

Edgar Filing: FIRST TRUST MORTGAGE INCOME FUND - Form N-Q

FIRST TRUST MORTGAGE INCOME FUND

Form N-Q

September 22, 2011

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

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT  
INVESTMENT COMPANY

Investment Company Act file number 811-21727

First Trust Mortgage Income Fund

-----  
(Exact name of registrant as specified in charter)

120 East Liberty Drive, Suite 400  
Wheaton, IL 60187

-----  
(Address of principal executive offices) (Zip code)

W. Scott Jardine, Esq.  
First Trust Portfolios L.P.  
120 East Liberty Drive, Suite 400  
Wheaton, IL 60187

-----  
(Name and address of agent for service)

Registrant's telephone number, including area code: 630-765-8000  
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Date of fiscal year end: October 31  
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Date of reporting period: July 31, 2011  
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Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (ss.ss. 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-Q unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to the Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. ss. 3507.

ITEM 1. SCHEDULE OF INVESTMENTS. The Schedule of Investments is attached herewith.

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FIRST TRUST MORTGAGE INCOME FUND  
 PORTFOLIO OF INVESTMENTS (a)  
 JULY 31, 2011 (UNAUDITED)

PRINCIPAL VALUE	DESCRIPTION	STATED COUPON	STATED MATURITY	V
MORTGAGE-BACKED SECURITIES - 52.6%				
COLLATERALIZED MORTGAGE OBLIGATIONS - 41.2%				
\$	Adjustable Rate Mortgage Trust			
372,228	Series 2004-5, Class 1A1 (b).....	2.97%	04/25/35	\$
	Banc of America Funding Corp.			
1,039,310	Series 2005-F, Class 4A1 (b).....	2.94%	09/20/35	
	Banc of America Mortgage Securities			
110,976	Series 2002-L, Class 1A1 (b).....	2.78%	12/25/32	
151,552	Series 2004-K, Class 4A1 (b).....	5.25%	12/25/34	
1,509,000	Series 2007-1, Class 1A26 .....	6.00%	03/25/37	1
3,152,640	Series 2007-3, Class 2A3 .....	7.00%	09/25/37	
	Bear Stearns Adjustable Rate Mortgage Trust			
1,040,347	Series 2004-10, Class 12A3 (b).....	2.91%	11/25/34	
1,192,796	Series 2004-9, Class 12A3 (b).....	3.12%	01/25/35	1
	Chase Mortgage Finance Corp.			
724,340	Series 2007-A3, Class 3A1 (b).....	5.88%	12/25/37	
	Countrywide Alternative Loan Trust			
408,294	Series 2004-14T2, Class A6 .....	5.50%	08/25/34	
74,783	Series 2004-1T1, Class A1 .....	5.00%	02/25/34	
1,463,500	Series 2005-J1, Class 2A1 .....	5.50%	02/25/25	1
	Countrywide Home Loans			
344,426	Series 2004-HYB1, Class 2A (b).....	2.86%	05/20/34	
224,777	Series 2005-20, Class A7 .....	5.25%	12/25/27	
1,250,327	Series 2005-J4, Class A4 .....	5.50%	11/25/35	1
	Credit Suisse First Boston Mortgage Securities Corp.			
2,317,970	Series 2004-AR2, Class 1A1 (b).....	2.69%	03/25/34	1
	First Horizon Mortgage Trust			
1,034,917	Series 2005-8, Class 1A5 .....	5.75%	02/25/36	1
766,068	Series 2006-2, Class 1A3 .....	6.00%	08/25/36	
	GMAC Mortgage Corporation Loan Trust			
385,400	Series 2004-AR1, Class 22A (b).....	2.96%	06/25/34	
	GSR Mortgage Loan Trust			
325,562	Series 2005-AR2, Class 5A1 (b).....	2.80%	04/25/35	
2,937,694	Series 2007-1F, Class 3A10, IO .....	6.00%	01/25/37	
	Harborview Mortgage Loan Trust			
314,791	Series 2004-1, Class 2A (b).....	2.71%	04/19/34	
1,263,980	Series 2004-6, Class 3A1 (b).....	2.81%	08/19/34	
	JP Morgan Mortgage Trust			
2,796,844	Series 2005-ALT1, Class 4A1 (b).....	5.37%	10/25/35	2
	JP Morgan Re-REMIC			
3,014,187	Series 2009-7, Class 12A1 (b) (c) .....	6.25%	01/27/37	3
	MASTR Alternative Loan Trust			
664,841	Series 2004-8, Class 5A1.....	6.00%	09/25/34	
	Merrill Lynch Mortgage Investors Trust			
1,593,138	Series 2005-A7, Class 2A1 (b).....	5.29%	09/25/35	1
	Morgan Stanley Mortgage Loan Trust			
256,107	Series 2004-7AR, Class 2A6 (b).....	2.48%	09/25/34	

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489,411 Provident Funding Mortgage Loan Trust Series 2005-1, Class 1A1 (b)..... 2.67% 05/25/35

See Notes to Quarterly Portfolio of Investments

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FIRST TRUST MORTGAGE INCOME FUND  
 PORTFOLIO OF INVESTMENTS (a) - (Continued)  
 JULY 31, 2011 (UNAUDITED)

PRINCIPAL VALUE	DESCRIPTION	STATED COUPON	STATED MATURITY	V
MORTGAGE-BACKED SECURITIES - (Continued)				
COLLATERALIZED MORTGAGE OBLIGATIONS - (Continued)				
Residential Accredit Loans, Inc.				
\$ 118,412	Series 2002-QS18, Class A1 .....	5.50%	12/25/17	\$
1,191,685	Series 2004-QS2, Class CB .....	5.75%	02/25/34	1
Residential Funding Mortgage Securities I				
518,783	Series 2005-S5, Class A5.....	5.25%	07/25/35	
Sequoia Mortgage Trust				
3,079,099	Series 2007-1, Class 2A1 (b).....	4.56%	02/20/47	2
Wachovia Mortgage Loan Trust, LLC				
1,126,703	Series 2006-A, Class 3A1 (b) .....	4.97%	05/20/36	1
Washington Mutual Msc Mortgage Pass-Through				
786,713	Series 2004-RA1, Class 2A .....	7.00%	03/25/34	
Wells Fargo Mortgage Backed Securities Trust				
694,775	Series 2005-AR16, Class 1A1 (b).....	2.76%	10/25/35	
321,262	Series 2006-AR10, Class 5A2 (b).....	2.73%	07/25/36	
1,762,415	Series 2007-16, Class 1A1 .....	6.00%	12/28/37	1
733,823	Series 2007-8, Class 2A7 .....	6.00%	07/25/37	
COMMERCIAL MORTGAGE-BACKED SECURITIES - 11.4%				
Banc of America Merrill Lynch Commercial Mortgage, Inc.				
1,000,000	Series 2007-2, Class A4 (b).....	5.82%	04/10/49	1
Citigroup/Deutsche Bank Commercial Mortgage Trust				
1,000,000	Series 2007-CD4, Class A4 .....	5.32%	12/11/49	1
Greenwich Capital Commercial Funding Corp.				
1,000,000	Series 2007-GG11, Class A4 .....	5.74%	12/10/49	1
LB-UBS Commercial Mortgage Trust				
1,200,000	Series 2007-C7, Class A3.....	5.87%	09/15/45	1
Merrill Lynch/Countrywide Commercial Mortgage Trust				
1,200,000	Series 2007-7, Class A4 (b).....	5.81%	06/12/50	1
Morgan Stanley Capital I, Inc.				
1,000,000	Series 2007-IQ14, Class A4.....	5.69%	04/15/49	1
Wachovia Bank Commercial Mortgage Trust				
1,000,000	Series 2007-C30, Class A5 .....	5.34%	12/15/43	1
1,000,000	Series 2007-C32, Class A3 (b).....	5.93%	06/15/49	1

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TOTAL MORTGAGE-BACKED SECURITIES ..... 41  
 (Cost \$40,737,911) -----

U.S. GOVERNMENT AGENCY MORTGAGE-BACKED SECURITIES - 71.8%

COLLATERALIZED MORTGAGE OBLIGATIONS - 37.7%

Federal Home Loan Mortgage Corp.

1,473,521	Series 2641, Class SC (d).....	13.53%	07/15/33	\$ 1
6,832,972	Series 2807, Class SB, IO (d).....	7.26%	11/15/33	1

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FIRST TRUST MORTGAGE INCOME FUND  
 PORTFOLIO OF INVESTMENTS (a) - (Continued)  
 JULY 31, 2011 (UNAUDITED)

PRINCIPAL VALUE	DESCRIPTION	STATED COUPON	STATED MATURITY	V
U.S. GOVERNMENT AGENCY MORTGAGE-BACKED SECURITIES - (Continued)				
COLLATERALIZED MORTGAGE OBLIGATIONS - (Continued)				
Federal Home Loan Mortgage Corp.				
(Continued)				
\$ 394,596	Series 2870, Class JI, IO .....	5.00%	10/15/27	\$
51,603	Series 2888, Class OI, IO .....	5.00%	01/15/27	
643,939	Series 2921, Class IQ, IO .....	5.00%	01/15/29	
292,379	Series 2938, Class PI, IO .....	5.00%	11/15/28	
600,832	Series 3000, Class SU (d).....	22.61%	04/15/35	
624,099	Series 3069, Class LI, IO .....	5.50%	08/15/32	
8,988	Series 3171, Class CS (d).....	38.18%	06/15/36	
268,044	Series 3195, Class SX (d).....	44.94%	07/15/36	
2,676,118	Series 3562, Class KI, IO .....	4.50%	11/15/22	
57,689	Series 3569, Class SN (d).....	13.53%	08/15/39	
2,523,800	Series 3593, Class IP, IO .....	5.00%	06/15/36	
10,321,860	Series 3619, Class EI, IO .....	4.50%	05/15/24	1
4,735,439	Series 3692, Class PS, IO (d).....	6.41%	05/15/38	
2,573,078	Series 3702, Class SK (d).....	14.14%	08/15/40	2
12,877,161	Series 3726, Class KI, IO .....	3.50%	04/15/25	1
5,968,676	Series 3870, Class WS, IO (d).....	6.41%	06/15/31	1
Federal Home Loan Mortgage Corp., STRIP				
9,852,437	Series 227, Class IO, IO .....	5.00%	12/01/34	2
4,828,384	Series 232, Class IO, IO .....	5.00%	08/01/35	
Federal National Mortgage Association				
2,224,835	Series 2005-122, Class SN (d).....	27.85%	01/25/36	3
229,883	Series 2005-39, Class BI, IO .....	5.00%	06/25/28	
324,038	Series 2005-91, Class SH (d).....	23.15%	05/25/33	
3,267,563	Series 2008-50, Class AI, IO .....	5.50%	06/25/23	
1,316,310	Series 2009-111, Class SB (d).....	7.70%	04/25/35	1
3,772,627	Series 2009-56, Class PI, IO .....	5.00%	11/25/30	
6,309,540	Series 2010-103, Class ID, IO .....	5.00%	09/25/40	
9,440,609	Series 2010-139, Class KI, IO .....	1.09%	12/25/40	
5,000,000	Series 2010-142, Class PS, IO (d).....	5.86%	05/25/40	
3,683,867	Series 2010-145, Class TI, IO .....	3.50%	12/25/20	

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13,530,656	Series 2010-40, Class MI, IO	4.50%	08/25/24	1
	Federal National Mortgage Association, STRIP			
5,203,214	Series 360, Class 2, IO	5.00%	08/01/35	1
7,872,317	Series 406, Class 6, IO (b)	4.00%	01/25/41	1
	Government National Mortgage Association			
3,170,939	Series 2009-65, Class NJ, IO	5.50%	07/20/39	
5,395,642	Series 2010-115, Class IQ, IO	4.50%	11/20/38	1
5,850,076	Series 2011-69, Class CI, IO	5.00%	03/20/36	

See Notes to Quarterly Portfolio of Investments

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FIRST TRUST MORTGAGE INCOME FUND  
 PORTFOLIO OF INVESTMENTS (a) - (Continued)  
 JULY 31, 2011 (UNAUDITED)

PRINCIPAL VALUE	DESCRIPTION	STATED COUPON	STATED MATURITY	V
U.S. GOVERNMENT AGENCY MORTGAGE-BACKED SECURITIES - (Continued)				
PASS-THROUGH SECURITIES - 34.1%				
Federal Home Loan Mortgage Corp.				
\$ 2,721,147	Pool A94738 (e)	4.50%	11/01/40	\$ 2
1,491,902	Pool K36017 (e)	5.00%	09/01/47	1
Federal National Mortgage Association				
3,392,700	Pool 256182 (e)	6.00%	03/01/36	3
3,279,853	Pool 256328 (e)	6.50%	07/01/36	3
3,994,888	Pool 831145 (e)	6.00%	12/01/35	4
4,349,551	Pool 843971 (e)	6.00%	11/01/35	4
1,684,977	Pool 872303	6.00%	05/01/36	1
3,816,094	Pool 880203 (e)	6.00%	02/01/36	4
TOTAL U.S. GOVERNMENT AGENCY MORTGAGE-BACKED SECURITIES				56
(Cost \$52,993,789)				
ASSET-BACKED SECURITIES - 0.4%				
Green Tree Financial Corp.				
143,906	Series 1997-2, Class A6 (b)	7.24%	06/15/28	
153,332	Series 1997-3, Class A6	7.32%	03/15/28	
TOTAL ASSET-BACKED SECURITIES				
(Cost \$316,428)				
TOTAL INVESTMENTS - 124.8%				99
(Cost \$94,048,128) (f)				

PRINCIPAL VALUE	DESCRIPTION	A
REVERSE REPURCHASE AGREEMENTS - (30.2%)		

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\$	(7,587,500)	With Credit Suisse 0.25% dated 07/05/11, to be repurchased at \$7,590,872 on 09/07/11.....	(7)
	(12,192,500)	With Credit Suisse 0.24% dated 07/15/11, to be repurchased at \$12,195,020 on 08/15/11.....	(12)
	(4,169,000)	With Credit Suisse 0.26% dated 07/19/11, to be repurchased at \$4,171,740 on 10/18/11.....	(4)
		TOTAL REVERSE REPURCHASE AGREEMENTS.....	(23)
		NET OTHER ASSETS AND LIABILITIES - 5.4% .....	4
		NET ASSETS - 100.0% .....	\$ 79

- 
- (a) All percentages shown in the Portfolio of Investments are based on net assets.
  - (b) Floating rate security. The interest rate shown reflects the rate in effect at July 31, 2011.

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FIRST TRUST MORTGAGE INCOME FUND  
 PORTFOLIO OF INVESTMENTS (a) - (Continued)  
 JULY 31, 2011 (UNAUDITED)

- (c) This security, sold within the terms of a private placement memorandum, is exempt from registration upon resale under Rule 144A under the Securities Act of 1933, as amended and may be resold in transactions exempt from registration, normally to qualified institutional buyers. The Fund does not have the right to demand that this security be registered. This security is valued according to the valuation procedures as stated in the Portfolio Valuation footnote (Note A in the Notes to Quarterly Portfolio of Investments) and is not expressed as a discount to the carrying value of a comparable unrestricted security. This security was acquired on September 9, 2009, has a current carrying cost of \$2,904,927, a carrying value per share of \$1.02 and represents 3.88% of net assets.
- (d) Inverse floating rate instrument. The interest rate shown reflects the rate in effect at July 31, 2011.
- (e) This security or a portion of this security is segregated as collateral for reverse repurchase agreements.
- (f) Aggregate cost for financial reporting purposes, which approximates the aggregate cost for federal income tax purposes. As of July 31, 2011, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was \$9,139,821 and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was \$4,183,775.
- IO Interest-Only Security - Principal amount shown represents par value on which interest payments are based.

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STRIP Separate Trading of Registered Interest and Principal of Securities

### VALUATION INPUTS

A summary of the inputs used to value the Fund's investments as of July 31, 2011 is as follows (see Note A - Portfolio Valuation in the Notes to Quarterly Portfolio of Investments):

	TOTAL VALUE AT 7/31/2011	LEVEL 1 QUOTED PRICES	LEVEL 2 SIGNIFICANT OBSERVABLE INPUTS	LEVEL 3 UNOBSERVABLE INPUTS
Mortgage-Backed Securities.....	\$ 41,750,653	\$ --	\$ 41,750,653	\$ --
U.S. Government Agency Mortgage-Backed Securities.....	56,926,298	--	56,926,298	--
Asset-Backed Securities.....	327,223	--	327,223	--
TOTAL INVESTMENTS.....	\$ 99,004,174	\$ --	\$ 99,004,174	\$ --

The following table presents the activity of the Fund's investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period presented.

INVESTMENTS AT FAIR VALUE USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	BALANCE AS OF OCTOBER 31, 2010	TRANSFERS IN (OUT) OF LEVEL 3	NET REALIZED GAINS (LOSSES)	CHANGE IN NET UNREALIZED APPRECIATION (DEPRECIATION)	
Mortgage-Backed Securities	\$ 3,747,608	\$ (3,080,582)	\$ 27,328	\$ (93,166)	

See Notes to Quarterly Portfolio of Investments

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### NOTES TO QUARTERLY PORTFOLIO OF INVESTMENTS

FIRST TRUST MORTGAGE INCOME FUND  
JULY 31, 2011 (UNAUDITED)

#### VALUATION AND INVESTMENT PRACTICES

##### A. PORTFOLIO VALUATION:

The net asset value ("NAV") of the Common Shares of First Trust Mortgage Income Fund (the "Fund") is determined daily, as of the close of regular trading on the

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New York Stock Exchange ("NYSE"), normally 4:00 p.m. Eastern time, on each day the NYSE is open for trading. If the NYSE closes early on a valuation day, the NAV is determined as of that time. Domestic debt securities and foreign securities are priced using data reflecting the earlier closing of the principal markets for those securities. The NAV per Common Share is calculated by dividing the value of all assets of the Fund (including accrued interest and dividends), less all liabilities (including accrued expenses, dividends declared but unpaid and any borrowings of the Fund), by the total number of Common Shares outstanding.

The Fund's investments are valued daily in accordance with valuation procedures adopted by the Fund's Board of Trustees, and in accordance with provisions of the Investment Company Act of 1940, as amended (the "1940 Act"). Securities for which market quotations are readily available are valued using the last reported sale price on the business day as of which such value is being determined. If no sales are reported on such business day (as in the case of some securities traded over-the-counter), the last reported bid price is used, except that certain U.S. Government securities are valued at the mean between the last reported bid and asked prices. Mortgage-backed securities ("MBS") and other debt securities not traded in an organized market are valued on the basis of valuations provided by dealers who make markets in such securities or by an independent pricing service approved by the Fund's Board of Trustees, which may use the following valuation inputs when available:

- 1) benchmark yields;
- 2) reported trades;
- 3) broker/dealer quotes;
- 4) issuer spreads;
- 5) benchmark securities;
- 6) bids and offers; and
- 7) reference data including market research publications.

Debt securities having a remaining maturity of sixty days or less when purchased are valued at cost adjusted for amortization of premiums and accretion of discounts.

In the event that market quotations are not readily available, the pricing service or dealer does not provide a valuation, or the valuations received are deemed unreliable, the Fund's Board of Trustees has designated First Trust Advisors L.P. ("First Trust") to use a fair value method to value the Fund's securities. Additionally, if events occur after the close of the principal markets for certain securities (e.g., domestic debt and foreign securities) that could materially affect the Fund's NAV, First Trust may use a fair value method to value the Fund's securities. The use of fair value pricing is governed by valuation procedures adopted by the Fund's Board of Trustees, and in accordance with the provisions of the 1940 Act. As a general principle, the fair value of a security is the amount which the Fund might reasonably expect to receive for the security upon its current sale. However, in light of the judgment involved in fair valuations, there can be no assurance that a fair value assigned to a particular security will be the amount which the Fund might be able to receive upon its current sale. Fair valuation of a security is based on the consideration of all available information, including, but not limited to, the following:

- 1) the fundamental business data relating to the issuer;



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- 2) an evaluation of the forces which influence the market in which these securities are purchased and sold;
- 3) the type, size and cost of a security;
- 4) the financial statements of the issuer;
- 5) the credit quality and cash flow of the issuer, based on the Sub-Advisor's or external analysis;
- 6) the information as to any transactions in or offers for the security;
- 7) the price and extent of public trading in similar securities (or equity securities) of the issuer/borrower, or comparable companies;
- 8) the coupon payments;
- 9) the quality, value and salability of collateral, if any, securing the security;
- 10) the business prospects of the issuer, including any ability to obtain money or resources from a parent or affiliate and an assessment of the issuer's management;
- 11) the prospects for the issuer's industry, and multiples (of earnings and/or cash flows) being paid for similar businesses in that industry; and
- 12) other relevant factors.

The Fund is subject to fair value accounting standards that define fair value, establish the framework for measuring fair value and provide a three-level hierarchy for fair valuation based upon the inputs to the valuation as of the measurement date. The three levels of the fair value hierarchy are as follows:

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### NOTES TO QUARTERLY PORTFOLIO OF INVESTMENTS - (Continued)

#### FIRST TRUST MORTGAGE INCOME FUND JULY 31, 2011 (UNAUDITED)

- o Level 1 - Level 1 inputs are quoted prices in active markets for identical securities. An active market is a market in which transactions for the security occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- o Level 2 - Level 2 inputs are observable inputs, either directly or indirectly, and include the following:
  - o Quoted prices for similar securities in active markets.
  - o Quoted prices for identical or similar securities in markets that are non-active. A non-active market is a market where there are few transactions for the security, the prices are

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not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly.

- o Inputs other than quoted prices that are observable for the security (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates).
- o Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- o Level 3 - Level 3 inputs are unobservable inputs. Unobservable inputs may reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the security.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. A summary of the inputs used to value the Fund's investments as of July 31, 2011, is included with the Fund's Portfolio of Investments.

### B. SECURITIES TRANSACTIONS:

Securities transactions are recorded as of the trade date. Realized gains and losses from securities transactions are recorded on the identified cost basis.

Securities purchased or sold on a when-issued, delayed-delivery or forward purchase commitment basis may have extended settlement periods. The value of the security so purchased is subject to market fluctuations during this period. The Fund maintains liquid assets with a current value at least equal to the amount of its when-issued, delayed-delivery or forward purchase commitments until payment is made. At July 31, 2011, the Fund had no when-issued, delayed-delivery or forward purchase commitments.

### C. REVERSE REPURCHASE AGREEMENTS:

Reverse repurchase agreements are utilized as leverage for the Fund. A reverse repurchase agreement, although structured as a sale and repurchase obligation, acts as a financing under which Fund assets are pledged as collateral to secure a short-term loan. Generally, the other party to the agreement makes the loan in an amount equal to a percentage of the market value of the pledged collateral. At the maturity of the reverse repurchase agreement, the loan will be repaid and the collateral will correspondingly be received back to the Fund. While used as collateral, the assets continue to pay principal and interest which are for the benefit of the Fund.

Information for the period ended July 31, 2011:

Maximum amount outstanding during the period.....	\$24,495,000
Average amount outstanding during the period*.....	\$17,855,505
Average monthly Common Shares outstanding during the period...	4,060,219
Average debt per Common Share outstanding during the period...	\$4.40

\* The average amount outstanding during the period was calculated by adding the

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borrowings at the end of each day and dividing the sum by the number of days in the period ended July 31, 2011.

During the period ended July 31, 2011, interest rates ranged from 0.08% to 0.38%, with a weighted average interest rate of 0.26%, on borrowings by the Fund under reverse repurchase agreements, which had interest expense that aggregated \$35,322.

### D. INVERSE FLOATING-RATE SECURITIES:

An inverse floating-rate security is one where the coupon is inversely indexed to a short-term floating interest rate multiplied by a specific factor. As the floating rate rises, the coupon is reduced. Conversely, as the floating rate declines, the coupon is increased. The price of these securities may be more volatile than the price of a comparable fixed-rate security. These instruments are typically used to enhance the yield of the portfolio. These securities, if held in the Fund, are identified on the Portfolio of Investments.

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## NOTES TO QUARTERLY PORTFOLIO OF INVESTMENTS - (Continued)

### FIRST TRUST MORTGAGE INCOME FUND JULY 31, 2011 (UNAUDITED)

### E. STRIPPED MORTGAGE-BACKED SECURITIES:

Stripped Mortgage-Backed Securities are created by segregating the cash flows from underlying mortgage loans or mortgage securities to create two or more new securities, each with a specified percentage of the underlying security's principal or interest payments. Mortgage securities may be partially stripped so that each investor class receives some interest and some principal. When securities are completely stripped, however, all of the interest is distributed to holders of one type of security known as an interest-only or IO security and all of the principal is distributed to holders of another type of security known as a principal-only or PO security. These securities, if held in the Fund, are identified on the Portfolio of Investments.

### F. INTEREST-ONLY SECURITIES:

An interest-only security ("IO Security") is the interest-only portion of a MBS that receives some or all of the interest portion of the underlying MBS and little or no principal. A reference principal value called a notional value is used to calculate the amount of interest due to the IO Security. IO securities are sold at a deep discount to their notional principal amount. Generally speaking, when interest rates are falling and prepayment rates are increasing, the value of an IO Security will fall. Conversely, when interest rates are rising and prepayment rates are decreasing, generally the value of an IO Security will rise. These securities, if held in the Fund, are identified on the Portfolio of Investments.

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## ITEM 2. CONTROLS AND PROCEDURES.

- (a) The registrant's principal executive and principal financial officers, or persons performing similar functions, have concluded that the

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registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act") (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of the report that includes the disclosure required by this paragraph, based on their evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended (17 CFR 240.13a-15(b) or 240.15d-15(b)).

- (b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d))) that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

ITEM 3. EXHIBITS.

Certifications pursuant to Rule 30a-2(a) under the 1940 Act and Section 302 of the Sarbanes-Oxley Act of 2002 are attached hereto.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) First Trust Mortgage Income Fund  
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By (Signature and Title)\* /s/ James A. Bowen  
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James A. Bowen, Chairman of the Board, President and  
Chief Executive Officer  
(principal executive officer)

Date September 21, 2011  
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Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title)\* /s/ James A. Bowen  
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James A. Bowen, Chairman of the Board, President and  
Chief Executive Officer  
(principal executive officer)

Date September 21, 2011  
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By (Signature and Title)\* /s/ Mark R. Bradley  
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Mark R. Bradley, Treasurer, Chief Financial Officer and  
Chief Accounting Officer  
(principal financial officer)

Date September 21, 2011  
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\* Print the name and title of each signing officer under his or her signature.