AGNC Investment Corp.
Form 10-Q
November 05, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 001-34057
AGNC INVESTMENT CORP.
(Exact name of registrant as specified in its charter)

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

2 Bethesda Metro Center, 12th Floor
Bethesda, Maryland 20814
(Address of principal executive offices)
(301) 968-9315
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Emerging growth company ¨
If an emerging growth company, indicate by check mark if registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

The number of shares of the issuer's common stock, $0.01 par value, outstanding as of October 26, 2018 was 477,831,997.

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PART I. FINANCIAL INFORMATION

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

	September 30, 2018 (Unaudited)	December 31, 2017
Assets:		
Agency securities, at fair value (including pledged securities of $67,889 and $53,055, respectively)	$ 70,408	$ 55,506
Agency securities transferred to consolidated variable interest entities, at fair value (pledged securities)	453	662
Credit risk transfer securities, at fair value (including pledged securities of $44 and $0, respectively)	997	876
Non-Agency securities, at fair value	507	36
U.S. Treasury securities, at fair value (including pledged securities of $45 and $0, respectively)	109	—
REIT equity securities, at fair value	—	29
Cash and cash equivalents	1,071	1,046
Restricted cash	456	317
Derivative assets, at fair value	412	205
Receivable for investment securities sold (including pledged securities of $443 and $0, respectively)	524	—
Receivable under reverse repurchase agreements	16,309	10,961
Goodwill and other intangible asset, net	526	551
Other assets	259	187
Total assets	$ 92,031	$ 70,376
Liabilities:		
Repurchase agreements	$ 65,734	$ 50,296
Debt of consolidated variable interest entities, at fair value	291	357
Payable for investment securities purchased	23	95
Derivative liabilities, at fair value	62	28
Dividends payable	95	80
Obligation to return securities borrowed under reverse repurchase agreements, at fair value	15,549	10,467
Accounts payable and other liabilities	650	299
Total liabilities	82,404	61,622
Stockholders' equity:		
7.750% Series B Cumulative Redeemable Preferred Stock (aggregate liquidation preference of $175)	169	169
7.000% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (aggregate liquidation preference of $325)	315	315
Common stock - $0.01 par value; 900 and 600 shares authorized, respectively; 477.8 and 391.3 shares issued and outstanding, respectively	5	4
Additional paid-in capital	12,785	11,173
Retained deficit	(2,343)	(2,562)

Accumulated other comprehensive loss	(1,304)	(345)
Total stockholders' equity	9,627	8,754
Total liabilities and stockholders' equity	$ 92,031	$ 70,376

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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest income:				
Interest income	$500	$318	$1,345	$907
Interest expense	312	140	755	350
Net interest income	188	178	590	557
Other gain (loss), net:				
Gain (loss) on sale of investment securities, net	(40)	22	(116)	(47)
Unrealized loss on investment securities measured at fair value through net income, net	(363)	(31)	(980)	(6)
Gain (loss) on derivative instruments and other securities, net	430	131	1,466	(78)
Management fee income	46	4	54	12
Total other gain (loss), net:	73	126	424	(119)
Expenses:				
Compensation and benefits	14	10	34	30
Other operating expense	31	8	47	22
Total operating expense	45	18	81	52
Net income	216	286	933	386
Dividend on preferred stock	9	9	27	23
Issuance costs of redeemed preferred stock	—	6	—	6
Net income available to common stockholders	$207	$271	$906	$357
Net income	$216	$286	$933	$386
Other comprehensive income (loss):				
Unrealized gain (loss) on available-for-sale securities, net	(193)	90	(959)	257
Comprehensive income (loss)	23	376	(26)	643
Dividend on preferred stock	9	9	27	23
Issuance costs of redeemed preferred stock	—	6	—	6
Comprehensive income (loss) available (attributable) to common stockholders	$14	$361	$(53)	$614
Weighted average number of common shares outstanding - basic	462.3	364.7	419.8	347.5
Weighted average number of common shares outstanding - diluted	462.7	364.9	420.1	347.6
Net income per common share - basic	$0.45	$0.74	$2.16	$1.03
Net income per common share - diluted	$0.45	$0.74	$2.16	$1.03
Dividends declared per common share	$0.54	$0.54	$1.62	$1.62

See accompanying notes to consolidated financial statements.

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

	8.000% Series A Cumulative Redeemable Preferred Stock	7.750% Series B Cumulative Redeemable Preferred Stock	7.000% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2016	$ 167	$ 169	$ —	331.0	$ 3	$ 9,932	$ (2,518)	$ (397)	$ 7,356
Net income	—	—	—	—	—	—	386	—	386
Other comprehensive income:									
Unrealized gain on available-for-sale securities, net	—	—	—	—	—	—	—	257	257
Stock-based compensation	—	—	—	—	—	3	—	—	3
Issuance of preferred stock	—	—	315	—	—	—	—	—	315
Redemption of preferred stock	(167)	—	—	—	—	—	(6)	—	(173)
Issuance of common stock	—	—	—	60.3	1	1,237	—	—	1,238
Preferred dividends declared	—	—	—	—	—	—	(23)	—	(23)
Common dividends declared	—	—	—	—	—	—	(568)	—	(568)
Balance, September 30, 2017	$ —	$ 169	$ 315	391.3	$ 4	$ 11,172	$ (2,729)	$ (140)	$ 8,791
Balance, December 31, 2017	$ —	$ 169	$ 315	391.3	$ 4	$ 11,173	$ (2,562)	$ (345)	$ 8,754
Net income	—	—	—	—	—	—	933	—	933
Other comprehensive loss:									
Unrealized loss on available-for-sale securities, net	—	—	—	—	—	—	—	(959)	(959)
Stock-based compensation	—	—	—	—	—	8	—	—	8
Issuance of common stock	—	—	—	86.5	1	1,604	—	—	1,605
Preferred dividends declared	—	—	—	—	—	—	(27)	—	(27)
Common dividends declared	—	—	—	—	—	—	(687)	—	(687)
Balance, September 30, 2018	$ —	$ 169	$ 315	477.8	$ 5	$ 12,785	$ (2,343)	$ (1,304)	$ 9,627

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2018	2017
Operating activities:		
Net income	$933	$386
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premiums and discounts on mortgage-backed securities, net	224	282
Amortization of intangible assets	25	3
Stock-based compensation	5	3
Loss on sale of investment securities, net	116	47
Unrealized loss on investment securities measured at fair value through net income, net	980	6
(Gain) loss on derivative instruments and other securities, net	(1,466)	78
(Increase) decrease in other assets	(71)	99
Increase in accounts payable and other accrued liabilities	94	31
Net cash provided by operating activities	840	935
Investing activities:		
Purchases of Agency mortgage-backed securities	(29,615)	(23,823)
Purchases of credit risk transfer and non-Agency securities	(1,051)	(881)
Proceeds from sale of Agency mortgage-backed securities	6,696	13,390
Proceeds from sale of credit risk transfer and non-Agency securities	483	437
Principal collections on Agency mortgage-backed securities	5,317	5,076
Principal collections on credit risk transfer and non-Agency securities	9	4
Payments on U.S. Treasury securities	(7,119)	(10,618)
Proceeds from U.S. Treasury securities	12,381	11,682
Net payments on reverse repurchase agreements	(5,175)	(1,456)
Net proceeds from derivative instruments	1,087	38
Net proceeds from (payments on) other investing activity	30	(4)
Net cash used in investing activities	(16,957)	(6,155)
Financing activities:		
Proceeds from repurchase arrangements	1,299,744	294,885
Payments on repurchase agreements	(1,284,306)	(287,238)
Payments on Federal Home Loan Bank advances	—	(3,037)
Payments on debt of consolidated variable interest entities	(63)	(80)
Net proceeds from preferred stock issuances	—	315
Payment for preferred stock redemption	—	(173)
Net proceeds from common stock issuances	1,605	1,238
Cash dividends paid	(699)	(580)
Net cash provided by financing activities	16,281	5,330
Net change in cash, cash equivalents and restricted cash	164	110
Cash, cash equivalents and restricted cash at beginning of period	1,363	1,282
Cash, cash equivalents and restricted cash at end of period	$1,527	$1,392

See accompanying notes to consolidated financial statements.

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

Note 1. Basis of Presentation

The unaudited interim consolidated financial statements of AGNC Investment Corp. (referred throughout this report as the "Company," "we," "us" and "our") are prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. In the opinion of management, all adjustments, consisting solely of normal recurring accruals, necessary for the fair presentation of financial statements for the interim period have been included. The current period’s results of operations are not necessarily indicative of results that ultimately may be achieved for the year.

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

Adoption of Accounting Standard Updates

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

Note 2. Organization

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

We operate to qualify to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). As a REIT, we are required to distribute annually 90% of our taxable income. So long as we continue to qualify as a REIT, we will generally not be subject to U.S. Federal or state corporate taxes on our taxable income to the extent that we distribute our annual taxable income to our stockholders on a timely basis. It is our intention to distribute 100% of our taxable income, after application of available tax attributes, within the limits prescribed by the Internal Revenue Code, which may extend into the subsequent tax year.

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

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

Note 3. Summary of Significant Accounting Policies

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

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

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

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 securities pursuant to ASC Topic 825, Financial Instruments. Prior to fiscal year 2017, we primarily designated our investment securities as available-for-sale. On January 1, 2017, we began electing the fair value option of accounting for all investment securities acquired after fiscal year 2016. Consequently, all of our securities are reported at fair value on our consolidated balance sheet. Unrealized gains and losses on securities classified as available-for-sale are reported in accumulated other comprehensive income ("OCI"). Unrealized gains and losses on securities for which we elected the fair value option or are classified as trading are reported in net income through other gain (loss) during the period in which they occur. Upon the sale of a security designated as available-for-sale, we determine the cost of the security and the amount of unrealized gains or losses to reclassify out of accumulated OCI into earnings based on the specific identification method.

In our view, the election of the fair value option 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 derivative instruments. We are not permitted to change the designation of securities acquired prior to January 1, 2017; accordingly, such securities will continue to be classified as available-for-sale securities until we receive full repayment of principal or we dispose of the security.

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

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

Interest Income

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

We estimate long-term prepayment speeds of our mortgage securities using a third-party service and market data. The third-party service provider estimates prepayment speeds using models that incorporate the forward yield curve, current mortgage rates, mortgage rates of the outstanding loans, age and size of the outstanding loans, loan-to-value ratios, interest rate volatility and other factors. We review the prepayment speeds estimated by the third-party service and compare the results to market consensus prepayment speeds, if available. We also consider historical prepayment speeds and current market conditions to validate the reasonableness of the third-party estimates. We review our actual and anticipated prepayment experience on at least a quarterly basis and effective yields are recalculated when differences arise between (i) our previously estimated future prepayments and (ii) actual prepayments to date and our current estimated future prepayments. If the actual and estimated future prepayment experience differs from our prior estimate of prepayments, we are required to record an adjustment in the current period to the amortization or accretion of premiums and discounts for the cumulative difference in the effective yield through the reporting date.

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

Repurchase Agreements

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

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

We borrow securities to cover short sales of U.S. Treasury securities through reverse repurchase transactions under our master repurchase agreements (see Derivative Instruments below). We account for these as securities borrowing transactions and recognize an obligation to return the borrowed securities at fair value on the balance sheet based on the value of the underlying borrowed securities as of the reporting date. Our reverse repurchase agreements typically have maturities of 30 days or less. The fair value of our reverse repurchase agreements is assumed to equal cost as the interest rates are considered to be at market.

Derivative Instruments

We use a variety of derivative instruments to hedge a portion of our exposure to market risks, including interest rate, prepayment, extension and liquidity risks. The objective of our risk management strategy is to reduce fluctuations in net book value over a range of interest rate scenarios. In particular, we attempt to mitigate the risk of the cost of our variable rate liabilities increasing during a period of rising interest rates. The primary instruments that we use are interest rate swaps, options to enter into interest rate swaps ("swaptions"), U.S. Treasury securities and U.S. Treasury futures contracts. We also use forward contracts in the Agency RMBS "to-be-announced" market, or TBA securities, to invest in and finance Agency securities as well as to periodically reduce our exposure to Agency RMBS.

We account for derivative instruments in accordance with ASC Topic 815, Derivatives and Hedging ("ASC 815"). ASC 815 requires an entity to recognize all derivatives as either assets or liabilities in our accompanying consolidated balance sheets and to measure those instruments at fair value.

Our derivative agreements generally contain provisions that allow for netting or setting off derivative assets and liabilities with the counterparty; however, we report related assets and liabilities on a gross basis in our consolidated balance sheets. Derivative instruments in a gain position are reported as derivative assets at fair value and derivative instruments in a loss position are reported as derivative liabilities at fair value in our consolidated balance sheets. Changes in fair value of derivative instruments and periodic settlements related to our derivative instruments are recorded in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income. Cash receipts and payments related to derivative instruments are classified in our consolidated statements of cash flows according to the underlying nature or purpose of the derivative transaction, generally in the investing section.

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

Interest rate swap agreements

We use interest rate swaps to economically hedge the variable cash flows associated with our borrowings made under repurchase agreements. Under our interest rate swap agreements, we typically pay a fixed rate and receive a floating rate based on one or three-month LIBOR ("payer swaps") with terms up to 20 years. The majority of our interest rate swaps are centrally cleared through a registered commodities exchange. We value centrally cleared interest rate swaps using the daily settlement price, or fair value, determined by the clearing exchange based on a pricing model that references observable market inputs, including LIBOR, swap rates and the forward yield curve. Our centrally cleared swaps require that we post an "initial margin" amount determined by the clearing exchange, which is generally intended to be set at a level sufficient to protect the exchange from the interest rate swap's maximum estimated single-day price movement. We also exchange daily settlements of "variation margin" based upon changes in fair value, as measured by the exchange. Pursuant to rules governing central clearing activities, we recognize variation margin settlements as a direct reduction of the carrying value of the interest rate swap asset or liability.

We value non-centrally cleared swaps using a combination of third-party valuations obtained from pricing services and the swap counterparty. The third-party valuations are model-driven using observable inputs, including LIBOR, swap rates and the forward yield curve. We also consider both our own and our counterparties' nonperformance risk in estimating the fair value of our interest rate swaps. In considering the effect of nonperformance risk, we assess the impact of netting and credit enhancements, such as collateral postings and guarantees, and have concluded that our own and our counterparty risk is not significant to the overall valuation of these agreements.

Interest rate swaptions

We purchase interest rate swaptions to help mitigate the potential impact of larger, more rapid changes in interest rates on the performance of our investment portfolio. Interest rate swaptions provide us the option to enter into an interest rate swap agreement for a predetermined notional amount, stated term and pay and receive interest rates in the future. Our interest rate swaption agreements are not subject to central clearing. The premium paid for interest rate swaptions is reported as an asset in our consolidated balance sheets. We estimate the fair value of interest rate swaptions using a combination of inputs from counterparty and third-party pricing models based on the fair value of the future interest rate swap that we have the option to enter into as well as the remaining length of time that we have to exercise the option, adjusted for non-performance risk, if any. The difference between the premium paid and the fair value of the swaption is reported in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income. If a swaption expires unexercised, the realized loss on the swaption would be equal to the premium paid. If we sell or exercise a swaption, the realized gain or loss on the swaption would be equal to the difference between the cash or the fair value of the underlying interest rate swap and the premium paid.

TBA securities

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

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

U.S. Treasury securities

We use U.S. Treasury securities and U.S. Treasury futures contracts to mitigate the potential impact of changes in interest rates on the performance of our portfolio. We borrow U.S. Treasury securities under reverse repurchase agreements to cover short sales of U.S. Treasury securities. 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 U.S. Treasury security as of the reporting date. Gains and losses associated with 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.

MTGE Management Agreement

On May 2, 2018, MTGE announced its proposed sale to a third party. Coincident with the announcement, we entered into an amendment to our management agreement with MTGE. Pursuant to the amendment, we continued to manage MTGE through the closing of the proposed sale, which occurred on September 7, 2018, and for a one month transitional period following the closing. In addition to regular monthly management fees payable for ongoing service through the transition period, we were paid a termination fee under the management agreement of approximately $42 million, which is reported in management fee income in our consolidated statements of comprehensive income for the three and nine month periods ended September 30, 2018. Concurrent with the termination of the management agreement, we wrote-off the remaining unamortized intangible asset associated with the management agreement of approximately $23 million, which is reported in other operating expense in our consolidated statements of comprehensive income for the three and nine month periods ended September 30, 2018.

Loss Contingencies

We evaluate the existence of any pending or threatened litigation or other potential claims against the Company in accordance with ASC Topic 450, Contingencies, which requires that we assess the likelihood and range of potential outcomes of any such matters. We are the defendant in three stockholder derivative lawsuits alleging that certain of our current and former directors and officers breached fiduciary duties and wasted corporate assets relating to past renewals of the management agreement with our former external manager and the internalization of our management, which occurred on July 1, 2016. Although the outcomes of these cases cannot be predicted with certainty, we do not believe that these cases have merit or will result in a material liability, and, as of September 30, 2018, we did not accrue a loss contingency related to these matters.

Recent Accounting Pronouncements

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

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

Note 4. Investment Securities

As of September 30, 2018 and December 31, 2017, our investment portfolio consisted of $72.4 billion and $57.1 billion of investment securities, at fair value, respectively, and $9.4 billion and $15.7 billion of TBA securities, at fair value, respectively. Our TBA position is reported at its net carrying value of $(43) million and $3 million as of September 30, 2018 and December 31, 2017, respectively, in derivative assets / (liabilities) on our accompanying consolidated balance sheets. The net carrying value of our TBA position represents the difference between the fair value of the underlying Agency security in the TBA contract and the cost basis or the forward price to be paid or received for the underlying Agency security.

As of September 30, 2018 and December 31, 2017, our investment securities had a net unamortized premium balance of $2.8 billion and $2.7 billion, respectively, including interest and principal-only securities.

The following tables summarize our investment securities as of September 30, 2018 and December 31, 2017, excluding TBA securities, (dollars in millions). Details of our TBA securities as of each of the respective dates are included in Note 6.

Investment Securities	September 30, 2018 Amortized Cost	September 30, 2018 Fair Value	December 31, 2017 Amortized Cost	December 31, 2017 Fair Value
Agency RMBS:				
Fixed rate	$72,194	$69,844	$55,477	$55,026
Adjustable rate	229	230	278	283
CMO	623	609	629	631
Interest-only and principal-only strips	181	178	213	228
Total Agency RMBS	73,227	70,861	56,597	56,168
Non-Agency RMBS	375	374	7	7
CMBS	133	133	28	29
CRT securities	956	997	834	876
Total investment securities	$74,691	$72,365	$57,466	$57,080

	September 30, 2018						
	Agency RMBS			Non-Agency			
Investment Securities	Fannie Mae	Freddie Mac	Ginnie Mae	RMBS	CMBS	CRT	Total
Available-for-sale securities:							
Par value	$18,688	$5,987	$27	$7	$—	$—	$24,709
Unamortized discount	(15)	(2)	—	—	—	—	(17)
Unamortized premium	960	362	—	—	—	—	1,322
Amortized cost	19,633	6,347	27	7	—	—	26,014
Gross unrealized gains	3	1	1	—	—	—	5
Gross unrealized losses	(960)	(349)	—	—	—	—	(1,309)
Total available-for-sale securities, at fair value	18,676	5,999	28	7	—	—	24,710
Securities remeasured at fair value through earnings:							
Par value	29,290	16,420	—	378	133	914	47,135
Unamortized discount	(68)	(2)	—	(10)	(2)	—	(82)
Unamortized premium	973	607	—	—	2	42	1,624
Amortized cost	30,195	17,025	—	368	133	956	48,677
Gross unrealized gains	5	1	—	—	—	41	47
Gross unrealized losses	(665)	(403)	—	(1)	—	—	(1,069)
Total securities remeasured at fair value through earnings	29,535	16,623	—	367	133	997	47,655
Total securities, at fair value	$48,211	$22,622	$28	$374	$133	$997	$72,365
Weighted average coupon as of September 30, 2018	3.77%	3.84%	3.24%	3.85%	4.49%	5.76%	3.82%
Weighted average yield as of September 30, 2018 [1]	3.16%	3.23%	2.04%	4.16%	4.71%	5.64%	3.22%

1. Incorporates a weighted average future constant prepayment rate assumption of 6.8% based on forward rates as of September 30, 2018.

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

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

As of September 30, 2018 and December 31, 2017, our investments in CRT and non-Agency securities had the following credit ratings:

	September 30, 2018			December 31, 2017		
CRT and Non-Agency Security Credit Ratings [1]	CRT	RMBS	CMBS	CRT	RMBS	CMBS
AAA	$—	$ 276	$ 37	$—	$ 7	$ —
AA	—	21	61	—	—	—
A	17	27	—	1	—	—
BBB	67	37	30	34	—	29
BB	428	8	5	370	—	—
B	458	2	—	455	—	—
Not Rated	27	3	—	16	—	—
Total	$997	$ 374	$ 133	$876	$ 7	$ 29

1. Represents the lowest of Standard and Poor's ("S&P"), Moody's, Fitch, DBRS, Kroll Bond Rating Agency ("KBRA") and Morningstar 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 September 30, 2018, our CRT securities had floating and fixed rate coupons ranging from 3.6% to 9.2%, referenced to loans originated between 2011 and 2018 with weighted average coupons ranging from 3.6% to 4.5%. As of December 31, 2017, our CRT securities had floating rate coupons ranging from 3.9% to 8.5%, referenced to loans originated between 2012 and 2017 with weighted average coupons ranging from 3.6% to 4.4%.

The actual maturities of our investment securities are generally shorter than their stated contractual maturities. Actual maturities are affected by the contractual lives of the underlying mortgages, periodic contractual principal payments and principal prepayments. As of September 30, 2018 and December 31, 2017, the weighted average expected constant prepayment rate ("CPR") over the remaining life of our aggregate investment portfolio was 6.8% and 8.4%, respectively. Our estimates can differ materially for different securities and thus our individual holdings have a wide range of projected CPRs. The following table summarizes our investments as of September 30, 2018 and December 31, 2017 according to their estimated weighted average life classification (dollars in millions):

Estimated Weighted Average Life of Investment Securities	September 30, 2018 Fair Value	Amortized Cost	Weighted Average Coupon	Weighted Average Yield	December 31, 2017 Fair Value	Amortized Cost	Weighted Average Coupon	Weighted Average Yield
≥ 1 year and ≤ 3 years	$1,315	$ 1,340	4.34%	2.67%	$2,712	$ 2,693	3.90%	2.67%
> 3 years and ≤ 5 years	4,397	4,529	3.15%	2.42%	7,499	7,518	3.31%	2.39%
> 5 years and ≤10 years	50,933	52,655	3.92%	3.26%	45,977	46,398	3.75%	2.95%
> 10 years	15,720	16,167	3.63%	3.36%	892	857	4.87%	4.74%
Total	$72,365	$ 74,691	3.82%	3.22%	$57,080	$ 57,466	3.71%	2.89%

The following table presents the gross unrealized loss and fair values of securities classified as available-for-sale by length of time that such securities have been in a continuous unrealized loss position as of September 30, 2018 and December 31, 2017 (in millions):

	Unrealized Loss Position For					
	Less than 12 Months		12 Months or More		Total	
Securities Classified as Available-for-Sale	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
September 30, 2018	$7,641	$ (219)	$16,855	$ (1,090)	$24,496	$ (1,309)
December 31, 2017	$3,582	$ (15)	$20,577	$ (451)	$24,159	$ (466)

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

Gains and Losses on Sale of Investment Securities

The following table is a summary of our net gain (loss) from the sale of investment securities for the three and nine months ended September 30, 2018 and 2017 by investment classification of accounting (in millions):

	Three Months Ended September 30,					
	2018			2017		
Investment Securities	Available-for-Sale Securities [2]	Fair Value Option Securities	Total	Available-for-Sale Securities [2]	Fair Value Option Securities	Total
Investment securities sold, at cost	$(1,965)	$ (1,039)	$(3,004)	$(3)	$ (6,016)	$(6,019)
Proceeds from investment securities sold [1]	1,929	1,035	2,964	2	6,039	6,041
Net gain (loss) on sale of investment securities	$(36)	$ (4)	$(40)	$(1)	$ 23	$22
Gross gain on sale of investment securities	$1	$ 2	$3	$—	$ 28	$28
Gross loss on sale of investment securities	(37)	(6)	(43)	(1)	(5)	(6)
Net gain (loss) on sale of investment securities	$(36)	$ (4)	$(40)	$(1)	$ 23	$22

	Nine Months Ended September 30,					
	2018			2017		
Investment Securities	Available-for-Sale Securities [2]	Fair Value Option Securities	Total	Available-for-Sale Securities [2]	Fair Value Option Securities	Total
Investment securities sold, at cost	$(3,801)	$(4,017)	$(7,818)	$(5,738)	$(8,636)	$(14,374)
Proceeds from investment securities sold [1]	3,746	3,956	7,702	5,649	8,678	14,327
Net gain (loss) on sale of investment securities	$(55)	$(61)	$(116)	$(89)	$42	$(47)
Gross gain on sale of investment securities	$6	$12	$18	$6	$48	$54
Gross loss on sale of investment securities	(61)	(73)	(134)	(95)	(6)	(101)
Net gain (loss) on sale of investment securities	$(55)	$(61)	$(116)	$(89)	$42	$(47)

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.

Consolidated Variable Interest Entities

As of September 30, 2018 and December 31, 2017, our consolidated financial statements reflect the consolidation of certain variable interest entities ("VIEs") for which we have determined we are the primary beneficiary. The consolidated VIEs consist of CMO trusts 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 the 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.

Note 5. Repurchase Agreements and Other Secured Borrowings

We pledge our securities as collateral under our borrowing agreements with financial institutions. Interest rates on our borrowings are generally based on LIBOR plus or minus a margin and amounts available to be borrowed are dependent upon the fair value of the securities pledged as collateral, which fluctuates with changes in interest rates, type of security and liquidity conditions within the banking, mortgage finance and real estate industries. If the fair value of our pledged securities declines, lenders will typically require us to post additional collateral or pay down borrowings to re-establish agreed upon collateral requirements, referred to as "margin calls." Similarly, if the fair value of our pledged securities increases, lenders may release collateral back to us. As of September 30, 2018, we had met all margin call requirements. For additional information regarding our pledged assets, please refer to Note 7.

Repurchase Agreements

As of September 30, 2018 and December 31, 2017, we had $65.7 billion and $50.3 billion, respectively, of repurchase agreements outstanding. The terms and conditions of our repurchase agreements are typically negotiated on a transaction-by-transaction basis. Our repurchase agreements with original maturities greater than one year have floating interest rates based on an index plus or minus a fixed spread. The following table summarizes our borrowings under repurchase agreements by their remaining maturities as of September 30, 2018 and December 31, 2017 (dollars in millions):

Remaining Maturity	September 30, 2018 Repurchase Agreements	Weighted Average Interest Rate		Weighted Average Days to Maturity	December 31, 2017 Repurchase Agreements	Weighted Average Interest Rate		Weighted Average Days to Maturity
Agency repo:								
≤ 1 month	$35,815	2.29	%	9	$19,771	1.59	%	11
> 1 to ≤ 3 months	16,273	2.30	%	56	16,150	1.50	%	50
> 3 to ≤ 6 months	9,472	2.15	%	110	7,287	1.50	%	130
> 6 to ≤ 9 months	400	2.78	%	254	2,361	1.66	%	225
> 9 to ≤ 12 months	700	2.53	%	279	202	1.64	%	297
> 12 to ≤ 24 months	2,099	2.78	%	486	1,700	1.84	%	468
> 24 to ≤ 36 months	925	2.79	%	829	2,200	1.80	%	803
> 36 to ≤ 48 months	—	—	%	—	625	1.90	%	1,141
Total Agency repo	$65,684	2.30	%	67	$50,296	1.57	%	116
U.S.Treasury repo:								
> 1 day to ≤ 1 months	50	2.32	%	1	—	—	%	—
Total	$65,734	2.30	%	67	$50,296	1.57	%	116

As of September 30, 2018 and December 31, 2017, $14.0 billion and $5.3 billion, respectively, of our Agency repurchase agreements matured overnight and none of our repurchase agreements were due on demand. As of September 30, 2018 and December 31, 2017, 39% and 33%, respectively, of our repurchase agreement funding was sourced through our wholly-owned captive broker-dealer subsidiary, Bethesda Securities, LLC ("BES"). Amounts sourced through BES include Agency repo funding from the General Collateral Finance Repo service ("GCF Repo") offered by the Fixed Income Clearing Corporation ("FICC"), which totaled 36% and 30% of our repurchase agreement funding outstanding as of September 30, 2018 and December 31, 2017, respectively. Additionally, as of September 30, 2018 and December 31, 2017, we had $3.9 billion and $2.7 billion, respectively, of U.S. Treasury reverse repurchase agreements sourced through BES with the FICC, which are reported in receivable under reverse repurchase agreements on our consolidated balance sheets.

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 September 30, 2018 and December 31, 2017 (in millions):

Derivative and Other Hedging Instruments	Balance Sheet Location	September 30, 2018	December 31, 2017
Interest rate swaps	Derivative assets, at fair value	$ 217	$ 81
Swaptions	Derivative assets, at fair value	157	75
TBA securities	Derivative assets, at fair value	18	30
U.S. Treasury futures - short	Derivative assets, at fair value	20	19
Total derivative assets, at fair value		$ 412	$ 205
Interest rate swaps	Derivative liabilities, at fair value	$ (1)	$ (1)
TBA securities	Derivative liabilities, at fair value	(61)	(27)
Total derivative liabilities, at fair value		$ (62)	$ (28)
U.S. Treasury securities - long	U.S. Treasury securities, at fair value	$ 109	$ —
U.S. Treasury securities - short	Obligation to return securities borrowed under reverse repurchase agreements, at fair value	(15,549)	(10,467)
Total U.S. Treasury securities, net at fair value		$ (15,440)	$ (10,467)

The following tables summarize certain characteristics of our derivative and other hedging instruments outstanding as of September 30, 2018 and December 31, 2017 (dollars in millions):

	September 30, 2018				December 31, 2017			
Interest Rate Swaps	Notional Amount [1]	Average Fixed Pay Rate [2]	Average Receive Rate	Average Maturity (Years)	Notional Amount [1]	Average Fixed Pay Rate [2]	Average Receive Rate	Average Maturity (Years)
≤ 3 years	$19,250	1.59%	2.33%	1.2	$21,025	1.40%	1.46%	1.5
> 3 to ≤ 5 years	9,975	1.96%	2.33%	3.9	6,825	1.82%	1.43%	4.1
> 5 to ≤ 7 years	5,025	2.54%	2.34%	6.1	5,775	2.02%	1.44%	5.9
> 7 to ≤ 10 years	10,000	2.33%	2.33%	8.5	6,650	2.10%	1.42%	9.1
> 10 years	4,425	2.59%	2.34%	11.8	3,425	2.49%	1.45%	12.9
Total	$48,675	2.01%	2.33%	4.7	$43,700	1.74%	1.44%	4.5

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1. As of September 30, 2018 and December 31, 2017, notional amount includes forward starting swaps of $4.9 billion and $4.6 billion, respectively, with an average forward start date of 0.5 and 0.3 years, respectively.
2. Average fixed pay rate includes forward starting swaps. Excluding forward starting swaps, the average fixed pay rate was 1.89% and 1.68% as of September 30, 2018 and December 31, 2017, respectively.

Swaptions	Option			Underlying Payer Swap			
Current Option Expiration Date	Cost Basis	Fair Value	Average Months to Current Option Expiration Date [1]	Notional Amount	Average Fixed Pay Rate	Average Receive Rate (LIBOR)	Average Term (Years)
September 30, 2018							
≤ 1 year	$99	$ 127	4	$4,950	2.83%	3M	7.5
> 1 year ≤ 2 years	23	30	20	650	2.80%	3M	10.0
Total	$122	$ 157	6	$5,600	2.83%	3M	7.8
December 31, 2017							
≤ 1 year	$118	$ 46	7	$5,100	2.71%	3M	8.8
> 1 year ≤ 2 years	23	16	18	1,050	2.71%	3M	8.7
> 2 year ≤ 3 years	18	13	30	500	2.78%	3M	10.0
Total	$159	$ 75	10	$6,650	2.72%	3M	8.9

1. As of September 30, 2018 and December 31, 2017, ≤ 1 year notional amount includes $700 million of Bermudan swaptions where the options may be exercised on predetermined dates up to their final exercise date, which is six months prior to the underlying swaps' maturity date.

U.S. Treasury Securities	September 30, 2018			December 31, 2017		
Maturity	Face Amount (Short)	Cost Basis [1]	Fair Value	Face Amount (Short)	Cost Basis [1]	Fair Value
5 years	$(230)	$(229)	$(228)	$(288)	$(286)	$(283)
7 years	(10,319)	(10,274)	(9,989)	(6,131)	(6,106)	(6,029)
10 years	(5,554)	(5,492)	(5,223)	(4,280)	(4,230)	(4,155)
Total U.S. Treasury securities	$(16,103)	$(15,995)	$(15,440)	$(10,699)	$(10,622)	$(10,467)

1. As of September 30, 2018 and December 31, 2017, U.S. Treasury securities had a weighted average yield of 2.43% and 2.12%, respectively.

U.S. Treasury Futures	September 30, 2018				December 31, 2017			
Maturity	Notional Amount - Long (Short)	Cost Basis	Fair Value	Net Carrying Value [1]	Notional Amount - Long (Short)	Cost Basis	Fair Value	Net Carrying Value [1]
5 years	$—	$—	$—	$ —	$(730)	$(852)	$(848)	$ 4
10 years	(1,650)	(1,980)	(1,960)	20	(2,180)	(2,718)	(2,703)	15
Total U.S. Treasury futures	$(1,650)	$(1,980)	$(1,960)	$ 20	$(2,910)	$(3,570)	$(3,551)	$ 19

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

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TBA Securities by Coupon	September 30, 2018 Notional Amount - Long (Short)	Cost Basis	Fair Value	Net Carrying Value [1]	December 31, 2017 Notional Amount - Long (Short)	Cost Basis	Fair Value	Net Carrying Value [1]
15-Year TBA securities:								
2.5%	$194	$190	$188	$ (2)	$1,373	$1,372	$1,370	$ (2)
3.0%	567	565	560	(5)	3,161	3,225	3,217	(8)
3.5%	2,646	2,669	2,658	(11)	414	428	428	—
4.0%	1,224	1,250	1,248	(2)	—	—	—	—
Total 15-Year TBA securities	4,631	4,674	4,654	(20)	4,948	5,025	5,015	(10)
30-Year TBA securities:								
3.0%	843	812	805	(7)	4,317	4,303	4,312	9
3.5%	(1,699)	(1,683)	(1,671)	12	3,932	4,027	4,034	7
4.0%	3,024	3,071	3,052	(19)	2,338	2,449	2,446	(3)
4.5%	2,475	2,562	2,553	(9)	(61)	(65)	(65)	—
Total 30-Year TBA securities, net	4,643	4,762	4,739	(23)	10,526	10,714	10,727	13
Total TBA securities, net	$9,274	$9,436	$9,393	$ (43)	$15,474	$15,739	$15,742	$ 3

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

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

The following table summarizes changes in our derivative and other hedge portfolio and their effect on our consolidated statements of comprehensive income for the three and nine months ended September 30, 2018 and 2017 (in millions):

Derivative and Other Hedging Instruments	Beginning Notional Amount	Additions	Settlement, Termination, Expiration or Exercise	Ending Notional Amount	Gain/(Loss) on Derivative Instruments and Other Securities, Net [1]
Three months ended September 30, 2018:					
TBA securities, net	$19,805	55,702	(66,233)	$9,274	$ (56)
Interest rate swaps	$47,875	2,150	(1,350)	$48,675	282
Payer swaptions	$5,600	—	—	$5,600	30
U.S. Treasury securities - short position	$(13,394)	(4,402)	1,583	$(16,213)	150
U.S. Treasury securities - long position	$—	792	(682)	$110	—
U.S. Treasury futures contracts - short position	$(1,650)	(1,650)	1,650	$(1,650)	21
					$ 427
Three months ended September 30, 2017:					
TBA securities, net	$16,867	92,803	(90,792)	$18,878	$ 158
Interest rate swaps	$40,000	3,550	(1,400)	$42,150	15
Payer swaptions	$4,950	—	—	$4,950	(22)
U.S. Treasury securities - short position	$(7,358)	(5,105)	3,209	$(9,254)	(19)
U.S. Treasury securities - long position	$—	1	(1)	$—	—
U.S. Treasury futures contracts - short position	$(2,910)	(2,910)	2,910	$(2,910)	(1)

$ 131

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Derivative and Other Hedging Instruments	Beginning Notional Amount	Additions	Settlement, Termination, Expiration or Exercise	Ending Notional Amount	Gain/(Loss) on Derivative Instruments and Other Securities, Net [1]
Nine months ended September 30, 2018:					
TBA securities, net	$15,474	163,777	(169,977)	$9,274	$ (362)
Interest rate swaps	$43,700	9,800	(4,825)	$48,675	1,161
Payer swaptions	$6,650	1,100	(2,150)	$5,600	155
U.S. Treasury securities - short position	$(10,699)	(10,693)	5,179	$(16,213)	397
U.S. Treasury securities - long position	$—	1,841	(1,731)	$110	—
U.S. Treasury futures contracts - short position	$(2,910)	(6,209)	7,469	$(1,650)	104
					$ 1,455
Nine months ended September 30, 2017:					
TBA securities, net	$10,916	185,205	(177,243)	$18,878	$ 360
Interest rate swaps	$37,175	10,575	(5,600)	$42,150	(157)
Payer swaptions	$1,200	3,750	—	$4,950	(46)
U.S. Treasury securities - short position	$(8,061)	(11,595)	10,402	$(9,254)	(207)
U.S. Treasury securities - long position	$189	304	(493)	$—	1
U.S. Treasury futures contracts - short position	$(1,810)	(8,430)	7,330	$(2,910)	(29)
					$ (78)

1. Amounts exclude other miscellaneous gains and losses recognized in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income.

Note 7. Pledged Assets

Our funding agreements require us to fully collateralize our obligations under the agreements based upon our counterparties' collateral requirements and their determination of the fair value of the securities pledged as collateral, which fluctuates with changes in interest rates, credit quality and liquidity conditions within the investment banking, mortgage finance and real estate industries. Our derivative contracts similarly require us to fully collateralize our obligations under such agreements, which will vary over time based on similar factors as well as our counterparties' determination of the value of the derivative contract. We are typically required to post initial margin upon execution of derivative transactions, such as under our interest rate swap agreements and TBA contracts, and subsequently post or receive variation margin based on daily fluctuations in fair value. Our prime brokerage agreements, pursuant to which we receive custody and settlement services, and the clearing organizations utilized by our wholly-owned captive broker-dealer subsidiary, Bethesda Securities, LLC, also require that we post minimum daily clearing deposits. If we breach our collateral requirements, we will be required to fully settle our obligations under the agreements, which could include a forced liquidation of our pledged collateral.

Our counterparties also apply a "haircut" to our pledged collateral, which means our collateral is valued at slightly less than market value and limits the amount we can borrow against our securities. This haircut reflects the underlying risk of the specific collateral and protects our counterparty against a change in its value. Our agreements do not specify the haircut; rather haircuts are determined on an individual transaction basis. Consequently, our funding agreements and derivative contracts expose us to credit risk relating to potential losses that could be recognized if our counterparties fail to perform their obligations under such agreements. We minimize this risk by limiting our counterparties to major financial institutions with acceptable credit ratings or to registered clearinghouses and U.S. government agencies, and we monitor our positions with individual counterparties. In the event of a default by a counterparty, we may have difficulty obtaining our assets pledged as collateral to such counterparty and may not receive payments provided for under the terms of our derivative agreements. In the case of centrally cleared instruments, we could be exposed to credit risk if the central clearing agency or a clearing member defaults on its respective obligation to perform under the contract. However, we believe that the risk is minimal due to the clearing exchanges' initial and daily mark to market margin requirements, clearinghouse guarantee funds and other resources that are available in the event of a clearing member default. As of September 30, 2018, our maximum amount at risk with any counterparty other than the Fixed Income Clearing Corporation related to our repurchase agreements was less than 4% of our tangible stockholders' equity. As of September 30, 2018, approximately 8% of our tangible stockholder's equity was at risk with the Fixed Income Clearing Corporation. Equity at risk is defined as the net carrying value of securities pledged under repurchase agreements, including accrued interest plus any cash or assets on deposit to secure the repurchase obligation, less the amount of the repurchase liability, including accrued interest.

Our International Swaps and Derivatives Association ("ISDA") Master Agreements contain a cross default provision under which a default under the terms of certain of our other indebtedness in excess of certain thresholds causes an event of default under the ISDA Master Agreement. Threshold amounts vary by lender. Following an event of default, we could be required to settle our obligations under the agreements. Additionally, under certain of our ISDA Master Agreements, we could be required to settle our obligations under the agreements if we fail to maintain certain minimum stockholders' equity thresholds or our REIT status or if we fail to comply with limits on our leverage up to certain specified levels. As of September 30, 2018, the fair value of additional collateral that could be required to be posted as a result of the credit-risk-related contingent features being triggered was not material to our financial statements.

Assets Pledged to Counterparties

The following tables summarize our assets pledged as collateral under our funding, derivative and prime broker agreements by type, including securities pledged related to securities sold but not yet settled, as of September 30, 2018 and December 31, 2017 (in millions):

	September 30, 2018				
Assets Pledged to Counterparties	Repurchase Agreements [1]	Debt of Consolidated VIEs	Derivative Agreements	Prime Broker Agreements [2]	Total
Agency RMBS - fair value	$68,065	$ 453	$ 184	$ 246	$68,948
CRT - fair value	44	—	—	—	44
U.S. Treasury securities - fair value [3]	470	—	58	—	528
Accrued interest on pledged securities	212	1	1	1	215
Restricted cash and cash equivalents	78	—	378	—	456
Total	$68,869	$ 454	$ 621	$ 247	$70,191

	December 31, 2017				
Assets Pledged to Counterparties	Repurchase Agreements [1]	Debt of Consolidated VIEs	Derivative Agreements	Prime Broker Agreements [2]	Total
Agency RMBS - fair value	$52,497	$ 662	$ 221	$ 519	$53,899
U.S. Treasury securities - fair value [3]	113	—	72	—	185
Accrued interest on pledged securities	153	2	1	2	158
Restricted cash and cash equivalents	35	—	281	1	317
Total	$52,798	$ 664	$ 575	$ 522	$54,559

1. Includes $163 million and $182 million of retained interests in our consolidated VIEs pledged as collateral under repurchase agreements as of September 30, 2018 and December 31, 2017, respectively.
2. Includes margin for TBAs cleared through prime brokers and other clearing deposits.
3. Includes repledged securities received as collateral from counterparties.

Securities transferred to our consolidated VIEs can only be used to settle the obligations of each respective VIE. However, we may pledge our retained interests in our consolidated VIEs as collateral under our repurchase agreements and derivative contracts. Please refer to Note 4 for additional information regarding our consolidated VIEs.

The following table summarizes our securities pledged as collateral under our repurchase agreements by the remaining maturity of our borrowings, including securities pledged related to sold but not yet settled securities, as of September 30, 2018 and December 31, 2017 (in millions). For the corresponding borrowings associated with the following amounts and the interest rates thereon, refer to Note 5.

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Securities Pledged by Remaining Maturity of Repurchase Agreements	September 30, 2018 Fair Value of Pledged Securities	Amortized Cost of Pledged Securities	Accrued Interest on Pledged Securities	December 31, 2017 Fair Value of Pledged Securities	Amortized Cost of Pledged Securities	Accrued Interest on Pledged Securities
RMBS:[1,2]						
≤ 30 days	$36,636	$ 37,892	$ 114	$20,162	$ 20,313	$ 59
> 30 and ≤ 60 days	9,512	9,728	29	12,950	13,061	38
> 60 and ≤ 90 days	7,774	8,017	25	4,000	4,013	11
> 90 days	14,187	14,742	44	15,385	15,512	45
Total RMBS	$68,109	$ 70,379	$ 212	$52,497	$ 52,899	$ 153

1. Includes $163 million and $182 million of retained interests in our consolidated VIEs pledged as collateral under repurchase agreements as of September 30, 2018 and December 31, 2017, respectively.
2. September 30, 2018 amounts exclude $426 million of repledged U.S. Treasury securities received as collateral from counterparties.

Assets Pledged from Counterparties

As of September 30, 2018 and December 31, 2017, we had assets pledged to us from counterparties as collateral under our reverse repurchase and derivative agreements summarized in the tables below (in millions).

Assets Pledged to AGNC	September 30, 2018 Reverse Repurchase Agreements	Derivative Agreements	Total	December 31, 2017 Reverse Repurchase Agreements	Derivative Agreements	Total
U.S. Treasury securities - fair value	$16,165	$ 80	$16,245	$10,853	$ —	$10,853
Cash	—	282	282	—	82	82
Total	$16,165	$ 362	$16,527	$10,853	$ 82	$10,935

U.S Treasury securities received as collateral under our reverse repurchase agreements for which we use to cover short sales of U.S. Treasury securities are accounted for as securities borrowing transactions. We recognize a corresponding obligation to return the borrowed securities at fair value on the accompanying consolidated balance sheets based on the value of the underlying borrowed securities as of the reporting date.

Cash collateral received is recognized in cash and cash equivalents with a corresponding amount recognized in accounts payable and other accrued liabilities on the accompanying consolidated balance sheets.

Offsetting Assets and Liabilities

Certain of our repurchase agreements and derivative transactions are governed by underlying agreements that generally provide for a right of setoff under master netting arrangements (or similar agreements), including in the event of default or in the event of bankruptcy of either party to the transactions. We present our assets and liabilities subject to such arrangements on a gross basis in our consolidated balance sheets. The following tables present information about our assets and liabilities that are subject to master netting arrangements and can potentially be offset on our consolidated balance sheets as of September 30, 2018 and December 31, 2017 (in millions):

Offsetting of Financial and Derivative Assets

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets: Financial Instruments	Gross Amounts Not Offset in the Consolidated Balance Sheets: Collateral Received [2]	Net Amount
September 30, 2018						
Interest rate swap and swaption agreements, at fair value [1]	$374	$ —	$ 374	$(1)	$(334)	$ 39
TBA securities, at fair value	18	—	18	(18)	—	—
Receivable under reverse repurchase agreements	16,309	—	16,309	(13,269)	(3,036)	4
Total	$16,701	$ —	$ 16,701	$(13,288)	$(3,370)	$ 43
December 31, 2017						
Interest rate swap and swaption agreements, at fair value [1]	$156	$ —	$ 156	$(1)	$(82)	$ 73
TBA securities, at fair value	30	—	30	(22)	—	8
Receivable under reverse repurchase agreements	10,961	—	10,961	(9,682)	(1,279)	—
Total	$11,147	$ —	$ 11,147	$(9,705)	$(1,361)	$ 81

Offsetting of Financial and Derivative Liabilities

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets: Financial Instruments	Gross Amounts Not Offset in the Consolidated Balance Sheets: Collateral Pledged [2]	Net Amount
September 30, 2018						
Interest rate swap agreements, at fair value [1]	$1	$ —	$ 1	$(1)	$—	$ —
TBA securities, at fair value	61	—	61	(18)	(43)	—
Repurchase agreements	65,734	—	65,734	(13,269)	(52,465)	—
Total	$65,796	$ —	$ 65,796	$(13,288)	$(52,508)	$ —
December 31, 2017						
Interest rate swap agreements, at fair value [1]	$1	$ —	$ 1	$(1)	$—	$ —
TBA securities, at fair value	27	—	27	(22)	(5)	—
Repurchase agreements and FHLB advances	50,296	—	50,296	(9,682)	(40,614)	—
Total	$50,324	$ —	$ 50,324	$(9,705)	$(40,619)	$ —

1. Reported under derivative assets / liabilities, at fair value in the accompanying consolidated balance sheets. Refer to Note 6 for a reconciliation of derivative assets / liabilities, at fair value to their sub-components.
2. Includes cash and securities pledged / received as collateral, at fair value. Amounts presented are limited to collateral pledged sufficient to reduce the net amount to zero for individual counterparties, as applicable.

Note 8. Fair Value Measurements

We determine the fair value of our financial instruments based on our estimate of the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. We typically obtain price estimates from multiple third-party pricing services and dealers or, if applicable, the clearing exchange (see Note 3 for further details.) We utilize a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels of valuation hierarchy are defined as follows:

- Level 1 Inputs —Quoted prices (unadjusted) for identical unrestricted assets and liabilities in active markets that are accessible at the measurement date.

- Level 2 Inputs —Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
- Level 3 Inputs —Instruments with primarily unobservable market data that cannot be corroborated.

The availability of observable inputs can vary by instrument and is affected by a wide variety of factors, including the type of instrument, whether the instrument is new and not yet established in the marketplace and other characteristics particular to the instrument. Third-party pricing sources may also use certain unobservable inputs, such as assumptions of future levels of prepayment, defaults and loss severities, especially when estimating fair values for securities with lower levels of recent trading activity.

We make inquiries of third-party pricing sources to understand the significant inputs and assumptions they used to determine their prices. We also review third-party price estimates and perform procedures to validate their reasonableness, including an analysis of the range of estimates for each position, comparison to recent trade activity for similar securities, and for consistency with market conditions observed as of the measurement date. While we do not adjust prices we obtain from pricing sources, we will exclude prices for securities from our estimation of fair value if we determine (based on our validation procedures and our market knowledge and expertise) that the price is significantly different from what observable market data would indicate and we cannot obtain an understanding from the third-party source as to the significant inputs used to determine the price.

The validation procedures described above also influence our determination of the appropriate fair value measurement categorization. The following table provides a summary of our assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017 based on their categorization within the valuation hierarchy (in millions). There were no transfers between valuation hierarchy levels during the periods presented.

	September 30, 2018			December 31, 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets:						
Agency securities	$—	$70,408	$ —	$—	$55,506	$ —
Agency securities transferred to consolidated VIEs	—	453	—	—	662	—
Credit risk transfer securities	—	997	—	—	876	—
Non-Agency securities	—	507	—	—	36	—
U.S. Treasury securities	109	—	—	—	—	—
REIT equity securities	—	—	—	29	—	—
Interest rate swaps	—	217	—	—	81	—
Swaptions	—	157	—	—	75	—
TBA securities	—	18	—	—	30	—
U.S. Treasury futures	20	—	—	19	—	—
Total	$129	$72,757	$ —	$48	$57,266	$ —
Liabilities:						
Debt of consolidated VIEs	$—	$291	$ —	$—	$357	$ —
Obligation to return U.S. Treasury securities borrowed under reverse repurchase agreements	15,549	—	—	10,467	—	—
Interest rate swaps	—	1	—	—	1	—
TBA securities	—	61	—	—	27	—
Total	$15,549	$353	$ —	$10,467	$385	$ —

Excluded from the table above are financial instruments, including cash and cash equivalents, restricted cash and cash equivalents, receivables, payables and borrowings under repurchase agreements, which are presented in our consolidated financial statements at cost. The cost basis of these instruments is determined to approximate fair value due to their short duration or, in the case of longer-term repo, due to floating rates of interest based on an index plus or minus a fixed spread which is consistent with fixed spreads demanded in the market. We estimate the fair value of these instruments using "Level 1" or "Level 2" inputs.

Note 9. Net Income Per Common Share

Basic net income per common share includes no dilution and is computed by dividing net income applicable to common stock by the weighted-average number of common shares outstanding for the respective period. Diluted earnings per common share includes the impact of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares outstanding include unvested restricted stock units and performance share units granted under our long-term incentive program to employees and non-employee Board of Directors. The following table presents the computations of basic and diluted net income per common share for the periods indicated (shares and dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Weighted average number of common shares outstanding - basic	462.3	364.7	419.8	347.5
Unvested restricted stock units and performance share units	0.4	0.2	0.3	0.1
Weighted average number of common shares outstanding - diluted	462.7	364.9	420.1	347.6
Net income available to common stockholders	$207	$271	$906	$357
Net income per common share - basic	$0.45	$0.74	$2.16	$1.03
Net income per common share - diluted	$0.45	$0.74	$2.16	$1.03

Note 10. Stockholders' Equity

Preferred Stock

Pursuant to our amended and restated certificate of incorporation, we are authorized to designate and issue up to 10.0 million shares of preferred stock in one or more classes or series. As of December 31, 2017 and September 30, 2018, 8,050 shares were designated as 7.750% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock") and 13,800 shares were designated as 7.00% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock ("Series C Preferred Stock"). Shares of Series B and Series C Preferred Stock are represented by depositary shares equal to 1/1000 interest in each share of Series B and Series C Preferred Stock, respectively. As of December 31, 2017 and September 30, 2018, we had 7,000 shares of Series B Preferred Stock and 13,000 shares of Series C Preferred Stock outstanding (represented by 7.0 million Series B depositary shares and 13.0 million Series C depositary shares outstanding, respectively) and 9,980,000 of authorized but unissued shares of preferred stock.
Holders of depository shares underlying our Series B Preferred Stock are entitled to receive cumulative cash dividends at a rate of 7.750% per annum of their $25.00 per depositary share liquidation preference. Holders of depositary shares underlying our Series C Preferred Stock are entitled to receive cumulative cash dividends at a rate of 7.00% per annum up to, and including, October 14, 2022 and thereafter at a floating rate equal to three-month LIBOR plus a spread of 5.111% per annum of their $25.00 per depositary share liquidation preference. Dividends are payable quarterly in arrears on the 15th day of each January, April, July and October. As of September 30, 2018, we had declared all required quarterly dividends on our preferred stock.
Our preferred stock ranks senior to our common stock with respect to the payment of dividends and the distribution of assets upon a voluntary or involuntary liquidation, dissolution or winding up of the Company. Our preferred stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and ranks on parity with each other. Under certain circumstances upon a change of control, our preferred stock is convertible to shares of our common stock. Holders of our preferred stock and depository shares underlying our preferred stock have no voting rights, except under limited conditions. Beginning on May 8, 2019 and October 15, 2022, depository shares underlying our Series B and Series C Preferred Stock, respectively, will be redeemable at $25.00 per depositary share, plus accumulated and unpaid dividends (whether or not declared) exclusively at our option. We may redeem shares of our preferred stock prior to our optional redemption date under certain circumstances intended to preserve our

qualification as a REIT for Federal income tax purposes.

Common Stock Offerings

In May 2018, we completed a public offering in which 34.5 million shares of our common stock were sold to the underwriters for proceeds of $633 million, or $18.35 per common share, net of offering costs. In August 2018, we completed a follow-on public offering of 43.7 million shares of our common stock for proceeds of $817 million, or $18.68 per common share, net of estimated offering costs. In May 2017, we completed a public offering in which 24.5 million shares of our common stock were sold to the underwriters for proceeds of $503 million, or $20.51 per common share, net of offering costs. In September 2017, we completed

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a public offering in which 28.2 million shares of our common stock were sold to the underwriters for proceeds of $577 million, or $20.47 per common share, net of estimated offering costs.

At-the-Market Offering Program

We have entered into agreements with sales agents to publicly offer and sell shares of our common stock in privately negotiated and/or at-the-market transactions from time-to-time up to a maximum aggregate offering price of our common stock. On June 14, 2018, our existing sales agreement terminated and we entered into new sales agreements for shares of our common stock having an aggregate offering price of up to $1 billion. During the three months ended September 30, 2018, we did not sell any shares of our common stock under the sales agreements. During the nine months ended September 30, 2018, we sold 8.3 million shares of our common stock under the sales agreements for proceeds of $155 million, or $18.73 per common share, net of offering costs. During the three and nine months ended September 30, 2017, we sold 7.6 million shares of our common stock under the sales agreements for proceeds of $159 million or $20.96 per common share, net of offering costs. As of September 30, 2018, shares of our common stock with an aggregate offering price of $881 million remained available for issuance under this program.

Accumulated Other Comprehensive Income (Loss)

The following table summarizes changes to accumulated OCI for the three and nine months ended September 30, 2018 and 2017 (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
Accumulated Other Comprehensive Income (Loss)	2018	2017	2018	2017
Beginning Balance	$(1,111)	$(230)	$(345)	$(397)
OCI before reclassifications	(229)	89	(1,014)	168
(Gain) loss amounts for available-for-sale securities reclassified from accumulated OCI to realized gain (loss) on sale of investment securities	36	1	55	89
Ending Balance	$(1,304)	$(140)	$(1,304)	$(140)

Note 11. Subsequent Events

On October 11, 2018, our Board of Directors declared a monthly dividend of $0.18 per common share, payable on November 9, 2018 to common stockholders of record as of October 31, 2018.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide a reader of AGNC Investment Corp.'s consolidated financial statements with a narrative from the perspective of management, and should be read in conjunction with the consolidated financial statements and accompanying notes included in this Quarterly Report on Form 10-Q for quarterly period ended September 30, 2018. Our MD&A is presented in six sections:

- Executive Overview
- Financial Condition
- Results of Operations
- Liquidity and Capital Resources
- Off-Balance Sheet Arrangements
- Forward-Looking Statements

EXECUTIVE OVERVIEW

We are an internally managed Real Estate Investment Trust ("REIT"). We commenced operations on May 20, 2008 following the completion of our initial public offering. Our common stock is traded on The Nasdaq Global Select Market under the symbol "AGNC."

As a REIT, we are required to distribute annually 90% of our taxable income. So long as we continue to qualify as a REIT, we will generally not be subject to U.S. Federal or state corporate taxes on our taxable income to the extent that we distribute all our annual taxable income to our stockholders on a timely basis. It is our intention to distribute 100% of our taxable income within the time limits prescribed by the Internal Revenue Code, which may extend into the subsequent taxable year.

We earn income primarily from investing in Agency residential mortgage-backed securities ("Agency RMBS") on a leveraged basis. These investments consist of residential mortgage pass-through securities and collateralized mortgage obligations for which the principal and interest payments are guaranteed by a U.S. Government-sponsored enterprise, such as the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac," and together with Fannie Mae, the "GSEs"), or by a U.S. Government agency, such as the Government National Mortgage Association ("Ginnie Mae"). We may also invest in other types of mortgage and mortgage-related residential and commercial mortgage-backed securities where repayment of principal and interest is not guaranteed by a GSE or U.S. Government agency.

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

The size and composition of our investment portfolio depends on the investment strategies we implement, availability of attractively priced investments, suitable financing to appropriately leverage our investment portfolio and overall market conditions. Market conditions are influenced by a variety of factors, including interest rates, prepayment expectations, liquidity, housing prices, unemployment rates, general economic conditions, government participation in the mortgage market, regulations and relative returns on other assets.

Trends and Recent Market Impacts

A strong U.S. economy drove U.S. stocks and Treasury yields higher for the first nine months of 2018. The yield curve flattened with the 10-year U.S. Treasury rate rising 65 basis points to 3.06% as of September 30, 2018, versus a 93 basis points rise in the two year U.S. Treasury rate. The increase in short term rates was driven primarily by the U.S. Federal Reserve’s decision to increase the federal funds rate three times, for a total of 75 basis points, during the first nine months of the year as it continued to move towards a neutral monetary policy stance. Consistent with general market sentiment, we believe the near-term bias is for rates to continue to move higher, but our expectation is that several potential factors, including escalating trade tensions, the challenging economic picture abroad, contained inflation, and/or a correction in asset valuations will ultimately limit rising interest rates over the next several quarters.

Agency RMBS spreads to swap and U.S. Treasury benchmark rates widened during the first quarter of 2018 but remained largely unchanged to slightly wider during the second and third quarters of the year. We anticipate that increased market volatility, higher rate expectations, and/or a further flattening of the yield curve could lead to additional spread widening over the near to intermediate term, which, while adversely affecting our tangible net book value, could also enhance the expected return on new investments and create the opportunity for us to increase leverage and improve the overall earnings potential of our investment portfolio.

The combination of higher rates and wider spreads led to a decline in our tangible net book value for the three and nine months ended September 30, 2018 of $(0.41) and $(1.69), respectively, or -2.2% and -8.6%, respectively. Our economic return for the same periods was 0.7% and -0.4%, respectively, which includes the decline in our tangible net book value and $0.54 and $1.62 per common share, respectively, of dividends declared.

Our investment portfolio totaled $81.8 billion, inclusive of TBA securities, as of September 30, 2018, which reflects an increase from $72.8 billion as of December 31, 2017 consistent with the deployment of $1.6 billion of new equity capital raised during the second and third quarters of the year. As of September 30, 2018, our "at risk" leverage ratio was 8.2x our tangible equity, up marginally from 8.1x as of December 31, 2017.

In an effort to mitigate the impact of further interest rate volatility, we maintained an elevated interest rate hedge position for the first three quarters of the year, which limited the adverse impact of the increase in interest rates on our tangible net book value. Our interest rate hedge position totaled 103% of our funding liabilities as of March 31, 2018, 99% as of June 30, 2018 and 95% as of September 30, 2018. We expect that our hedge portfolio will continue to mitigate, although not fully offset, our exposure to further rate increases. Our hedges are not designed to hedge against wider Agency RMBS spreads. Consequently, higher rates and/or wider mortgage spreads could reduce our tangible net book value. For information regarding our interest rate and spread sensitivity please refer to Item 3. Quantitative and Qualitative Disclosures about Market Risk of this Form 10-Q.

In line with the 75 basis points increase in the federal funds rate during the first three quarters of 2018, our repurchase agreement cost of funds increased by a similar amount to an average of 2.20% for the third quarter of the year. Our total cost of funds, which includes the cost of our repurchase agreements, the implied funding costs of our TBA securities and cost/benefit associated with our interest rate swap hedges, increased by 36 basis points to an average of 1.88% for the third quarter from 1.52% for the fourth quarter of 2017. During the first nine months of the year, our cost of funds benefited from a favorable spread differential between the rate that we paid on our repo funding and three-month LIBOR that we received on our pay fixed interest rate swaps. Although it has since moderated from its peak level earlier in the year, this positive funding dynamic continues to modestly benefit our cost of funds.

Our average asset yield, including the implied yield on our TBA assets and excluding "catch-up" premium amortization associated with changes in our CPR forecast, increased 30 basis points to 3.18% for the third quarter of 2018 from 2.88% for the fourth quarter of 2017. Our net interest spread, which represents the difference between our asset yield and our cost of funds, was 1.30% for the third quarter of 2018, compared to 1.36% for the fourth quarter of 2017.

Market Information

The following table summarizes interest rates and prices of generic fixed rate Agency RMBS as of each date presented below:

Interest Rate/Security Price [1]	Sept. 30, 2017	Dec. 31, 2017	Mar. 31, 2018	June 30, 2018	Sept. 30, 2018	Sept. 30, 2018 vs June 30, 2018	Sept. 30, 2018 vs Dec. 31, 2017
LIBOR:							
1-Month	1.23%	1.56%	1.88%	2.09%	2.26%	+0.17 bps	+0.70 bps
3-Month	1.33%	1.69%	2.31%	2.34%	2.40%	+0.06 bps	+0.71 bps
U.S. Treasury Security Rate:							
2-Year U.S. Treasury	1.48%	1.89%	2.27%	2.53%	2.82%	+0.29 bps	+0.93 bps
5-Year U.S. Treasury	1.93%	2.21%	2.57%	2.73%	2.95%	+0.22 bps	+0.74 bps
10-Year U.S. Treasury	2.33%	2.41%	2.74%	2.85%	3.06%	+0.21 bps	+0.65 bps
30-Year U.S. Treasury	2.86%	2.74%	2.97%	2.98%	3.20%	+0.22 bps	+0.46 bps
Interest Rate Swap Rate:							
2-Year Swap	1.73%	2.08%	2.58%	2.79%	2.99%	+0.20 bps	+0.91 bps
5-Year Swap	2.00%	2.24%	2.71%	2.88%	3.07%	+0.19 bps	+0.83 bps
10-Year Swap	2.28%	2.40%	2.78%	2.93%	3.12%	+0.19 bps	+0.72 bps
30-Year Swap	2.52%	2.53%	2.82%	2.93%	3.13%	+0.20 bps	+0.60 bps
30-Year Fixed Rate Agency Price:							
3.0%	$100.33	$100.02	$97.52	$96.86	$95.67	-$1.19	-$4.35
3.5%	$103.09	$102.70	$100.20	$99.52	$98.41	-$1.11	-$4.29
4.0%	$105.27	$104.59	$102.61	$101.96	$100.97	-$0.99	-$3.62
4.5%	$107.33	$106.40	$104.70	$104.13	$103.16	-$0.97	-$3.24
15-Year Fixed Rate Agency Price:							
2.5%	$100.69	$99.88	$97.98	$97.22	$96.47	-$0.75	-$3.41
3.0%	$102.75	$101.88	$99.88	$99.41	$98.77	-$0.64	-$3.11
3.5%	$104.14	$103.23	$101.94	$101.16	$100.51	-$0.65	-$2.72
4.0%	$103.13	$102.72	$102.63	$102.58	$101.98	-$0.60	-$0.74

1. Price information is for generic instruments only and is not reflective of our specific portfolio holdings. Price information is as of 3:00 p.m. (EST) on such date and can vary by source. Prices and interest rates in the table above were obtained from Barclays. LIBOR rates were obtained from Bloomberg.

FINANCIAL CONDITION

As of September 30, 2018 and December 31, 2017, our investment portfolio consisted of $72.4 billion and $57.1 billion of investment securities, at fair value, respectively, and $9.4 billion and $15.7 billion of TBA securities, at fair value, respectively. The following table is a summary of our investment portfolio as of September 30, 2018 and December 31, 2017 (dollars in millions):

Investment Portfolio (Includes TBAs) [1]	September 30, 2018 Amortized Cost	Fair Value	Average Coupon	%	December 31, 2017 Amortized Cost	Fair Value	Average Coupon	%
Fixed rate Agency RMBS and TBA securities:								
≤ 15-year:								
≤ 15-year RMBS	$6,989	$6,830	3.28 %	8 %	$8,951	$8,933	3.31 %	12 %
15-year TBA securities	4,673	4,654	3.53 %	6 %	5,025	5,015	2.90 %	7 %
Total ≤ 15-year	11,662	11,484	3.38 %	14 %	13,976	13,948	3.16 %	19 %
20-year RMBS	802	791	3.94 %	1 %	673	687	3.48 %	1 %
30-year:								
30-year RMBS	64,403	62,223	3.82 %	76 %	45,853	45,406	3.72 %	62 %
30-year TBA securities	4,763	4,739	4.27 %	6 %	10,714	10,727	3.40 %	15 %
Total 30-year	69,166	66,962	3.85 %	82 %	56,567	56,133	3.65 %	77 %
Total fixed rate Agency RMBS and TBA securities	81,630	79,237	3.79 %	97 %	71,216	70,768	3.55 %	97 %
Adjustable rate Agency RMBS	229	230	3.07 %	— %	278	283	2.90 %	1 %
CMO Agency RMBS:								
CMO	623	609	3.45 %	1 %	629	631	3.43 %	1 %
Interest-only strips	83	83	3.84 %	— %	101	112	4.39 %	— %
Principal-only strips	98	95	— %	— %	112	116	— %	— %
Total CMO Agency RMBS	804	787	3.32 %	1 %	842	859	3.58 %	1 %
Total Agency RMBS and TBA securities	82,663	80,254	3.78 %	98 %	72,336	71,910	3.55 %	99 %
Non-Agency RMBS	375	374	3.85 %	1 %	7	7	2.50 %	— %
CMBS	133	133	4.49 %	— %	28	29	6.55 %	— %
CRT	956	997	5.76 %	1 %	834	876	5.26 %	— %
Total investment portfolio	$84,127	$81,758	3.80 %	100%	$73,205	$72,822	3.57 %	100%

1. TBA securities are presented net of long and short positions. For further details of our TBA securities refer to Note 6 of the accompanying consolidated financial statements.

TBA securities are recorded as derivative instruments in our accompanying consolidated financial statements and our TBA dollar roll transactions represent a form of off-balance sheet financing. As of September 30, 2018 and December 31, 2017, our TBA positions had a net carrying value of $(43) million and $3 million, respectively, reported in derivative assets /(liabilities) on our accompanying consolidated balance sheets. The net carrying value represents the difference between the fair value of the underlying Agency security in the TBA contract and the contract price to be paid or received for the underlying Agency security.

As of September 30, 2018 and December 31, 2017, the weighted average yield on our investment securities (excluding TBA securities) was 3.22% and 2.89%, respectively.

The following tables summarize certain characteristics of our fixed rate Agency RMBS portfolio, inclusive of TBAs, as of September 30, 2018 and December 31, 2017 (dollars in millions):

	September 30, 2018								
	Includes Net TBA Position				Excludes Net TBA Position				
Fixed Rate Agency RMBS and TBA Securities	Par Value	Amortized Cost	Fair Value	% Lower Loan Balance & HARP [1,2]	Amortized Cost Basis	Weighted Average WAC [3]	Yield [4]	Age (Months)	Projected Life CPR [4]
Fixed rate ≤ 15-year									
2.5%	$1,414	$ 1,424	$1,377	59%	101.2%	2.98%	2.11%	71	9%
3.0%	2,746	2,783	2,717	59%	101.8%	3.51%	2.44%	54	9%
3.5%	4,628	4,701	4,656	41%	102.5%	4.02%	2.80%	32	9%
4.0%	2,501	2,573	2,556	39%	103.5%	4.46%	2.95%	46	9%
4.5%	172	179	176	98%	104.1%	4.87%	3.01%	96	11%
≥ 5.0%	2	2	2	27%	102.6%	6.56%	4.57%	131	13%
Total ≤ 15-year	11,463	11,662	11,484	48%	102.3%	3.78%	2.60%	50	9%
20-year									
3.5%	326	332	327	74%	102.1%	4.05%	3.00%	67	10%
4.0%	212	220	217	88%	103.5%	4.45%	3.29%	21	9%
4.5%	235	248	245	92%	105.3%	5.00%	3.37%	23	11%
≥ 5.0%	2	2	2	—%	105.9%	5.95%	3.34%	125	16%
Total 20-year:	775	802	791	84%	103.4%	4.46%	3.20%	41	10%
30-year:									
3.0%	3,429	3,403	3,292	3%	100.2%	3.59%	2.96%	47	5%
3.5%	23,051	23,925	22,788	58%	103.5%	4.05%	3.03%	36	6%
4.0%	29,930	31,269	30,389	59%	104.8%	4.50%	3.33%	26	7%
4.5%	9,858	10,334	10,263	63%	105.3%	4.96%	3.74%	16	7%
5.0%	137	147	145	69%	107.2%	5.52%	3.76%	78	8%
≥ 5.5%	80	88	85	35%	110.8%	6.18%	3.38%	144	11%
Total 30-year	66,485	69,166	66,962	57%	104.1%	4.34%	3.24%	30	6%
Total fixed rate	$78,723	$ 81,630	$79,237	56%	104.0%	4.29%	3.18%	32	7%

1. Lower loan balance securities represent pools backed by an original loan balance of ≤ $150,000. Our lower loan balance securities had a weighted average original loan balance of $102,000 and $113,000 for 15-year and 30-year securities, respectively, as of September 30, 2018.
2. HARP securities are defined as pools backed by 100% refinance loans with LTV ≥ 80%. Our HARP securities had a weighted average LTV of 117% and 136% for 15-year and 30-year securities, respectively, as of September 30, 2018.
3. WAC represents the weighted average coupon of the underlying collateral.
4. Portfolio yield incorporates a projected life CPR assumption based on forward rate assumptions as of September 30, 2018.

Fixed Rate Agency RMBS and TBA Securities	December 31, 2017 Includes Net TBA Position Par Value	Amortized Cost	Fair Value	% Lower Loan Balance & HARP [1,2]	Excludes Net TBA Position Amortized Cost Basis	Weighted Average WAC [3]	Yield [4]	Age (Months)	Projected Life CPR [4]
Fixed rate									
≤ 15-year									
≤ 2.5%	$3,041	$ 3,061	$3,046	32%	101.2%	2.98%	2.13%	63	9%
3.0%	5,616	5,749	5,724	33%	102.8%	3.49%	2.18%	62	10%
3.5%	2,710	2,804	2,804	75%	103.5%	3.96%	2.42%	69	11%
4.0%	2,054	2,134	2,145	89%	103.9%	4.40%	2.68%	84	11%
4.5%	215	224	225	98%	104.3%	4.87%	3.01%	88	12%
≥ 5.0%	4	4	4	17%	102.8%	6.56%	4.47%	125	44%
Total ≤ 15-year	13,640	13,976	13,948	51%	103.0%	3.77%	2.38%	70	10%
20-year									
≤ 3.0%	195	193	198	31%	99.4%	3.55%	3.10%	55	9%
3.5%	365	373	380	75%	102.1%	4.05%	3.00%	58	11%
4.0%	45	47	48	51%	104.2%	4.54%	2.96%	76	11%
4.5%	55	58	59	99%	106.5%	4.90%	2.95%	85	11%
≥ 5.0%	2	2	2	—%	106.0%	5.95%	3.32%	116	17%
Total 20-year:	662	673	687	62%	101.8%	4.02%	3.02%	61	10%
30-year:									
≤ 3.0%	7,583	7,576	7,592	1%	100.2%	3.58%	2.96%	43	6%
3.5%	24,045	25,072	24,800	56%	104.6%	4.04%	2.84%	35	7%
4.0%	21,015	22,348	22,166	64%	106.5%	4.47%	2.99%	29	9%
4.5%	1,271	1,366	1,369	71%	107.4%	4.98%	3.18%	62	10%
5.0%	97	103	104	65%	106.6%	5.45%	3.69%	116	10%
≥ 5.5%	92	102	102	36%	110.0%	6.18%	3.34%	135	14%
Total 30-year	54,103	56,567	56,133	52%	105.2%	4.23%	2.93%	34	8%
Total fixed rate	$68,405	$ 71,216	$70,768						