap agreements designated as cash flow hedges of:						
Secured borrowings	0.12		0.06		0.08	
Unsecured borrowings	(0.05)		(0.26)		0.19	
	(0.95)	(7.6)%	0.08	0.6 %	(0.78)	(5.8)%
Capital transactions:						
Dividend distributions in excess of earnings available to common stockholders*	(0.17)		(0.04)		(0.08)	
Effects of preferred equity capital transactions	–		(0.01)		(0.28)	
Accretion from common stock repurchases	–		–		0.01	
Other (principally related to equity awards)	0.02		0.02		0.02	
	(0.15)	(1.2)%	(0.03)	(0.2)%	(0.33)	(2.4)%
Book value per share of common stock,end of year	$11.42		$12.52		$12.47	
Change in book value per share of common stock during the indicated year	$(1.10)	(8.8)%	$0.05	0.4 %	$(1.11)	(8.2)%

* For this presentation, 2013 dividend distributions in excess of earnings available to common stockholders excludes one-time effects of transactions to redeem then-outstanding preferred stock.

During 2015 and 2013, Capstead's book value per common share declined primarily because portfolio valuations weakened as a result of higher interest rates and underperformance relative to interest rate swaps held for hedging purposes. Book values were also negatively affected by dividend distributions in excess of available earnings and one-time costs associated with the 2013 redemption of high-rate preferred stock.

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Nearly all of Capstead's residential mortgage investments and all of its interest rate swap agreements are recorded at fair value on the Company's balance sheet and are therefore included in the calculation of book value per share of common stock (total stockholders' equity, less liquidation preferences for outstanding shares of preferred stock, divided by outstanding shares of common stock). The Company's borrowings, however, are not recorded at fair value on the balance sheet. Fair value is impacted by market conditions, including changes in interest rates, and the availability of financing at reasonable rates and leverage levels, among other factors. The Company's investment strategy attempts to mitigate these risks by focusing on investments in Agency Securities, which are considered to have little, if any, credit risk and are collateralized by ARM loans with interest rates that reset periodically to more current levels generally within five years. Because of these characteristics, the fair value of the Company's portfolio is considerably less vulnerable to significant pricing declines caused by credit concerns or rising interest rates compared to leveraged portfolios containing a significant amount of non-agency securities or longer-duration ARM and/or fixed-rate Agency Securities.

Newly Authorized $100 Million Common Stock Repurchase Program

On January 27, 2016 Capstead's board of directors authorized the repurchase of up to $100 million in common stock when such repurchases are deemed appropriate relative to portfolio reinvestment options and liquidity needs. Any repurchases made pursuant to the program will be made in the open market from time to time in accordance with and as permitted by securities laws and other legal requirements. The timing, manner, price and amount of any repurchases will be determined by the Company in its discretion and will be subject to economic and market conditions, stock price, applicable legal requirements and other factors. In addition, the Company may enter into Rule 10b5-1 plans under which repurchases can be made. The authorization does not obligate the Company to acquire any particular amount of common stock and repurchases under the program and the program itself may be suspended or discontinued at the Company's discretion without prior notice. No shares were repurchased pursuant to this program as of February 26, 2016.

Preferred Equity Capital Issuances

During the year ended December 31, 2015, Capstead issued 538,000 shares of its 7.50% Series E Cumulative Redeemable Preferred Stock through an at-the-market continuous offering program at an average price of $24.61, net of underwriting fees and other costs, for net proceeds of $13 million. No shares were issued subsequent to year-end through February 26, 2016 pursuant to this program. Additional amounts of equity capital may be raised in the future under continuous offering programs or by other means, subject to market conditions, compliance with federal securities laws and blackout periods associated with the dissemination of important Company-specific news.

Residential Mortgage Investments

Capstead's investment strategy focuses on managing a large portfolio of residential mortgage investments consisting almost exclusively of ARM Agency Securities. Agency Securities are considered to have limited, if any, credit risk because the timely payment of principal and interest is guaranteed by Fannie Mae and Freddie Mac, which are federally chartered corporations, or Ginnie Mae, which is an agency of the federal government. Federal government support for Fannie Mae and Freddie Mac has largely alleviated market concerns regarding the ability of Fannie Mae and Freddie Mac to fulfill their guarantee obligations.

ARM securities are backed by residential mortgage loans that have coupon interest rates that adjust at least annually to more current interest rates or begin doing so after an initial fixed-rate period. These coupon interest rate adjustments are usually subject to periodic and lifetime limits, or caps, on the amount of such adjustments during any single interest rate adjustment period and over the contractual term of the underlying loans. After the initial fixed-rate period, if applicable, the coupon interest rates of mortgage loans underlying the Company's ARM securities typically adjust either:

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- annually based on specified margins over the one-year Constant Maturity U.S. Treasury Note Rate (“CMT”) or the one-year London interbank offered rate (“LIBOR”),
- semiannually based on specified margins over six-month LIBOR, or
- monthly based on specified margins over indices such as one-month LIBOR, the Eleventh District Federal Reserve Bank Cost of Funds Index, or over a rolling twelve month average of the one-year CMT index.

By focusing on investing in short-duration ARM Agency Securities, changes in fair value caused by changes in interest rates are typically relatively modest compared to changes in fair value of longer-duration ARM or fixed-rate assets. Declines in fair value caused by increases in interest rates are generally recoverable in a relatively short period of time as coupon interest rates on the underlying mortgage loans reset to rates more reflective of the then-current interest rate environment. This investment strategy positions the Company to benefit from potential recoveries in financing spreads that typically contract during periods of rising interest rates.

The following table illustrates the progression of Capstead’s portfolio of residential mortgage investments for the indicated periods (dollars in thousands):

	As of and for the year ended December 31		
	2015	2014	2013
Residential mortgage investments, beginning of year	$13,908,104	$13,475,874	$13,860,158
Portfolio acquisitions (principal amount) at average lifetime purchased yields of 2.47%, 2.44% and 2.28%, respectively	3,761,789	3,191,256	3,187,534
Investment premiums on acquisitions*	125,262	116,707	138,811
Portfolio runoff (principal amount)	(3,421,026)	(2,801,144)	(3,483,756)
Investment premium amortization*	(121,190)	(101,872)	(125,872)
Change in net unrealized gains on securities classified as available-for-sale	(98,202)	27,283	(101,001)
Residential mortgage investments, end of year	$14,154,737	$13,908,104	$13,475,874

* Residential mortgage investments typically are acquired at a premium to the securities’ unpaid principal balances. Investment premiums are recognized in earnings as portfolio yield adjustments using the interest method over the estimated lives of the related investments. The single largest determinant in amortizing investment premiums is actual portfolio runoff (scheduled and unscheduled principal paydowns) for a given accounting period.

Capstead classifies its ARM securities based on the average length of time until the loans underlying each security reset to more current rates (“months-to-roll”) (less than 18 months for “current-reset” ARM securities, and 18 months or greater for “longer-to-reset” ARM securities). After consideration of any applicable initial fixed-rate periods, at December 31, 2015 approximately 88%, 7% and 5% of the Company’s ARM securities were backed by mortgage loans that reset annually, semi-annually and monthly, respectively. Approximately 75% of the Company’s current-reset ARM securities have reached an initial coupon reset date, while none of its longer-to-reset ARM securities have reached an initial coupon reset date. Additionally, at December 31, 2015 approximately 9% of the Company’s ARM securities were backed by interest-only loans, with remaining interest-only payment periods averaging 26 months. All percentages are based on averages of the characteristics of mortgage loans underlying each security and calculated using unpaid principal balances as of the indicated date.

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Capstead's ARM holdings featured the following characteristics at December 31, 2015 (dollars in thousands):

ARM Type	Amortized Cost Basis (a)	Net WAC (b)	Fully Indexed WAC (b)	Average Net Margins (b)	Average Periodic Caps (b)	Average Lifetime Caps (b)	Months To Roll
Current-reset ARMs:							
Fannie Mae Agency Securities	$4,281,626	2.38 %	2.71 %	1.71 %	3.37 %	9.64 %	6.1
Freddie Mac Agency Securities	1,778,697	2.51	2.86	1.82	2.66	9.80	7.4
Ginnie Mae Agency Securities	1,898,650	2.41	2.17	1.51	1.07	8.40	6.9
Residential mortgage loans	2,661	3.39	2.77	2.04	1.59	10.98	4.8
(57% of total)	7,961,634	2.41	2.61	1.68	2.66	9.38	6.6
Longer-to-reset ARMs:							
Fannie Mae Agency Securities	2,223,412	2.75	2.82	1.64	3.65	7.77	40.0
Freddie Mac Agency Securities	2,048,211	2.73	2.85	1.67	2.85	7.80	44.6
Ginnie Mae Agency Securities	1,763,116	2.82	2.16	1.51	1.04	7.87	42.0
(43% of total)	6,034,739	2.77	2.64	1.61	2.61	7.81	42.2
	$13,996,373	2.57	2.62	1.65	2.64	8.70	21.9
Gross WAC (rate paid by borrowers) (c)		3.17					

(a) Amortized cost basis represents the Company's investment (unpaid principal balance plus unamortized investment premiums) before unrealized gains and losses. At December 31, 2015, the ratio of amortized cost basis to unpaid principal balance for the Company's ARM holdings was 103.22. This table excludes $4 million in fixed-rate Agency Securities, residential mortgage loans and private residential mortgage pass-through securities held as collateral for structured financings.

(b) Net WAC, or weighted average coupon, is the weighted average interest rate of the mortgage loans underlying the indicated investments, net of servicing and other fees as of the indicated date expressed as a percentage calculated on an annualized basis on the unpaid principal balances of the underlying mortgage loans. As such, it is similar to the cash yield on the portfolio which is calculated using amortized cost basis. Fully indexed WAC represents the weighted average coupon upon one or more resets using interest rate indexes and net margins as of the indicated date. Average net margins represent the weighted average levels over the underlying indexes that the portfolio can adjust to upon reset, usually subject to initial, periodic and/or lifetime caps on the amount of such adjustments during any single interest rate adjustment period and over the contractual term of the underlying loans. ARM securities with initial fixed-rate periods of five years or longer typically have either 200 or 500 basis point initial caps with 200 basis point periodic caps. Additionally, some of the ARM securities held by the Company are subject only to lifetime caps or are not subject to a cap. For presentation purposes, average periodic caps in the table above reflect initial caps until after an ARM security has reached its initial reset date and lifetime caps, less the current net WAC, for ARM securities subject only to lifetime caps. At year-end, 65% of current-reset ARMs were subject to periodic caps averaging 1.75%; 25% were subject to initial caps averaging 3.32%; 9% were subject to lifetime caps averaging 7.58%; and 1% were not subject to a cap. All longer-to-reset ARM securities at December 31, 2015 were subject to initial caps.

(c) Gross WAC is the weighted average interest rate of the mortgage loans underlying the indicated investments, including servicing and other fees paid by borrowers, as of the indicated date.

Secured Borrowings

Capstead finances its residential mortgage investments primarily by borrowing under repurchase arrangements with commercial banks and other financial institutions. Repurchase arrangements entered into by the Company involve the sale and a simultaneous agreement to repurchase the transferred assets at a future date and are accounted for as financings. The Company maintains the beneficial interest in the specific securities pledged during the term of each repurchase arrangement and receives the related principal and interest payments.

In August 2015 the Company began supplementing its borrowings under repurchase arrangements with advances from the FHLB of Cincinnati and as of December 31, 2015 these advances totaled $2.88 billion. On January 12, 2016 the FHLB system regulator finalized rules originally proposed in 2014 that generally preclude captive insurers from remaining members beyond February 19, 2017 with transition rules that require outstanding advances to be repaid upon maturity or by that date. In response to this action, the Company has reduced outstanding FHLB advances to $750 million as of February 26, 2016 and anticipates migrating remaining balances away from the FHLB by November 2016. The Company’s ownership interest in FHLB stock held in connection with advance activity and totaling $60.0 million at December 31, 2015, is expected to be redeemed prior to December 31, 2016.

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The terms and conditions of secured borrowings are negotiated on a transaction-by-transaction basis when each such borrowing is initiated or renewed. None of the Company's counterparties are obligated to renew or otherwise enter into new borrowings at the conclusion of existing borrowings. Collateral requirements in excess of amounts borrowed (referred to as "haircuts") averaged 3.9 percent and ranged from 2.0 to 5.0 percent of the fair value of pledged residential mortgage pass-through securities at December 31, 2015. After considering haircuts and related interest receivable on the collateral, as well as interest payable on these borrowings, the Company had $600 million of capital at risk with its lending counterparties at December 31, 2015. The Company had capital at risk with the FHLB of Cincinnati of 7.0% at December 31, 2015. The Company did not have capital at risk with any other counterparty exceeding 5.0% at December 31, 2015.

Secured borrowing rates are generally fixed based on prevailing rates corresponding to the terms of the borrowings. Interest may be paid monthly or at the termination of a borrowing at which time the Company may enter into a new borrowing at prevailing haircuts and rates with the same counterparty or repay that counterparty and negotiate financing with a different counterparty. When the fair value of pledged securities declines due to changes in market conditions or the publishing of monthly security pay-down factors, lenders typically require the Company to post additional securities as collateral, pay down borrowings or fund cash margin accounts with the counterparties in order to re-establish the agreed-upon collateral requirements, referred to as margin calls. Conversely, if collateral fair values increase, lenders are required to release collateral back to the Company pursuant to Company-issued margin calls.

As of December 31, 2015 the Company's secured borrowings totaled $12.96 billion with 22 counterparties at average rates of 0.62%, before the effects of currently-paying interest rate swap agreements held as cash flow hedges and 0.85% including the effects of these derivatives. To help mitigate exposure to rising short-term interest rates, the Company uses pay-fixed, receive-variable interest rate swap agreements with two-year interest payment terms supplemented with longer-maturity secured borrowings, when available at attractive rates and terms. Excluding $1.70 billion notional amount of swap agreements that expired January 4, 2016, at year-end the Company held $6.70 billion notional amount of portfolio financing-related interest rate swap agreements with contract expirations occurring at various dates through the first quarter of 2018 and a weighted average expiration of 13 months. Secured borrowings with remaining maturities of greater than six months totaled $1.55 billion at year-end with a weighted average remaining maturity of eight months.

After consideration of all portfolio financing-related swap positions entered into as of year-end, the Company's residential mortgage investments and secured borrowings had estimated durations at December 31, 2015 of 11¾ and 8 months, for a net duration gap of approximately 3¾ months – see pages 21 and 22 under the caption "Interest Rate Risk" for further information about the Company's sensitivity to changes in market interest rates. The Company intends to continue to manage interest rate risk associated with holding and financing its residential mortgage investments by utilizing suitable derivative financial instruments such as interest rate swap agreements as well as longer-maturity secured borrowings, if available at attractive rates and terms.

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Analysis of Quarterly Financing Spreads

Components of quarterly financing spreads on residential mortgage investments, a non-GAAP financial measure, and mortgage prepayment rates, were as follows for the indicated periods:

	2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Yields on residential mortgage investments:[a]								
Cash yields	2.44 %	2.42 %	2.41 %	2.42 %	2.43 %	2.44 %	2.46 %	2.46 %
Investment premium amortization	(0.81)	(0.99)	(0.95)	(0.72)	(0.77)	(0.84)	(0.75)	(0.67)
Adjusted yields	1.63	1.43	1.46	1.70	1.66	1.60	1.71	1.79
Secured borrowing rates:[b]								
Unhedged borrowing rates	0.48	0.45	0.41	0.38	0.36	0.32	0.32	0.34
Fixed swap rates	0.62	0.57	0.55	0.53	0.51	0.50	0.49	0.50
Adjusted borrowing rates	0.73	0.69	0.62	0.59	0.56	0.51	0.49	0.49
Financing spreads on residential mortgage investments[c]	0.90	0.74	0.84	1.11	1.10	1.09	1.22	1.30
Annualized constant prepayment rate (“CPR”)	19.62	23.21	21.98	16.66	17.58	19.18	17.22	15.16

(a) Cash yields are based on the cash component of interest income. Investment premium amortization is determined using the interest method which incorporates actual and anticipated future mortgage prepayments. Both are expressed as a percentage calculated on average amortized cost basis for the indicated periods.

(b) Unhedged borrowing rates represent average rates on secured borrowings, before consideration of related currently-paying interest rate swap agreements held for portfolio hedging purposes.

Fixed swap rates represent the average fixed payment rates on currently-paying interest rate swap agreements held for portfolio hedging purposes and exclude differences between LIBOR-based variable receive rates on these swaps and unhedged borrowing rates, as well as the effects of any hedge ineffectiveness. These factors averaged 24 and 18 basis points on the average currently-paying swap notional amounts outstanding during 2015 and 2014, respectively.

Adjusted borrowing rates reflect unhedged borrowing rates, fixed swap rates and the above-mentioned factors, calculated on average secured borrowings outstanding for the indicated periods.

(c) See page 15 for the Company’s rationale for using this non-GAAP financial measure and a reconciliation to its related GAAP financial measure, total financing spreads.

Cash yields began increasing during 2015 (after years of declines) primarily due to increases in the underlying indexes (principally one-year LIBOR) in anticipation of Federal Reserve action to increase short-term interest rates. For example, one-year LIBOR increased 55 basis points during 2015 to 1.18% at December 31, 2015, with most of the increase occurring during the fourth quarter. Portfolio yield adjustments for investment premium amortization are primarily driven by mortgage prepayment and investment premium levels. Mortgage prepayment levels are influenced by the availability of mortgage financing at attractive terms and the overall health of the housing markets as well as seasonal factors. Mortgage prepayments began increasing in March of 2015 primarily as a result of lower mortgage rates available earlier in the year as well as seasonal factors, leading to higher investment premium amortization and lower yields during the second and third quarters of 2015. Mortgage prepayment rates reached 23.93% CPR in July 2015 before beginning to subside, with December reported at 17.96% CPR.

Unhedged borrowing rates increased over the course of 2015, largely attributable to market conditions, including expectations for Federal Reserve action to raise short-term interest rates and more use of higher-rate, longer-maturity secured borrowings. Fixed swap rates also increased during 2015 as expiring swap contracts were replaced at higher rates.

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Utilization of Long-term Investment Capital and Potential Liquidity

Capstead's investment strategy involves managing an appropriately leveraged portfolio of ARM Agency Securities that management believes can produce attractive risk-adjusted returns over the long term, while reducing, but not eliminating, sensitivity to changes in interest rates. Secured borrowings generally can be increased or decreased on a daily basis to meet cash flow requirements and otherwise manage capital resources efficiently. Consequently, potential liquidity inherent in the Company's unencumbered residential mortgage investments is as important as the actual level of cash and cash equivalents carried on the balance sheet. Potential liquidity is affected by, among other factors:

- current portfolio leverage levels,
- changes in market value of assets pledged and interest rate swap agreements held for hedging purposes as determined by lending and swap counterparties,
- mortgage prepayment levels,
- collateral requirements of lending and swap counterparties, and
- general conditions in the commercial banking and mortgage finance industries.

Future levels of portfolio leverage will be dependent on many factors, including the size and composition of the Company's investment portfolio (see "Liquidity and Capital Resources"). The Company's utilization of its long-term investment capital and its estimated potential liquidity were as follows as of December 31, 2015 in comparison with December 31, 2014 (in thousands):

	Investments (a)	Secured Borrowings	Capital Employed	Potential Liquidity (b)	Portfolio Leverage
Balances as of December 31, 2015:					
Residential mortgage investments	$14,154,737	$12,958,394	$1,196,343	$648,696	
Cash collateral receivable from swap counterparties, net (c)			31,852	–	
Other assets, net of other liabilities			168,115	54,185	
			$1,396,310	$702,881	9.28:1
Balances as of December 31, 2014	$13,908,104	$12,806,843	$1,488,653	$753,575	8.60:1

(a) Investments are stated at balance sheet carrying amounts, which generally reflect estimated fair value as of the indicated dates.

(b) Potential liquidity is based on maximum amounts of borrowings available under existing uncommitted financing arrangements considering management's estimate of the fair value of residential mortgage investments held as of the indicated dates adjusted for other sources of liquidity such as cash and cash equivalents.

(c) Cash collateral receivable from swap counterparties is presented net of cash collateral payable to swap counterparties, if applicable, and the fair value of interest rate swap positions as of the indicated date.

In order to efficiently manage its liquidity and capital resources, Capstead attempts to maintain sufficient liquidity reserves to fund borrowing and interest rate swap margin calls under stressed market conditions, including margin calls resulting from monthly principal payments (remitted to the Company 20 to 45 days after any given month-end), as well as reasonably possible declines in the market value of pledged assets and swap positions. Should market conditions deteriorate, management may reduce portfolio leverage and increase liquidity by raising new equity capital, selling mortgage securities and/or curtailing the replacement of portfolio runoff. Additionally, the Company routinely does business with a large number of lending counterparties, which bolsters financial flexibility to address challenging market conditions and limits exposure to any individual counterparty.

At December 31, 2015 portfolio leverage increased from the prior year-end, primarily reflecting a decline in long-term investment capital attributed to lower unrealized portfolio gains. Management believes current portfolio leverage levels represent an appropriate use of leverage under current market conditions for a portfolio consisting of seasoned, short-duration ARM Agency Securities.

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Reconciliation of GAAP and non-GAAP Financing Spread Disclosures

Financing spreads on residential mortgage investments differ from total financing spreads, an all-inclusive GAAP measure, that is based on all interest-earning assets and liabilities. Management believes presenting financing spreads on residential mortgage investments provides useful information for evaluating portfolio performance. The following reconciles these measures for the indicated periods:

	2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financing spreads on residential mortgage investments	0.90 %	0.74 %	0.84 %	1.11 %	1.10 %	1.09 %	1.22 %	1.30 %
Impact of lower yields on other interest-earning assets*	(0.01)	(0.03)	(0.04)	(0.04)	(0.05)	(0.04)	(0.05)	(0.04)
Impact of higher borrowing rates on other interest-paying liabilities*	(0.06)	(0.05)	(0.06)	(0.06)	(0.07)	(0.06)	(0.07)	(0.07)
Total financing spreads	0.83	0.66	0.74	1.01	0.98	0.99	1.10	1.19

	2015	2014	2013	2012	2011
Financing spreads on residential mortgage investments	0.89 %	1.17 %	1.07 %	1.38 %	1.68 %
Impact of lower yields on other interest-earning assets*	(0.03)	(0.05)	(0.04)	(0.06)	(0.04)
Impact of higher borrowing rates on other interest-paying liabilities*	(0.05)	(0.06)	(0.07)	(0.06)	(0.08)
Total financing spreads	0.81	1.06	0.96	1.26	1.56

* Other interest-earning assets consist of overnight investments and cash collateral receivable from interest rate swap counterparties. Other interest-paying liabilities consist of unsecured borrowings (at an average borrowing rate of 8.63% for 2015) and cash collateral payable to interest rate swap counterparties.

Tax Considerations of Capstead Common and Preferred Stock Dividends

Capstead's common and preferred dividend distributions are generally characterized as ordinary income or nontaxable return of capital based on the relative amounts of the Company's earnings and profits (taxable income, with certain prescribed adjustments) to total distributions applicable for a given tax year. Total distributions are determined in accordance with the spillover distribution provisions of IRC 857(b)(9). Under IRC 857(b)(9), REIT common dividends declared in the fourth quarter of a calendar year with a record date prior to year-end and a payable date in January of the following year will be included in total distributions in the year declared only to the extent of available earnings and profits. As a result, such fourth quarter common dividends may be pro-rated between tax years or may not be taxable until the following year. While REIT preferred dividends are subject to the same spillover provisions, proration between tax years usually results in 100% of such dividends being included in total distributions in the year declared.

In accordance with IRC 857(b)(9), $0.226769 of Capstead's fourth quarter 2014 common dividend of $0.34 paid in January 2015 was taxable in 2014 and the remaining $0.113231 is subject to tax in 2015. This spillover distribution, together with common dividend distributions paid with respect to the first three quarters of 2015 and preferred dividend distributions paid for all of 2015 exceeded the Company's available earnings and profits for 2015. Therefore, none of the $0.26 fourth quarter 2015 common dividend paid in January 2016 is taxable in 2015.

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The 2015 common and preferred dividend distributions described above exceeded 2015 earnings and profits by $0.023792, representing 2.40% of total 2015 common distributions of $0.993231. This nondividend distribution is characterized as return of capital and has been allocated on a pro rata basis to each 2015 common dividend distribution. Remaining 2015 common dividend distributions totaling $0.969439 have been characterized as ordinary income. Nondividend distributions characterized as return on capital reduce the tax basis of related shares and are nontaxable to the recipient unless return of capital distributions in aggregate exceed tax cost basis, in which case the excess is reportable as capital gain.

All preferred dividends taxable in 2015 have been characterized as ordinary income. All common and preferred dividends taxable in 2014 and 2013 were characterized as ordinary income. See the investor relations section of the Company's website at www.capstead.com or www.capstead.reit for quarterly dividend characterization information for years 2000 through 2015.

If the Company was to realize gains on sales of assets, a portion of its dividends may be characterized as long-term capital gains, provided such gains exceed the Company's $21 million in capital loss carryforwards that expire after 2019. Any such capital gain distributions would be reported as long-term capital gains and would generally be taxed at lower rates than distributions of ordinary income.

Due to the complex nature of applicable tax rules, it is recommended that stockholders consult their tax advisors to ensure proper tax treatment of dividends received.

Off-Balance Sheet Arrangements and Contractual Obligations

As of December 31, 2015, Capstead did not have any off-balance sheet arrangements. The Company's contractual obligations at December 31, 2015 were as follows (in thousands):

	Payments Due by Period*				
	Total	12 Months or Less	13 – 36 Months	37 – 60 Months	>Than 60 Months
Secured borrowings	$12,981,802	$12,880,578	$100,847	$265	$112
Unsecured borrowings	220,009	5,058	10,063	11,113	193,775
Interest rate swap agreements designated as cash flow hedges of:					
Secured borrowings	11,591	11,591	–	–	–
Unsecured borrowings	29,662	2,418	4,863	3,738	18,643
Portfolio acquisitions settling subsequent to year-end	77,010	77,010	–	–	–
Corporate office lease	1,320	282	587	451	–
	$13,321,394	$12,976,937	$116,360	$15,567	$212,530

* Secured borrowings include an interest component based on contractual rates in effect at year-end. Unsecured borrowings include an interest component based on market interest rate expectations as of year-end. Obligations under interest rate swap agreements are net of variable-rate payments owed to the Company under the agreements' terms that are based on market interest rate expectations as of year-end.

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RESULTS OF OPERATIONS

	Year ended December 31		
	2015	2014	2013
Income statement data (in thousands, except per share data)			
Interest income on residential mortgage investments (before investment premium amortization)	$337,179	$328,621	$341,009
Investment premium amortization	(121,190)	(101,872)	(125,872)
Related interest expense	(85,521)	(65,155)	(66,368)
	130,468	161,594	148,769
Other interest income (expense)	(8,113)	(8,173)	(8,165)
	122,355	153,421	140,604
Other revenue (expense):			
Salaries and benefits	(4,392)	(4,112)	(3,962)
Short-term incentive compensation	(4,112)	(2,115)	(3,565)
Long-term incentive compensation	(1,696)	(2,075)	(1,814)
Other general and administrative expense	(4,798)	(4,157)	(4,476)
Miscellaneous other revenue (expense)	968	(142)	(300)
	(14,030)	(12,601)	(14,117)
Net income	$108,325	$140,820	$126,487
Net income per diluted common share	$0.97	$1.33	$0.93
Average diluted shares outstanding	95,701	95,629	95,393
Key operating statistics (dollars in millions)			
Average yields:			
Residential mortgage investments:			
Cash yields	2.42 %	2.45 %	2.52 %
Investment premium amortization	(0.87)	(0.76)	(0.93)
Adjusted yields	1.55	1.69	1.59
Other interest-earning assets	0.13	0.08	0.10
Total average yields	1.52	1.64	1.55
Average borrowing rates:			
Secured borrowings:			
Unhedged borrowing rates	0.43	0.34	0.39
Fixed swap rates	0.57	0.50	0.62
Adjusted borrowing rates	0.66	0.52	0.52
Unsecured borrowings	8.63	8.68	8.69
Total average borrowing rates	0.71	0.58	0.59
Average financing spreads on residential mortgage investments, a non-GAAP financial measure *	0.89	1.17	1.07
Average total financing spreads	0.81	1.06	0.96
Average net yield on total interest-earning assets	0.86	1.11	1.01
Average CPR	20.37	17.28	21.45
Average balance information:			
Residential mortgage investments (cost basis)	$13,923	$13,424	$13,551