

PennyMac Mortgage Investment Trust
Form S-11/A
June 24, 2009

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As filed with the Securities and Exchange Commission on June 24, 2009

Registration Statement No. 333-159460

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

**AMENDMENT NO. 1
TO
FORM S-11
FOR REGISTRATION UNDER THE SECURITIES ACT OF 1933
OF CERTAIN REAL ESTATE COMPANIES**

PENNYMAC MORTGAGE INVESTMENT TRUST

(Exact Name of Registrant as Specified in its Governing Instruments)

**27001 Agoura Road, Third Floor
Calabasas, California 91301
(818) 224-7442**

(Address, including Zip Code, and Telephone Number, including
Area Code, of Registrant's Principal Executive Offices)

**Jeff Grogin
Chief Legal Officer and Secretary
PNMAC Capital Management, LLC
27001 Agoura Road, Third Floor
Calabasas, California 91301
(818) 224-7442**

(Name, Address, including Zip Code, and Telephone Number,
including Area Code, of Agent for Service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the Registration Statement becomes effective.

If any of the Securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended, or Securities Act, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box.

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 Securities Exchange Act of 1934, as amended, or the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

**Subject to Completion
Preliminary Prospectus dated June 24, 2009**

PROSPECTUS

Shares

PennyMac Mortgage Investment Trust

Common Shares

We are a newly-formed specialty finance company that will invest primarily in residential mortgage loans and mortgage-related assets. Our objective is to provide attractive risk-adjusted returns to our investors over the long-term, primarily through dividends and secondarily through capital appreciation. We intend to achieve this objective by investing in mortgage loans, a substantial portion of which may be distressed and acquired at discounts to their unpaid principal balances. We will then seek to maximize the value of the mortgage loans that we acquire through proprietary loan modification programs, special servicing and other initiatives focused on keeping borrowers in their homes. We will be externally managed by PNMAC Capital Management, LLC, or PCM, an investment adviser that specializes in, and focuses on, residential mortgage loans.

This is our initial public offering. We are offering _____ of our common shares of beneficial interest, \$0.01 par value per share, or common shares. We expect the initial public offering price of our common shares to be \$15.00 per share. Prior to this offering, there has been no public market for our common shares. We have applied to have our common shares listed on the New York Stock Exchange, or NYSE, under the symbol "PMT."

Concurrently with this offering, we will sell to certain of our executive officers, an affiliate of BlackRock, Inc., or BlackRock, Highfields Capital Investments LLC, or Highfields Capital, and PNMAC (which is owned by certain of our executive officers, an affiliate of BlackRock and Highfields Capital), in a separate private placement, 5% of our outstanding common shares after giving effect to the common shares issued in this offering, excluding common shares that may be sold pursuant to the underwriters' over-allotment option, and subject, in all cases, to a maximum purchase of \$40 million of our common shares at a price per share equal to the initial public offering price per share in this offering.

In addition to the _____ common shares being offered pursuant to the underwritten offering described in this prospectus, _____ common shares are being offered by us pursuant to this prospectus directly to investors in the two private fund vehicles managed by PCM, which we refer to as the direct offering.

We intend to elect and qualify to be taxed as a real estate investment trust, or REIT, for U.S. federal income tax purposes. To assist us in qualifying as a REIT, among other reasons, ownership of our outstanding common shares by any person is limited to 9.8%, subject to certain exceptions. In addition, our declaration of trust contains various other restrictions on the ownership and transfer of our common shares. See "Description of Shares of Beneficial Interest Restrictions on Ownership and Transfer."

Investing in our common shares involves risks. You should read the section entitled "Risk Factors" beginning on page 23 of this prospectus for a discussion of the following and other risks that you should consider before investing in our common shares:

We are dependent upon PCM, its affiliates and their key personnel and may not find suitable replacements if our agreements with PCM and its affiliates are terminated or such key personnel are no longer available to us.

There are potential conflicts of interest in our relationship with PCM and its affiliates, which could result in decisions that are not in the best interests of our shareholders, such as conflicts in allocating investments that may also be suitable for entities or accounts managed by PCM or in allocating time of officers and other employees between us and other operations or funds

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managed by PCM.

We are a new company with no operating history, and PCM's senior management team has limited experience operating a REIT. Accordingly, we may not operate successfully or generate sufficient operating cash flows to make or sustain distributions to our shareholders.

There is no assurance that we will be able to make investments from time to time on favorable terms, or at all, that satisfy our investment strategy or otherwise generate attractive risk-adjusted returns.

Our failure to qualify as a REIT would result in higher taxes and reduced cash available for distribution to our shareholders and may have significant adverse consequences on the market price of our common shares.

Continuing to qualify for an exclusion under the Investment Company Act of 1940, as amended, imposes limits on our business.

	Per Share	Total⁽¹⁾
Public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds, to us, before expenses	\$	\$

- (1) Purchasers in the direct offering have agreed to purchase an aggregate of _____ common shares in the direct offering at a price per share equal to the public offering price per share, and the underwriters will not be entitled to any underwriting discount with respect to such purchases.

The underwriters may also purchase up to an additional _____ common shares from us at the public offering price, less the underwriting discount, within 30 days after the date of this prospectus to cover overallocments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The common shares will be ready for delivery on or about _____, 2009.

Merrill Lynch & Co.

Credit Suisse

Deutsche Bank Securities

The date of this prospectus is _____, 2009.

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You should rely only on the information contained in this prospectus, any free writing prospectus prepared by us or information to which we have referred you. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

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PROSPECTUS SUMMARY

This summary highlights some of the information in this prospectus. It is not complete and does not contain all of the information that you should consider before investing in our common shares. You should read carefully the more detailed information set forth under "Risk Factors" and the other information included in this prospectus. References to "company," "we," "us" and "our" refer to PennyMac Mortgage Investment Trust, a Maryland real estate investment trust, and PennyMac Operating Partnership, L.P., the subsidiary through which we will conduct our business and which we refer to as "our operating partnership," except where it is clear from the context that the term means only the issuer of the common shares, PennyMac Mortgage Investment Trust; references to "PCM" refer to PNMAC Capital Management, LLC, our manager; references to "PennyMac" refer to Private National Mortgage Acceptance Company, LLC, or PNMAC, and/or its wholly-owned subsidiaries, PCM and PennyMac Loan Services, LLC, or PLS; references to "common shares" refer to common shares of beneficial interest, \$0.01 par value per share, in PennyMac Mortgage Investment Trust; and references to "this offering" refer to the underwritten offering of our common shares described in this prospectus, except where it is clear from the context that the term means both the underwritten offering and the direct offering (described below). Concurrently with this offering, we will sell to certain of our executive officers, an affiliate of BlackRock, Inc., or BlackRock, Highfields Capital Investments LLC, or Highfields Capital, and PNMAC (which is owned by certain of our executive officers, an affiliate of BlackRock and Highfields Capital), in a separate private placement, 5% of our outstanding common shares after giving effect to the common shares issued in this offering, excluding common shares that may be sold pursuant to the underwriters' overallotment option, and subject, in all cases, to a maximum purchase of \$40 million of our common shares at a price per share equal to the initial public offering price per share in this offering, which we refer to in this prospectus as "our concurrent offering." In addition, investors in two private fund vehicles managed by PCM, or the PennyMac funds, may purchase our common shares directly from us, which we refer to as the "direct offering." Unless otherwise indicated, the information contained in this prospectus assumes (i) that the common shares to be sold in this offering are to be sold at \$15.00 per share, (ii) that the underwriters' overallotment option to purchase an additional common shares is not exercised, (iii) that our concurrent offering has been completed and (iv) of our common shares are sold in the direct offering.

Our Company

We are a newly-formed specialty finance company that will invest primarily in residential mortgage loans and mortgage-related assets. Our objective is to provide attractive risk-adjusted returns to our investors over the long-term, primarily through dividends and secondarily through capital appreciation. We intend to achieve this objective by investing in mortgage loans, a substantial portion of which may be distressed and acquired at discounts to their unpaid principal balances. We will then seek to maximize the value of the mortgage loans that we acquire through proprietary loan modification programs, special servicing and other initiatives focused on keeping borrowers in their homes. We believe that by utilizing these methods, we can provide borrowers with long-term solutions that address their willingness and ability to pay their mortgage loans, which we expect to increase our portfolio of performing loans, reduce default rates and enhance the value of the loans in our portfolio. Once we have improved the credit quality of a portfolio, we intend to monetize the enhanced value through various disposition strategies.

We will be externally managed by PNMAC Capital Management, LLC, or PCM, an investment adviser registered with the Securities and Exchange Commission, or the SEC, that specializes in, and focuses on, residential mortgage loans. We will also enter into a loan servicing agreement with PennyMac Loan Services, LLC, or PLS, pursuant to which PLS will provide us with primary and special servicing. PCM and PLS are part of the PennyMac organization, which was designed specifically to

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address the opportunities created by the current dislocations in the markets for residential mortgage assets. PennyMac was developed from the ground up by its experienced senior management team, with the support of its strategic investors, BlackRock, Inc., or BlackRock, and Highfields Capital Investments LLC, or Highfields Capital. Concurrently with this offering, we will sell to certain of our executive officers, an affiliate of BlackRock, Highfields Capital and Private National Mortgage Acceptance Company, LLC, or PNMAC, in a separate private placement, 5% of our outstanding common shares after giving effect to the common shares issued in this offering, excluding common shares that may be sold pursuant to the underwriters' over-allotment option, and subject, in all cases, to a maximum purchase of \$40 million of our common shares at a price per share equal to the initial public offering price per share in this offering. We intend to elect and qualify to be taxed as a real estate investment trust, or REIT, for U.S. federal income tax purposes and to maintain our exclusion from regulation under the Investment Company Act of 1940, as amended, or the Investment Company Act. We have not yet made any investments.

Our Manager and Its Operating Platform

We will be externally managed and advised by PCM pursuant to a management agreement. PCM was established in March 2008 and is an SEC-registered investment adviser that specializes in, and focuses on, residential mortgage loans. PCM also serves as the investment manager to two private fund vehicles, which we refer to as the PennyMac funds, with investment objectives and policies that are substantially similar to ours and an aggregate of approximately \$584 million in capital commitments as of May 31, 2009. Investors in the PennyMac funds may purchase our common shares directly from us, which we refer to as the direct offering, at a price per share equal to the initial public offering price per share. Such investors will be permitted to reduce their undrawn capital commitments to the PennyMac funds by the amount of their purchases in the direct offering. PCM and PLS are both wholly-owned subsidiaries of PNMAC.

PCM will be responsible for administering our business activities and day-to-day operations. Pursuant to the terms of the management agreement, PCM will provide us with our senior management team, including our officers, along with appropriate support personnel. PCM is subject to the supervision and oversight of our board of trustees and has only the functions and authority as are specified in the management agreement.

We will also enter into a loan servicing agreement with PLS, pursuant to which PLS will provide primary servicing and special servicing for our portfolio of residential mortgage loans. The workout-oriented servicing platform of PLS includes significant borrower contact, which we refer to as "high touch," and is designed to enable us to effectively implement programs that address borrower needs and maximize the value of our portfolio. PLS was established in February 2008 and also provides primary servicing and special servicing to the PennyMac funds and entities in which they have invested.

Mr. Stanford L. Kurland, our chairman and chief executive officer, leads PennyMac's senior management team of 14 members with extensive experience in the residential mortgage industry. This senior management team has expertise across each of the critical capabilities that PennyMac believes is required to successfully acquire and manage residential mortgage loans, including sourcing, valuation and acquisitions, due diligence, portfolio strategy, servicing (including modification and refinance fulfillment) and secondary marketing. PennyMac's senior management team is currently supported by a dedicated team of approximately 75 other employees.

Current Market Opportunities

We believe that there are unique, current market opportunities to acquire distressed mortgage loans and mortgage-related assets at significant discounts to their unpaid principal balances. Market prices of mortgage loans have declined significantly during the current economic downturn due, in large

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part, to increasing rates of borrower defaults and falling values of real estate collateral. Many depository institutions and other holders of portfolios of distressed mortgage loans in the U.S. are under financial duress and may be motivated to sell these loans directly or through recently announced government programs. In addition, government-related agencies acting as receivers, such as the Federal Deposit Insurance Corporation, or FDIC, have acquired and are expected to continue to acquire significant portfolios of troubled loans from failed depository institutions.

We believe that the size of the non-performing and sub-performing residential mortgage loan market has grown considerably and will likely continue to grow. According to the Federal Reserve's Flow of Funds report as of December 31, 2008, there were more than \$4 trillion in residential mortgage whole loans outstanding, mostly held by depository institutions. We believe that more than \$1 trillion of these loans are troubled or at significant risk of default in their present state.

We expect to benefit from PCM's analytical and portfolio management expertise and technology in evaluating these investment opportunities. Furthermore, we will seek to maximize the value of the mortgage loans we acquire using PCM's proprietary portfolio strategy techniques to identify the appropriate approach for each loan and, through the workout-oriented servicing platform of PLS, offer borrowers alternatives, including, where appropriate, the modification of the terms and conditions of loans in a manner that reflects the borrowers' financial condition and residential property values. Mortgage loans may become re-performing through effective modification, restructuring and other techniques, and the mortgage loans subsequently may be monetized through a variety of disposition strategies.

PCM will target initially the following sources of investment opportunities for us:

liquidations by the FDIC of portfolios of mortgage loans of failed depository institutions; and

direct acquisitions of pools of mortgage loans from institutions such as banks, mortgage companies and insurance companies.

To the extent available, we may also participate in programs established by the U.S. government, such as the Legacy Loans Program of the U.S. Treasury's Public-Private Investment Program.

FDIC Liquidations of Failed Depository Institution Assets. We believe that the FDIC will continue to provide attractive investment opportunities in mortgage loans through its liquidation of the assets of failed depository institutions for which it is appointed receiver. Forty depository institutions have failed in 2009 through June 19, 2009, with more than \$22.7 billion in combined assets. As of May 31, 2009, we estimate that the FDIC held more than \$ billion in residential mortgage loans from failed depository institutions. In addition, there were 305 depository institutions with a combined \$220 billion of assets on the FDIC's Problem List as of March 31, 2009. "Problem" institutions, as defined by the FDIC, are those institutions with financial, operational or managerial weaknesses that threaten their continued financial viability. The FDIC has indicated that in conjunction with its liquidation of failed depository institution assets it may provide or guarantee debt financing to facilitate purchases. Based upon an announcement by the FDIC on June 3, 2009, we anticipate that the FDIC may provide guarantees on debt that are generally similar in structure and amount to the guarantees it proposed to make under the Legacy Loans Program in a test case sale of receivership assets for which it expects to solicit bids in July 2009. The amount of debt that the FDIC had proposed to guarantee under the Legacy Loans Programs was to be determined on a pool-by-pool basis, and would not exceed a debt-to-equity ratio of 6:1.

Direct Acquisitions. Many holders of residential mortgage loans, such as banks, mortgage companies and insurance companies, may be motivated to reduce their loan holdings, creating opportunities to acquire pools of loans at significant discounts. We believe that we are well positioned to leverage the relationships of PennyMac with a diverse group of financial intermediaries, ranging

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from primary dealers, major investment banks and brokerage firms to leading mortgage originators, specialty investment dealers and financial sponsors, to capitalize on these potential investment opportunities.

Government Programs. We may participate in programs established by the U.S. government. In March 2009, the U.S. Treasury announced certain details, which are subject to change, concerning its Public-Private Investment Program, including the Legacy Loans Program. The Legacy Loans Program would provide financing for loan purchases from U.S. depository institutions. Although the FDIC has announced the postponement of a pilot sale of assets under this program, the FDIC has indicated that it will continue its work on the Legacy Loans Program and will be prepared to offer the program in the future as "an important tool to cleanse bank balance sheets and bolster their ability to support the credit needs of the economy." We will continue to monitor developments concerning the Legacy Loans Program and we will seek to take advantage of attractive opportunities that may be presented by this or any other government programs.

Our Competitive Advantages

We believe that our competitive advantages include the following:

Investment and operational team with extensive experience in the residential mortgage business.

PennyMac's senior management team includes 14 individuals with extensive experience in the residential mortgage industry, and this team has been executing the investment and portfolio management strategy on behalf of the PennyMac funds since August 2008. Mr. Stanford L. Kurland, our and PennyMac's chairman and chief executive officer and former president and chief operating officer of Countrywide Financial Corporation, or Countrywide, is well recognized for his leadership in developing Countrywide's strategic direction, financial management, risk management activities and organizational and governance structure. Mr. Kurland helped grow Countrywide's loan origination and servicing capabilities. David A. Spector, Andrew S. Chang, Michael L. Muir and David M. Walker, who collectively have 71 years of experience in the residential mortgage business and related areas, lead the day-to-day operations of PCM. The day-to-day activities of PLS are led by Scott D. Anderson and John M. Lawrence, who together bring over 36 years of experience in building, managing and overseeing residential mortgage servicing and other mortgage operations platforms.

PennyMac's "high touch" borrower focus with regard to residential mortgage loans aligns our interests with those of the borrowers.

PennyMac's general strategy is to keep borrowers in their homes by offering alternatives that include modification of the terms and conditions of their loans to reflect both the borrowers' current financial condition and the value of their homes. By focusing on the borrowers and not simply on short-term collections on their mortgage loans, PennyMac works directly with individual borrowers to create long-term solutions designed to result in restructured and re-performing loans that will maximize the performance of our sub-performing and non-performing loans.

Customized operational platform designed to maximize the value of each loan.

PennyMac's senior management team, with the support of its strategic investors, BlackRock and Highfields Capital, organized PennyMac and assembled a team with the knowledge and experience to identify dislocations in the market for distressed residential mortgage loans and mortgage-related assets and enhance their value, primarily through customized solutions to assist borrowers in retaining their homes. It has developed a platform that is highly scalable and specifically designed for the current market opportunity. This platform includes the six dedicated functions that we believe are critical to maximizing the value of residential mortgage loans: sourcing, valuation and acquisitions, due diligence, portfolio strategy, servicing (including modification and refinance fulfillment) and secondary marketing.

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PennyMac believes that many of these functions are proprietary. For example, its portfolio strategy uses proprietary loan-level analytics referred to as "LENESM" (Loan Enhanced Normalization Engine) that is designed to determine the highest value approach for each borrower and loan. PennyMac's platform has been operating since August 2008 and, given the recent commencement of its activities, is not burdened by the financial and operational constraints faced by companies with existing "legacy" portfolios of distressed mortgage loans.

Access to investment opportunities.

PennyMac will use its extensive relationships with senior executives in the financial services and mortgage industries to source loans for acquisition. PCM has acquired four portfolios of residential mortgage loans on behalf of the PennyMac funds since their initial closings in August 2008. For example, in December 2008, the PennyMac funds completed the acquisition of a pool of performing and non-performing residential loans with an unpaid principal balance of approximately \$558 million from the FDIC as the receiver for the First National Bank of Nevada.

Special servicing with an alignment of interests.

The senior management team of PLS has extensive special servicing expertise and experience in rehabilitating distressed mortgage loans into sustainable performing loans. We believe that PCM's affiliation with PLS provides a competitive advantage over third-party servicers because the interests of the investor, borrower and mortgage servicer are more closely aligned, which we believe allows us to better achieve our objectives. These special servicing skills are expected to help us achieve our investment philosophy of avoiding foreclosures, when possible and prudent, to keep the borrowers in their homes and restore their mortgage loans to performing status. A third-party mortgage servicer may be contractually compelled or have economic incentives to foreclose on a distressed mortgage loan rather than modify its terms. By contrast, PennyMac will seek to avoid foreclosures where appropriate by modifying mortgage loans to better reflect the borrowers' financial status and the underlying property values. We believe that this strategy will increase the quality and value of our acquired mortgage loans.

BlackRock and Highfields Capital are strategic investors in PNMAC.

PennyMac was founded with investment and organizational assistance from BlackRock and Highfields Capital in support of PennyMac's senior management team as they formulated PennyMac's strategy and developed its operational platform. BlackRock is an asset manager with approximately \$1.28 trillion of assets under management and a demonstrated expertise in valuing and managing mortgage-related assets. Highfields Capital is a private investment firm with significant relationships and expertise in the financial services sector. An affiliate of BlackRock and Highfields Capital each holds an approximate 37% ownership interest in PNMAC, the company that owns 100% of PCM and PLS. Each of BlackRock and Highfields Capital has representation on the board of PNMAC, but neither is involved in its day-to-day operations.

Alignment of interests among PCM, our management and our investors.

Concurrently with this offering, we will sell to certain of our executive officers, an affiliate of BlackRock, Highfields Capital and PNMAC (which is owned by certain of our executive officers, an affiliate of BlackRock and Highfields Capital), in a separate private placement, 5% of our outstanding common shares after giving effect to the common shares issued in this offering, excluding common shares that may be sold pursuant to the underwriters' overallotment option, and subject, in all cases, to a maximum purchase of \$40 million of our common shares at a price per share equal to the initial public offering price per share in this offering. We will enter into lockup agreements with the purchasers of our common shares in our concurrent offering pursuant to which such purchasers will

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agree, subject to the terms and conditions of the lockup agreements, not to sell the shares purchased in our concurrent offering for three years. Moreover, a portion of the fees that may be earned by PCM consists of incentive compensation that is based on the amount by which our earnings exceed a specified threshold. We believe that PCM's parent company's equity stake in our company, coupled with PCM's ability to earn incentive compensation, will align PCM's interests with our interests.

Our Investment Strategy

Our objective is to provide attractive risk-adjusted returns to our investors over the long-term, primarily through dividends and secondarily through capital appreciation. We intend to achieve this objective by investing in mortgage loans, a substantial portion of which may be distressed and acquired at discounts to their unpaid principal balances. We will then seek to maximize the value of the mortgage loans that we acquire through proprietary loan modification programs, special servicing and other initiatives focused on keeping borrowers in their homes. We also may invest in mortgage-related securities and other real estate and financial assets. It is anticipated that these securities and assets will not be rated by any rating agency.

The pools of loans that we acquire pursuant to the opportunities described above under " Current Market Opportunities" will consist primarily of U.S. residential mortgage loans. We expect that these loans will be performing, sub-performing and non-performing, of varying credit quality, including subprime, Alt-A and prime. PCM, in its sole discretion, will determine the size, loan type, credit quality and the composition of our portfolio of loans. We believe that the number and size of available residential mortgage loans will significantly exceed our capacity, allowing PCM to be selective in acquiring available mortgage loans.

We will rely on PennyMac's expertise in identifying pools of distressed mortgage loans and other assets for acquisition. PCM's sourcing and evaluation processes for potential acquisitions of residential mortgage loans and for mortgage-related assets are substantially similar. We expect that PCM will make investment decisions based on various factors, including expected cash yield, relative value, risk-adjusted returns, current and projected credit fundamentals, current and projected macroeconomic considerations, current and projected supply and demand, market risk, portfolio diversification, liquidity and availability and terms of financing, as well as maintaining our REIT qualification and our exclusion from registration under the Investment Company Act. The evaluation process with respect to residential mortgage-backed securities, or RMBS, and other mortgage-backed securities, or MBS, will also include relative value analyses based on yield, credit rating, average life, effective duration, option-adjusted spreads, prepayment assumptions and credit exceptions. In addition, PCM and its affiliates will evaluate new opportunities based on their relative expected returns compared to comparable assets held in our portfolio. Investment decisions with regard to the acquisition or disposition of any of our targeted assets are made by PCM's investment committee.

Our assets will not be subject to any geographic, diversification or concentration limitations except that we will be concentrated in residential mortgage-related investments. The maturity, duration or credit rating of our assets will not be limited.

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In addition to the opportunities described above under " Current Market Opportunities," we believe that the collapse of the independent mortgage company business model (*i.e.*, the origination by independent mortgage companies of mortgages not backed by a government sponsored entity, or GSE, followed by the funding of these mortgages through securitizations sponsored by Wall Street investment banks) and the weakened condition of other traditional mortgage lenders, has created additional opportunities. Such other opportunities include the purchase of newly originated mortgage loans from smaller mortgage lenders and the packaging of these new loans for resale to participating GSEs such as Federal Home Loan Mortgage Corporation, or Freddie Mac, and Federal National Mortgage Association, or Fannie Mae. We believe that there is currently a need, particularly among smaller lenders, to gain access to these GSEs and that we can utilize our expertise and capital to address this need. We believe that this strategy will also supplement PCM's continuing efforts to increase the number of relationships with other depository institutions originating or holding residential mortgage loans, which will benefit us.

Over time, we will reevaluate our investment strategy as market conditions change with a view toward maximizing the returns from our investment portfolio and identifying dislocations in the mortgage market, including continuing opportunities resulting from the collapse of the independent mortgage company business model, as described above. We believe this strategy, combined with the experience of PennyMac's senior management team and PCM's proprietary operational platform and tools, will benefit us during various interest rate and credit cycles and capital market conditions and provide attractive long-term returns to our investors.

Targeted Asset Classes

We will invest primarily in residential mortgage loans and mortgage-related assets. Based on current market conditions, our primary focus initially will be on distressed mortgage loans and, to a lesser extent, on other mortgage-related assets. As market conditions improve, our focus will expand to include other types of assets in our targeted asset classes. At all times, we will seek to take advantage of attractive investment opportunities that may arise in our targeted asset classes.

Our targeted asset classes and the principal investments we expect to make in each class are as follows:

Asset Class	Principal Investments
Residential Mortgage Loans	Performing, sub-performing and non-performing residential mortgage loans.
RMBS	Non-U.S. government agency RMBS, including investment-grade and non-investment grade classes, including the BB-rated, B-rated and non-rated classes. U.S. government agency RMBS.
Other MBS and other assets	Commercial mortgage-backed securities, or CMBS. Mortgage-related derivatives, including, but not limited to, credit default swaps, options, futures and derivatives on MBS. Policies, instruments and agreements related to mortgage insurance or reinsurance risk. Hedging instruments that include U.S. Treasury securities, options and futures.

Prior to the full investment of the offering proceeds into our targeted asset classes, we may make investments in high grade, short-term securities, such as securities guaranteed by the Government

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National Mortgage Association, or Ginnie Mae, securities issued and guaranteed by Freddie Mac or Fannie Mae, short-term money market funds, including BlackRock-sponsored money market funds, as well as cash equivalents for temporary cash management. For purposes of maintaining our exclusion from registration under the Investment Company Act, we may also acquire from time to time RMBS that represent the entire beneficial interest in the underlying pool of mortgage loans. We may incur leverage in connection with the acquisition of any of these assets through repurchase agreements or otherwise.

Our Financing and Hedging Strategy

We plan to finance our investments with leverage, the level of which may vary based upon the particular characteristics of our portfolio and on market conditions. However, in light of current market conditions, we anticipate initially utilizing limited leverage on our portfolio as part of our financing strategy. With regard to mortgage loans, we anticipate that leverage may be available to us in connection with our acquisitions, if any, of mortgage assets from the FDIC as receiver for failed depository institutions. Although the amount of any leverage for this type of acquisition would be determined on a case-by-case basis, we anticipate that leverage may be available which would provide for a debt-to-equity ratio for acquisitions in the range of 2:1 to 3:1, and would likely not exceed 6:1. Direct acquisitions of mortgage loans from financial institutions may include seller financing although the amount of potential leverage available, if any, would vary depending upon the seller. Our financing sources will include the net proceeds of this offering, our concurrent offering and the direct offering (if any) and, if and to the extent available at the relevant time, may include borrowings in the form of bank credit facilities (including term loans and revolving facilities), repurchase agreements, warehouse facilities, structured financing arrangements, public and private equity and debt issuances and derivative instruments, in addition to transaction or asset specific funding arrangements. We may also utilize leverage to the extent available through participation in the Legacy Loans Program, if the program is established. We do not currently intend to participate in the Legacy Securities Program of the Public-Private Investment Program. We intend to use leverage for the primary purpose of financing our portfolio and not for the purpose of speculating on changes in interest rates. We are not required to maintain any specific debt-to-equity ratio, and we believe the appropriate leverage for the particular assets we may finance depends on, among other things, the credit quality and risk of such assets. Our declaration of trust and bylaws do not limit the amount of indebtedness we can incur, and our board of trustees has discretion to deviate from or change our financing strategy at any time.

We expect to attempt to reduce interest rate risk on any outstanding debt and to minimize exposure to interest rate fluctuations thereon through the use of match funded financing structures, when appropriate, whereby we seek (i) to match the maturities of our debt with the maturities of the assets that we finance and (ii) to match the interest rates on our leveraged investments with like-kind debt (*i.e.*, floating rate assets are financed with floating rate debt and fixed-rate assets are financed with fixed-rate debt), directly or through the use of interest rate swaps, caps or other financial instruments, or through a combination of these strategies. We expect this approach will allow us to minimize the risk that we have to refinance our liabilities before the maturities of our assets and to reduce the impact of changing interest rates on our earnings.

Subject to maintaining our qualification as a REIT and exclusion from the Investment Company Act, we intend to utilize derivative financial instruments, or hedging instruments, including interest rate swap agreements and interest rate cap agreements, in an effort to hedge the interest rate risk associated with the financing of our portfolio. Specifically, we will seek to hedge our exposure to potential interest rate mismatches between the interest we earn on our investments and our borrowing costs caused by fluctuations in short-term interest rates. In utilizing leverage and interest rate hedges, our objectives will be to improve risk-adjusted returns and, where possible, to lock in, on a long-term basis, a spread between the yield on our assets and the cost of our financing.

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Summary Risk Factors

An investment in our common shares involves various risks. You should consider carefully the risks discussed below and under "Risk Factors" before purchasing our common shares.

We are dependent upon PCM and its key personnel and may not find a suitable replacement if the management agreement with PCM is terminated or such key personnel are no longer available to us.

PCM has a limited operating history and its investment track record may not be indicative of its or our future performance. PennyMac is undergoing significant growth and its integration of new operations may not be effective.

There are potential conflicts of interest in our relationship with PCM and its affiliates, which could result in decisions that are not in the best interests of our shareholders, such as conflicts in allocating investments that may also be suitable for entities or accounts managed by PCM or in allocating time of officers and other employees between us and other operations or funds managed by PCM.

The manner of determining the base management fee may not provide sufficient incentive to PCM to maximize risk-adjusted returns on our investment portfolio because it is based on our Shareholders' Equity (as defined herein) and not on our performance.

The manner of determining the incentive fee may cause PCM to invest in more risky investments to increase our short-term net income and thereby increase the incentive fee it earns.

Termination of our management agreement would be costly and, in certain cases, not permitted.

We depend upon PLS to provide primary servicing and special servicing for our portfolio of residential mortgage loans; if the loan servicing agreement with PLS is terminated, we may not be able to timely replace those services on favorable terms, or at all, and subject to certain restrictions, PLS may provide servicing to other entities or accounts.

Because PLS will be entitled to base servicing fees calculated as a percentage of the unpaid principal balance of mortgage loans that it services, its interests may not be aligned with ours with regard to modifications to our mortgage loans that would reduce their unpaid principal balances.

BlackRock and Highfields Capital, PennyMac's strategic investors, are not obligated to provide us with any assistance and could compete with us and/or transfer their ownership interests in PNMAC to a third party.

Our board of trustees has approved very broad investment policies for PCM and will not approve each investment decision made by PCM.

As a result of difficult conditions in the financial markets and the economy in general, the risks to our business strategy are high and there are no assurances that we will be successful in implementing our business strategy.

Current or future legislation or regulatory action designed to address the current economic crisis or for other purposes may adversely affect our business.

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Our initial strategies include potential investment through the Legacy Loans Program which may not be established on the terms proposed or at all. The extent to which depository institutions will participate under the program is uncertain.

There is no assurance that we will be able to make investments from time to time on favorable terms, or at all, that satisfy our investment strategy or otherwise generate attractive risk-adjusted returns.

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Changing market conditions and competition may limit the availability of attractive investments and result in reduced risk-adjusted returns; the supply of distressed residential mortgage loans will likely recede as the economy improves.

We may change our investment strategies and policies and targeted asset classes without shareholder consent, which could result in investments that are different, and possibly riskier, than those we describe in this prospectus.

We are a new company with no operating history, and PCM's senior management team has limited experience operating a REIT. Accordingly, we may not operate successfully or generate sufficient operating cash flows to make or sustain distributions to our shareholders.

Our current investment strategy focuses, in part, on distressed opportunities, thereby involving an increased risk of loss, and certain investments such as our sub-performing or non-performing assets may have a particularly high risk of loss, and we cannot assure you that we will be able to generate attractive risk-adjusted returns.

Our targeted asset classes involve residential mortgage loans and mortgage-related assets that are subject to various risks that can affect their value and performance.

Changes in prepayment rates could negatively affect the value of our investment portfolio.

The mortgage loans in which we invest and the mortgage loans underlying the mortgage securities in which we invest are subject to delinquency, foreclosure and loss, which could result in losses to us.

Our investment portfolio may be concentrated by geography, asset, property type and/or borrower, increasing our risk of loss if there are adverse developments or greater risks affecting the particular concentration.

Access to financing sources may not be available on favorable terms, or at all, especially in light of current market conditions, which could adversely affect our ability to maximize our returns.

We may incur significant debt in the future, which will subject us to restrictive covenants and increased risk of loss and may reduce the cash available for distributions to our shareholders.

Interest rate fluctuations could significantly decrease our results of operations and cash flows and the market value of our assets, and our ability to use derivative and hedging instruments may be limited by our qualification as a REIT.

Future issuances of equity securities by us or sales of common shares eligible for resale in the public market or otherwise after the completion of this offering, or the perception that such issuances or sales may occur, could depress the market price of our common shares.

Share ownership limits that are imposed by our declaration of trust may reduce the liquidity of our common shares and restrict business combination opportunities.

A significant portion of our business is expected to be conducted through, and a significant portion of our income may be earned in, one or more taxable REIT subsidiaries, or TRSs, that are subject to corporate income taxation.

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The REIT distribution requirements will limit our ability to retain earnings and will therefore affect our liquidity and ability to finance growth from earnings.

Complying with the REIT requirements can be difficult and may cause us to forego otherwise attractive business opportunities.

Our failure to qualify as a REIT would result in higher taxes and reduced cash available for distribution to our shareholders and may have significant adverse consequences on the market price of our common shares.

Continuing to qualify for an exclusion under the Investment Company Act imposes limits on our business.

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Certain provisions of our organizational documents and Maryland law may delay or prevent a change in our control, which could have significant consequences on the market price of our common shares.

There may not be an active market for our common shares, which may cause our common shares to trade at a discount and make it difficult for purchasers in this offering to sell their shares.

Our Organizational Structure

We were formed as a Maryland real estate investment trust on May 18, 2009. We will be externally managed by PCM, which may be deemed to be our promoter with respect to this offering. A wholly-owned subsidiary of ours is the sole general partner of our operating partnership, and we intend to conduct substantially all of our operations, and make substantially all of our investments, through our operating partnership. Upon the completion of this offering, our concurrent offering and the direct offering (if any), we will contribute to our operating partnership the net proceeds of these offerings as our initial capital contribution in exchange for all of the limited partnership interests and, indirectly, the general partner interest in our operating partnership.

The following chart shows our structure after giving effect to this offering, our concurrent offering and the direct offering:

(1) Assumes _____ of our common shares are sold in the direct offering.

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- (2) Includes (i) common shares purchased in our concurrent offering, (ii) restricted common shares to be granted to our executive officers and other employees of PCM and/or PLS under our equity incentive plan upon the completion of this offering and (iii) 9,000 restricted common shares to be granted to our independent trustees under our equity incentive plan upon the completion of this offering. Does not include of our common shares available for future grant under our equity incentive plan. See "Management Equity Incentive Plan."
- (3) It is anticipated that loan modifications and certain other activities may occur in the Subsidiary TRS. See "U.S. Federal Income Tax Considerations Taxation of Our Company Effect of Subsidiary Entities Taxable REIT Subsidiaries."

Our Relationship with Our Manager and Servicer

We will be externally managed and advised by PCM. We expect to benefit from the personnel, infrastructure, relationships and experience of PCM to enhance the growth of our business. All of our officers are employees of PCM or one of its affiliates. We will have no employees upon completion of this offering other than our officers.

The management agreement with PCM requires PCM to oversee our business affairs in conformity with the investment policies that are approved and monitored by our board of trustees. PCM is responsible for our day-to-day management and will perform such services and activities related to our assets and operations as may be appropriate.

The initial term of the management agreement expires on , 2012 and will be automatically renewed for a one year term each anniversary date thereafter unless previously terminated as described below. Our independent trustees will review PCM's performance and the management fees annually and, following the initial term, the management agreement may be terminated annually by us without cause upon the affirmative vote of at least two-thirds of our independent trustees or by a vote of the holders of at least two-thirds of our outstanding common shares (other than those common shares held by PCM or any affiliate), in each case based upon (i) unsatisfactory performance by PCM that is materially detrimental to us or (ii) our determination that the management fees payable to PCM are not fair, subject to PCM's right to prevent termination based on unfair fees by accepting a reduction of management fees agreed to by at least two-thirds of our independent trustees. We must provide 180 days' prior notice of any such termination. Upon termination without cause, PCM will be paid a termination fee. We may also terminate the management agreement without payment of any termination fee to PCM, upon at least 30 days' prior written notice from our board of trustees, at any time for "cause" as defined in the management agreement. PCM may terminate the management agreement if we become required to register as an investment company under the Investment Company Act with termination deemed to occur immediately before such event, in which case we would not be required to pay a termination fee to PCM. Furthermore, PCM may decline to renew the management agreement by providing us with 180 days' written notice, in which case we would not be required to pay a termination fee to PCM. PCM may also terminate the management agreement upon at least 60 days' prior written notice if we default in the performance of any material term of the management agreement and the default continues for a period of 30 days after written notice to us, whereupon we would be required to pay to PCM the termination fee.

We will also enter into a loan servicing agreement with PLS, pursuant to which PLS will provide primary servicing and special servicing for our portfolio of residential mortgage loans. The loan servicing to be provided by PLS will include collecting principal, interest and escrow account payments, if any, with respect to mortgage loans, as well as managing loss mitigation, which may include, among other things, collection activities, loan workouts, modifications and refinancings, foreclosures and

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financings to facilitate sales of real estate owned properties, or REOs. The term of the loan servicing agreement is identical to the term of the management agreement, and is subject to early termination, without the payment of any termination fee, in the event the management agreement is terminated for any reason. PLS may retain sub-servicers in any jurisdictions where licensing is required and PLS has not obtained the necessary license or where PLS otherwise deems it advisable, and the fees of such sub-servicers will be paid by PLS out of its servicing fee.

PCM is entitled to receive a base management fee, an incentive fee based on certain performance criteria, a termination fee in certain cases and reimbursement of certain expenses as described in the management agreement. PLS is entitled to receive a servicing fee and reimbursement of certain expenses as described in the loan servicing agreement. The following summarizes the calculation of the fees payable to PCM and PLS pursuant to the management agreement and the loan servicing agreement, respectively, as well as the expenses to be reimbursed to PCM and PLS, respectively:

Fee	Description and Method of Computation
Base Management Fee to PCM	PCM will be entitled to a base management fee equal to 1.50% per annum, calculated and payable quarterly in arrears, of our Shareholders' Equity. For purposes of calculating the base management fee, our "Shareholders' Equity" means the sum of the net proceeds from any issuances of our equity securities since inception (allocated on a pro rata daily basis for such issuances during the fiscal quarter of any such issuance), plus our retained earnings at the end of such quarter (without taking into account any non-cash equity compensation expense incurred in current or prior periods), less any amount that we pay for repurchases of our common shares, excluding any unrealized gains, losses or other non-cash items that have impacted shareholders' equity as reported in our financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), regardless of whether such items are included in other comprehensive income or loss, or in net income, and excluding one-time events pursuant to changes in GAAP, and certain other non-cash charges after discussions between PCM and our independent trustees and after approval by a majority of our independent trustees.
Incentive Fee to PCM	PCM will be entitled to an incentive fee that is payable quarterly in arrears in an amount equal to 20% of the dollar amount by which Core Earnings, on a rolling four-quarter basis and before the incentive fee, exceeds the product of (1) the weighted average of the issue price per share of all of our public offerings multiplied by the weighted average number of common shares outstanding in such quarter and (2) 8.0%. For the initial four quarters following this offering, Core Earnings will be calculated on the basis of each of the previously completed quarters on an annualized basis. Core Earnings for the initial quarter will be calculated from the settlement date of this offering on an annualized basis. Core Earnings is a non-GAAP measure and is defined as GAAP net income (loss) excluding non-cash equity compensation expense, excluding any unrealized gains, losses or other non-cash items recorded in the period, regardless of whether such items are included in other comprehensive income or loss, or in net income. The amount will be adjusted to exclude one-time events pursuant to changes in GAAP and certain other non-cash charges after discussions between PCM and our independent trustees and after approval by a

majority of our independent trustees.

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Fee	Description and Method of Computation
	To the extent we have net loss in Core Earnings from a period prior to the rolling four-quarter period that has not been offset by Core Earnings in a subsequent period, such loss will continue to be included in the rolling four-quarter calculation until it has been fully offset.
Termination Fee to PCM	The termination fee, payable for (1) our termination of the management agreement without cause or (2) PCM's termination of the management agreement upon a default in the performance of any material term of the management agreement, will be equal to three times (a) the average annual base management fee and (b) the average annual (or, if the period is less than 24 months, annualized) incentive fee earned by PCM during the prior 24-month period before termination.
Loan Servicing Fee to PLS	PLS will be entitled to base servicing fees that are competitive with those charged by specialty servicers. Base servicing fees are calculated as a percentage of the unpaid principal balance of the mortgage loans, with the actual percentage being based on the risk characteristics of the loans in a particular pool. Such risk characteristics include market value of the underlying properties, creditworthiness of the borrowers, seasoning of the loans, degree of current and expected loan defaults, current loan-to-value ratios, borrowers' payment history and debt-to-income levels. The base servicing fees will range from 30 to 100 basis points per annum of the unpaid principal balance of such loans. The risk characteristics used in calculating the base servicing fee for a particular portfolio of loans will be consistent with the assumptions used by PCM in determining the bid for that portfolio. PLS will also be entitled to certain customary market-based fees and charges, including boarding and deboarding fees, disposition fees, assumption, modification and origination fees and late charges, as well as interest on funds on deposit in custodial or escrow accounts. In addition, to the extent we participate in the U.S. Treasury's Home Affordable Modification Program (or other similar mortgage loan modification programs), or the HAMP, which established standard loan modification guidelines for "at risk" homeowners and provides incentive payments to certain participants, including loan servicers, for achieving modifications and successfully remaining in the program, PLS will retain any incentive payments made to it in connection with our participation therein.

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Fee	Description and Method of Computation
Expense Reimbursement to PCM and PLS	PCM will be entitled to reimbursement of organizational and operating expenses, including third party expenses, incurred on our behalf, as detailed in "Our Manager and the Management Agreement Management Fees and Incentive Compensation Reimbursement of Expenses." We will not have any employees. PCM and PLS are responsible for the compensation and other related expenses of all personnel who perform services for us pursuant to the management agreement and the loan servicing agreement, respectively. Under the management agreement, PCM may perform certain legal, accounting, due diligence, asset management, securitization, property management, brokerage, leasing and other services that outside professionals or outside consultants otherwise would perform on our behalf and is entitled to be reimbursed or paid for the cost of performing such tasks. PCM may retain third parties, including accountants, legal counsel, real estate underwriters, brokers or others on our behalf, and shall be reimbursed for the costs and expenses of such services. Under the loan servicing agreement, PLS is also entitled to reimbursement for all customary, reasonable and necessary out of pocket expenses incurred by PLS in connection with the performance of its servicing obligations as further described in the loan servicing agreement. In general, this right to reimbursement for out of pocket expenses is limited to proceeds (including liquidation proceeds and escrow deposits) received in respect of the mortgage loan for which the expense was incurred.

Historical Performance

PCM commenced operations in March 2008 and is the manager of the two PennyMac funds. The PennyMac funds commenced operations in August 2008. The PennyMac funds have investment periods that expire on December 31, 2011 (subject to earlier termination under certain circumstances), and they had aggregate capital commitments of approximately \$584 million as of May 31, 2009, of which approximately \$226 million was invested as of May 31, 2009. The PennyMac funds have substantially similar investment objectives and strategies as we do and their current portfolios are comprised of