

ANWORTH MORTGAGE ASSET CORP

Form 10-Q

November 05, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2013

OR

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

For the transition period from _____ to _____

Commission File Number 001-13709

ANWORTH MORTGAGE ASSET CORPORATION

(Exact name of registrant as specified in its charter)

MARYLAND

52-2059785

Edgar Filing: ANWORTH MORTGAGE ASSET CORP - Form 10-Q

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

1299 Ocean Avenue, Second Floor,

Santa Monica, California 90401
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (310) 255-4493

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

Large accelerated filer ☐ Accelerated filer ☒
Non-accelerated filer ☐ Smaller reporting company ☐
(Do not check if a smaller reporting company)

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

At November 4, 2013, the registrant had 140,946,091 shares of common stock issued and outstanding.

ANWORTH MORTGAGE ASSET CORPORATION

FORM 10-Q

INDEX

	Page
Part I.	
<u>FINANCIAL INFORMATION</u>	3
Item 1.	
<u>Financial Statements</u>	3
<u>Balance Sheets as of September 30, 2013 (unaudited) and December 31, 2012</u>	3
<u>Statements of Income for the three and nine months ended September 30, 2013 and 2012 (unaudited)</u>	4
<u>Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2013 and 2012 (unaudited)</u>	5
<u>Statements of Stockholders' Equity for the three months ended March 31, 2013, June 30, 2013 and September 30, 2013 (unaudited)</u>	6
<u>Statements of Cash Flows for the three and nine months ended September 30, 2013 and 2012 (unaudited)</u>	7
<u>Notes to Unaudited Financial Statements</u>	8
Item 2.	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
Item 3.	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	37
Item 4.	
<u>Controls and Procedures</u>	40
Part II.	
<u>OTHER INFORMATION</u>	42
Item 1.	
<u>Legal Proceedings</u>	42
Item 1A.	
<u>Risk Factors</u>	42
Item 2.	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
Item 3.	
<u>Defaults Upon Senior Securities</u>	43
Item 4.	
<u>Mine Safety Disclosures</u>	43
Item 5.	
<u>Other Information</u>	43
Item 6.	
<u>Exhibits</u>	43
<u>Signatures</u>	46

ANWORTH MORTGAGE ASSET CORPORATION

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

ANWORTH MORTGAGE ASSET CORPORATION

BALANCE SHEETS

(in thousands, except per share amounts)

	September 30, 2013 (unaudited)	December 31, 2012
ASSETS		
Agency MBS:		
Agency MBS pledged to counterparties at fair value	\$ 8,124,478	\$ 8,523,557
Agency MBS at fair value	595,159	668,726
Paydowns receivable	46,613	52,410
	8,766,250	9,244,693
Cash and cash equivalents	13,003	2,910
Interest and dividends receivable	23,603	25,839
Derivative instruments at fair value	13,003	111
Prepaid expenses and other	12,927	11,552
Total Assets:	\$ 8,828,786	\$ 9,285,105
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Accrued interest payable	\$ 23,915	\$ 20,376
Repurchase agreements	7,575,000	8,020,000
Junior subordinated notes	37,380	37,380
Derivative instruments at fair value	81,347	96,144
Dividends payable on Series A Preferred Stock	1,035	1,011
Dividends payable on Series B Preferred Stock	394	414
Dividends payable on common stock	16,963	21,302
Payable for securities purchased	182,722	0
Accrued expenses and other	2,349	761
Total Liabilities:	\$ 7,921,105	\$ 8,197,388
Series B Cumulative Convertible Preferred Stock: par value \$0.01 per share; liquidating preference \$25.00 per share (\$25,241 and \$26,652, respectively); 1,010 and 1,066 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively	\$ 23,924	\$ 25,222
Stockholders' Equity:		
Series A Cumulative Preferred Stock: par value \$0.01 per share; liquidating preference \$25.00 per share (\$47,984 and \$46,935, respectively); 1,919 and 1,877 shares issued and outstanding at September 30, 2013 and December 31,	\$ 46,537	\$ 45,447

2012, respectively

Common Stock: par value \$0.01 per share; authorized 200,000 shares,
141,603 and 142,013 issued and outstanding at September 30, 2013 and
December 31, 2012, respectively

	1,416	1,420
Additional paid-in capital	1,198,024	1,197,793
Accumulated other comprehensive (loss) income consisting of unrealized losses and gains	(100,632)	79,776
Accumulated deficit	(261,588)	(261,941)
Total Stockholders' Equity:	\$ 883,757	\$ 1,062,495
Total Liabilities and Stockholders' Equity:	\$ 8,828,786	\$ 9,285,105

See accompanying notes to unaudited financial statements.

ANWORTH MORTGAGE ASSET CORPORATION

STATEMENTS OF INCOME

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Interest income:				
Interest on Agency MBS	\$ 42,646	\$ 47,177	\$ 131,326	\$ 150,753
Other income	11	14	42	44
	42,657	47,191	131,368	150,797
Interest expense:				
Interest expense on repurchase agreements	22,484	21,408	63,432	62,651
Interest expense on junior subordinated notes	321	339	962	1,024
	22,805	21,747	64,394	63,675
Net interest income	19,852	25,444	66,974	87,122
Gain on sales of Agency MBS	1,991	0	9,237	0
Recovery on Non-Agency MBS	100	299	333	1,272
Expenses:				
Management fee to related party	(2,982)	(2,892)	(9,009)	(8,603)
Other expenses	(953)	(900)	(2,905)	(2,907)
Total expenses	(3,935)	(3,792)	(11,914)	(11,510)
Net income	\$ 18,008	\$ 21,951	\$ 64,630	\$ 76,884
Dividend on Series A Cumulative Preferred Stock	(1,035)	(1,011)	(3,107)	(3,033)
Dividend on Series B Cumulative Convertible Preferred Stock	(394)	(412)	(1,200)	(1,311)
Net income to common stockholders	\$ 16,579	\$ 20,528	\$ 60,323	\$ 72,540
Basic earnings per common share	\$ 0.12	\$ 0.15	\$ 0.42	\$ 0.53
Diluted earnings per common share	\$ 0.12	\$ 0.15	\$ 0.42	\$ 0.52
Basic weighted average number of shares outstanding	142,380	139,209	143,176	137,120
Diluted weighted average number of shares outstanding	146,287	143,148	147,118	141,252

See accompanying notes to unaudited financial statements.

ANWORTH MORTGAGE ASSET CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	\$ 18,008	\$ 21,951	\$ 64,630	\$ 76,884
Available-for-sale Agency MBS, fair value adjustment	10,247	48,678	(198,882)	85,827
Reclassification adjustment for net (gains) on sales of Agency MBS included in net income	(1,991)	0	(9,237)	0
Unrealized (losses) on cash flow hedges	(40,863)	(22,350)	(10,715)	(52,454)
Reclassification adjustment for interest expense on swap agreements included in net income	14,633	13,122	38,426	40,759
Other comprehensive (loss) income	(17,974)	39,450	(180,408)	74,132
Comprehensive income (loss)	\$ 34	\$ 61,401	\$ (115,778)	\$ 151,016

See accompanying notes to unaudited financial statements.

ANWORTH MORTGAGE ASSET CORPORATION

STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except per share amounts)

(unaudited)

	Series A Preferred Stock Shares	Common Stock Shares	Series A Preferred Stock Par Value	Common Stock Par Value	Additional Paid-In Capital	Accum. Other Comp. Income (Loss) Agency MBS	Accum. Other Comp. (Loss) Derivatives	Accum. (Deficit)
2012	1,877	142,013	\$ 45,447	\$ 1,420	\$ 1,197,793	\$ 175,799	\$ (96,023)	\$ (261,941)
2013	42	0	1,090	0	0	0	0	0
2014	0	2,272	0	23	13,825	0	0	0
2015	0	(100)	0	(1)	(577)	0	0	0
2016	0	0	0	0	0	(25,313)	12,685	0
2017	0	0	0	0	0	0	0	23,624
2018	0	0	0	0	50	0	0	0
2019	0	0	0	0	0	0	0	(1,021)
2020	0	0	0	0	0	0	0	(436)
2021	0	0	0	0	0	0	0	(21,628)
2022	1,919	144,185	\$ 46,537	\$ 1,442	\$ 1,211,091	\$ 150,486	\$ (83,338)	\$ (261,402)
2023	0	1,269	0	13	7,469	0	0	0
2024	0	(3,102)	0	(31)	(17,560)	0	0	0
2025	0	0	0	0	0	(191,062)	41,256	0

	0	0	0	0	0	0	0	22,998
	0	0	0	0	50	0	0	0
63								
	0	0	0	0	0	0	0	(1,051)
25								
	0	0	0	0	0	0	0	(370)
er								
	0	0	0	0	0	0	0	(21,379)
	1,919	142,352	\$ 46,537	\$ 1,424	\$ 1,201,050	\$ (40,576)	\$ (42,082)	\$ (261,204)
	0	723	0	7	3,593	0	0	0
	0	(1,472)	0	(15)	(6,670)	0	0	0
	0	0	0	0	0	8,256	(26,230)	0
	0	0	0	0	0	0	0	18,008
	0	0	0	0	51	0	0	0
63								
	0	0	0	0	0	0	0	(1,035)
25								
	0	0	0	0	0	0	0	(394)
er								
	0	0	0	0	0	0	0	(16,963)
	1,919	141,603	\$ 46,537	\$ 1,416	\$ 1,198,024	\$ (32,320)	\$ (68,312)	\$ (261,588)

See accompanying notes to unaudited financial statements.

ANWORTH MORTGAGE ASSET CORPORATION

STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Operating Activities:				
Net income	\$ 18,008	\$ 21,951	\$ 64,630	\$ 76,884
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization of premium and discounts (Agency MBS)	15,478	19,382	50,481	52,588
Gain on sales of Agency MBS	(1,991)	0	(9,237)	0
Amortization of restricted stock	51	51	152	152
Recovery on Non-Agency MBS	(100)	(299)	(333)	(1,272)
Changes in assets and liabilities:				
Decrease in interest receivable	2,251	369	2,236	1,490
(Increase) decrease in prepaid expenses and other	(8,600)	175	(1,375)	69
Increase (decrease) in accrued interest payable	6,621	(584)	3,561	(2,839)
Increase (decrease) in accrued expenses	25	(956)	1,588	152
Net cash provided by operating activities	\$ 31,743	\$ 40,089	\$ 111,703	\$ 127,224
Investing Activities:				
Available-for-sale Agency MBS:				
Proceeds from sale	\$ 342,479	\$ 0	\$ 636,807	\$ 0
Purchases	(149,736)	(859,694)	(2,170,895)	(2,317,419)
Principal payments	637,215	682,864	1,946,224	1,855,776
Net cash provided by (used in) investing activities	\$ 829,958	\$ (176,830)	\$ 412,136	\$ (461,643)
Financing Activities:				
Borrowings from repurchase agreements	\$ 11,055,507	\$ 11,813,000	\$ 33,602,580	\$ 32,923,875
Repayments on repurchase agreements	(11,885,507)	(11,675,000)	(34,047,580)	(32,558,875)
Proceeds from common stock issued, net of common stock repurchased	(3,085)	21,644	(2,560)	47,432
Proceeds from Series B Preferred Stock issued	0	0	1,335	0
Proceeds from Series A Preferred Stock issued	0	0	1,090	0
Series A Preferred stock dividends paid	(1,035)	(1,011)	(3,082)	(3,033)
Series B Preferred stock dividends paid	(394)	(449)	(1,221)	(1,349)
Common stock dividends paid	(21,353)	(24,855)	(64,308)	(81,514)

Edgar Filing: ANWORTH MORTGAGE ASSET CORP - Form 10-Q

Net cash (used in) provided by financing activities	\$	(855,867)	\$	133,329	\$	(513,746)	\$	326,536
Net increase (decrease) in cash and cash equivalents	\$	5,834	\$	(3,412)	\$	10,093	\$	(7,883)
Cash and cash equivalents at beginning of period		7,169		4,406		2,910		8,877
Cash and cash equivalents at end of period	\$	13,003	\$	994	\$	13,003	\$	994
Supplemental Disclosure of Cash Flow Information:								
Cash paid for interest	\$	16,184	\$	22,330	\$	60,832	\$	66,514
Conversions of Series B Preferred Stock into common stock	\$	0	\$	0	\$	2,633	\$	0
Treasury stock purchased	\$	6,707	\$	0	\$	24,877	\$	0
Change in payable for securities purchased	\$	147,049	\$	(92,581)	\$	182,722	\$	5,663

See accompanying notes to unaudited financial statements.

ANWORTH MORTGAGE ASSET CORPORATION

NOTES TO UNAUDITED FINANCIAL STATEMENTS

As used in this Quarterly Report on Form 10-Q, Company, we, us, our, and Anworth refer to Anworth Mortgage Asset Corporation.

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

We were incorporated in Maryland on October 20, 1997 and we commenced operations on March 17, 1998. We are in the business of investing primarily in United States, or U.S., agency mortgage-backed securities, or Agency MBS. Agency MBS are securities representing obligations guaranteed by the U.S. government, such as Ginnie Mae, or guaranteed by federally sponsored enterprises, such as Fannie Mae or Freddie Mac. Our principal business objective is to generate net income for distribution to our stockholders based upon the spread between the interest income on our mortgage assets and the costs of borrowing to finance our acquisition of those assets.

We have elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, or the Code. As a REIT, we routinely distribute substantially all of the taxable income generated from our operations to our stockholders. As long as we retain our REIT status, we generally will not be subject to federal or state taxes on our income to the extent that we distribute our taxable net income to our stockholders.

Effective as of December 31, 2011, we entered into a Management Agreement, or the Management Agreement, with Anworth Management, LLC, or the Manager, which effected the externalization of our management function, or the Externalization. Since the effective date, our day-to-day operations are being conducted by the Manager through the authority delegated to it under the Management Agreement and pursuant to the policies established by our board of directors. The Manager is supervised and directed by our board of directors and is responsible for (i) the selection, purchase and sale of our investment portfolio; (ii) our financing and hedging activities; and (iii) providing us with management services. The Manager will also perform such other services and activities relating to our assets and operations as may be appropriate. In exchange for these services, the Manager receives a management fee paid monthly in arrears in an amount equal to one-twelfth of 1.20% of our Equity (as defined in the Management Agreement).

BASIS OF PRESENTATION

The accompanying unaudited financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles utilized in the United States of America, or GAAP. 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 revenues and expenses during the reporting period. Material estimates that are susceptible to change relate to the determination of the fair value of securities, amortization of security premiums and accretion of security discounts and accounting for derivatives and hedging activities. Actual results could materially differ from these estimates. In the opinion of management, all material adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included. The operating results for the three and nine months ended September 30, 2013 and 2012 are not necessarily indicative of the results that may be expected for the calendar year. The interim financial information in the accompanying unaudited financial statements and the notes thereto should be read in conjunction with the audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

The following is a summary of our significant accounting policies:

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and highly liquid investments with original maturities of three months or less. The carrying amount of cash equivalents approximates their fair value.

Reverse Repurchase Agreements

We use securities purchased under agreements to resell, or reverse repurchase agreements, as a means of investing excess cash. Although legally structured as a purchase and subsequent resale, reverse repurchase agreements are treated as financing instruments under which the counterparty pledges securities (U.S. treasury securities or Agency MBS) and accrued interest as collateral to secure a loan. The difference between the purchase price that we pay and the resale price that we receive represents interest paid to us and is included in Other income on our unaudited statements of income. It is our policy to generally take possession of securities purchased under reverse repurchase agreements at the time such agreements are made.

Mortgage-Backed Securities (MBS)

Agency MBS are securities that are obligations (including principal and interest) guaranteed by the U.S. government, such as Ginnie Mae, or guaranteed by federally sponsored enterprises, such as Fannie Mae or Freddie Mac. Our investment-grade Agency MBS portfolio is invested primarily in fixed-rate and adjustable-rate mortgage-backed pass-through certificates and hybrid adjustable-rate MBS. Hybrid adjustable-rate MBS have an initial interest rate that is fixed for a certain period, from three to ten years, and then adjusts annually for the remainder of the term of the asset. We structure our investment portfolio to be diversified with a variety of prepayment characteristics, investing in mortgage assets with prepayment penalties, investing in certain mortgage security structures that have prepayment protections and purchasing mortgage assets at a premium and at a discount. Our portfolio also includes a small amount of Non-Agency MBS (approximately \$70 thousand) and this is now included with the Agency MBS. Prior period balances have been presented consistent with this treatment.

We classify our MBS as either trading investments, available-for-sale investments or held-to-maturity investments. Our management determines the appropriate classification of the securities at the time they are acquired and evaluates the appropriateness of such classifications at each balance sheet date. We currently classify all of our MBS as available-for-sale. All assets that are classified as available-for-sale are carried at fair value and unrealized gains or losses are generally included in Other comprehensive income (loss) as a component of stockholders' equity. Losses that are credit-related on securities classified as available-for-sale, which are determined by management to be other-than-temporary in nature, are reclassified from Other comprehensive income to income (loss).

The most significant source of our revenue is derived from our investments in MBS. Interest income on Agency MBS is accrued based on the actual coupon rate and the outstanding principal amount of the underlying mortgages. Premiums and discounts are amortized or accreted into interest income over the estimated lives of the securities using the effective interest yield method, adjusted for the effects of actual prepayments based on the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, 320-10. Our policy for estimating prepayment speeds for calculating the effective yield is to evaluate historical performance, street consensus prepayment speeds and current market conditions. If our estimate of prepayments is materially incorrect, as compared to the aforementioned references, we may be required to make an adjustment to the amortization or accretion of premiums and discounts that would have an impact on future income, which could be material and adverse.

Securities are recorded on the date the securities are purchased or sold. Realized gains or losses from securities transactions are determined based on the specific identified cost of the securities.

The following table shows our investments' gross unrealized losses and fair value of those individual securities that have been in a continuous unrealized loss position at September 30, 2013 and December 31, 2012, aggregated by investment category and length of time (dollar amounts in thousands):

September 30, 2013

Description of Securities	Number of Securities	Less Than 12 Months		Number of Securities	12 Months or More		Number of Securities	Total	
		Fair Value	Unrealized Losses		Fair Value	Unrealized Losses		Fair Value	Unrealized Losses
Agency MBS	211	\$4,756,633	\$(116,219)	206	\$227,816	\$(4,319)	417	\$4,984,449	\$(120,538)

December 31, 2012

Description of Securities	Less Than 12 Months			12 Months or More			Total		
	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
Agency MBS	68	\$907,972	\$(2,457)	207	\$283,638	\$(4,117)	275	\$1,191,610	\$(6,574)

We do not consider those Agency MBS that have been in a continuous loss position for 12 months or more to be other-than-temporarily impaired. The unrealized losses on our investments in Agency MBS were caused by fluctuations in interest rates. We purchased the Agency MBS primarily at a premium relative to their face value and the contractual cash flows of those investments are guaranteed by the U.S. government or government-sponsored agencies. Since September 2008, the government-sponsored agencies have been in the conservatorship of the U.S. government. At September 30, 2013, we did not expect to sell the Agency MBS at a price less than the amortized cost basis of our investments. Because the decline in market value of the Agency MBS is attributable to changes in interest rates and not the credit quality of the Agency MBS in our portfolio, and because we do not have the intent to sell these investments, nor is it more likely than not that we will be required to sell these investments before recovery of their amortized cost basis, which may be at maturity, we do not consider these investments to be other-than-temporarily impaired at September 30, 2013.

Repurchase Agreements

We finance the acquisition of MBS primarily through the use of repurchase agreements. Under these repurchase agreements, we sell securities to a lender and agree to repurchase the same securities in the future for a price that is higher than the original sales price. The difference between the sale price that we receive and the repurchase price that we pay represents interest paid to the lender. Although structured as a sale and repurchase obligation, a repurchase agreement operates as a financing under which we pledge our securities and accrued interest as collateral to secure a loan which is equal in value to a specified percentage of the estimated fair value of the pledged collateral. We retain beneficial ownership of the pledged collateral. Upon the maturity of a repurchase agreement, we are required to repay the loan and concurrently receive back our pledged collateral from the lender or, with the consent of the lender, we may renew such agreement at the then-prevailing financing rate. These repurchase agreements may require us to pledge additional assets to the lender in the event the estimated fair value of the existing pledged collateral declines.

Derivative Financial Instruments

Interest Rate Risk Management

We primarily use short-term (less than or equal to 12 months) repurchase agreements to finance the purchase of MBS. These obligations expose us to variability in interest payments due to changes in interest rates. We continuously monitor changes in interest rate exposures and evaluate hedging opportunities.

Our objective is to limit the impact of interest rate changes on earnings and cash flows. We achieve this by entering into interest rate swap agreements, which effectively convert a percentage of our repurchase agreements to fixed-rate obligations over a period of up to ten years. Under interest rate swap contracts, we agree to pay an amount equal to a specified fixed rate of interest times a notional principal amount and to receive in return an amount equal to a specified variable-rate of interest times a notional amount, generally based on the London Interbank Offered Rate, or LIBOR. The notional amounts are not exchanged. We account for these swap agreements as cash flow hedges in accordance with ASC 815-10. We do not issue or hold derivative contracts for speculative purposes.

For all interest rate swap agreements entered into prior to September 9, 2013, we are exposed to credit losses in the event of non-performance by counterparties to interest rate swap agreements. In order to limit credit risk associated with swap agreements, our current practice is to only enter into swap agreements with large financial institution counterparties who are market makers for these types of instruments, limit our exposure on each swap agreement to a single counterparty under our defined guidelines and either pay or receive collateral to or from each counterparty on a periodic basis to cover the net fair market value position of the swap agreements held with that counterparty.

For all interest rate swap agreements entered into on or after September 9, 2013, all swap participants are required by rules of the Commodities Futures Trading Commission, or CFTC, under authority granted to it pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, to clear swaps through a registered derivatives clearing organization, or swap execution facility, through standardized documents under which each swap counterparty transfers its position to another entity whereby a central clearinghouse effectively becomes the counterparty on each side of the swap. It is the intent of the Dodd-Frank Act that the clearing of swaps in this manner is designed to avoid concentration of risk in any single entity by spreading and centralizing the risk in the clearinghouse and its members.

Accounting for Derivatives and Hedging Activities

In accordance with ASC 815-10, a derivative that is designated as a hedge is recognized as an asset/liability and measured at estimated fair value. In order for our interest rate swap agreements to qualify for hedge accounting, upon entering into the swap agreement, we must anticipate that the hedge will be highly effective as defined by ASC 815-10.

On the date we enter into a derivative contract, we designate the derivative as a hedge of the variability of cash flows that are to be received or paid in connection with a recognized asset or liability (a cash flow hedge). Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge, to the extent that the hedge is effective, are recorded in Other comprehensive income and reclassified to income when the forecasted transaction affects income (e.g., when periodic settlement interest payments are due on repurchase agreements). The swap agreements are carried on our balance sheets at their fair value, based on values obtained from large financial institutions who are market makers for these types of instruments. Hedge ineffectiveness, if any, is recorded in current-period income.

We formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. If it is determined that a derivative is not (or has ceased to be) highly effective as a hedge, we discontinue hedge accounting.

When we discontinue hedge accounting, the gain or loss on the derivative remains in Accumulated other comprehensive income and is reclassified into income when the forecasted transaction affects income. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, we will carry the derivative at its fair value on our balance sheet, recognizing changes in the fair value in current-period income.

For purposes of the cash flow statement, cash flows from derivative instruments are classified with the cash flows from the hedged item.

For more details on the amounts and other qualitative information on our swap agreements, see Note 12. For more information on the fair value of our swap agreements, see Note 6.

Credit Risk

At September 30, 2013, we have attempted to limit our exposure to credit losses on our MBS by purchasing securities primarily through Freddie Mac and Fannie Mae. The payment of principal and interest on the Freddie Mac and Fannie Mae MBS are guaranteed by those respective enterprises. In September 2008, both Freddie Mac and Fannie Mae were placed in the conservatorship of the U.S. government. While it is the intent that the conservatorship will help stabilize Freddie Mac's and Fannie Mae's losses and overall financial position, there can be no assurance that it will succeed or that, if necessary, Freddie Mac or Fannie Mae will be able to satisfy its guarantees of Agency MBS. In August 2011, the ratings of each of U.S. sovereign debt, Fannie Mae and Freddie Mac were downgraded from AAA to AA+ by Standard & Poor's, and affirmed at Aaa by Moody's Investors Service, or Moody's, with each of Standard & Poor's and Moody's revising the outlook on U.S. sovereign debt, Fannie Mae and Freddie Mac to negative. Each of Standard & Poor's and Moody's has indicated that it would likely change its ratings on Fannie Mae and Freddie Mac if it was to change its rating on the U.S. government. In June 2013, Standard & Poor's affirmed its AA+ long-term sovereign credit rating on the United States and revised the outlook from negative to stable, and in July 2013, Moody's affirmed its Aaa government bond rating of the United States and revised the outlook from negative to stable. We do not know what effect any changes in the ratings of U.S. sovereign debt, Fannie Mae and Freddie Mac will ultimately have on the U.S. economy, the value of our securities, or the ability of Fannie Mae and Freddie Mac to satisfy its guarantees of Agency MBS if necessary.

Our adjustable-rate MBS are subject to periodic and lifetime interest rate caps. Periodic caps can limit the amount an interest rate can increase during any given period. Some adjustable-rate MBS subject to periodic payment caps may result in a portion of the interest being deferred and added to the principal outstanding.

Other-than-temporary losses on our available-for-sale MBS, as measured by the amount of decline in estimated fair value attributable to credit losses that are considered to be other-than-temporary, are charged against income, resulting in an adjustment of the cost basis of such securities. Based on the criteria in ASC 320-10, the determination of whether a security is other-than-temporarily impaired, or OTTI, involves judgments and assumptions based on both subjective and objective factors. When a security is impaired, an OTTI is considered to have occurred if (i) we intend 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 its amortized cost basis (i.e., there is a credit-related loss). The following are among, but not all of, the factors considered in determining whether and to what extent an OTTI exists and the portion that is related to credit loss: (i) the expected cash flow from the investment; (ii) whether there has been an other-than-temporary deterioration of the credit quality of the underlying mortgages; (iii) the credit protection available to the related mortgage pool for MBS; (iv) any other market information available, including analysts' assessments and statements, public statements and filings made by the debtor or counterparty; (v) management's internal analysis of the security, considering all known relevant information at the time of assessment; and (vi) the magnitude and duration of historical decline in market prices. Because management's assessments are based on factual information as well as subjective information available at the time of assessment, the determination as to whether an other-than-temporary decline exists and, if so, the amount considered impaired, is also subjective and therefore constitutes material estimates that are susceptible to significant change.

Income Taxes

We have elected to be taxed as a REIT and to comply with the provisions of the Code with respect thereto. Accordingly, we will not be subject to federal income tax to the extent that our distributions to our stockholders satisfy the REIT requirements and that certain asset, income and stock ownership tests are met.

We have no unrecognized tax benefits and do not anticipate any increase in unrecognized benefits during 2013 relative to any tax positions taken prior to January 1, 2013. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is our policy to record such accruals in our income taxes accounts; and no such accruals existed at September 30, 2013. We file REIT U.S. federal and California income tax returns. These returns are generally open to examination by the IRS and the California Franchise Tax Board for all years after 2008 and 2007, respectively.

Cumulative Convertible Preferred Stock

We classify our Series B Cumulative Convertible Preferred Stock, or Series B Preferred Stock, on our balance sheets using the guidance in ASC 480-10-S99. The Series B Preferred Stock contains certain fundamental change provisions that allow the holder to redeem the preferred stock for cash only if certain events occur, such as a change in control. As redemption under these circumstances is not solely within our control, we have classified the Series B Preferred Stock as temporary equity.

We have analyzed whether the conversion features in the Series B Preferred Stock should be bifurcated under the guidance in ASC 815-10 and have determined that bifurcation is not necessary.

Stock-Based Expense

In accordance with ASC 718-10, any expense relating to share-based payment transactions is recognized in the unaudited financial statements.

Restricted stock is expensed over the vesting period (see Note 11).

Earnings Per Share

Basic earnings per share, or EPS, is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS assumes the conversion, exercise or issuance of all potential common stock equivalents (which includes stock options and convertible preferred stock) and the adding back of the Series B Preferred Stock dividends unless the effect is to reduce a loss or increase the income per share.

The computation of EPS for the three and nine months ended September 30, 2013 and 2012 is as follows (amounts in thousands, except per share data):

	Net Income Available to Common Stockholders	Average Shares	Earnings per Share
For the three months ended September 30, 2013			
Basic EPS	\$ 16,579	142,380	\$ 0.12
Effect of dilutive securities	394	3,907	0.00
Diluted EPS	\$ 16,973	146,287	\$ 0.12
For the three months ended September 30, 2012			
Basic EPS	\$ 20,528	139,209	\$ 0.15
Effect of dilutive securities	412	3,939	0.00
Diluted EPS	\$ 20,940	143,148	\$ 0.15

Net Income Available to	Average Shares	Earnings per
----------------------------	-------------------	-----------------

Edgar Filing: ANWORTH MORTGAGE ASSET CORP - Form 10-Q

	Common Stockholders		Share
For the nine months ended September 30, 2013			
Basic EPS	\$	60,323	143,176
Effect of dilutive securities		1,200	3,942
Diluted EPS	\$	61,523	147,118
For the nine months ended September 30, 2012			
Basic EPS	\$	72,540	137,120
Effect of dilutive securities		1,311	4,132
Diluted EPS	\$	73,851	141,252

For the three and nine months ended September 30, 2013 and 2012, options to purchase 5,000 and 494,700 shares of common stock, respectively, were outstanding and not included in the computation of diluted EPS as their exercise price and option expense exceeded the average stock price for those respective periods.

Accumulated Other Comprehensive Income

In accordance with ASC 220-10-55-2, total comprehensive income is divided into net income and other comprehensive income, which includes unrealized gains and losses on marketable securities classified as available-for-sale, and unrealized gains and losses on derivative financial instruments that qualify for cash flow hedge accounting under ASC 815-10. In accordance with ASU 2013-02, we have identified, in our Statements of Comprehensive Income, items that are reclassified and included in our Statements of Income.

USE OF ESTIMATES

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 revenues and expenses during the reporting period. Actual results could materially differ from those estimates.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2011, the FASB issued ASU 2011-11, Disclosures about Offsetting Assets and Liabilities. This ASU requires the disclosure in tabular format in a footnote of the gross amounts subject to rights of set-off, the gross amounts of any set-off and the net amounts shown on the balance sheet. This ASU also requires the disclosure of any agreements subject to such netting arrangements. This ASU will affect all financial instruments such as securities lending agreements, repurchase agreements, reverse repurchase agreements, and derivatives instruments. As there are differences in the offsetting requirements in GAAP and International Financial Reporting Standards (IFRS), the objective of this disclosure is to facilitate comparison between companies that prepare their financial statements according to those different reporting requirements. This ASU became effective for our financial statements beginning with the quarter ended March 31, 2013. We have adopted this ASU and it did not have a material impact on our financial statements.

On January 31, 2013, the FASB issued ASU 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. This ASU clarifies that ordinary trade receivables and other receivables are not in the scope of ASU 2011-11 and specifically, that ASU 2011-11 applies only to derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either subject to rights of set-off or to master netting arrangements. This ASU is only a clarification of the ASU mentioned in the paragraph above and it became effective for our financial statements beginning with the quarter ended March 31, 2013. We have adopted this ASU and it did not have a material impact on our financial statements.

On February 5, 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The amendments in this ASU will require entities to: (1) present (either on the face of the statement where net income is presented or in the notes) the effect on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income, but only if the item reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period; and (2) cross-reference to other disclosures currently required under GAAP for other reclassification items that are not required under GAAP to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account instead of directly related to income or expense. This ASU became

effective for our financial statements beginning with the quarter ended March 31, 2013. We have adopted this ASU and it did not have a material impact on our financial statements.

In the first quarter of 2013, the FASB issued ASU 2013-04, Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date. This ASU requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this ASU is fixed at the reporting date, as the sum of the following: (a) the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors; and (b) any additional amount the reporting entity expects to pay on behalf of its co-obligors. This ASU also requires an entity to disclose the nature and amount of the obligation as well as other information about the obligations including the terms and conditions of the arrangement. Examples of obligations within the scope of this ASU include debt arrangements, other contractual obligations, and settled litigation and judicial rulings. This ASU is effective for our financial statements beginning with the quarter ending March 31, 2014. We do not believe this ASU will have a material impact on our financial statements.

Edgar Filing: ANWORTH MORTGAGE ASSET CORP - Form 10-Q

In July 2013, the FASB issued ASU 2013-10, Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes. Prior to the amendments in this ASU, only interest rates on direct Treasury obligations of the U.S. government and the London Interbank Offered Rate (LIBOR) were considered as acceptable benchmark interest rates. This ASU now also allows the use of the Fed Funds Effective Swap Rate as an acceptable benchmark interest rate. This ASU is effective prospectively for qualifying new or re-designated hedging relationships entered into on or after July 17, 2013. We have adopted this ASU and it did not have a material impact on our financial statements.

NOTE 2. REVERSE REPURCHASE AGREEMENTS

At September 30, 2013, we did not have any reverse repurchase agreements outstanding. During the three months ended September 30, 2013, the maximum amount of reverse repurchase agreements outstanding was \$210 million and the average amount outstanding was approximately \$8.9 million. These investments are used as a means of investing excess cash. The collateral for these loans would be U.S. Treasury securities or Agency MBS with an aggregate fair value equal to the amount of the loans. At December 31, 2012, there were no reverse repurchase agreements outstanding.

NOTE 3. MORTGAGE-BACKED SECURITIES (MBS)

The following tables summarize our MBS, classified as available-for-sale, at September 30, 2013 and December 31, 2012, which are carried at their fair value (amounts in thousands):

September 30, 2013

By Agency	Ginnie Mae	Freddie Mac	Fannie Mae	Non-Agency MBS	Total MBS
Amortized cost	\$ 13,862	\$ 3,666,988	\$ 5,071,106	\$ 0	\$ 8,751,956
Paydowns receivable ⁽¹⁾	0	46,613	0	0	46,613
Unrealized gains	17	17,801	70,331	70	88,219
Unrealized losses	(154)	(75,225)	(45,159)	0	(120,538)
Fair value	\$ 13,725	\$ 3,656,177	\$ 5,096,278	\$ 70	\$ 8,766,250

By Security Type	ARMs	Hybrids	15-Year Fixed-Rate	30-Year Fixed-Rate	Floating-Rate CMOs ⁽²⁾	Total Agency MBS
Amortized cost	\$ 1,562,490	\$ 5,414,448	\$ 1,661,284	\$ 112,150	\$ 1,584	\$ 8,751,956
Paydowns receivable ⁽¹⁾	2,647	43,966	0	0	0	46,613
Unrealized gains	44,284	32,297	3,417	8,145	76	88,219
Unrealized losses	(2,386)	(80,465)	(37,674)	(12)	(1)	(120,538)
Fair value	\$ 1,607,035	\$ 5,410,246	\$ 1,627,027	\$ 120,283	\$ 1,659	\$ 8,766,250

(1) Paydowns receivable are generated when the Company receives notice from Freddie Mac of prepayments but does not receive the actual cash with respect to such prepayments until the 15th day of the following month.

(2) Non-Agency MBS are included in the Floating-Rate CMOs category.

December 31, 2012

By Agency	Ginnie Mae	Freddie Mac	Fannie Mae	Non-Agency MBS	Total MBS
Amortized cost	\$ 15,646	\$ 3,133,758	\$ 5,867,079	\$ 0	\$ 9,016,483
Paydowns receivable ⁽¹⁾	0	52,410	0	0	52,410
Unrealized gains	25	51,681	130,308	360	182,374
Unrealized losses	(204)	(2,683)	(3,687)	0	(6,574)
Fair value	\$ 15,467	\$ 3,235,166	\$ 5,993,700	\$ 360	\$ 9,244,693

By Security Type	ARMs	Hybrids	15-Year Fixed-Rate	30-Year Fixed-Rate	Floating-Rate CMOs ⁽²⁾	Total Agency MBS
Amortized cost	\$ 1,866,616	\$ 5,202,362	\$ 1,629,854	\$ 315,438	\$ 2,213	\$ 9,016,483
Paydowns receivable ⁽¹⁾	5,605	46,805	0	0	0	52,410
Unrealized gains	64,208	66,623	25,401	25,773	369	182,374
Unrealized losses	(2,697)	(3,817)	(60)	0	0	(6,574)
Fair value	\$ 1,933,732	\$ 5,311,973	\$ 1,655,195	\$ 341,211	\$ 2,582	\$ 9,244,693

(1) Paydowns receivable are generated when the Company receives notice from Freddie Mac of prepayments but does not receive the actual cash with respect to such prepayments until the 15th day of the following month.

(2) Non-Agency MBS are included in the Floating-Rate CMOs category.

For the three and nine months ended September 30, 2013, there were gross realized gains on sales of our MBS of approximately \$7.64 million and \$14.89 million, respectively, and gross realized losses of approximately \$5.65 million and \$5.65 million, respectively. For the three and nine months ended September 30, 2012, there were no gains or losses.

NOTE 4. REPURCHASE AGREEMENTS

We have entered into repurchase agreements with large financial institutions to finance most of our Agency MBS. The repurchase agreements are short-term borrowings that are secured by the market value of our MBS and bear fixed

interest rates that have historically been based upon LIBOR.

At September 30, 2013 and December 31, 2012, the repurchase agreements had the following balances (dollar amounts in thousands), weighted average interest rates and remaining weighted average maturities:

	September 30, 2013		December 31, 2012	
	Balance	Weighted Average Interest Rate	Balance	Weighted Average Interest Rate
Overnight	\$ 0	0.00%	\$ 0	0.00%
Less than 30 days	3,305,000	0.38	4,120,000	0.47
30 days to 90 days	4,270,000	0.37	3,900,000	0.47
Over 90 days to less than 1 year	0	0.00	0	0.00
1 year to 2 years	0	0.00	0	0.00
Demand	0	0.00	0	0.00
	\$ 7,575,000	0.37%	\$ 8,020,000	0.47%
Weighted average maturity	38 days		34 days	
Weighted average term to maturity (after accounting for swap agreements)	1,024 days		420 days	
Weighted average borrowing rate (after accounting for swap agreements)	1.44%		1.12%	
Agency MBS pledged as collateral under the repurchase agreements and swap agreements	\$ 8,124,478		\$ 8,523,557	

NOTE 5. JUNIOR SUBORDINATED NOTES

On March 15, 2005, we issued \$37,380,000 of junior subordinated notes to a newly-formed statutory trust, Anworth Capital Trust I, organized by us under Delaware law. The trust issued \$36,250,000 in trust preferred securities to unrelated third party investors. Both the notes and the trust preferred securities require quarterly payments and bear interest at the prevailing three-month LIBOR rate plus 3.10%, reset quarterly. The first interest payments were made on June 30, 2005. Both the notes and the trust preferred securities will mature in 2035 and are currently redeemable, at our option, in whole or in part, without penalty. We used the net proceeds of this private placement to invest in Agency MBS. We have reviewed the structure of the transaction under ASC 810-10 and concluded that Anworth Capital Trust I does not meet the requirements for consolidation. On September 26, 2005, the notes, the trust preferred securities and the related agreements were amended. The only material change was that one of the class holders requested that interest payments be made quarterly on January 30, April 30, July 30 and October 30 instead of at the end of each calendar quarter. This became effective with the quarterly payments after September 30, 2005. As of the date of this filing, we have not redeemed any of the notes or trust preferred securities.

NOTE 6. FAIR VALUES OF FINANCIAL INSTRUMENTS

As defined in ASC 820-10, fair value is the price that would be received from the sale of an asset or paid to transfer or settle a liability in an orderly transaction between market participants in the principal (or most advantageous) market for the asset or liability. ASC 820-10 establishes a fair value hierarchy that ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value are classified and disclosed in one of the three following categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data. This includes those financial instruments that are valued using models or other valuation methodologies where substantially all of the assumptions are observable in the marketplace, can be derived from observable market data or are supported by observable levels at which transactions are executed in the marketplace. We consider the inputs utilized to fair value our Agency MBS to be Level 2. Management bases the fair value for these investments primarily on third party bid price indications provided by dealers who make markets in these instruments. The Agency MBS market is primarily an over-the-counter market. As such, there are no standard, public market quotations or published trading data for individual MBS securities. As our portfolio consists of hundreds of similar, but distinct, securities that have each been traded with only one broker counterparty, we generally seek to have each Agency MBS security priced by one broker. The prices received are non-binding offers to trade, but are indicative quotations of the market value of our securities as of the market close on the last day of each quarter. The brokers receive trading data from several traders that participate in the active markets for these securities and directly observe numerous trades of securities similar to the securities owned by us. Given the volume of market activity for Agency MBS, it is our belief that the broker pricing accurately reflects market information for actual, contemporaneous transactions. We do not adjust quotes or prices we obtain from brokers and pricing services. In the limited instances where valuations are received on a security from multiple brokers, we use the median value of the prices received to determine fair value. To validate the prices we obtain, to ensure our fair value determinations are consistent with ASC 820, and to ensure that we properly classify these securities in the fair value hierarchy, we evaluate the pricing information we receive taking into account factors such as coupon, prepayment experience, fixed/adjustable rate, coupon index, time to reset and issuing agency, among other factors. Based on these factors, broker prices are compared to prices of similar securities provided by other brokers. If we determine (based on such a comparison and our market knowledge and expertise) that a security is priced significantly differently than similar securities, the broker is contacted and requested to revisit their valuation of the security. If a broker refuses to reconsider its valuation, we will request pricing from another broker and use the median value of the prices received to determine fair value. If we are unable to receive a valuation from another

broker, the price received from an independent third party pricing service will be used, if it is determined (based on our market knowledge and expertise) to be more reliable than the broker pricing. However, the fair value reported may not be indicative of the amounts that could be realized in an actual market exchange.

Our derivative assets and derivative liabilities are comprised of swap agreements, in which we pay a fixed rate of interest and receive a variable rate of interest that is based on LIBOR. The fair value of these instruments is reported to us independently from dealers who are large financial institutions and are market makers for these types of instruments. The LIBOR swap rate is observable at commonly quoted intervals over the full term of the swap agreements and therefore is considered a Level 2 item. The fair value of the derivative instruments' assets and liabilities are the estimated amounts the Company would either receive or pay to terminate these agreements at the reporting date, taking into account current interest rates and the Company's credit worthiness. For more information on our swap agreements, see Note 1 and Note 12.

Level 3: Unobservable inputs that are not corroborated by market data. This is comprised of financial instruments whose fair value is estimated based on internally developed models or methodologies utilizing significant inputs that are generally less readily observable from objective sources.

Edgar Filing: ANWORTH MORTGAGE ASSET CORP - Form 10-Q

In determining the appropriate levels, we perform a detailed analysis of the assets and liabilities that are subject to ASC 820-10. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

At September 30, 2013, fair value measurements on a recurring basis were as follows (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Agency MBS ⁽¹⁾	\$ 0	\$ 8,766,250	\$ 0	\$ 8,766,250
Derivative instruments ⁽²⁾	\$ 0	\$ 13,003	\$ 0	\$ 13,003
Liabilities:				
Derivative instruments ⁽²⁾	\$ 0	\$ 81,347	\$ 0	\$ 81,347

(1) For more detail about the fair value of our Agency MBS by agency and type of security, see Note 3.

(2) Derivative instruments are hedging instruments under ASC 815-10. For more detail about our derivative instruments, see Notes 1 and 12.

At December 31, 2012, fair value measurements on a recurring basis were as follows (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Agency MBS ⁽¹⁾	\$ 0	\$ 9,244,693	\$ 0	\$ 9,244,693
Derivative instruments ⁽²⁾	\$ 0	\$ 111	\$ 0	\$ 111
Liabilities:				
Derivative instruments ⁽²⁾	\$ 0	\$ 96,144	\$ 0	\$ 96,144

(1) For more detail about the fair value of our Agency MBS by agency and type of security, see Note 3.

(2)

Derivative instruments are hedging instruments under ASC 815-10. For more detail about our derivative instruments, see Notes 1 and 12.

At September 30, 2013 and December 31, 2012, cash and cash equivalents, restricted cash, interest receivable, repurchase agreements and interest payable are reflected in our unaudited financial statements at their costs, which approximate their fair value because of the nature and short term of these instruments.

Junior subordinated notes are variable-rate debt and, as we believe the spread would be consistent with the expectations of market participants as of September 30, 2013 and December 31, 2012, the carrying value approximates fair value.

NOTE 7. INCOME TAXES

We have elected to be taxed as a REIT and to comply with the provisions of the Code with respect thereto. Accordingly, we will not be subject to federal or state income taxes to the extent that our distributions to stockholders satisfy the REIT requirements and certain asset, gross income and stock ownership tests are met. We believe we currently meet all REIT requirements regarding the ownership of our common stock and the distribution of our taxable net income. Therefore, we believe that we continue to qualify as a REIT under the provisions of the Code.

NOTE 8. SERIES B CUMULATIVE CONVERTIBLE PREFERRED STOCK

Our Series B Preferred Stock has a par value of \$0.01 per share and a liquidation preference of \$25.00 per share plus accrued and unpaid dividends (whether or not declared). The holders of our Series B Preferred Stock must receive dividends at a rate of 6.25% per year on the \$25.00 liquidation preference before holders of our common stock are entitled to receive any dividends. Our Series B Preferred Stock is senior to our common stock and on parity with our 8.625% Series A Cumulative Preferred Stock, or Series A Preferred Stock, with respect to the payment of distributions and amounts, upon liquidation, dissolution or winding up. So long as any shares of our Series B Preferred Stock remain outstanding, we will not, without the affirmative vote or consent of the holders of at least two-thirds of the shares of our Series B Preferred Stock outstanding at the time, authorize or create, or increase the authorized or issued amount of, any class or series of capital stock ranking senior to our Series B Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up.

Our Series B Preferred Stock has no maturity date, is not redeemable and is convertible at the then-current conversion rate into shares of our common stock per \$25.00 liquidation preference. The conversion rate is adjusted in any fiscal quarter in which the cash dividends paid to common stockholders results in an annualized common stock dividend yield that is greater than 6.25%. The conversion ratio is also subject to adjustment upon the occurrence of certain specific events such as a change in control. Our Series B Preferred Stock is convertible into shares of our common stock at the option of the holder(s) of Series B Preferred Stock at any time at the then-prevailing conversion rate. On or after January 25, 2012, we may, at our option, under certain circumstances, convert each share of Series B Preferred Stock into a number of shares of our common stock at the then-prevailing conversion rate. We may exercise this conversion option only if our common stock price equals or exceeds 130% of the then-prevailing conversion price of our Series B Preferred Stock for at least twenty (20) trading days in a period of thirty (30) consecutive trading days (including the last trading day of such period) ending on the trading day immediately prior to our issuance of a press release announcing the exercise of the conversion option. During the three months ended September 30, 2013, we have not, at our option, converted any shares of Series B Preferred Stock. Our Series B Preferred Stock contains certain fundamental change provisions that allow the holder to redeem our Series B Preferred Stock for cash if certain events occur, such as a change in control. Our Series B Preferred Stock generally does not have voting rights, except if dividends on the Series B Preferred Stock are in arrears for six or more quarterly periods (whether or not consecutive). Under such circumstances, the holders of Series B Preferred Stock, together with the holders of Series A Preferred Stock, would be entitled to elect two additional directors to our board of directors to serve until all unpaid dividends have been paid or declared and set aside for payment. In addition, certain material and adverse changes to the terms of our Series B Preferred Stock may not be taken without the affirmative vote of at least two-thirds of the outstanding shares of Series B Preferred Stock and Series A Preferred Stock voting together as a single class. Through September 30, 2013, we have declared and set aside for payment the required dividends for our Series B Preferred Stock.

During the three months ended September 30, 2013, there were no transactions to convert shares of our Series B Preferred Stock into shares of our common stock.

NOTE 9. PUBLIC OFFERINGS AND CAPITAL STOCK

At September 30, 2013, our authorized capital included 200,000,000 shares of common stock, of which 141,603,227 shares were issued and outstanding.

At September 30, 2013, our authorized capital included 20,000,000 shares of \$0.01 par value preferred stock, of which 5,150,000 shares had been designated 8.625% Series A Cumulative Preferred Stock (liquidation preference \$25.00 per share) and 3,150,000 shares had been designated 6.25% Series B Cumulative Convertible Preferred Stock (liquidation preference \$25.00 per share). The undesignated shares of preferred stock may be issued in one or more classes or series, with such distinctive designations, rights and preferences as determined by our board of directors. At September 30, 2013, there were 1,919,378 shares of Series A Preferred Stock issued and outstanding and 1,009,640 shares of Series B Preferred Stock issued and outstanding.

On May 27, 2011, we entered into a Controlled Equity Offering Sales Agreement, or the 2011 Sales Agreement, with Cantor Fitzgerald & Co., or Cantor, to sell up to 20,000,000 shares of our common stock, 1,000,000 shares of our Series A Preferred Stock and 1,000,000 shares of our Series B Preferred Stock. During the three months ended September 30, 2013, we did not issue any shares of our Series A Preferred Stock, Series B Preferred Stock or common stock under the 2011 Sales Agreement. The Series A Preferred Stock has no maturity date, and we are not required to redeem it at any time. We may redeem the Series A Preferred Stock for cash at our option, in whole or from time to time in part, at a redemption price of \$25.00 per share, plus accrued and unpaid dividends, if any, to the redemption date. To date, we have not redeemed any shares of our Series A Preferred Stock. At September 30, 2013, there were 19,409,400 shares of common stock, 956,122 shares of Series A Preferred Stock and 894,518 shares of Series B

Preferred Stock, respectively, available for sale and issuance under the 2011 Sales Agreement.

On October 3, 2011, our board of directors authorized a share repurchase program, which permits us to acquire up to 2,000,000 shares of our common stock. Our board of directors also authorized the Company to repurchase an amount of common stock up to the amount of common stock sold through the Company's 2012 Dividend Reinvestment and Stock Purchase Plan. The shares are expected to be acquired at prevailing prices through open market transactions. The manner, price, number and timing of share repurchases will be subject to market conditions and applicable SEC rules. During the three months ended September 30, 2013, we had repurchased an aggregate of 1,472,710 shares at a weighted average price of \$4.53 per share under this program.

Our Dividend Reinvestment and Stock Purchase Plan allows stockholders and non-stockholders to purchase shares of our common stock and to reinvest dividends therefrom to acquire additional shares of our common stock. On March 14, 2012, we filed a shelf registration statement on Form S-3 with the U.S. Securities and Exchange Commission, or the SEC, registering up to 27,000,000 shares of our common stock for our 2012 Dividend Reinvestment and Stock Purchase Plan, or the 2012 Plan. During the three months ended September 30, 2013, we issued an aggregate of 723,499 shares of our common stock at a weighted average price of \$4.98 per share under the 2012 Plan, resulting in proceeds to us of approximately \$3.6 million. At September 30, 2013, there were approximately 16.849 million shares remaining under the 2012 Plan. Effective July 5, 2013, we reduced the discount rate on dividend reinvestment offered through our 2012 Plan from 1% to zero until further notice.

On March 20, 2013, we filed a shelf registration statement on Form S-3 with the SEC and on April 5, 2013 we filed a pre-effective amendment thereto with the SEC, offering up to \$544,727,778 of our capital stock. The registration statement was declared effective on April 8, 2013. At September 30, 2013, approximately \$544.7 million of our capital stock was available for issuance under the registration statement.

On November 7, 2005, we filed a registration statement on Form S-8 with the SEC to register an aggregate of up to 3,500,000 shares of our common stock to be issued pursuant to the Anworth Mortgage Asset Corporation 2004 Equity Compensation Plan, or the 2004 Equity Compensation Plan. As of September 30, 2013, we have issued 2,832,000 shares of common stock under the 2004 Equity Compensation Plan. This amount includes 475,142 shares of unexercised stock options, restricted stock and restricted stock units.

NOTE 10. TRANSACTIONS WITH AFFILIATES

Management Agreement and Externalization

Effective as of December 31, 2011, we entered into the Management Agreement with the Manager, pursuant to which our day-to-day operations are being conducted by the Manager. The Manager is supervised and directed by our board of directors and is responsible for (i) the selection, purchase and sale of our investment portfolio; (ii) our financing and hedging activities; and (iii) providing us with management services. The Manager will also perform such other services and activities relating to our assets and operations as may be appropriate. In exchange for these services, the Manager receives a management fee paid monthly in arrears in an amount equal to one-twelfth of 1.20% of our Equity (as defined in the Management Agreement).

On the effective date of the Management Agreement, the employment agreements with our executives were terminated, our employees became employees of the Manager, and we took such other actions as we believed were reasonably necessary to implement the Management Agreement and externalize our management function.

A trust controlled by Mr. Lloyd McAdams, our Chairman, Chief Executive Officer and President, and Ms. Heather U. Baines, an Executive Vice President of the Manager, beneficially owns 50% of the outstanding membership interests of the Manager; Mr. Joseph E. McAdams, the Chief Investment Officer of the Manager, beneficially owns 45% of the outstanding membership interests of the Manager; and Mr. Thad M. Brown, our Chief Financial Officer, owns 5% of the outstanding membership interests of the Manager.

Nothing in the Management Agreement prevents the Manager or any of its affiliates from engaging in other businesses or from rendering services of any kind to any other person or entity, including investment in or advisory service to others investing in any type of real estate investment, other than advising other REITs that invest more than 75% of their assets in U.S. agency residential MBS. Directors, officers and employees of the Manager may serve as our directors and officers.

The terms of the Management Agreement, including the management fee payable, were not negotiated on an arm's-length basis, and its terms may not be as favorable to us as if it was negotiated with an unaffiliated party. The management fee that we pay to the Manager is not tied to our performance. The management fee is paid regardless of our performance and it may not provide sufficient incentive to the Manager to seek to achieve risk-adjusted returns for our investment portfolio.

The Management Agreement may only be terminated without cause, as defined in the agreement, after the completion of its initial term on December 31, 2013, or the expiration of each annual renewal term. We are required to provide 180-days prior notice of non-renewal of the Management Agreement and must pay a termination fee on the last day of the initial term or any automatic renewal term, equal to three times the average annual management fee earned by the

Manager during the prior 24-month period immediately preceding the most recently completed month prior to the effective date of termination. Our board of directors affirmatively elected to renew the Management Agreement for another one-year term expiring on December 31, 2014. We may only not renew the Management Agreement with or without cause with the consent of the majority of our independent directors. These provisions make it difficult to terminate the Management Agreement and increase the effective cost to us of not renewing the Management Agreement.

Certain of our officers were previously granted restricted stock and other equity awards (see Note 11), including dividend equivalent rights, in connection with their service to us, and certain of our officers had agreements under which they would receive payments if the Company is subject to a change in control (discussed later in this Note 10). In connection with the Externalization, certain of the agreements under which our officers were granted equity awards and would be paid payments in the event of a change in control were modified so that such agreements will continue with respect to our officers and employees after they became officers and employees of the Manager. In addition, as officers of our Company and employees of the Manager, they will continue to be eligible to receive equity awards under equity compensation plans in effect now or in the future.

Change in Control and Arbitration Agreements

On June 27, 2006, we entered into Change in Control and Arbitration Agreements with each of Mr. Thad M. Brown, our Chief Financial Officer, Mr. Charles J. Siegel, our then Senior Vice President-Finance, Ms. Bistra Pashamova, our then Senior Vice President and Portfolio Manager, and Mr. Evangelos Karagiannis, our then Vice President and Portfolio Manager, as well as certain of our other officers. In connection with the Externalization, we amended these agreements to provide that should a change in control (as defined in the amended agreements) occur, each of these officers will receive certain severance and other benefits valued as of December 31, 2011. Under the amended agreements, in the event that a change in control occurs, each of these officers will receive a lump sum payment equal to (i) 12 months annual base salary in effect on December 31, 2011, plus (ii) the average annual incentive compensation received for the two complete fiscal years prior December 31, 2011, plus (iii) the average annual bonus received for the two complete fiscal years prior to December 31, 2011, as well as other benefits. The amended Change in Control and Arbitration Agreements also provide for accelerated vesting of equity awards granted to these officers upon a change in control.

Agreements with Pacific Income Advisers, Inc.

On January 26, 2012, we entered into a sublease agreement with Pacific Income Advisers, Inc., or PIA, a company owned by trusts controlled by certain of our officers, that became effective on July 1, 2012. Under the sublease agreement, we lease, on a pass-through basis, 7,300 square feet of office space from PIA and pay rent at an annual rate equal to PIA's obligation, which is currently \$59.87 per square foot. The base monthly rental for us is \$36,426.47, which will be increased by 3% per annum beginning on July 1, 2014. The sublease agreement runs through June 30, 2022 unless earlier terminated pursuant to the master lease. During the three and nine months ended September 30, 2013, we expensed \$123 thousand and \$366 thousand, respectively, in rent and related expenses to PIA under this sublease agreement, compared to \$106 thousand and \$275 thousand expensed during the three and nine months ended September 30, 2012, respectively.

At September 30, 2013, the future minimum lease commitment is as follows (in whole dollars):

							Total
Year	2013	2014	2015	2016	2017	Thereafter	Commitment
Commitment	\$ 109,279	\$ 443,669	\$ 456,987	\$ 470,720	\$ 484,852	\$ 2,366,151	\$ 4,331,658

On July 25, 2008, we entered into an administrative services agreement with PIA, which was amended and restated on August 20, 2010. Under this agreement, PIA provides administrative services and equipment to us including human resources, operational support and information technology, and we pay an annual fee of 5 basis points on the first \$225 million of stockholders' equity and 1.25 basis points thereafter (paid quarterly in arrears) for those services. The administrative services agreement had an initial term of one year and renews for successive one-year terms thereafter unless either party gives notice of termination no less than 30 days before the expiration of the then-current annual term. We may also terminate the administrative services agreement upon 30 days prior written notice for any reason and immediately if there is a material breach by PIA. Included in Other expenses on the unaudited statements of income are fees of \$53 thousand and \$159 thousand paid to PIA in connection with this agreement during the three and nine months ended September 30, 2013, respectively. During the three and nine months ended September 30, 2012, we paid fees of \$52 thousand and \$154 thousand, respectively, to PIA in connection with this agreement.

NOTE 11. EQUITY COMPENSATION PLAN

2004 Equity Compensation Plan

At our May 27, 2004 annual stockholders' meeting, our stockholders adopted the Anworth Mortgage Asset Corporation 2004 Equity Compensation Plan, or the 2004 Equity Compensation Plan, which amended and restated our 1997 Stock Option and Awards Plan. The 2004 Equity Compensation Plan authorized the grant of stock options and other stock-based awards, as of December 31, 2005, for an aggregate of up to 3,500,000 shares of our registered common stock. The 2004 Equity Compensation Plan authorizes our board of directors, or a committee of our Board, to grant incentive stock options, as defined under section 422 of the Code, options not so qualified, restricted stock, dividend equivalent rights, or DERs, phantom shares, stock-based awards that qualify as performance-based awards under Section 162(m) of the Code and other stock-based awards. The exercise price for any option granted under the 2004 Equity Compensation Plan may not be less than 100% of the fair market value of the shares of common stock at the time the option is granted. At September 30, 2013, 660,414 shares remained available for future issuance under the 2004 Equity Compensation Plan through any combination of stock options or other awards. The 2004 Equity Compensation Plan does not provide for automatic annual increases in the aggregate share reserve or the number of shares remaining available for grant. We filed a registration statement on Form S-8 on November 7, 2005 to register up to an aggregate of 3,500,000 shares of common stock to be issued pursuant to the 2004 Equity Compensation Plan.

In October 2005, our board of directors approved the grant of an aggregate of 200,780 shares of restricted stock to various officers under the 2004 Equity Compensation Plan. The stock price on the grant date was \$7.72. The restricted stock vests 10% per year on each anniversary date for a ten-year period and shall also vest immediately upon the death of the grantee or upon the grantee reaching age 65. Each grantee shall have the right to sell 40% of the restricted stock any time after such shares have vested. The remaining 60% of such vested restricted stock may not be sold until after termination of employment with us. We amortize the restricted stock over the vesting period, which is the lesser of ten years or the remaining number of years to age 65.

In October 2006, our board of directors approved a grant of an aggregate of 197,362 shares of performance-based restricted stock to various officers under the 2004 Equity Compensation Plan. Such grant was made effective on October 18, 2006. The closing stock price on the effective date of the grant was \$9.12. The shares vest in equal annual installments over a three-year period provided that the annually compounded rate of return on our common stock, including dividends, exceeds 12% measured on an annual basis as of the anniversary date of the grant. If the annually compounded rate of return does not exceed 12%, then the shares will vest on the anniversary date thereafter when the annually compounded rate of return exceeds 12%. If the annually compounded rate of return does not exceed 12% within ten years after the effective date of the grant, then the shares will be forfeited. The shares will fully vest within the ten-year period upon the death of a grantee. Upon vesting, each grantee shall have the right to sell 40% of the restricted stock any time after such shares have vested. The remaining 60% of such vested restricted stock may not be sold, transferred or pledged until after termination of employment with us or upon the tenth anniversary of the effective date.

We recognize the expense related to restricted stock over the ten-year vesting period. During the three and nine months ended September 30, 2013, we expensed approximately \$51 thousand and \$152 thousand, respectively, related to these restricted stock grants. During the three and nine months ended September 30, 2012, we expensed approximately \$51 thousand and \$152 thousand, respectively, related to these restricted stock grants.

At our May 24, 2007 annual meeting of stockholders, our stockholders adopted the Anworth Mortgage Asset Corporation 2007 Dividend Equivalent Rights Plan, or the 2007 Dividend Equivalent Rights Plan. A dividend equivalent right, or DER, is a right to receive amounts equal in value to the dividend distributions paid on a share of our common stock. DERs are paid in either cash or shares of our common stock, whichever is specified by our Compensation Committee at the time of grant, at such times as dividends are paid on shares of our common stock during the period between the date a DER is issued and the date the DER expires or earlier terminates. The Compensation Committee may impose such other conditions to the grant of DERs as it may deem appropriate. The maximum term for DERs under the 2007 Dividend Equivalent Rights Plan is ten years from the date of grant. Prior to January 1, 2012, an aggregate of 582,000 DERs were issued to our officers under the 2007 Dividend Equivalent Rights Plan. These DERs are not attached to any stock and only have the right to receive the same cash distribution per common share distributed to our common stockholders during the term of the grant. All of these grants have a five-year term from the date of the grant. During the three and nine months ended September 30, 2013, we paid or accrued \$70 thousand and \$245 thousand, respectively, related to DERs granted. During the three and nine months ended September 30, 2012, we paid or accrued \$87 thousand and \$314 thousand, respectively, related to DERs granted.

Certain of our officers have previously been granted restricted stock and other equity incentive awards, including dividend equivalent rights, in connection with their service to us. In connection with the Externalization, certain of the agreements under which our officers have been granted equity awards were modified so that such agreements will continue with respect to our officers after they became officers and employees of the Manager. As a result, these awards and any future grants will be accounted for as non-employee awards. In addition, as officers of the Company and employees of the Manager, they will continue to be eligible to receive equity incentive awards under equity incentive plans in effect now or in the future. In accordance with the Externalization effective as of December 31, 2011, the DERs previously granted to all of our officers, with the exception of our Chief Executive Officer and Chief Financial Officer, were terminated under the 2007 Dividend Equivalent Rights Plan and were reissued under the 2004

Equity Compensation Plan with the same amounts, terms and conditions. During the three months ended March 31, 2013, grants of an aggregate of 300,000 DERs that were issued to various officers under the 2007 Dividend Equivalents Right Plan expired. In February 2013, our board of directors approved grants of an aggregate of 300,000 DERs to our Chief Executive Officer and Chief Financial Officer under the 2007 Dividend Equivalent Rights Plan and to various officers of the Manager under the 2004 Equity Compensation Plan. These grants have a five-year term from the date of the grants with portions of the grants expiring in 2016, 2017 and 2018.

NOTE 12. HEDGING INSTRUMENTS

At September 30, 2013, we were a counterparty to interest rate swap agreements, which are derivative instruments as defined by ASC 815-10, with an aggregate notional amount of \$5.185 billion and a weighted average maturity of 4.1 years. During the three months ended September 30, 2013, none of our outstanding swap agreements matured. During the three months ended September 30, 2013, we entered into 21 new swap agreements with an aggregate notional amount of \$1.75 billion and terms of up to ten years. We utilize swap agreements to manage interest rate risk relating to our repurchase agreements (the hedged item) and do not anticipate entering into derivative transactions for speculative or trading purposes. In accordance with the swap agreements, we will pay a fixed-rate of interest during the term of the swap agreements (ranging from 0.578% to 3.06%) and receive a payment that varies with the three-month LIBOR rate.

Edgar Filing: ANWORTH MORTGAGE ASSET CORP - Form 10-Q

At September 30, 2013 and December 31, 2012, our swap agreements had the following notional amounts (dollar amounts in thousands), weighted average interest rates and remaining terms (in months):

	September 30, 2013			December 31, 2012		
	Notional Amount	Weighted Average Interest Rate	Remaining Term in Months	Notional Amount	Weighted Average Interest Rate	Remaining Term in Months
Less than 12 months	\$ 325,000	2.31%	5	\$ 375,000	3.32%	2
1 year to 2 years	510,000	2.17	18	410,000	2.07	16
2 years to 3 years	1,350,000	1.79	30	680,000	2.07	30
3 years to 5 years	1,645,000	1.17	50	1,595,000	1.64	45
5 years to 7 years	825,000	2.12	78	100,000	1.18	72
7 years to 10 years	530,000	2.80	109	0	0.00	0
	\$ 5,185,000	1.82%	49	\$ 3,160,000	1.98%	34

Swap Agreements by Counterparty

	September 30, 2013	December 31, 2012
	(in thousands)	
JPMorgan Securities	\$ 1,175,000	\$ 800,000
Deutsche Bank Securities	1,165,000	800,000
RBS Greenwich Capital	800,000	485,000
Nomura Securities International	650,000	450,000
ING Financial Markets LLC	650,000	150,000
Bank of New York	260,000	100,000
Chicago Mercantile Exchange ⁽¹⁾	210,000	0
Morgan Stanley	150,000	150,000
Credit Suisse	75,000	175,000
LBBW Securities, LLC	50,000	50,000
	\$ 5,185,000	\$ 3,160,000

- (1) For all swap agreements entered into after September 9, 2013, the counterparty will be the Chicago Mercantile Exchange regardless of who the trading party is. See the section entitled **Derivative Financial Instruments** **Interest Rate Risk Management** in Note 1 for additional details.

During the three months ended September 30, 2013, there was an increase in unrealized losses of approximately \$26.2 million, from approximately \$42.1 million in unrealized losses at June 30, 2013 to approximately \$68.3 million in unrealized losses, on our swap agreements included in **Other comprehensive income** (this increase in unrealized losses consisted of unrealized losses on cash flow hedges of approximately \$40.8 million and a reclassification adjustment for interest expense included in net income of approximately \$14.6 million).

During the nine months ended September 30, 2013, there was a decrease in unrealized losses of approximately \$27.7 million, from approximately \$96 million in unrealized losses at December 31, 2012 to approximately \$68.3 million in unrealized losses, on our swap agreements included in **Other comprehensive income** (this decrease in unrealized losses consisted of unrealized losses on cash flow hedges of approximately \$10.7 million and a reclassification adjustment for interest expense included in net income of approximately \$38.4 million).

At September 30, 2013, we had asset and liability derivatives of approximately \$13 million and \$81.3 million, respectively (shown on our unaudited balance sheets).

During the three months ended September 30, 2013, there was no gain or loss recognized in earnings due to hedge ineffectiveness. We have determined that our hedges are still considered **highly effective**. There were no components of the derivative instruments **gain or loss** excluded from the assessment of hedge effectiveness. The maximum length of our swap agreements is ten years. We do not anticipate any discontinuance of the swap agreements and thus do not expect to recognize any gain or loss into earnings because of this.

For more information on our accounting policies, the objectives and risk exposures relating to derivatives and hedging agreements, see the section on **Derivative Financial Instruments** in Note 1. For more information on the fair value of our swap agreements, see Note 6.

NOTE 13. COMMITMENTS AND CONTINGENCIES

Lease Commitment and Administrative Services Commitment We sublease office space and use administrative services from PIA, as more fully described in Note 10.

NOTE 14. OTHER EXPENSES

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Legal and accounting fees	\$ 120	\$ 108	\$ 385	\$ 387
Printing and stockholder communications	27	30	204	196
Directors and Officers insurance	118	109	348	325
DERs expense	70	87	245	314
Amortization of restricted stock	51	51	152	152
Software implementation and maintenance	75	81	220	215
Administrative service fees	53	52	159	154
Rent	123	106	366	275
Stock exchange and filing fees	54	57	162	179
Custodian fees	34	35	103	102
Sarbanes-Oxley consulting fees	25	25	82	82
Board of directors fees and expenses	103	100	257	253
Securities data services	33	15	99	75
Other	67	44	123	198
Total of other expenses:	\$ 953	\$ 900	\$ 2,905	\$ 2,907

NOTE 15. SUBSEQUENT EVENTS

When we pay any cash dividend during any quarterly fiscal period to all or substantially all of our common stockholders in an amount that results in an annualized common stock dividend yield that is greater than 6.25% (the dividend yield on our Series B Preferred Stock), the conversion rate on our Series B Preferred Stock is adjusted based on a formula specified in the Articles Supplementary Establishing and Fixing the Rights and Preferences of the Series B Preferred Stock. This conversion rate increased on October 11, 2013 from 3.9202 shares of our common stock to 3.9702 shares of our common stock using the following information: (1) the average of the closing price of our common stock for the ten (10) consecutive trading day period was \$4.77 and (2) the annualized common stock dividend yield was 10.0692%.

From October 1, 2013 through November 4, 2013, we issued an aggregate of 73,564 shares of common stock at a weighted average price of \$5.00 per share under the 2012 Dividend Reinvestment and Stock Purchase Plan, resulting in proceeds to us of approximately \$368 thousand.

From October 1, 2013 through November 4, 2013, we had repurchased an aggregate of 730,700 shares of our common stock at a weighted average price of \$4.52 per share under our share repurchase program.

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

As used in this Quarterly Report on Form 10-Q, Company, we, us, our, and Anworth refer to Anworth Mortgage Asset Corporation.

You should read the following discussion and analysis in conjunction with the unaudited financial statements and related notes thereto contained in Item 1 of Part I of this Quarterly Report on Form 10-Q. The information contained in this Quarterly Report on Form 10-Q is not a complete description of our business or the risks associated with an investment in our stock. We urge you to carefully review and consider the various disclosures made by us in this Quarterly Report on Form 10-Q and in our other reports filed with the SEC, including our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the 1933 Act and Section 21E of the Securities Exchange Act of 1934, as amended, and, as such, may involve known and unknown risks, uncertainties and assumptions. Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. You can generally identify forward-looking statements as statements containing the words may, will, believe, expect, anticipate, intend, estimate, and similar expressions. You should not rely on our forward-looking statements because the matters they describe are subject to assumptions, known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors, some of which are listed under the section Risk Factors, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Statements regarding the following subjects, among others, may be forward-looking: changes in interest rates and the market value of our mortgage-backed securities (MBS); risks associated with investing in mortgage assets; changes in the yield curve; the availability of MBS for purchase; changes in the prepayment rates on the mortgage loans securing our MBS; our ability to borrow to finance our assets and, if available, the terms of any financing; implementation of or changes in government regulations or programs affecting our business; changes in business conditions and the general economy, including the consequences of actions by the U.S. government and other foreign governments to address the global financial crisis; our ability to maintain our qualification as a real estate investment trust (REIT) for federal income tax purposes; our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended; and our ability to manage our growth. All forward-looking statements speak only as of the date they are made. New risks and uncertainties arise over time and it is not possible to predict those events or how they may affect us. Except as required by law, we do not intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

General

Company Overview

We were incorporated in Maryland on October 20, 1997 and we commenced operations on March 17, 1998.

Our principal business objective is to generate net income for distribution to our stockholders based upon the spread between the interest income earned on our mortgage assets and the costs of borrowing to finance our acquisition of those assets and other operating expenses.

Our Asset Acquisition Policy provides that we will invest primarily in United States, or U.S., agency mortgage-backed securities, or Agency MBS, which are securities representing obligations guaranteed by the U.S.

government, such as Ginnie Mae, or guaranteed by federally sponsored enterprises, such as Fannie Mae or Freddie Mac and other mortgage assets rated within one of the two highest rating categories by at least one nationally recognized statistical rating organization.

Our Asset Acquisition Policy provides guidelines for acquiring investments and contemplates that we will acquire a portfolio of investments that can be grouped into specific categories. Each category and our respective investment guidelines are as follows:

Category I At least 60% of our total assets will generally be adjustable- or fixed-rate MBS and short-term investments. Assets in this category will be rated within one of the two highest rating categories by at least one nationally recognized statistical rating organization or, if not rated, will be obligations guaranteed by the U.S. government or its agencies, such as Fannie Mae or Freddie Mac. Also included in Category I are the portion of real estate mortgage loans that have been deposited into a trust and have received a rating within one of the two highest rating categories by at least one nationally recognized statistical rating organization.

Category II At least 90% of our total assets will generally consist of Category I investments plus unsecuritized mortgage loans, mortgage securities rated at least investment grade by at least one nationally recognized statistical rating organization, or shares of other REITs or mortgage-related companies and the portion of real estate mortgage loans that have been deposited into a trust and have received an investment grade rating by at least one nationally recognized statistical rating organization.

Category III No more than 10% of our total assets may be of a type not meeting any of the above criteria. Among the types of assets generally assigned to this category are mortgage securities rated below investment grade and leveraged mortgage derivative securities. Under our Category III investment criteria, we may acquire other types of mortgage derivative securities including, but not limited to, interest-only, principal-only or other types of MBS that receive a disproportionate share of interest income or principal.

We have elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, or the Code. As a REIT, we routinely distribute substantially all of the taxable income generated from our operations to our stockholders. As long as we retain our REIT status, we generally will not be subject to federal or state taxes on our income to the extent that we distribute our taxable net income to our stockholders. At December 31, 2012, our qualified REIT assets (real estate assets, as defined under the Code, cash and cash items and government securities) were greater than 99% of our total assets, as compared to the Code requirement that at least 75% of our total assets must be qualified REIT assets. Greater than 99% of our 2012 revenue qualified for both the 75% source of income test and the 95% source of income test under the REIT rules. At December 31, 2012, we believe we met all REIT requirements regarding the ownership of our common stock and the distributions of our taxable net income. Therefore, we believe that we continue to qualify as a REIT under the provisions of the Code.

Pursuant to a Management Agreement, or the Management Agreement (a copy of which is included as Exhibit 10.1 to our Current Report on Form 8-K filed with the U.S. Securities and Exchange Commission, or the SEC, on January 3, 2012), between us and Anworth Management, LLC, or the Manager, effective as of December 31, 2011, our day-to-day operations are conducted by the Manager. The Manager is supervised and directed by our board of directors and is responsible for

the selection, purchase and sale of our investment portfolio;

(i)

our financing and hedging activities; and

(ii)

providing us with management services.

(iii)

The Manager will also perform such other services and activities relating to our assets and operations as may be appropriate. In exchange for these services, the Manager receives a management fee paid monthly in arrears in an amount equal to one-twelfth of 1.20% of our Equity (as defined in the Management Agreement). The initial term of the Management Agreement will expire on December 31, 2013 and will automatically renew for successive one-year

terms unless either party elects not to renew. If we terminate the Management Agreement, or elect not to renew without cause, then we will be required to pay a termination fee equal to three times the average annual management fee earned during the prior 24-month period. Our board of directors affirmatively elected to renew the Management Agreement for another one-year term expiring on December 31, 2014.

Our Investments

Mortgage-Backed Securities (MBS)

Pass-Through Certificates. We principally invest in pass-through certificates, which are securities representing interests in pools of mortgage loans secured by residential real property in which payments of both interest and principal on the securities are generally made monthly, in effect, passing through monthly payments made by the individual borrowers on the mortgage loans which underlie the securities, net of fees paid to the issuer or guarantor of the securities. Early repayment of principal on some MBS, arising from prepayments of principal due to sale of the underlying property, refinancing or foreclosure, net of fees and costs which may be incurred, may expose us to a lower rate of return upon reinvestment of principal. This is generally referred to as prepayment risk. Additionally, if a security subject to prepayment has been purchased at a premium, the unamortized value of the premium would be lost in the event of prepayment.

Like other fixed-income securities, when interest rates rise, the value of a mortgage-backed security generally will decline. When interest rates are declining, however, the value of MBS with prepayment features may not increase as much as other fixed-income securities. The rate of prepayments on underlying mortgages will affect the price and volatility of MBS and may have the effect of shortening or extending the effective maturity of the security beyond what was anticipated at the time of purchase. When interest rates rise, our holdings of MBS may experience reduced returns if the owners of the underlying mortgages pay off their mortgages later than anticipated. This is generally referred to as extension risk.

Payment of principal and interest on some mortgage pass-through securities, though not the market value of the securities themselves, may be guaranteed by the full faith and credit of the federal government, including securities backed by Ginnie Mae, or by agencies or instrumentalities of the federal government, including Fannie Mae and Freddie Mac. MBS created by non-governmental issuers, including commercial banks, savings and loan institutions, private mortgage insurance companies, mortgage bankers and other secondary market issuers, may be supported by various forms of insurance or guarantees including individual loan, title, pool and hazard insurance and letters of credit which may be issued by governmental entities, private insurers or the mortgage poolers. Essentially our entire portfolio is comprised of Agency MBS.

Collateralized Mortgage Obligations. Collateralized mortgage obligations, or CMOs, are MBS. Interest and principal on CMOs are paid, in most cases, on a monthly basis. CMOs may be collateralized by whole mortgage loans, but are more typically collateralized by portfolios of mortgage pass-through securities. CMOs are structured into multiple classes with each class bearing a different stated maturity. Monthly payments of principal, including prepayments, are first returned to investors holding the shortest maturity class, and investors holding the longer maturity classes receive principal only after the first class has been retired. We will typically consider investments in CMOs that are issued or guaranteed by the federal government, or by any of its agencies or instrumentalities, to be U.S. government securities.

Other Types of MBS

Mortgage Derivative Securities. We may acquire mortgage derivative securities in an amount not to exceed 10% of our total assets. Mortgage derivative securities provide for the holder to receive interest-only, principal-only or interest and principal in amounts that are disproportionate to those payable on the underlying mortgage loans. Payments on mortgage derivative securities are highly sensitive to the rate of prepayments on the underlying mortgage loans. In the event of faster or slower than anticipated prepayments on these mortgage loans, the rates of return on interests in mortgage derivative securities, representing the right to receive interest-only or a disproportionately large amount of interest or interest-only derivatives, would be likely to decline or increase, respectively. Conversely, the rates of return on mortgage derivative securities, representing the right to receive principal-only or a disproportionate amount of principal or principal-only derivatives, would be likely to increase or decrease in the event of faster or slower prepayments, respectively.

We may invest in inverse floaters, a class of CMOs with a coupon rate that resets in the opposite direction from the market rate of interest to which it is indexed, including LIBOR or the 11th District Cost of Funds Index, or COFI. Any rise in the index rate, which can be caused by an increase in interest rates, causes a drop in the coupon rate of an inverse floater, while any drop in the index rate causes an increase in the coupon of an inverse floater. An inverse floater may behave like a leveraged security since its interest rate usually varies by a magnitude much greater than the magnitude of the index rate of interest. The leverage-like characteristics inherent in inverse floaters result in a greater volatility of their market prices.

We may invest in other mortgage derivative securities that may be developed in the future.

Mortgage Warehouse Participations. We may occasionally acquire mortgage warehouse participations as an additional means of diversifying our sources of income. Pursuant to our Asset Acquisition Policy, these investments, together with our investments in other Category III assets, will not, in the aggregate, exceed 10% of our total mortgage-related assets. These investments are participations in lines of credit to mortgage loan originators secured by recently originated mortgage loans that are in the process of being sold to investors. Our investments in mortgage warehouse participations are limited because they are not qualified REIT assets under the Code.

Other Mortgage-Related Assets

We may acquire other investments that include equity and debt securities issued by other primarily mortgage-related finance companies, interests in mortgage-related collateralized bond obligations, other subordinated interests in pools of mortgage-related assets, commercial mortgage loans and securities and residential mortgage loans other than high-credit quality mortgage loans. Although we expect that our other investments will be limited to less than 10% of total assets, we have no limit on how much of our stockholders' equity will be allocated to other investments. There may be periods in which other investments represent a large portion of our stockholders' equity.

Government Activity

On September 13, 2012, the Federal Reserve announced its intention to purchase additional Agency MBS at a pace of \$40 billion per month. These purchases will be open-ended, meaning they will continue until the Federal Reserve is satisfied that economic conditions, primarily in unemployment, improve. The Federal Reserve also announced its projection that the federal funds rate would likely remain at exceptionally low levels until at least mid-2015. In May 2013, upon the release of minutes of the Fed Open Market Committee (FOMC) meeting, Federal Reserve Chairman Ben Bernanke stated that if there was a continued improvement in the U.S. economy, the pace of purchases could be slowed down. After this statement, the rate on the 10-Year Treasury rose above 2%. In addition, following the June 2013 FOMC meeting, Chairman Bernanke commented that if the U.S. economy continued to improve, the Federal Reserve would probably slow or moderate its MBS purchases sometime later in 2013 and possibly ending them sometime in the middle of 2014. This comment had an even greater effect on the bond market, as longer-term interest rates rose while short-term interest rates remained constant. The resulting steepened yield curve caused a decline in the second quarter of 2013 in the value of MBS in general and to the value of our portfolio, which declined by approximately \$191 million in the second quarter of 2013. At September 30, 2013, the fair value adjustment of our portfolio increased slightly from June 30, 2013 by approximately \$8 million.

Although the U.S. government and other foreign governments have taken various actions (including placing Fannie Mae and Freddie Mac in conservatorship) intended to protect financial institutions, their respective economies and their respective housing and mortgage markets, we continue to operate under very difficult market conditions. There can be no assurance that these various actions will have a beneficial impact on the global financial markets and, more specifically, the market for the securities we currently own in our portfolio. We cannot predict what, if any, impact these actions or future actions by either the U.S. government or foreign governments could have on our business, results of operations and financial condition. These events may impact the availability of financing generally in the marketplace and also may impact the market value of MBS generally, including the securities we currently own in our portfolio.

In August 2011, the ratings of each of U.S. sovereign debt, Fannie Mae and Freddie Mac were downgraded from AAA to AA+ by Standard & Poor's, and affirmed at Aaa by Moody's, with each of Standard & Poor's and Moody's revising the outlook on U.S. sovereign debt, Fannie Mae and Freddie Mac to negative. Each of Standard & Poor's and Moody's has indicated that it would likely change its ratings on Fannie Mae and Freddie Mac if it was to change its rating on the U.S. government. In June 2013, Standard & Poor's affirmed its AA+ long-term sovereign credit rating on the United States and revised the outlook from negative to stable, and in July 2013, Moody's affirmed its Aaa government bond rating of the United States and revised the outlook from negative to stable. We do not know what effect any changes in the ratings of U.S. sovereign debt, Fannie Mae and Freddie Mac will ultimately have on the U.S. economy, the value of our securities or the ability of Fannie Mae and Freddie Mac to satisfy its guarantees of Agency MBS if necessary.

On January 2, 2013, the U.S. Congress passed the American Taxpayer Relief Act of 2012, or the Taxpayer Relief Act, which extended, for most Americans, tax cuts implemented under President George W. Bush's administration. However, the Taxpayer Relief Act delayed the implementation of the budget sequestration provisions of the Budget Control Act of 2011, which provided for automatic federal spending cuts, from January 2, 2013 to March 1, 2013. The automatic spending cuts required under the Budget Control Act of 2011 went into effect on March 1, 2013. At the end of January 2013, Congress temporarily increased the debt ceiling amount and deferred any further decision on how to resolve the debt ceiling issue until May 19, 2013. This was again temporarily delayed due to government tax revenues being greater than anticipated and Congress passing temporary funding measures until mid-October 2013. On October 1, 2013, the U.S. government was partially shut-down due to the inability of the U.S. Congress to pass a continuous funding resolution to provide funding for most government agencies and functions. On October 17, 2013, President Obama signed into law a bill passed by the U.S. Congress that funds the government through January 15, 2014, extends the debt ceiling through February 7, 2014, calls for a Congressional agreement by mid-December 2013 on a long-term budget, and continues the budget sequestration provisions of the Budget Control Act of 2011. A failure

by the U.S. government to reach agreement on future budgets and debt ceilings, reduce its budget deficit or a further downgrade of U.S. sovereign debt and government-sponsored agencies debt could have a material adverse effect on the U.S. economy and on the global economy. These events could have a material adverse effect on our borrowing costs, the availability of financing and the liquidity and valuation of securities in general and particularly the securities in our portfolio.

Our Portfolio

Our investment portfolio consists of agency mortgage-backed securities, or Agency MBS, and is comprised of the following types of securities:

	September 30, 2013	December 31, 2012
	(dollar amounts in thousands)	
Fair value of Agency MBS	\$ 8,766,250	\$ 9,244,693
Adjustable-rate Agency MBS (less than 1 year reset)	18%	21%
Adjustable-rate Agency MBS (1-2 year reset)	7%	2%
Adjustable-rate Agency MBS (2-3 year reset)	16%	12%
Adjustable-rate Agency MBS (3-4 year reset)	14%	20%
Adjustable-rate Agency MBS (4-5 year reset)	2%	12%
Adjustable-rate Agency MBS (5-7 year reset)	15%	9%
Adjustable-rate Agency MBS (>7 year reset)	8%	2%
15-year fixed-rate Agency MBS	19%	18%
30-year fixed-rate Agency MBS	1%	4%
	100%	100%

Stockholders' equity available to common stockholders at September 30, 2013 was approximately \$834.5 million, or \$5.89 per share. The \$834.5 million equals total stockholders' equity of \$883.8 million less the Series A Preferred Stock liquidating value of approximately \$48 million and less the difference between the Series B Preferred Stock liquidating value of approximately \$25.2 million and the proceeds from its sale of approximately \$23.9 million.

Results of Operations

Three Months Ended September 30, 2013 Compared to September 30, 2012

For the three months ended September 30, 2013, our net income available to common stockholders was \$16.6 million, or \$0.12 per diluted share based on a weighted average of 146.3 million fully diluted shares outstanding. This includes net income of \$18 million minus the payment of preferred dividends of \$1.4 million. For the three months ended September 30, 2012, our net income available to common stockholders was \$20.5 million, or \$0.15 per diluted share based on a weighted average of 143.1 million fully diluted shares outstanding. This included net income of \$22 million minus the payment of preferred dividends of \$1.5 million.

Net interest income for the three months ended September 30, 2013 was approximately \$19.9 million, or 34.1% of gross income, compared to approximately \$25.4 million, or 38.2% of gross income, for the three months ended September 30, 2012. Net interest income is comprised of the interest income earned on mortgage investments (net of premium amortization expense) less interest expense from borrowings. Interest income (net of premium amortization expense) for the three months ended September 30, 2013 was approximately \$42.7 million, compared to approximately \$47.2 million for the three months ended September 30, 2012, a decrease of 9.6%, due primarily to a decrease in the coupons on our MBS (from 3.036% during the three months ended September 30, 2012 to 2.60% during the three months ended September 30, 2013), partially offset by an increase in the average MBS outstanding (from \$8.76 billion during the three months ended September 30, 2012 to \$8.85 billion during the three months ended September 30, 2013) and by a decrease in premium amortization of approximately \$3.9 million. Interest expense for the three months ended September 30, 2013 was approximately \$22.8 million, compared to approximately \$21.7 million for the three months ended September 30, 2012, an increase of 4.9%, which resulted primarily from an

increase in weighted average interest rates after the effect of the swap agreements (from 1.066% at September 30, 2012 to 1.11% at September 30, 2013) and an increase in the average repurchase agreement borrowings outstanding, from \$7.96 billion at September 30, 2012 to \$8.05 billion at September 30, 2013.

The results of our operations are affected by a number of factors, many of which are beyond our control, and primarily depend on, among other things, the level of our net interest income, the market value of our MBS, the supply of, and demand for, MBS in the marketplace, and the terms and availability of financing. Our net interest income varies primarily as a result of changes in interest rates, the slope of the yield curve (the differential between long-term and short-term interest rates), borrowing costs (our interest expense) and prepayment speeds on our MBS portfolios, the behavior of which involves various risks and uncertainties. Interest rates and prepayment speeds, as measured by the constant prepayment rate, or CPR, vary according to the type of investment, conditions in the financial markets, competition and other factors, none of which can be predicted with any certainty. With respect to our business operations, increases in interest rates, in general, may, over time, cause: (i) the interest expense associated with our borrowings, which are primarily comprised of repurchase agreements, to increase; (ii) the value of our MBS portfolios and, correspondingly, our stockholders' equity to decline; (iii) coupons on our MBS to reset, although on a delayed basis, to higher interest rates; (iv) prepayments on our MBS portfolios to slow, thereby slowing the amortization of our MBS purchase premiums; and (v) the value of our interest rate swap agreements and, correspondingly, our stockholders' equity to increase. Conversely, decreases in interest rates, in general, may, over time, cause: (a) prepayments on our MBS portfolios to increase, thereby accelerating the amortization of our MBS purchase premiums; (b) the interest expense associated with our borrowings to decrease; (c) the value of our MBS portfolios and, correspondingly, our stockholders' equity to increase; (d) the value of our interest rate swap agreements and, correspondingly, our stockholders' equity to decrease; and (e) coupons on our MBS to reset, although on a delayed basis, to lower interest rates. In addition, our borrowing costs and credit lines are further affected by the type of collateral pledged and general conditions in the credit markets.

During the three months ended September 30, 2013, premium amortization expense decreased approximately \$3.9 million, or 20.1%, from \$19.4 million during the three months ended September 30, 2012 to \$15.5 million, due primarily to lower future CPR projections.

The following table shows the approximate pay-down experience of our Agency MBS for each of the following quarters:

2013			2012		
First Quarter	Second Quarter	Third Quarter	First Quarter	Second Quarter	Third Quarter
24%	24%	23%	22%	24%	26%

During the three months ended September 30, 2013 and 2012, there was no gain or loss recognized in earnings due to hedge ineffectiveness. We have determined that our hedges are still considered highly effective. There were no components of the derivative instruments' gain or loss excluded from the assessment of hedge effectiveness.

During the three months ended September 30, 2013, there were recoveries of approximately \$100 thousand related to a previous write-down on our Non-Agency MBS, as compared to recoveries of approximately \$299 thousand related to a previous write-down on our Non-Agency MBS for the three months ended September 30, 2012.

During the three months ended September 30, 2013, we received proceeds of approximately \$342 million from the sales of Agency MBS and recognized a net gain of approximately \$2 million. During the three months ended September 30, 2012, we did not sell any Agency MBS.

Total expenses were approximately \$3.9 million for the three months ended September 30, 2013, compared to approximately \$3.8 million for the three months ended September 30, 2012. For the three months ended September 30, 2013, we incurred management fees of approximately \$3.0 million, as compared to management fees

of approximately \$2.9 million for the three months ended September 30, 2012, due primarily to management fees being calculated as a percentage of stockholders' equity (excluding accumulated other comprehensive income), which increased from the three months ended September 30, 2012. Other expenses increased \$53 thousand (as detailed in Note 14 to the accompanying unaudited financial statements).

Nine Months Ended September 30, 2013 Compared to September 30, 2012

For the nine months ended September 30, 2013, our net income available to common stockholders was \$60.3 million, or \$0.42 per diluted share based on a weighted average of 147.1 million fully diluted shares outstanding. This includes net income of \$64.6 million minus the payment of preferred dividends of \$4.3 million. For the nine months ended September 30, 2012, our net income available to common stockholders was \$72.6 million, or \$0.52 per diluted share based on a weighted average of 141.3 million fully diluted shares outstanding. This included net income of \$76.9 million minus the payment of preferred dividends of \$4.3 million.

Edgar Filing: ANWORTH MORTGAGE ASSET CORP - Form 10-Q

Net interest income for the nine months ended September 30, 2013 was approximately \$67 million, or 36.8% of gross income, compared to approximately \$87.1 million, or 42.8% of gross income, for the nine months ended September 30, 2012. Net interest income is comprised of the interest income earned on mortgage investments (net of premium amortization expense) less interest expense from borrowings. Interest income (net of premium amortization expense) for the nine months ended September 30, 2013 was approximately \$131.4 million, compared to approximately \$150.8 million for the nine months ended September 30, 2012, a decrease of 12.9%, due primarily to a decrease in the coupons on our MBS (from 3.152% during the nine months ended September 30, 2012 to 2.70% during the nine months ended September 30, 2013), partially offset by an increase in the average MBS outstanding (from \$8.60 billion during the nine months ended September 30, 2012 to \$8.96 billion during the nine months ended September 30, 2013) and by a decrease in premium amortization of approximately \$2.1 million. Interest expense for the nine months ended September 30, 2013 was approximately \$64.4 million, compared to approximately \$63.7 million for the nine months ended September 30, 2012, an increase of 1.1%, which resulted primarily from an increase in the average repurchase agreement borrowings outstanding, from \$7.79 billion at September 30, 2012 to \$8.13 billion at September 30, 2013, partially offset by a decline in weighted average interest rates after the effect of the swap agreements (from 1.07% at September 30, 2012 to 1.04% at September 30, 2013) and one less day in 2013 on the interest expense calculation.

During the nine months ended September 30, 2013, premium amortization expense decreased \$2.1 million, or 4%, from \$52.6 million during the nine months ended September 30, 2012 to \$50.5 million, due primarily to lower future CPR projections in the second and third quarters of 2013, partially offset by the increase in the amortization of unearned premium on securities acquired in 2011, 2012 and 2013 at higher premiums.

During the nine months ended September 30, 2013 and 2012, there was no gain or loss recognized in earnings due to hedge ineffectiveness. We have determined that our hedges are still considered highly effective. There were no components of the derivative instruments gain or loss excluded from the assessment of hedge effectiveness.

During the nine months ended September 30, 2013, there were recoveries of approximately \$333 thousand related to a previous write-down on our Non-Agency MBS, as compared to recoveries of approximately \$1.27 million related to a previous write-down on our Non-Agency MBS for the nine months ended September 30, 2012.

During the nine months ended September 30, 2013, we received proceeds of approximately \$637 million from the sales of Agency MBS and recognized a net gain of approximately \$9.2 million. During the nine months ended September 30, 2012, we did not sell any Agency MBS.

Total expenses were approximately \$11.9 million for the nine months ended September 30, 2013, compared to approximately \$11.5 million for the nine months ended September 30, 2012. For the nine months ended September 30, 2013, we incurred management fees of approximately \$9 million, as compared to management fees of approximately \$8.6 million for the nine months ended September 30, 2012, due primarily to management fees being calculated as a percentage of stockholders' equity (excluding accumulated other comprehensive income), which increased from the nine months ended September 30, 2012. Other expenses decreased \$2 thousand (as detailed in Note 14 to the accompanying unaudited financial statements).

Financial Condition

Agency MBS Portfolio

At September 30, 2013, we held agency mortgage assets which had an amortized cost of approximately \$8.75 billion, consisting primarily of approximately \$6.98 billion of adjustable-rate Agency MBS and approximately \$1.77 billion of fixed-rate Agency MBS. This amount represents an approximately 2.9% decrease from the \$9.02 billion held at December 31, 2012. Of the adjustable-rate Agency MBS owned by us, approximately 22% were adjustable-rate pass-through certificates which had coupons that reset within one year. The remaining 78% consisted of hybrid

adjustable-rate Agency MBS which had coupons that will reset between one year and ten years. Hybrid adjustable-rate Agency MBS have an initial interest rate that is fixed for a certain period, usually three to ten years, and thereafter adjust annually for the remainder of the term of the asset.

Edgar Filing: ANWORTH MORTGAGE ASSET CORP - Form 10-Q

The following table presents a schedule of the fair value of our MBS owned at September 30, 2013 and December 31, 2012, classified by type of issuer (dollar amounts in thousands):

By Agency	September 30, 2013		December 31, 2012	
	Fair Value	Portfolio Percentage	Fair Value	Portfolio Percentage
Fannie Mae (FNM)	\$ 5,096,278	58.1%	\$ 5,993,700	64.8%
Freddie Mac (FHLMC)	3,656,177	41.7	3,235,166	35.0
Ginnie Mae (GNMA)	13,725	0.2	15,467	0.2
Non-Agency MBS	70	0.0	360	0.0
Total MBS:	\$ 8,766,250	100.0%	\$ 9,244,693	100.0%

The following table classifies the fair value of our MBS owned at September 30, 2013 and December 31, 2012 by type of interest rate index (dollar amounts in thousands):

Interest Rate Index	September 30, 2013		December 31, 2012	
	Fair Value	Portfolio Percentage	Fair Value	Portfolio Percentage
One-month LIBOR	\$ 1,659	0.0%	\$ 2,582	0.0%
Six-month LIBOR	53,258	0.6	63,100	0.7
One-year LIBOR	6,706,943	76.5	6,882,732	74.5
Six-month certificate of deposit	1,019	0.0	1,100	0.0
Six-month constant maturity treasury	242	0.0	307	0.0
One-year constant maturity treasury	238,462	2.7	277,668	3.0
Cost of Funds Index	17,357	0.2	20,798	0.2
15-year fixed-rate	1,627,027	18.6	1,655,195	17.9
30-year fixed-rate	120,283	1.4	341,211	3.7
Total MBS:	\$ 8,766,250	100.0%	\$ 9,244,693	100.0%

The fair values indicated do not include interest earned but not yet paid. With respect to our hybrid adjustable-rate Agency MBS, the fair value of these securities appears on the line associated with the index based on which the security will eventually reset once the initial fixed interest rate period has expired. The fair value of our Agency MBS is reported to us independently from dealers who are major financial institutions and are considered to be market makers for these types of instruments. For more detail on the fair value of our Agency MBS, see Note 6 to the accompanying unaudited financial statements.

The weighted average coupons and average amortized costs of our Agency MBS at September 30, 2013, June 30, 2013, March 31, 2013 and December 31, 2012, respectively, were as follows:

September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012
-----------------------	------------------	-------------------	----------------------

Edgar Filing: ANWORTH MORTGAGE ASSET CORP - Form 10-Q

Weighted Average Coupon:				
Adjustable-rate Agency MBS	2.52%	2.61%	2.70%	2.98%
Hybrid adjustable-rate Agency MBS	2.66	2.67	2.74	2.82
15-year fixed-rate Agency MBS	2.64	2.61	2.74	2.97
30-year fixed-rate Agency MBS	5.74	5.55	5.57	5.56
CMOs	0.99	1.00	1.01	1.01
Total Agency MBS:	2.67%	2.72%	2.82%	2.98%
Average Amortized Cost:				
Adjustable-rate and hybrid adjustable-rate Agency MBS	103.25%	103.20%	103.13%	103.08%
15-year fixed-rate Agency MBS	103.47	103.31	103.27	103.46
30-year fixed-rate Agency MBS	101.28	100.98	100.92	100.88
Total Agency MBS:	103.26%	103.16%	103.08%	103.07%
Current yield (weighted average coupon divided by average amortized cost)	2.59%	2.64%	2.74%	2.89%

Edgar Filing: ANWORTH MORTGAGE ASSET CORP - Form 10-Q

The following information pertains to our repurchase agreement borrowings at September 30, 2013, June 30, 2013, March 31, 2013 and December 31, 2012, respectively:

	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012
	(dollar amounts in thousands)			
Repurchase agreements outstanding	\$ 7,575,000	\$ 8,405,000	\$ 8,025,000	\$ 8,020,000
Average repurchase agreements outstanding	\$ 8,052,629	\$ 8,310,932	\$ 8,038,393	\$ 8,069,889
Average interest rate on outstanding repurchase agreements	0.37%	0.39%	0.41%	0.47%
Average days to maturity	38 days	37 days	37 days	34 days
Average interest rate on outstanding repurchase agreements after adjusting for interest rate swap transactions	1.44%	0.95%	1.00%	1.12%
Weighted average term to next rate adjustment after adjusting for interest rate swap transactions	1,024 days	471 days	489 days	420 days
Weighted average haircuts ⁽¹⁾	4.92%	4.83%	4.88%	4.86%

(1) A haircut represents the reduction of value to securities used as collateral in a lending arrangement so as to provide the lender with a cushion in case the market value of the securities decreases.

At September 30, 2013 and December 31, 2012, the unamortized net premium paid for our Agency MBS was approximately \$274.8 million and \$268.7 million, respectively.

At September 30, 2013, the current yield declined to 2.59% from 2.89% at December 31, 2012. This was due primarily to the decline in the weighted average coupon. As portions of our portfolio reset, and as older assets mature or payoff and are replaced with newer lower-yielding assets, the weighted average coupon will continue to decline. As noted in the trend above, the weighted average coupon has declined by an average of approximately 8 basis points per quarter. For the three months ended September 30, 2013, the weighted average coupon for our total Agency MBS declined by approximately 5 basis points. One of the factors that also impacts the reported yield on our MBS portfolio is the actual prepayment rate on the underlying mortgages. We analyze our MBS and the extent to which prepayments impact the yield. When the rate of prepayments exceeds expectations, we amortize the premiums paid on mortgage assets over a shorter time period, resulting in a reduced yield to maturity on our mortgage assets. Conversely, if actual prepayments are less than the assumed CPR, the premium would be amortized over a longer time period, resulting in a higher yield to maturity.

The average interest rate on outstanding repurchase agreements after adjusting for interest rate swap transactions increased from 1.12% at December 31, 2012 to 1.44% at September 30, 2013. The increase was due to an increase in interest rates we paid on our interest rate swap agreements and an increase in the amount of outstanding swap agreements, partially offset by a decrease in the average interest rate on outstanding repurchase agreements, from 0.47% at December 31, 2012 to 0.37% at September 30, 2013. Please see the discussion on the decrease in interest

rates related to swap transactions in the section entitled Hedging which follows below.

The increase in weighted average term to next rate adjustment after adjusting for interest rate swap transactions from 471 days at June 30, 2013 to 1,024 days at September 30, 2013 was due primarily to the addition of 21 swap agreements with an aggregate notional amount of \$1.75 billion and a weighted average term of approximately 81 months.

Hedging

We periodically enter into derivative transactions, in the form of forward purchase commitments and interest rate swap agreements, which are intended to hedge our exposure to rising interest rates on funds borrowed to finance our investments in securities. We designate interest rate swap transactions as cash flow hedges. We also periodically enter into derivative transactions, in the form of forward purchase commitments, which are not designated as hedges. To the extent that we enter into hedging transactions to reduce our interest rate risk on indebtedness incurred to acquire or carry real estate assets, any income or gain from the disposition of those hedging transactions should be qualifying income under the REIT rules for purposes of the 95% gross income test and 75% gross income test. To qualify for this exclusion, the hedging transaction must be clearly identified as such before the close of the day on which it was acquired, originated or entered into. The transaction also must hedge indebtedness incurred or to be incurred by us to acquire or carry real estate assets.

As part of our asset/liability management policy, we may enter into hedging agreements such as interest rate caps, floors or swaps. These agreements are entered into to try to reduce interest rate risk and are designed to provide us with income and capital appreciation in the event of certain changes in interest rates. We review the need for hedging agreements on a regular basis consistent with our capital investment policy. Swap agreements are derivative instruments as defined by ASC 815-10. We do not anticipate entering into derivative transactions for speculative or trading purposes. In accordance with the swap agreements, we pay a fixed rate of interest during the term of the swap agreements and receive a payment that varies with the three-month LIBOR rate.

Edgar Filing: ANWORTH MORTGAGE ASSET CORP - Form 10-Q

The following table pertains to our interest rate swap agreements at September 30, 2013, June 30, 2013, March 31, 2013 and December 31, 2012, respectively:

	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012
Aggregate notional amount of swap agreements	\$ 5.185 billion	\$ 3.435 billion	\$ 3.30 billion	\$ 3.16 billion
Average maturity of swap agreements	4.1 years	3.0 years	3.2 years	2.8 years
Weighted average interest rate paid on swap agreements	1.82%	1.64%	1.72%	1.98%
Swap agreements as a percentage of outstanding repurchase agreements	68%	41%	41%	39%

The increase in the weighted average interest rate that we paid on our swap agreements during the three months ended September 30, 2013 was due primarily to the addition of 21 swap agreements with an aggregate notional amount of \$1.75 billion and a weighted average interest rate of 2.17%. At September 30, 2013, there were unrealized losses of approximately \$68.3 million on our swap agreements.

For more information on the amounts, policies, objectives and other qualitative data on our hedge agreements, see Notes 1, 6 and 12 to the accompanying unaudited financial statements.

Liquidity and Capital Resources

Our primary source of funds consists of repurchase agreements which totaled approximately \$7.575 billion at September 30, 2013. As collateral for these repurchase agreements, we pledged approximately \$8.12 billion in Agency MBS. Our other significant source of funds for the three months ended September 30, 2013 consisted of payments of principal from our Agency MBS portfolio in the amount of approximately \$637.2 million.

For the three months ended September 30, 2013, there was a net increase in cash and cash equivalents of approximately \$5.8 million. This consisted of the following components:

Net cash provided by operating activities for the three months ended September 30, 2013 was approximately \$31.7 million. This is comprised of net income of approximately \$18 million and adding back the following non-cash items: the amortization of premiums and discounts of approximately \$15.5 million and the amortization of restricted stock of \$51 thousand, partially offset by recoveries on Non-Agency MBS of approximately \$100 thousand and net gains on sales of Agency MBS of approximately \$2 million. Net cash provided by operating activities also included an increase in accrued expenses of approximately \$25 thousand, a decrease in accrued interest receivable of approximately \$2.3 million and an increase in interest payable of approximately \$6.6 million, partially offset by a decrease in prepaid expenses and other assets of approximately \$8.6 million;

Net cash provided by investing activities for the three months ended September 30, 2013 was approximately \$830 million, which consisted of \$637.2 million from principal payments on Agency MBS and proceeds from sales of Agency MBS of approximately \$342.5 million, partially offset by purchases of Agency MBS of approximately \$150

million; and

Net cash used in financing activities for the three months ended September 30, 2013 was approximately \$855.9 million. This consisted of borrowings on repurchase agreements of approximately \$11.056 billion, partially offset by repayments on repurchase agreements of approximately \$11.886 billion. This also included common stock repurchased net of common stock issued of approximately \$3.1 million, dividends paid of \$21.4 million on common stock and dividends paid of approximately \$1.4 million on preferred stock.

Relative to our Agency MBS portfolio at September 30, 2013, all of our repurchase agreements were fixed-rate term repurchase agreements with original maturities ranging from 28 days to 3 months. At September 30, 2013, we had borrowed funds under repurchase agreements with 23 different financial institutions. As the repurchase agreements mature, we enter into new repurchase agreements to take their place. Because we borrow money based on the fair value of our MBS and because increases in short-term interest rates or increasing market concern about the liquidity or value of our MBS can negatively impact the valuation of MBS, our borrowing ability could be reduced and lenders may initiate margin calls in the event short-term interest rates increase or the value of our MBS declines for other reasons. Typically, most margin calls by lenders arise each month due to prepayments. The value of the MBS pledged is reduced by an amount equal to any prepaid principal in order to reestablish the required ratio of borrowing to collateral value. The pledging of additional collateral is usually done on the same day or the following day. We had adequate cash flow, liquid assets and unpledged collateral with which to meet our margin requirements during the three months ended September 30, 2013, but there can be no assurance we will have adequate cash flow, liquid assets and unpledged collateral with which to meet our margin requirements in the future.

Edgar Filing: ANWORTH MORTGAGE ASSET CORP - Form 10-Q

Our leverage on capital (including all preferred stock and junior subordinated notes) increased from 7.13x at December 31, 2012 to 8x at September 30, 2013. The increase in leverage was due primarily to a decrease in total stockholders' equity of approximately \$179 million, resulting primarily from a decrease in accumulated other comprehensive income of \$180 million which occurred primarily during the second quarter 2013.

In the future, we expect that our primary sources of funds will continue to consist of borrowed funds under repurchase agreement transactions and monthly payments of principal and interest on our MBS portfolio. Our liquid assets generally consist of unpledged MBS, cash and cash equivalents. A large negative change in the market value of our MBS might reduce our liquidity, requiring us to sell assets with the likely result of realized losses upon sale.

During the three months ended September 30, 2013, we raised approximately \$3.6 million in capital under our 2012 Plan.

During the three months ended September 30, 2013, we repurchased an aggregate of 1,472,710 shares of our common stock at a weighted average price of \$4.53 per share under our share repurchase program.

Disclosure of Contractual Obligations

During the three months ended September 30, 2013, there were no material changes outside the normal course of business to the contractual obligations identified in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Stockholders' Equity

We use available-for-sale treatment for our Agency MBS, which are carried on our balance sheets at fair value rather than historical cost. Based upon this treatment, our total equity base at September 30, 2013 was \$883.8 million. Common stockholders' equity was approximately \$834.5 million, or a book value of \$5.89 per share.

Under our available-for-sale accounting treatment, unrealized fluctuations in fair values of assets are assessed to determine whether they are other-than-temporary. To the extent we determine that these unrealized fluctuations are temporary, they do not impact GAAP income or taxable income but rather are reflected on our balance sheets by changing the carrying value of the assets and reflecting the change in stockholders' equity under Accumulated other comprehensive income, unrealized gain (loss) on available-for-sale securities.

As a result of this fair value accounting treatment, our book value and book value per share are likely to fluctuate far more than if we used historical amortized cost accounting on all of our assets. As a result, comparisons with some companies that use historical cost accounting for all of their balance sheets may not be meaningful.

Unrealized changes in the fair value of MBS have one significant and direct effect on our potential earnings and dividends: positive fair value changes will increase our equity base and allow us to increase our borrowing capacity, while negative changes will tend to reduce borrowing capacity under our capital investment policy. A very large negative change in the net market value of our MBS might reduce our liquidity, requiring us to sell assets with the likely result of realized losses upon sale. Accumulative other comprehensive income, unrealized loss on available-for-sale Agency MBS was approximately \$32.3 million, or 0.37% of the amortized cost of our Agency MBS, at September 30, 2013. This, along with Accumulative other comprehensive loss, derivatives of approximately \$68.3 million, constituted the total Accumulative other comprehensive loss of approximately \$100.6 million.

Edgar Filing: ANWORTH MORTGAGE ASSET CORP - Form 10-Q

The following table represents our common stockholders' equity with and without AOCI, which is a non-GAAP financial measure, at September 30, 2013 and December 31, 2012, respectively. The Company's management believes that this financial measure, when considered together with our GAAP financial measures, provides information that is useful to investors in understanding the differences between our common stockholders' equity including AOCI and our common stockholders' equity without AOCI and the effect of each on our book value per share. This financial measure should not be used as a substitute in assessing the Company's financial condition at September 30, 2013 and December 31, 2012, respectively. An analysis of any non-GAAP financial measure should be used in conjunction with results presented in accordance with GAAP.

	September 30, 2013	December 31, 2012
	(in thousands)	
Common stockholders' equity without AOCI	\$ 935,088	\$ 934,354
AOCI - unrealized (loss) income	(100,632)	79,776
Common stockholders' equity	\$ 834,456	\$ 1,014,130
Series A Preferred Stock liquidation value	47,984	46,935
Series B Preferred Stock liquidation value	25,241	26,652
Less: Series B Preferred Stock proceeds from issuance	(23,924)	(25,222)
Total stockholders' equity per Balance Sheet	\$ 883,757	\$ 1,062,495
Common shares outstanding	141,603	142,013
Per Share Amounts:		
Common stockholders' equity without AOCI	\$ 6.60	\$ 6.58
AOCI	(0.71)	0.56
Common stockholders' equity	\$ 5.89	\$ 7.14

Critical Accounting Policies

Management has the obligation to ensure that its policies and methodologies are in accordance with GAAP. Management has reviewed and evaluated its critical accounting policies and believes them to be appropriate.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying unaudited financial statements. In preparing these unaudited financial statements, management has made its best estimates and judgments on the basis of information then readily available to it of certain amounts included in the unaudited financial statements, giving due consideration to materiality. Application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ materially and adversely from these estimates.

Our accounting policies are described in Note 1 to the accompanying unaudited financial statements. Management believes the more significant of our accounting policies are the following:

Revenue Recognition

The most significant source of our revenue is derived from our investments in MBS. We reflect income using the effective yield method which, through amortization of premiums and accretion of discounts at an effective yield, recognizes periodic income over the estimated life of the investment on a constant yield basis, as adjusted for actual prepayment activity. Management believes our revenue recognition policies are appropriate to reflect the substance of the underlying transactions.

Interest income on our MBS is accrued based on the actual coupon rate and the outstanding principal amounts of the underlying mortgages. Premiums and discounts are amortized or accreted into interest income over the expected lives of the securities using the effective interest yield method, adjusted for the effects of actual prepayments and estimated prepayments based on ASC 320-10. Our policy for estimating prepayment speeds for calculating the effective yield is to evaluate historical performance, street consensus prepayment speeds and current market conditions. If our estimate of prepayments is incorrect, we may be required to make an adjustment to the amortization or accretion of premiums and discounts that would have an impact on future income, which could be material and adverse.

Valuation and Classification of Investment Securities

We carry our investment securities on our balance sheet at fair value. The fair values of our Agency MBS are generally based on third party bid price indications provided by certain dealers who make markets in such securities. The fair value of our Non-Agency MBS are obtained from an independent third party pricing service whose methodologies are based on broker-provided pricing as well as indirect observation of market activity. If, in the opinion of management, one or more securities prices reported to us are not reliable or unavailable, management reviews the fair value based on characteristics of the security it receives from the issuer and available market information. The fair values reported reflect estimates and may not necessarily be indicative of the amounts we could realize in a current market exchange. We review various factors (i.e., expected cash flows, changes in interest rates, credit protection, etc.) in determining whether and to what extent an other-than-temporary impairment exists. To the extent that unrealized losses on our Agency MBS are attributable to changes in interest rates and not credit quality, and because we did not have the intent at September 30, 2013 to sell these investments, nor is it more likely than not that we will be required to sell these investments before recovery of their amortized cost bases, which may be at maturity, we did not consider these investments to be other-than-temporarily impaired. Losses (that are related to credit quality) on securities classified as available-for-sale, which are determined by management to be other-than-temporary in nature, are reclassified from Accumulated other comprehensive income (loss) to current-period income (loss). For more detail on the fair value of our securities, see Note 6 to the accompanying unaudited financial statements.

Accounting for Derivatives and Hedging Activities

In accordance with ASC 815-10, a derivative that is designated as a hedge is recognized as an asset/liability and measured at estimated fair value. In order for our interest rate swap agreements to qualify for hedge accounting, upon entering into the swap agreement, we must anticipate that the hedge will be highly effective, as defined by ASC 815-10.

On the date we enter into a derivative contract, we designate the derivative as a hedge of the variability of cash flows that are to be received or paid in connection with a recognized asset or liability (a cash flow hedge). Changes in the fair value of a derivative that are highly effective and that are designated and qualify as a cash flow hedge, to the extent that the hedge is effective, are recorded in Other comprehensive income and reclassified to income when the forecasted transaction affects income (e.g., when periodic settlement interest payments are due on repurchase agreements). The swap agreements are carried on our balance sheets at their fair value based on values obtained from large financial institutions, who are market makers for these types of instruments. Hedge ineffectiveness, if any, is recorded in current-period income.

We formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. If it is determined that a derivative is not (or has ceased to be) highly effective as a hedge, we discontinue hedge accounting.

When we discontinue hedge accounting, the gain or loss on the derivative remains in Accumulated other comprehensive income (loss) and is reclassified into income when the forecasted transaction affects income. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, we will carry the derivative at its fair value on the balance sheet, recognizing changes in the fair value in current-period income.

For purposes of the cash flow statement, cash flows from derivative instruments are classified with the cash flows from the hedged item. For more detail on our derivative instruments, see Notes 1, 6 and 12 to the accompanying unaudited financial statements.

Income Taxes

Our financial results do not reflect provisions for current or deferred income taxes. Management believes that we have and intend to continue to operate in a manner that will allow us to be taxed as a REIT and, as a result, management does not expect to pay substantial, if any, corporate level taxes. Many of these requirements, however, are highly technical and complex. If we were to fail to meet these requirements, we would be subject to federal income tax.

Recent Accounting Pronouncements

A description of recent accounting pronouncements, the date adoption is required and the impact on our unaudited financial statements is contained in Note 1 to the accompanying unaudited financial statements.

Subsequent Events

When we pay any cash dividend during any quarterly fiscal period to all or substantially all of our common stockholders in an amount that results in an annualized common stock dividend yield that is greater than 6.25% (the dividend yield on our Series B Preferred Stock), the conversion rate on our Series B Preferred Stock is adjusted based on a formula specified in the Articles Supplementary Establishing and Fixing the Rights and Preferences of the Series B Preferred Stock. This conversion rate increased on October 11, 2013 from 3.9202 shares of our common stock to 3.9702 shares of our common stock using the following information: (1) the average of the closing price of our common stock for the ten (10) consecutive trading day period was \$ 4.77 and (2) the annualized common stock dividend yield was 10.0692%.

From October 1, 2013 through November 4, 2013, we issued an aggregate of 73,564 shares of common stock at a weighted average price of \$5.00 per share under the 2012 Dividend Reinvestment and Stock Purchase Plan, resulting in proceeds to us of approximately \$368 thousand.

From October 1, 2013 through November 4, 2013, we had repurchased an aggregate of 730,700 shares of our common stock at a weighted average price of \$4.52 per share under our share repurchase program.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We seek to manage the interest rate, market value, liquidity, prepayment and credit risks inherent in all financial instruments in a prudent manner designed to insure our longevity while, at the same time, seeking to provide an opportunity for stockholders to realize attractive total rates of return through ownership of our common stock. While we do not seek to avoid risk completely, we do seek, to the best of our ability, to assume risk that can be quantified from historical experience, to actively manage that risk, to earn sufficient returns to justify taking those risks and to maintain capital levels consistent with the risks we undertake.

Interest Rate Risk

We primarily invest in adjustable-rate, hybrid adjustable-rate and fixed-rate mortgage assets. Hybrid mortgages are ARMs that have a fixed interest rate for an initial period of time (typically three years or greater) and then convert to an adjustable-rate for the remaining loan term. Our debt obligations are generally repurchase agreements of limited duration that are periodically refinanced at current market rates.

ARMs are typically subject to periodic and lifetime interest rate caps that limit the amount an ARM interest rate can change during any given period. ARMs are also typically subject to a minimum interest rate payable. Our borrowings are not subject to similar restrictions. Hence, in a period of increasing interest rates, interest rates on our borrowings could increase without limitation, while the interest rates on our mortgage assets could be limited. This problem would be magnified to the extent we acquire mortgage assets that are not fully indexed. Further, some ARM assets may be subject to periodic payment caps that result in some portion of the interest being deferred and added to the principal outstanding. These factors could lower our net interest income or cause a net loss during periods of rising interest rates, which would negatively impact our liquidity, net income and our ability to make distributions to stockholders.

We fund the purchase of a substantial portion of our ARM assets with borrowings that have interest rates based on indices and repricing terms similar to, but of shorter maturities than, the interest rate indices and repricing terms of our mortgage assets. Thus, we anticipate that in most cases the interest rate indices and repricing terms of our mortgage assets and our funding sources will not be identical, thereby creating an interest rate mismatch between assets and liabilities. During periods of changing interest rates, such interest rate mismatches could negatively impact our net interest income, dividend yield and the market price of our common stock.

Most of our adjustable-rate assets are based on the one-year constant maturity treasury rate and the one-year LIBOR rate and our debt obligations are generally based on LIBOR. These indices generally move in the same direction, but there can be no assurance that this will continue to occur.

Our ARM assets and borrowings reset at various different dates for the specific asset or obligation. In general, the repricing of our debt obligations occurs more quickly than on our assets. Therefore, on average, our cost of funds may rise or fall more quickly than does our earnings rate on the assets.

Further, our net income may vary somewhat as the spread between one-month interest rates and six- and twelve-month interest rates varies.

Edgar Filing: ANWORTH MORTGAGE ASSET CORP - Form 10-Q

At September 30, 2013, our Agency MBS and the related borrowings will prospectively reprice based on the following time frames (dollar amounts in thousands):

	Investments ⁽¹⁾⁽²⁾		Borrowings	
	Amount	Percentage of Total Investments	Amount	Percentage of Total Borrowings
Investment Type/Rate Reset Dates:				
15-year fixed-rate investments	\$ 1,627,027	18.6%	\$ 0	0.0%
30-year fixed-rate investments	120,283	1.4	0	0.0
Adjustable-Rate Investments/Obligations:				
3 months or less	409,688	4.7	7,575,000	100.0
Greater than 3 months and less than 1 year	1,199,007	13.7	0	0.0
Greater than 1 year and less than 2 years	617,866	7.0	0	0.0
Greater than 2 years and less than 3 years	1,359,344	15.5	0	0.0
Greater than 3 years and less than 4 years	1,204,386	13.7	0	0.0
Greater than 4 years and less than 5 years	212,380	2.4	0	0.0
Greater than 5 years and less than 7 years	1,328,700	15.2	0	0.0
Greater than 7 years	687,569	7.8	0	0.0
Total:	\$ 8,766,250	100.0%	\$ 7,575,000	100.0%

(1)Based on when they contractually reprice and does not consider the effect of any prepayments.

(2)We assume that if the repricing of the investment is beyond 3 months but less than 4 months, it is included in the 3 months or less category.

At December 31, 2012, our Agency MBS and the related borrowings will prospectively reprice based on the following time frames (dollar amounts in thousands):

	Investments ⁽¹⁾⁽²⁾		Borrowings	
	Amount	Percentage of Total Investments	Amount	Percentage of Total Borrowings
Investment Type/Rate Reset Dates:				
15-year fixed-rate investments	\$ 1,655,195	17.9%	\$ 0	0.0%
30-year fixed-rate investments	341,211	3.7	0	0.0
Adjustable-Rate Investments/Obligations:				

Edgar Filing: ANWORTH MORTGAGE ASSET CORP - Form 10-Q

Less than 3 months	621,929	6.7	8,020,000	100.0
Greater than 3 months and less than 1 year	1,314,385	14.2	0	0.0
Greater than 1 year and less than 2 years	185,590	2.0	0	0.0
Greater than 2 years and less than 3 years	1,104,770	12.0	0	0.0
Greater than 3 years and less than 4 years	1,876,203	20.3	0	0.0
Greater than 4 years and less than 5 years	1,168,752	12.6	0	0.0
Greater than 5 years and less than 7 years	824,078	8.9	0	0.0
Greater than 7 years	152,580	1.7	0	0.0
Total:	\$ 9,244,693	100.0%	\$ 8,020,000	100.0%

(1)Based on when they contractually reprice and does not consider the effect of any prepayments.

(2)We assume that if the repricing of the investment is beyond 3 months but less than 4 months, it is included in the 3 months or less category.

Market Value Risk

All of our MBS are classified as available-for-sale assets. As such, they are reflected at fair value (i.e., market value) with the periodic adjustment to fair value (that is not considered to be an other-than-temporary impairment) reflected as part of Accumulated other comprehensive income that is included in the equity section of our balance sheet. The market value of our assets can fluctuate due to changes in interest rates and other factors.

Liquidity Risk

Our primary liquidity risk arises from financing long-maturity MBS with short-term debt. The interest rates on our borrowings generally adjust more frequently than the interest rates on our adjustable-rate MBS. For example, at September 30, 2013, our adjustable-rate Agency MBS had a weighted average term to next rate adjustment of approximately 42 months while our borrowings had a weighted average term to next rate adjustment of 38 days. After adjusting for interest rate swap transactions, the weighted average term to next rate adjustment was 1,024 days. Accordingly, in a period of rising interest rates, our borrowing costs will usually increase faster than our interest earnings from MBS. As a result, we could experience a decrease in net income or a net loss during these periods. Our assets that are pledged to secure short-term borrowings are high-quality liquid assets. As a result, we have been able to roll over our short-term borrowings as they mature. There can be no assurance that we will always be able to roll over our short-term debt.

During the past few years, there have been continuing liquidity and credit concerns surrounding the mortgage markets and the general global economy. While the U.S. government and other foreign governments have taken various actions to address these concerns, there are also concerns about the ability of the U.S. government to meet the obligations of the Budget Control Act of 2011 and to reduce its budget deficit and about possible future rating downgrades of U.S. sovereign debt and government-sponsored agency debt. On October 17, 2013, President Obama signed into law a bill passed by the U.S. Congress that funds the government through January 15, 2014, extends the debt ceiling through February 7, 2014, calls for a Congressional agreement by mid-December 2013 on a long-term budget, and continues the budget sequestration provisions of the Budget Control Act of 2011. A failure by the U.S. government to reach agreement on future budgets and debt ceilings, or reduce its budget deficit or a further downgrade of U.S. sovereign debt and government-sponsored agencies debt, could have a material adverse effect on the U.S. economy and on the global economy. This could have the effect of reducing the availability of financing in general or lead to changes in credit terms such as collateral requirements or length of financing. As a result, there continues to be concerns about the potential impact on product availability, liquidity, interest rates and changes in the yield curve. While we have been able to meet all of our liquidity needs to date, there are still concerns in the mortgage sector about the availability of financing generally.

At September 30, 2013, we had unrestricted cash of approximately \$13 million and approximately \$595 million in unpledged Agency MBS available to meet margin calls on short-term borrowings that could be caused by asset value declines or changes in lender collateralization requirements.

Prepayment Risk

Prepayments are the full or partial repayment of principal prior to the original term to maturity of a mortgage loan and typically occur due to refinancing of mortgage loans. Prepayment rates on mortgage securities and mortgage loans vary from time to time and may cause changes in the amount of our net interest income. Prepayments of ARM loans usually can be expected to increase when mortgage interest rates fall below the then-current interest rates on such loans and decrease when mortgage interest rates exceed the then-current interest rate on such loans, although such effects are not entirely predictable. Prepayment rates may also be affected by the conditions in the housing and financial markets, general economic conditions and the relative interest rates on fixed-rate loans and ARM loans underlying MBS. The purchase prices of MBS are generally based upon assumptions regarding the expected amounts and rates of prepayments. Where slow prepayment assumptions are made, we may pay a premium for MBS. To the extent such assumptions differ from the actual amounts of prepayments, we could experience reduced earnings or losses. The total prepayment of any MBS purchased at a premium by us would result in the immediate write-off of any remaining capitalized premium amount and a reduction of our net interest income by such amount. In addition, in the event that we are unable to acquire new MBS to replace the prepaid MBS, our financial condition, cash flows and results of operations could be harmed.

We often purchase mortgage assets that have a higher interest rate than the market interest rate at the time. In exchange for this higher interest rate, we must pay a premium over par value to acquire these assets. In accordance with accounting rules, we amortize this premium over the term of the MBS. As we receive repayments of mortgage principal, we amortize the premium balances as a reduction to our income. If the mortgage loans underlying MBS were prepaid at a faster rate than we anticipate, we would amortize the premium at a faster rate. This would reduce our income.

General

Many assumptions are made to present the information in the tables below and, as such, there can be no assurance that assumed events will occur, or that other events that could affect the outcomes will not occur; therefore, the tables below and all related disclosures constitute forward-looking statements.

The analyses presented utilize assumptions and estimates based on management's judgment and experience. Furthermore, future sales, acquisitions and restructuring could materially change the interest rate risk profile for us. The tables quantify the potential changes in net income and portfolio value should interest rates immediately change (are shocked) and remain at the new level for the next twelve months. The results of interest rate shocks of plus and minus 100 and 200 basis points are presented. The cash flows from our portfolio of mortgage assets for each rate shock scenario are projected, based on a variety of assumptions including prepayment speeds, time until coupon reset, yield on future acquisitions, slope of the yield curve and size of the portfolio. Assumptions made on the interest rate-sensitive liabilities, which are repurchase agreements, include anticipated interest rates (no negative rates are utilized), collateral requirements as a percent of the repurchase agreement and amount of borrowing. Assumptions made in calculating the impact on net asset value of interest rate shocks include projected changes in U.S. Treasury interest rates, prepayment rates and the yield spread of mortgage assets relative to prevailing U.S. Treasury interest rates.

Tabular Presentation

The information presented in the table below projects the impact of instantaneous parallel shifts in interest rates on our annual projected net income (relative to the unchanged interest rate scenario), and the impact of the same instantaneous parallel shifts on our projected portfolio value (the value of our assets, including the value of any derivative instruments or hedges, such as interest rate swap agreements). These projections are based on investments in place at September 30, 2013 and include all of our interest rate sensitive assets, liabilities and hedges, such as interest rate swap agreements.

Change in Interest Rates	Percentage Change in Projected Net Interest Income	Percentage Change in Projected Portfolio Value
2%	157%	3.3%
1%	44%	0.5%
0%	0%	0.0%
1%	16%	1.1%
2%	42%	2.7%

The information presented in the table below projects the impact of the same sudden changes in interest rates on our annual projected net income and projected portfolio value compared to the base case used in the table above, and the only difference is that it excludes the effect of the interest rate swap agreements on both net interest income and portfolio value. As of September 30, 2013, the aggregate notional amount of our interest rate swap agreements was \$5.185 billion and the weighted average maturity was 4.1 years.

Change in Interest Rates	Percentage Change in Projected Net Interest Income	Percentage Change in Projected Portfolio Value
2%	9%	1.4%

1%	105%	1.9%
0%	0%	0.0%
1%	36%	3.5%
2%	71%	7.4%

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules, regulations and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness in design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective in the timely and accurate recording, processing, summarizing and reporting of information required to be disclosed by us in our reports filed or submitted under the Exchange Act within the time periods specified in the SEC's rules, regulations and forms. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has concluded that our disclosure controls and procedures are also effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

We are currently not a party to any material pending legal proceedings.

Item 1A. Risk Factors.

The following are changes to certain risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012. The materialization of any risks and uncertainties identified below, in our forward-looking statements contained in this Quarterly Report on Form 10-Q, and those previously disclosed in our Annual Report on Form 10-K, or those that are presently unforeseen, could result in material and adverse effects on our financial condition, results of operations and cash flows. See Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements in this Quarterly Report on Form 10-Q.

The characteristics of hedging instruments present various concerns, including illiquidity, enforceability, and counterparty risks, which could adversely affect our business and results of operations.

From time to time, we enter into interest rate swap agreements to hedge risks associated with movements in interest rates. Entities entering into interest rate swap agreements are exposed to credit losses in the event of non-performance by counterparties to these transactions. Effective October 12, 2012, the Commodities Futures Trading Commission, or CFTC, issued new rules regarding swaps under the authority granted to it pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act. Although the new rules do not directly affect the negotiations and terms of individual swap transactions between counterparties, they do require that by no later than September 9, 2013, the clearing of all swap transactions through registered derivatives clearing organizations, or swap execution facilities, through standardized documents under which each swap counterparty transfers its position to another entity whereby the centralized clearinghouse effectively becomes the counterparty to each side of the swap. It is the intent of the Dodd-Frank Act that the clearing of swaps in this manner is designed to avoid concentration of swap risk in any single entity by spreading and centralizing the risk in the clearinghouse and its members. In addition to greater initial and periodic margin (collateral) requirements and additional transaction fees both by the swap execution facility and the clearinghouse, the swap transactions are now subjected to greater regulation by both the CFTC and the SEC. These additional fees, costs, margin requirements, documentation, and regulation could adversely affect our business and results of operations. Additionally, for all swaps we entered into prior to September 9, 2013, we are not required to clear them through the central clearinghouse and these swaps are still subject to the risks of nonperformance by any of the individual counterparties with whom we entered into these transactions. If the swap counterparty cannot perform under the terms of an interest rate swap, we would not receive payments due under that agreement, we may lose any unrealized gain associated with the interest rate swap, and the hedged liability would cease to be hedged by the interest rate swap. We may also be at risk for any collateral we have pledged to secure our obligation under the interest rate swap if the counterparty becomes insolvent or files for bankruptcy. Default by a party with whom we enter into a hedging transaction may result in a loss and force us to cover our commitments, if any, at the then-current market price. Although generally we will seek to reserve the right to terminate our hedging positions, it may not always be possible to dispose of or close out a hedging position without the consent of the hedging counterparty and we may not be able to enter into an offsetting contract in order to cover our risk. There may not always be a liquid secondary market that will exist for hedging instruments purchased or sold and we may be required to maintain a position until exercise or expiration, which could result in losses.

Separate legislation has been introduced in both houses of the U.S. Congress, which would, among other things, wind down Fannie Mae and Freddie Mac, and we could be materially adversely affected if these proposed laws were enacted.

On June 25, 2013, a bipartisan group of U.S. Senators introduced a draft bill titled, "Housing Finance Reform and Taxpayer Protection Act of 2013," which may serve as a catalyst for congressional discussion on the reform of Fannie Mae and Freddie Mac, to the U.S. Senate. Also, on July 11, 2013, members of the House Committee on Financial Services introduced a draft bill titled, "Protecting American Taxpayers and Homeowners Act" to the U.S. House of Representatives. Both bills call for the winding down of Fannie Mae and Freddie Mac and seek to increase the opportunities for private capital to participate in, and consequently bear the risk of loss in connection with, government-guaranteed MBS. Both bills also have considerable support in their respective houses of Congress, which suggests that efforts to reform and possibly eliminate Fannie Mae and Freddie Mac may be gaining momentum.

Edgar Filing: ANWORTH MORTGAGE ASSET CORP - Form 10-Q

The passage of any new legislation affecting Fannie Mae and Freddie Mac may create market uncertainty and reduce the actual or perceived credit quality of securities issued or guaranteed by the U.S. government through a new or existing successor entity to Fannie Mae and Freddie Mac. If Fannie Mae and Freddie Mac were reformed or wound down, it is unclear what effect, if any, this would have on the value of the existing securities guaranteed by Fannie Mae or Freddie Mac. It is also possible that the above-referenced proposed legislation, if made law, could adversely impact the market for securities guaranteed by the U.S. government and the spreads at which they trade. The foregoing could materially adversely affect the pricing, supply, liquidity and value of the MBS in which we invest and otherwise materially adversely affect our business operations and financial condition.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.
None.

Item 3. Defaults Upon Senior Securities.
None.

Item 4. Mine Safety Disclosures.
Not applicable.

Item 5. Other Information.

(a) Additional Disclosures. None.

(b) Stockholder Nominations. There have been no material changes to the procedures by which stockholders may recommend nominees to our board of directors during the quarter ended September 30, 2013. Please see the discussion of our procedures in our most recent proxy statement on Form DEF 14A filed with the SEC on March 25, 2013.

Item 6. Exhibits.
The following exhibits are either filed herewith or incorporated herein by reference:

Exhibit

Number	Description
1.1	Controlled Equity Offering Sales Agreement dated May 27, 2011 between Anworth Mortgage Asset Corporation and Cantor Fitzgerald & Co. (incorporated by reference from our Current Report on Form 8-K filed with the SEC on May 27, 2011)

- 3.1 Amended Articles of Incorporation of Anworth (incorporated by reference from our Registration Statement on Form S-11, Registration No. 333-38641, which became effective under the Securities Act of 1933, as amended, on March 12, 1998)
- 3.2 Amended Bylaws of the Company (incorporated by reference from our Current Report on Form 8-K filed with the SEC on March 13, 2009)
- 3.3 Articles of Amendment to Amended Articles of Incorporation (incorporated by reference from our Definitive Proxy Statement filed, pursuant to Section 14(a) of the Securities Exchange Act of 1934, as amended, with the SEC on May 14, 2003)
- 3.4 Articles Supplementary for Series A Cumulative Preferred Stock (incorporated by reference from our Current Report on Form 8-K filed with the SEC on November 3, 2004)
- 3.5 Articles Supplementary for Series A Cumulative Preferred Stock (incorporated by reference from our Current Report on Form 8-K filed with the SEC on January 21, 2005)
- 3.6 Articles Supplementary for Series B Cumulative Convertible Preferred Stock (incorporated by reference from our Current Report on Form 8-K filed with the SEC on January 30, 2007)
- 3.7 Articles Supplementary for Series B Cumulative Convertible Preferred Stock (incorporated by reference from our Current Report on Form 8-K filed with the SEC on May 21, 2007)
- 3.8 Articles of Amendment to Amended Articles of Incorporation (incorporated by reference from our Current Report on Form 8-K filed with the SEC on May 28, 2008)
- 4.1 Specimen Common Stock Certificate (incorporated by reference from our Registration Statement on Form S-11, Registration No. 333-38641, which became effective under the Securities Act of 1933, as amended, on March 12, 1998)

Exhibit

Number	Description
4.2	Specimen Series A Cumulative Preferred Stock Certificate (incorporated by reference from our Current Report on Form 8-K filed with the SEC on November 3, 2004)
4.3	Specimen Series B Cumulative Convertible Preferred Stock Certificate (incorporated by reference from our Current Report on Form 8-K filed with the SEC on January 30, 2007)
4.4	Specimen Anworth Capital Trust I Floating Rate Preferred Stock Certificate (liquidation amount \$1,000 per Preferred Security) (incorporated by reference from our Current Report on Form 8-K filed with the SEC on March 16, 2005)
4.5	Specimen Anworth Capital Trust I Floating Rate Common Stock Certificate (liquidation amount \$1,000 per Common Security) (incorporated by reference from our Current Report on Form 8-K filed with the SEC on March 16, 2005)
4.6	Specimen Anworth Floating Rate Junior Subordinated Note Due 2035 (incorporated by reference from our Current Report on Form 8-K filed with the SEC on March 16, 2005)
4.7	Junior Subordinated Indenture dated as of March 15, 2005, between Anworth and JPMorgan Chase Bank (incorporated by reference from our Current Report on Form 8-K filed with the SEC on March 16, 2005)
10.1*	2004 Equity Compensation Plan (incorporated by reference from our Definitive Proxy Statement filed, pursuant to Section 14(a) of the Securities Exchange Act of 1934, as amended, with the SEC on April 26, 2004)
10.2*	2007 Dividend Equivalent Rights Plan (incorporated by reference from our Definitive Proxy Statement filed, pursuant to Section 14(a) of the Securities Exchange Act of 1934, as amended, with the SEC on April 26, 2007)
10.3*	2012 Dividend Reinvestment and Stock Purchase Plan (incorporated by reference from our Registration Statement on Form S-3, Registration No. 333-180093, which became effective under the Securities Act of 1933, as amended, on March 14, 2012)
10.4	Termination Agreement, dated as of December 31, 2011, between Anworth and Lloyd McAdams, with respect to the Employment Agreement, dated as of January 1, 2002, between Anworth and Lloyd McAdams, as amended (incorporated by reference from our Current Report on Form 8-K filed with the SEC on January 3, 2012)
10.5	Termination Agreement, dated as of December 31, 2011, between Anworth and Heather U. Baines, with respect to the Employment Agreement, dated as of January 1, 2002, between Anworth and Heather U. Baines, as amended (incorporated by reference from our Current Report on Form 8-K filed with the SEC on January 3, 2012)
10.6	

Edgar Filing: ANWORTH MORTGAGE ASSET CORP - Form 10-Q

Termination Agreement, dated as of December 31, 2011, between Anworth and Joseph E. McAdams, with respect to the Employment Agreement, dated as of January 1, 2002, between Anworth and Joseph E. McAdams, as amended (incorporated by reference from our Current Report on Form 8-K filed with the SEC on January 3, 2012)

- 10.7 Purchase Agreement dated as of March 15, 2005, by and among Anworth, Anworth Capital Trust I, TABERNA Preferred Funding I, Ltd., and Merrill Lynch International (incorporated by reference from our Current Report on Form 8-K filed with the SEC on March 16, 2005)
- 10.8 Second Amended and Restated Trust Agreement dated as of September 26, 2005 by and among Anworth, JPMorgan Chase Bank, National Association, Chase Bank USA, National Association, Lloyd McAdams, Joseph McAdams, Thad Brown and the several Holders, as defined therein. (incorporated by reference from our Annual Report on Form 10-K for the fiscal year ended December 31, 2005, as filed with the SEC on March 16, 2006)
- 10.9* Change in Control and Arbitration Agreement, dated June 27, 2006, between Anworth and Thad M. Brown (incorporated by reference from our Current Report on Form 8-K filed with the SEC on June 28, 2006), as amended by Amendment to Anworth Mortgage Asset Corporation Change in Control and Arbitration Agreement, effective December 31, 2011, between Anworth and Thad M. Brown (incorporated by reference from our Current Report on Form 8-K filed with the SEC on January 3, 2012)
- 10.10 Amended and Restated Administrative Services Agreement dated August 20, 2010, between Anworth and PIA (incorporated by reference from our Current Report on Form 8-K filed with the SEC on August 20, 2010)
- 10.11 Management Agreement dated as of December 31, 2011 by and between Anworth and Anworth Management, LLC (incorporated by reference from our Current Report on Form 8-K filed with the SEC on January 3, 2012)
- 10.12 Sublease dated as of January 26, 2012, between Anworth and PIA (incorporated by reference from our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, as filed with the SEC on August 6, 2012)
- 31.1 Certification of the Principal Executive Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934
- 31.2 Certification of the Principal Financial Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934

Exhibit

Number	Description
32.1	Certifications of the Principal Executive Officer provided pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certifications of the Principal Financial Officer provided pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	XBRL Instance Document
101	XBRL Taxonomy Extension Schema Document
101	XBRL Taxonomy Extension Calculation Linkbase Document
101	XBRL Taxonomy Definition Linkbase Document
101	XBRL Taxonomy Extension Labels Linkbase Document
101	XBRL Taxonomy Extension Presentation Linkbase Document

*Represents a management contract or compensatory plan, contract or arrangement in which any director or any of the named executives participates.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ANWORTH MORTGAGE ASSET CORPORATION

Date: November 5, 2013 By: /s/ JOSEPH LLOYD MCADAMS
Joseph Lloyd McAdams
Chairman of the Board, President and Chief Executive Officer

(Chief Executive Officer)

Date: November 5, 2013 By: /s/ THAD M. BROWN
Thad M. Brown
Chief Financial Officer

(Chief Financial Officer and Principal Accounting Officer)