

Risk Factors Comparison 2024-02-22 to 2023-02-27 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text **Moved Text Section**

You should carefully consider the risks described below and all other information contained in this Annual Report on Form 10-K, including our annual consolidated financial statements and the related notes thereto before deciding to purchase our securities. Any of the following risks could materially affect our business, financial condition or results of operations. If that happens, the trading price of our securities could decline, and you may lose all or part of your investment. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known to us, or not presently deemed material by us, may also impair our operations and performance. Our risk factors discussed below are classified among: • risks related to our investment and portfolio management activities; • risks related to our financing and hedging activities; • risks related to our business operations; • legislative and regulatory risks; and • risks related to our common stock.

Risks Related to Our Investment and Portfolio Management Activities

Spread risk is inherent to our business as a levered investor in Agency RMBS. When the market spread between the yield on our assets and the yield on benchmark interest rates linked to our interest rate hedges widens, our tangible net book value will typically decline. We refer to this as "spread risk". As a levered investor primarily in fixed-rate Agency RMBS, spread risk is an inherent component of our business. Although we use hedging instruments to attempt to protect against moves in interest rates, our hedges will typically not protect us against spread risk. Spreads may widen due to numerous factors, including due to actual or expected monetary policy actions by U. S. and foreign central banks, increased market volatility, **increased available supply of Agency RMBS**, a decline in market liquidity and changes in investor return requirements and sentiment. **Interest rate and spread volatility represent significant risks to our business, potentially affecting our liquidity, increasing our costs, and impacting our ability to manage risks effectively. Interest rate and spread volatility can have profound impacts on our business, financial condition, and operating results in several ways. Such volatility amplifies market-based risks, affecting asset and liability values and potentially leading to less earnings stability. Volatility increases our exposure to margin calls, including higher risk-based margin requirements, typically requiring us to post additional collateral, which could reduce our unencumbered liquidity and limit resources available for operational needs and further margin requirements. The complexity and cost of hedging against interest rate fluctuations also rises with volatility, potentially impacting our profitability. Volatility can also reduce liquidity in the mortgage market as mortgage investors reduce their exposure to this risk, making it more challenging to buy or sell assets without affecting their market price. Volatility may also reduce the effectiveness and accuracy of the predictive models that we use to aid in our decision-making and risk management. In summary, interest rate and spread volatility represent significant risks to our business, potentially affecting our liquidity, increasing our costs, and impacting our ability to manage risks effectively. We continuously monitor these conditions and adjust our strategies accordingly, but there is no guarantee that these measures will be sufficient to mitigate the adverse effects of volatility on our operations and financial results.**

The Fed's participation in the Agency mortgage market could have an adverse effect on our Agency RMBS investments. The Federal Reserve's (the "Fed") **participation in the Agency RMBS market can have a material impact on the mortgage market, altering the available supply, price and returns on Agency RMBS. Its involvement in the mortgage market can result in increased market volatility and amplify the effects of market-related risks on our financial condition. Generally, when the Fed conducts large-scale asset purchases, Agency RMBS values increase and mortgage spreads tighten. This scenario results in an increase in our tangible net book value, although the return potential on new asset purchases typically declines. Conversely, actual or anticipated reductions of Fed asset purchases or its outright sale of assets, would generally be expected to result in a decline in asset values and wider mortgage spreads to benchmark interest rates, reducing our tangible net book value, while increasing the return potential on new asset purchases. The Fed** first used large-scale asset purchases of U. S. Treasury securities and Agency RMBS, known as quantitative easing, or QE, during the 2008-2009 global financial crisis in an attempt to stabilize financial markets and stimulate a sustained economic recovery. In its most recent QE round, resulting from the Covid-19 financial crisis, the Fed's balance sheet more than doubled from \$ 4.2 trillion in March 2020 to \$ 8.9 trillion in May 2022, **with. This included a significant increase in its holdings of Agency RMBS increasing holdings,** to nearly a third of all outstanding Agency RMBS, **when it by the time the Fed announced that it its intention would begin to reduce end QE and commence monetary tightening by, among other actions, gradually reducing its holdings of Agency RMBS over time by not reinvesting proceeds of principal repayments, subject to monthly caps. The Since the beginning of the Fed's participation current monetary tightening cycle in 2022, through fiscal year-end 2023, the Fed has reduced its Agency RMBS holdings by approximately \$ 300 billion through market can have a material impact on the mortgage prepayment activity market, altering the available supply, price and returns on Agency RMBS. Although its involvement in the mortgage market can result in increased market volatility and amplify the effects of market related risks on our financial condition. Generally, when the Fed currently favors conducts large-scale asset purchases, Agency RMBS values increase and mortgage spreads tighten, benefiting our tangible net book value, while the return potential on new asset purchases typically declines. Conversely, actual or anticipated reductions of Fed asset purchases or its outright sale of assets, would generally be expected to result in a gradual decline in asset values and wider mortgage spreads to benchmark interest rates, negatively impacting our tangible net book value, while the return potential on new asset purchases would typically increase. Although the Fed has stated its preference for a passive reduction of its balance sheet through mortgage prepayment activity, subject to monthly caps, there is no guarantee that it will not conduct outright asset sales in the future or alter its monthly caps. If the Fed were to**

conduct Assets sales or allow a more rapid unwinding of its balance sheet than anticipated, Agency RMBS markets could experience result in increased market volatility, reduced liquidity and an increase in Agency RMBS spreads to benchmark interest rates, causing a material decline in our tangible net book and negatively impacting our financial position. Our active portfolio management strategy may expose us to greater losses and lower returns than compared to passive strategies. We employ an active management strategy; therefore, the composition of our investment portfolio, leverage ratio and hedge composition will vary as we believe changes to market conditions warrant. We may realize significant investment gains or losses when we sell investments that we no longer believe provide attractive risk-adjusted returns or when we believe more attractive alternatives are available. We may also be incorrect in our assessment of market conditions and select an investment portfolio, leverage levels and terms, and hedge composition that generate lower returns than a more static management strategy. Furthermore, because of our active strategy, investors may be unable to assess changes in our financial position solely by observing changes in the mortgage market. A decline in the fair value of our assets may adversely affect our financial condition and make it costlier to finance our assets. Our investment securities are reported at fair value on our consolidated balance sheet, with changes in fair value reported in net income or other comprehensive income. Therefore, a decline in the fair value of our assets reduces our total comprehensive income and adversely affects our financial position. We use our investments as collateral for our financing arrangements and certain hedge transactions; consequently, a decline in fair value, or perceived market uncertainty about the value of our assets, could reduce the amount of our unencumbered assets, subject us to margin calls and could make it more difficult for us to maintain our compliance with the terms of our financing agreements, and it could reduce our ability to purchase additional investments or to renew or replace our existing borrowings as they mature. As a result, we could be required to sell assets at adverse prices and our ability to maintain or grow our total comprehensive income could be reduced. Asset value can decline for a variety of reasons our assets is influenced by multiple factors. The value of our Since we primarily invest in long-term fixed rate securities, our investment portfolio is particularly sensitive to changes impacted by fluctuations in longer-term interest rates. Additionally, A decline in market liquidity can also have a significant significantly impact on asset values, where a decrease in liquidity can lead to a decline in asset values and increase increased price volatility. Numerous factors Factors that can reduce market liquidity, including include shifts in macro-economic conditions, market uncertainty uncertainties, changes in investor sentiment resulting in redemptions from fixed income funds, a decline in or negative global money flows into the U. S. fixed income markets, and regulatory capital requirements that limit constrain the market-making or funding capabilities of banks and other financial institutions ability to act as market makers. Fed monetary policy and the unwinding pace of its balance sheet reduction could also have a negative negatively impact on asset values and market liquidity, especially if the this unwinding process occurs more rapidly than anticipated. Changes in prepayment rates may adversely affect the return on our investments. Our investment portfolio includes securities backed by pools of mortgage loans, which receive payments related to the underlying mortgage loans. When borrowers prepay their mortgage loans at rates faster or slower than anticipated, it exposes us to prepayment or extension risk. Generally, prepayments increase during periods of falling mortgage interest rates and decrease during periods of rising mortgage interest rates, but other factors can also affect the rate of prepayments, including loan age and size, loan-to-value ratios, housing price trends, general economic conditions and GSE buyouts of delinquent loans. If our assets prepay at a faster rate than anticipated, we may be unable to reinvest the repayments at acceptable yields. If the proceeds are reinvested at lower yields than our existing assets, our net interest margins would be negatively impacted. We also amortize or accrete into interest income any premiums and discounts we pay or receive at purchase relative to the stated principal of our assets over their projected lives using the effective interest method. If the actual and estimated future prepayment experience differs from our prior estimates, we are required to record an adjustment to interest income for the impact of the cumulative difference in the effective yield, which could negatively affect our interest income. If our assets prepay at a slower rate than anticipated, our assets could extend beyond their expected maturity, and we may have to finance our investments at potentially higher costs without the ability to reinvest principal into higher yielding securities. Additionally, if prepayment rates decrease due to a rising interest rate environment, the average life or duration of our fixed-rate assets would extend, but our interest rate swap maturities would remain fixed and, therefore, cover a smaller percentage of our funding exposure. This situation may also cause At the same time, the market value of our assets to could decline, while most of our hedging instruments would not receive any incremental offsetting gains. To the extent that actual rates of prepayment differ from our expectations, our operating results could be adversely affected, and we could be forced to sell assets to maintain adequate liquidity, which could cause us to incur realized losses. In addition, should significant prepayments occur, there is no certainty that we will be able to identify acceptable new investments, which could reduce our invested capital or result in us investing in less favorable securities. Prepayment rates are difficult to predict, and market conditions and other factors impacting mortgage origination channels may disrupt the historical correlation between interest rate changes and prepayment trends. Our success depends in part on our ability to predict prepayment behavior over a variety of economic conditions. As part of our overall portfolio risk management, we analyze interest rate changes and prepayment trends to assess their effects on our investment portfolio. Our analysis is largely based on predictive models and reliance on historical correlations between interest rates and other factors and the rate of prepayments. However, unprecedented events, market dislocations, advances in origination channel technologies and other factors may impair the usefulness of these historical correlations or render them completely invalid, reducing our ability to accurately predict future prepayment activity. Other factors beyond interest rates also impact the rate of prepayments and may be difficult to predict, such as housing turnover, lending conditions and the availability of credit to homeowners, and GSE buyouts of delinquent loans from the underlying mortgage pool. The analytical models and third-party data that we rely on to manage our portfolio and conduct our business objectives may be incorrect, misleading or incomplete. We use analytical models, data and other information to value our assets and assess potential investment opportunities in connection with our risk management and hedging activities. We may source our models and data from third-parties or develop them internally. Models are dependent on multiple

assumptions and inputs. Models typically also assume a static portfolio. If either the models, their underlying assumptions or data inputs prove to be incorrect, misleading or incomplete, any decisions we make in reliance on such information may be faulty and expose us to potential risks. Many of the analytical models we use are predictive in nature, such as mortgage prepayment and default models. The use of predictive models has inherent risks and may incorrectly forecast future behavior, leading to potential losses. Furthermore, since predictive models are usually constructed based on historical trends using data supplied by third parties, the success of relying on such models depends heavily on the accuracy and reliability of the supplied historical data. Additionally, multiple factors could disrupt the relationships between data and historical trends, reducing the ability of our models to predict future outcomes, or even render them invalid. We are at greater risk of this occurring during periods of high volatility or unanticipated and / or unprecedented financial or economic events, including any actual or anticipated shifts in Fed policy resulting from these events. Consequently, actual results could differ materially from our projections. Moreover, use of different models could result in materially different projections. Analytical models and third-party data used to analyze credit sensitive assets also expose us to the risk that the (i) collateral cash flows and / or liability structures may be incorrectly modeled, or may be modeled based on simplifying assumptions that lead to errors; (ii) information about collateral may be incorrect, incomplete or misleading; (iii) collateral or bond historical performance (such as historical prepayments, defaults, cash flows, etc.) may be incorrectly reported, or subject to interpretation (e. g., different issuers may report delinquency statistics based on different definitions of what constitutes a delinquent loan); or (iv) collateral or bond information may be outdated, in which case the models may contain incorrect assumptions as to what has occurred since the date information was last updated. ~~Models may also include LIBOR as an input. Thus, the transition away from LIBOR may require changes to the models and / or impair the historical relationships patterned within these models as a result of less historical data than is currently available for LIBOR.~~ The fair value of our investments may not be readily determinable or may be materially different from the value that we ultimately realize upon their disposal. We measure the fair value of our investments in accordance with guidance set forth in Accounting Standards Codification Topic 820, Fair Value Measurements and Disclosures. Fair value is only an estimate based on good faith judgment of the price at which an investment can be sold since market prices of investments can only be determined by negotiation between a willing buyer and seller. Our determination of the fair value of our investments includes inputs provided by pricing services and third- party dealers. Valuations of certain investments in which we invest may be difficult to obtain or unreliable. In general, pricing services and dealers heavily disclaim their valuations and we do not have recourse against them in the event of inaccurate price quotes or other inputs used to determine the fair value of our investments. Depending on the complexity and illiquidity of a security, valuations of the same security can vary substantially from one pricing source to another. Moreover, values can fluctuate significantly, even over short periods of time. For these reasons, the fair value at which our investments are recorded may not be an accurate indication of their realizable value. The ultimate realization of the value of an asset depends on economic and other conditions that are beyond our control. Consequently, if we were to sell an asset, particularly through a forced liquidation, the realized value may be less than the amount at which the asset is recorded, which would negatively affect our results of operations and financial condition. The mortgage loans referenced by our CRT securities or that underlie our non- Agency securities may be or could become subject to delinquency or foreclosure, which could result in significant losses to us. Investments in credit- oriented securities, such as CRT securities and non- Agency MBS, where repayment of principal and interest is not guaranteed by a GSE or U. S. Government agency, subject us to the potential risk of loss of principal and / or interest due to delinquency, foreclosure and related losses on the underlying mortgage loans. CRT securities are risk sharing instruments issued by Fannie Mae and Freddie Mac, and similarly structured transactions arranged by third- party market participants, that are designed to synthetically transfer mortgage credit risk from the issuing entity to private investors. The transactions are structured as unguaranteed bonds whose principal payments are determined by the delinquency and prepayment experience of a reference pool of mortgages guaranteed by Fannie Mae or Freddie Mac. An investor in CRT securities bears the risk that the borrowers in the reference pool of loans may default on their obligations to make full and timely payments of principal and interest. **Non Residential mortgage loans underlying non- Agency RMBS are secured-backed by residential property and are subject to mortgage loans, which carry the risks- risk of delinquency, foreclosure and loss based on** ~~The ability of a borrower to repay a loan secured by residential property is dependent upon the income or assets of the borrower. Many factors could impair a borrower' s ability to repay .~~ **The ability to repay is primarily influenced by** ~~the loan, including borrower' s income and assets. Factors such as~~ **loss of employment, divorce, illness, acts of God, acts of war or terrorism, adverse changes in economic and market conditions, declining home values,** ~~changes in laws and regulations, changes in fiscal policies and zoning ordinances, costs of remediation and liabilities associated with environmental conditions hazards such as mold, and the potential for uninsured or under- insured property losses (insured or not) can impede repayment .~~ **Commercial mortgage loans underlying CMBS are generally backed by commercial loans, secured by multifamily or other commercial properties and are subject to. These loans typically face higher risks of delinquency and foreclosure and risks of loss compared to residential** ~~that are greater than similar risks associated with loans made. Repayment largely depends on the security of residential property ' s operational success .~~ **Factors affecting the** ~~The ability of a borrower to repay a loan secured by an income- producing property ' s typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of,~~ **such as occupancy rates, tenant mix, the success of tenant businesses,** ~~property management is reduced,~~ **location, condition, and economic conditions, can influence** ~~the borrower' s repayment capacity~~ **ability to repay the loan may be impaired. Net operating income of an income producing property can be affected by numerous factors, such as: occupancy rates, tenant mix, success of tenant businesses, property management decisions, property location and condition, changes in economic or operating conditions and other factors. ~~Geographic concentration of our assets can heighten the~~ **expose us to greater risk of default and loss. Both** ~~Repayments by borrowers-~~ **borrower repayment** ~~and the market value of the related~~ **assets underlying our investments are affected by national ,** ~~as well as~~ **local and regional economic****

and other conditions. As a result, concentrations of investments tied to geographic regions increase the risk that adverse economic conditions or other developments affecting a region could increase the frequency and severity of losses on our investments. Additionally, assets in certain regional areas may be more susceptible to certain environmental hazards (such as earthquakes, widespread fires, rising sea levels, disease, floods, drought, hurricanes and certain climate risks) than properties in other areas; for example, assets located in coastal states may be more susceptible to hurricanes or sea level rise than properties in other parts of the country. Areas affected by these types of events often experience disruptions in travel, transportation and tourism, loss of jobs, a decrease in consumer activity, and a decline in real estate-related investments, and their economies may not recover sufficiently to support income producing real estate at pre-event levels. These types of occurrences may increase over time or become more severe due to changes in weather patterns and other climate changes. Private mortgage insurance may not cover losses on loans referenced by our CRT securities and underlying our non-Agency RMBS. In certain instances, mortgage loans referenced by our CRT securities or underlying our non-Agency RMBS may have private mortgage insurance. However, this insurance may not cover some or all of our potential loss if a loan defaults. This may occur, for example, because it is frequently structured to absorb only a portion of the loss; the insurance provider rescinds or denies coverage; or the insurer's failure to satisfy its obligations under the insurance contract, whether due to breach of contract or to an insurer's insolvency. Changes in credit spreads may adversely affect our profitability. A significant component of the fair value of CRT and non-Agency securities and other credit risk-oriented investments is attributable to the credit spread, or the difference between the value of the credit instrument and the value of a financial instrument with similar interest rate exposure, but with no credit risk, such as a U. S. Treasury note. Credit spreads can be highly volatile and may fluctuate due to changes in economic conditions, liquidity, investor demand and other factors. Credit spreads typically widen in times of increased market uncertainty or when economic conditions have or are expected to deteriorate. Credit spreads may also widen due to actual or anticipated rating downgrades on the securities or similar securities. Hedging fair value changes associated with credit spreads can be inefficient and our hedging strategies are generally not designed to mitigate credit spread risk. Consequently, changes in credit spreads could adversely affect our profitability and financial condition. We may be unable to acquire desirable investments due to competition, a reduction in the supply of new production Agency RMBS having the specific attributes we seek, and other factors. Our profitability depends on our ability to acquire our target assets at attractive prices. We may seek assets with specific attributes that affect their propensity for prepayment under certain market conditions or enable us to satisfy asset test requirements to maintain our REIT qualification status or exemption from regulation under the Investment Company Act (such as "whole pool" Agency RMBS). The supply of our target assets may be impacted by policies and procedures adopted by the GSEs, such as pooling practices, or their regulator, the FHFA, or actions by other governmental agencies. Housing finance reform measures may also impact the supply and availability of our target assets. Consequently, a sufficient supply of our target assets may not be available or available at attractive prices. We may also compete for these assets with a variety of other investors, including other REITs, specialty finance companies, public and private funds, government entities, banks, insurance companies and other financial institutions, who may have competitive advantages over us, such as a lower cost of funds and access to funding sources not available to us. If we are unable to acquire a sufficient supply of our target assets, we may be unable to achieve our investment objectives or to maintain our REIT qualification status or exemption from regulation under the Investment Company Act. We may change our targeted investments, investment guidelines and other operational policies without stockholder consent. We may change our targeted investments and investment guidelines at any time without the consent of our stockholders, which could result in our making investments that are different from, and possibly riskier than, those described in this Annual Report or under our current guidelines. We may also amend or revise our other operational policies, including our policies with respect to our REIT qualification, acquisitions, dispositions, operations, indebtedness and distributions without a vote of, or notice to, our stockholders. Any such change may increase our exposure to risks described herein or expose us to new risks that are not currently contemplated, which could materially impair our operations and financial performance.

Risks Related to Our Financing and Hedging Activities Our strategy involves the use of significant leverage, which increases the risk that we may incur substantial losses. We expect our leverage to vary with market conditions and our assessment of the tradeoffs between risk and return on investments. We generally expect to maintain our leverage between six to twelve times the amount of our tangible stockholders' equity, but we may operate at levels outside of this range for extended periods. We incur this leverage by borrowing against a substantial portion of the market value of our assets. Leverage, which is fundamental to our investment strategy, creates significant risks and amplifies our risk exposure to higher borrowing costs, changes in underlying asset values, changes in mortgage spreads, and other market factors. Leverage also exposes us to the risk of margin calls and defaults under our funding agreements, which may result in forced sales of assets in adverse market conditions. The risks associated with leverage are more acute during volatile market environments and periods of reduced market liquidity. Because of our leverage, we may incur substantial losses. We may be unable to procure or renew funding on favorable terms, or at all. We rely primarily on short-term borrowings to finance our mortgage investments. Consequently, our ability to achieve our investment objectives depends not only on our ability to borrow sufficient amounts and on favorable terms, but also our ability to renew or replace our maturing short-term borrowings on a continuous basis. A variety of factors could prevent us from being able to achieve our intended borrowing and leverage objectives, including:

- disruptions in the repo market generally or the infrastructure that supports it;
- higher short-term interest rates;
- a decline in the market value of our investments available to collateralize borrowings;
- increases in the "haircut" lenders require on the value of our assets under repurchase agreements, resulting in higher collateral requirements;
- increases in member specific margin requirements assessed by the FICC for tri-party repo accessed by our wholly-owned captive broker-dealer subsidiary, BES, through the FICC's GCF Repo service;
- regulatory capital requirements or other limitations imposed on our lenders that negatively impact their ability or willingness to lend to us;
- an exit by lenders from the market;
- circumstances that could result in our failure to satisfy covenants, leverage limits, or other requirements imposed by our lenders, in which case our lenders may

terminate and cease entering into repurchase transactions with us; and • the inability of **BES** our wholly-owned captive broker-dealer to continually meet FINRA and FICC regulatory and membership requirements, which may change over time. ~~The FICC continually assesses potential changes to rules governing the calculation of margin and minimum margin requirements. Increases in FICC margin requirements would have the effect of reducing our unencumbered assets and could potentially limit our ability to utilize tri-party repo funding accessed through the FICC's GCF Repo service, which represents a significant portion of our total borrowing capacity.~~ Because of these and other factors, there is no assurance that we will be able to secure financing on terms that are acceptable to us. If we cannot obtain sufficient funding on acceptable terms, we may have to sell assets possibly under adverse market conditions. Our borrowing costs may increase at a faster pace than the yield on our investments. Our borrowing costs are particularly sensitive to changes in short-term interest rates, as well as overall funding availability and market liquidity, whereas the yield on our fixed rate assets is largely influenced by longer-term rates and conditions in the mortgage market. Consequently, our borrowing costs may rise at a faster pace or decline at a slower pace than the yield on our assets, negatively impacting our net interest margin. It may be uneconomical to roll our TBA dollar roll transactions and we may be required to take physical delivery of the underlying securities and fund our obligations with cash or other financing sources. We utilize TBA dollar roll transactions as an alternate means of investing in and financing Agency RMBS, which represent a form of off-balance sheet financing and increase our "at risk" leverage. It may become uneconomical for us to roll forward our TBA positions prior to their settlement dates due to market conditions, which can be impacted by a variety of factors including the Fed's purchases and sales of Agency RMBS in the TBA market. TBA dollar roll transactions include a deferred purchase price obligation on our part. An inability or unwillingness to continue to roll forward our position has effects similar to a termination of financing. In that circumstance, we would be required to settle the obligations for cash and would then take physical delivery of the underlying Agency RMBS. We may not have sufficient funds or alternative financing sources available to settle such obligations. Additionally, if we take delivery of the underlying securities, we can expect to receive the "cheapest to deliver" securities with the least favorable prepayment attributes that satisfy the terms of the TBA contract. Further, the specific securities that we receive may include few, if any, "whole pool" securities, which could inhibit our ability to remain exempt from and regulation as an investment company under the Investment Company Act (see "Loss of our exemption from regulation pursuant to the Investment Company Act would adversely affect us" below). TBA contracts also subject us to margin requirements as described further below. Our inability to roll forward our TBA positions or failure to obtain adequate financing to settle our obligations or to meet margin calls under our TBA contracts could force us to sell assets under adverse market conditions causing us to incur significant losses. Our funding and derivative agreements subject us to margin calls that could result in defaults and force us to sell assets under adverse market conditions or through foreclosure. Our funding and derivative agreements require that we maintain certain levels of collateral with our counterparties and may result in margin calls initiated against us if, for example, the value of our collateral declines. A margin call means that the counterparty requires us to pledge additional collateral to re-establish the required collateral level to protect them from loss in the event we default on our obligations. The requirement to meet margin calls can create liquidity risks. In the event of a margin call, we must generally provide additional collateral on the same business day. If we fail to meet the margin call, we would be in default, and our counterparty could terminate outstanding transactions, require us to settle our entire obligation under the agreement and enforce their interests against existing collateral. Furthermore, we may also be subject to certain cross-default and acceleration rights, such that if we were to fail to meet a margin call under one agreement that failure could lead to defaults, accelerations, or other adverse events under other agreements, as well. The threat or occurrence of margin calls or the accelerated settlement of our obligations under our agreements could force us to sell our investments under adverse market conditions and result in substantial losses. Our fixed-rate collateral is generally more susceptible to margin calls due to its price sensitivity to changes in interest rates. In addition, some collateral may be less liquid than other instruments, which could cause it to be more susceptible to margin calls in a volatile market environment. Additionally, faster rates of prepayment increase the magnitude of potential margin calls as there is a time lag between the effective date of the prepayment and when we receive the principal payment. Our derivative agreements also subject us to margin calls. Collateral requirements under our derivative agreements are typically dictated by contract or clearinghouse rules and regulations adopted by the U. S. Commodity Futures Trading Commission ("CFTC") and regulators of other countries. Thus, changes in clearinghouse rules and other regulations can increase our margin requirements and the cost of our hedges. Our counterparties typically have the sole discretion to determine eligible collateral, the value of our collateral and, in the case of our derivative counterparties, the value of our derivative instruments. Additionally, for cleared swaps and futures, the futures commission merchant, or FCM, that we transact through typically has the right to require more collateral than the clearinghouse requires.

Changes to FICC margin requirements could limit our ability to enter tri-party repo transactions with the FICC's GCF Repo service and TBA transactions with the FICC's MBSD. We finance a significant portion of our investments and execute TBA transactions through our wholly-owned captive broker-dealer subsidiary, BES. As an eligible institution, BES accesses repo funding through the FICC's GCF Repo service and central clearing in the TBA market through the FICC's Mortgage-Backed Securities Division (MBSD). The FICC continually assesses potential changes to rules governing the calculation of margin and minimum margin requirements. The FICC may also levy member specific margin requirements, including requirements related to a member's specific portfolio risk factors as a ratio to that member's net capital, requirements related to "back-testing" failures of collected FICC margin requirements to cover losses from a simulated liquidation of a member's portfolio, and other charges that the FICC has the ability to implement, in some cases without a significant notice period. Increases in FICC margin requirements would have the effect of reducing our unencumbered assets and could potentially limit our ability to utilize tri-party repo funding through the FICC's GCF Repo service and engage in centrally-cleared TBA transactions through the FICC's MBSD. Furthermore, BES' inability to meet FICC margin requirements may result in the FICC declaring an event of default and ceasing to act for BES as a member along with a liquidation of any margin collateral as

well as the portfolio of outstanding transactions for which the FICC serves as BES' central counterparty, potentially in adverse market conditions. If BES were to fail to continually meet FICC margin requirements and default on its obligations to the FICC it could have a material financial impact on our financial position.

Our repurchase agreements and agreements governing certain derivative instruments may contain financial and nonfinancial covenants subjecting us to the risk of default. Our bilateral repurchase agreements and certain derivative agreements require that we comply with certain financial and non-financial covenants. Our more restrictive financial covenants typically limit declines in our stockholders' equity for any given quarter, calendar year, or 12-month period and limit our leverage to a maximum amount. Compliance with these covenants depends on market factors and the strength of our business and operating results. In addition, our agreements typically require, among other things, that we maintain our status as a publicly listed REIT and to be exempted from the provisions of the 1940 Act. Various risks, uncertainties and events beyond our control, including significant fluctuations in interest rates, market volatility and changes in market conditions, could affect our ability to comply with these covenants. Unless we were able to negotiate a waiver or forbearance of such covenants, failure to comply with them could result in an event of default and generally would give the counterparty the right to exercise certain other remedies under the agreement, including termination of one or more repo or hedging transactions, acceleration of all amounts owed under an agreement, and the right to sell the collateral held by that counterparty. Any waiver or forbearance, if granted, could carry additional conditions that may be unfavorable to us. Additionally, certain of our agreements contain cross-default, cross-acceleration or similar provisions, such that if we were to violate a covenant under one agreement, that violation could lead to defaults, accelerations, or other adverse events under other agreements, as well. Our rights under repurchase and derivative agreements in the event bankruptcy or insolvency may be limited. In the event of our bankruptcy or insolvency, our repurchase agreements and hedging arrangements may qualify for special treatment under the U. S. Bankruptcy Code, the effect of which, among other things, would be to allow the counterparty under the applicable agreement to avoid the automatic stay provisions of the U. S. Bankruptcy Code and to foreclose on the collateral without delay. In the event of an insolvency or bankruptcy of one of our repurchase agreement or derivative counterparties, the counterparty may be permitted, under applicable insolvency laws, to repudiate the contract, and our claim against the counterparty for damages may be treated simply as an unsecured creditor. In addition, if the counterparty is a broker or dealer subject to the Securities Investor Protection Act of 1970, or an insured depository institution subject to the Federal Deposit Insurance Act, our ability to recover our assets under our agreements or to be compensated for any damages resulting from the counterparty's insolvency may be further limited by those statutes. Recoveries on these claims could be subject to significant delay and, if received, could be substantially less than the damages incurred. Our funding and derivative agreement counterparties may not fulfill their obligations to us as and when due. If a repurchase agreement counterparty defaults on its obligation to resell collateral to us, we could incur a loss on the transaction equal to the difference between the value of our collateral and the amount of our borrowing. Similarly, if a derivative agreement counterparty fails to return collateral to us at the conclusion of the derivative transaction or fails to pledge collateral to us or to make other payments we are entitled to under the terms of our agreement as and when due, we could incur a loss equal to the value of our collateral and other amounts due to us. We attempt to limit our counterparty exposure by diversifying our funding across multiple counterparties and limiting our counterparties to registered central clearing exchanges and major financial institutions with acceptable credit ratings. However, these measures may not sufficiently reduce our risk of loss. Central clearing exchanges typically attempt to reduce the risk of default by requiring initial and daily variation margin from their clearinghouse members and maintain guarantee funds and other resources that are available in the event of default. Nonetheless, we could be exposed to a risk of loss if an exchange or one or more of its clearing members defaults on its obligations. Most of the swaps and futures transactions that we enter into must be cleared by a Derivatives Clearing Organization, or DCO. DCOs are subject to regulatory oversight, use extensive risk management processes, and might receive "too big to fail" support from the government in the case of insolvency. We access the DCO through several FCMs, which may establish their own collateral requirements beyond that of the DCO. Consequently, for any cleared swap or futures transaction, we bear the credit risk of both the DCO and the relevant FCM as to obligations under our swap and futures agreements. The enforceability of our derivative and repurchase agreements may also depend on compliance with applicable statutory, commodity and other regulatory requirements and, depending on the domicile of the counterparty, applicable international requirements. Our hedging strategies may be ineffective. We attempt to limit, or hedge against, the adverse effect of changes in interest rates on the value of our assets and financing costs, subject to complying with REIT tax requirements. Hedging strategies are complex and do not fully protect against adverse changes under all circumstances. Our business model also calls for accepting certain amounts of risk. Consequently, our hedging activities are generally designed to limit interest rate exposure, but not to eliminate it, and they are generally not designed to hedge against spread risk and other risks inherent to our business model. Our hedging strategies may vary in scope based on our portfolio composition, liabilities and our assessment of the level and volatility of interest rates, expected prepayments, credit and other market conditions, and are expected to change over time. We could fail to properly assess a risk or fail to recognize a risk entirely, leaving us exposed to losses without the benefit of any offsetting hedges. Furthermore, the techniques and derivative instruments we select may not have the effect of reducing our risk. Poorly designed hedging strategies or improperly executed transactions could increase our risk of loss. Hedging activities could also result in losses if the hedged event does not occur. Numerous other factors can impact the effectiveness of our hedging strategies, including the following: • the cost of interest rate hedges; • the degree to which the interest rate hedge benchmark rate correlates to the interest rate risk being hedged; • the degree to which the duration of the hedge matches that of the related asset or liability, particularly as interest rates change; • the amount of income that a REIT may earn from hedging transactions that do not satisfy certain requirements of the Internal Revenue Code or that are not done through a TRS; and • the degree to which the value of our interest rate hedges changes relative to our assets as a result of fluctuations in interest rates, passage of time, or other factors. Additionally, regulations adopted by the CFTC and regulators of other countries could adversely affect our ability to engage in derivative transactions or

impose increased margin requirements and require additional operational and compliance costs. Consequently, our hedging strategies may fail to protect us from loss and could even result in greater losses than if we had not entered in the hedge transaction. The discontinuation of LIBOR could negatively impact the dividends we pay on our fixed-to-floating rate cumulative redeemable preferred stock and the value of our LIBOR-based financial instruments. The stated dividend rate of each series of our outstanding fixed-to-floating rate cumulative redeemable preferred stock is indexed to three-month USD LIBOR following the applicable fixed-rate period (“LIBOR Based Preferred Stock”). In addition, we also have certain investments that reference USD LIBOR (“LIBOR Based Investments”). The United Kingdom Financial Conduct Authority, or FCA, which regulates LIBOR, has announced that the USD LIBOR tenors relevant to us will cease to be published or will no longer be representative after June 30, 2023. The FCA’s announcement coincided with the announcement of LIBOR’s administrator, the ICE Benchmark Administration Limited, that it will cease publication of such LIBOR tenors immediately after the last publication on June 30, 2023 as a result of not having sufficient data necessary to calculate LIBOR on a representative basis after such date. These announcements mean that our LIBOR-based floating rate instruments outstanding beyond June 30, 2023 will need to be converted to alternative interest rates. Our LIBOR-Based Preferred Stock and our LIBOR-Based Investments typically contain various mechanisms to address circumstances where LIBOR becomes unavailable (so-called fallback language), but certain of these instruments do not contain fallback language specific to the permanent discontinuation of LIBOR. Holders of depositary shares of our LIBOR-Based Preferred Stock should refer to the relevant prospectus for each series to understand the LIBOR-cessation provisions applicable to it. In 2022, Congress enacted the Adjustable Interest Rate (LIBOR) Act (the “LIBOR Act”) to provide a uniform, nationwide solution for replacing references to LIBOR in LIBOR-based floating rate instruments. The LIBOR Act and Federal Reserve rules promulgated pursuant to it create default rules that apply to fallback provisions of these instruments, and pursuant to the LIBOR Act, the Federal Reserve has adopted replacement benchmark rates for LIBOR contracts of various periods based on the Secured Overnight Financing Rate (“SOFR”) plus specified tenor spread adjustments (the “LIBOR Act Replacement Benchmark”). These default rules will vary among LIBOR-based instruments depending on the type of fallback language in them. Generally, instruments with no fallback language or regulatorily insufficient fallback language must apply the LIBOR Act Replacement Benchmark after June 30, 2023 in lieu of any fallback process set forth in these instruments. Instruments that expressly identify a non-LIBOR-based replacement benchmark will apply that replacement benchmark after June 30, 2023. Instruments that appoint an administrator to determine a benchmark replacement upon the cessation of LIBOR (other than by reference to LIBOR values (except as necessary to set a spread adjustment) or by conducting a poll or soliciting quotes for interbank lending rates) will apply a replacement benchmark selected by this administrator in accordance with the instrument for periods after June 30, 2023. However, for instruments with a replacement benchmark set by an administrator, the LIBOR Act encourages selection of the LIBOR Act Replacement Benchmark by providing liability protections and other benefits. There are significant differences between LIBOR and SOFR. LIBOR reflects the average rates at which major banks indicate they are willing to lend to one another on an unsecured basis for various terms. Conversely, SOFR is a broad-based measure of the cost of borrowing cash overnight, on a secured basis, in the U. S. Treasury-backed repurchase market. Switching existing financial instruments from LIBOR to SOFR requires calculations of a fixed spread to account for such differences, and this spread (including the spread included in the LIBOR Act Replacement Benchmark) may not favor all parties equally. Each series of our LIBOR-Based Preferred Stock that is currently outstanding becomes callable at the same time it begins to pay a LIBOR-based (or replacement benchmark) rate. At the later of the end of the fixed-rate term or the cessation of LIBOR, we may set the stated dividend rate in the manner as provided under the LIBOR Act and related regulations. Alternatively, at our option, we may call the shares of preferred stock. Application of these LIBOR fallback provisions (as affected by the LIBOR Act and related regulations) or calling series of preferred stock may result in our incurring a higher cost of capital or potentially selling assets.

Risks Related to Our Business Operations Our executive officers and other key personnel are critical to our success and the loss of any executive officer or key employee may materially adversely affect our business. We operate in a highly specialized industry and our success is dependent upon the efforts, experience, diligence, skill and network of business contacts of our executive officers and key personnel. The departure of any of our executive officers and / or key personnel could have a material adverse effect on our operations and performance. We are highly dependent on information systems and third-party service providers to conduct our operations, and system failures, cybersecurity incidents or failure of our providers to fulfill their obligations to us could significantly disrupt our ability to operate our business. Our business heavily is highly dependent depends on information and communication and information systems. We are dependent on, including services provided by third parties to maintain many of our systems and to support our increasing reliance on cloud-based platforms services and other services essential to operating our business. A system failure in these systems, or of a failure by a third-party provider, to fulfill their obligations to us could significantly delay disrupt or our prevent us operations. These systems may be subject to damage or interruption from conducting critical operating activities, among other things, natural disasters, public health issues such as pandemics or epidemics, terrorist attack, rogue employees, power loss, telecommunications failures, internet disruptions, and other interruptions beyond our control. Furthermore Additionally, our reliance on information these systems, including remote access to such systems, exposes us to risks of a disruption or damage from cybersecurity risks incident occurring, such as computer malware, virus, hacking, denial of service, ransomware, physical or electronic break-ins, insider threats, and phishing attacks, all of which have become more are increasingly sophisticated and prevalent in. Our systems may be misconfigured our or industry. In addition configured in a way that exacerbates our exposure to disrupting these risks. Despite having no significant breaches detected so far, we regularly are targeted by threat actors, and completely preventing our or operations detecting such incidents promptly is increasingly challenging. The complex nature of cybersecurity threats means a breach could go undetected for a long time, if ever, and responding to such incidents may not always be immediate or sufficient. Moreover, we depend on third-party vendors to implement security

programs commensurate with their own risk. They may not be successful at defending against or detecting cybersecurity threats and they may not be obligated to inform us of such incidents. The consequences of a cyber-attack or may include operational disruption, unauthorized access to sensitive data, regulatory fines, reputational damage, liability to third parties, and financial losses. The impact of cybersecurity incidents is difficult to predict, and the evolving legal and regulatory environment around data privacy and security breach could lead to unauthorized access increased costs and stricter compliance requirements. During an investigation of a cybersecurity incident, or a series of events, it is possible we may not necessarily know the extent of the harm or how to confidentially remediate it, which could further adversely impact us, and new regulations may also compel us to disclose information about and the release, misuse, loss or destruction of such information, subjecting us to regulatory fines, remediation costs, reputational harm, financial loss, litigation and increased difficulty doing business with third-parties that may rely on us to meet their own data protection requirements. Although we have not detected a material cybersecurity breach to date incident before it has been mitigated or resolved, or even fully investigated. Furthermore, whether a single or series of cyber events is material is often a matter of judgment rather than quantitative measures and might only be determinable well after other-- the fact. Despite our efforts to enhance our cybersecurity defenses, we cannot assure complete protection against all cybersecurity threats. A cybersecurity incident, if one were to occur, could adversely affect our business, results of operations, or financial condition

services institutions have reported material breaches of their systems, some of which have been significant. Even with all reasonable security efforts, not every breach can be prevented or even detected. It is possible that we or our third-party providers have experienced an undetected breach or may in the future. It is difficult to determine what, if any, negative impact may directly result from any specific cyber-attack, security breach or other business interruption. We may also face increased costs as we and our providers continue to evolve cyber defenses to contend with changing risks. Additionally, the legal and regulatory environment surrounding information privacy and security in the U. S. and international jurisdictions is constantly evolving potentially leading to increased regulatory requirements. The cost associated with these risks are difficult to predict and quantify but could have a significant adverse effect on our operating results.

Risks Related to Our Taxation as a REIT Our failure to qualify as a REIT would have adverse tax consequences. We believe that we operate in a manner that allows us to qualify as a REIT for U. S. federal income tax purposes under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, and Treasury Regulations promulgated thereunder. We plan to continue to meet the requirements for taxation as a REIT. The determination that we are a REIT requires an analysis of various factual matters and circumstances that may not be totally within our control, and our compliance with the annual REIT income and quarterly asset requirements depends upon our ability to successfully manage the composition of our income and assets on an ongoing basis. For example, to qualify as a REIT, at least 75 % of our gross income must come from real estate sources and 95 % of our gross income must come from real estate sources and certain other sources that are itemized in the REIT tax laws. Additionally, our ability to satisfy the REIT asset tests depends upon our analysis of the characterization and fair market values of our assets, some of which are not susceptible to a precise determination, and for which we will not obtain independent appraisals. Furthermore, the proper classification of an instrument as debt or equity for federal income tax purposes may be uncertain in some circumstances, which could affect the application of the REIT asset requirements. We are also required to distribute to stockholders at least 90 % of our REIT taxable income (determined without regard to the deduction for dividends paid and by excluding any net capital gain). If we fail to qualify as a REIT in any tax year, we would be subject to U. S. federal and state corporate income tax on our taxable income at regular corporate rates, and dividends paid to our stockholders would not be deductible by us in computing our taxable income. Also, unless the IRS granted us relief under certain statutory provisions, we would remain disqualified as a REIT for four years following the year we first fail to qualify. If we fail to qualify as a REIT, we may have to pay significant income taxes and would, therefore, have less money available for investments or for distributions to our stockholders. This would likely have a significant adverse effect on the value of our equity. In addition, the tax law would no longer require us to make distributions to our stockholders. If we fail to satisfy one or more requirements for REIT qualification, we may still qualify as a REIT if there is reasonable cause for the failure, it is not due to willful neglect, and we satisfy other requirements, including completion of applicable IRS filings. It is not possible to state whether we would be entitled to the benefit of these relief provisions. If these relief provisions were inapplicable, we would not qualify as a REIT. Furthermore, even if we satisfy the relief provisions and maintain our qualification as a REIT, we may be still subject to a penalty tax. The penalty tax for failure to satisfy an asset test would be the greater of \$ 50, 000 per failure or an amount equal to the net income generated by the assets that resulted in the failure multiplied by the highest U. S. federal corporate tax rate in effect at the time of the failure. The penalty tax for failure to satisfy one or both gross income tests would be an amount equal to 100 % of the net profit on the gross income that resulted in the failure calculated in accordance with the Internal Revenue Code. REIT distribution requirements could adversely affect our ability to execute our business plan. We generally must distribute annually at least 90 % of our taxable income, subject to certain adjustments and excluding any net capital gain, for U. S. federal and state corporate income tax not to apply to earnings that we distribute and to retain our REIT status. Distributions of our taxable income must generally occur in the taxable year to which they relate, or in the following taxable year if declared before we timely file our tax return for the year and if paid with or before the first regular dividend payment after such declaration. We may also elect to retain, rather than distribute, our net long- term capital gains and pay tax on such gains if required, in which case, we could elect for our stockholders to include their proportionate share of such undistributed long- term capital gains in income, and to receive a corresponding credit for their share of the tax that we paid. Our stockholders would then increase the adjusted basis of their stock by the difference between (a) the amounts of capital gain dividends that we designated and that they include in their taxable income, minus (b) the tax that we paid on their behalf with respect to that income. We intend to make distributions to our stockholders to comply with the REIT qualification requirements of the Internal Revenue Code, which limits our ability to retain earnings and thereby replenish or increase capital from operations. To the extent that we satisfy this distribution requirement, but distribute less than 100 % of our

taxable income, we will be subject to U. S. federal and state corporate income tax on our undistributed taxable income. Furthermore, if we should fail to distribute during each calendar year at least the sum of (a) 85 % of our REIT ordinary income for such year, (b) 95 % of our REIT capital gain net income for such year, and (c) any undistributed taxable income from prior periods, we would be subject to a non- deductible 4 % excise tax on the excess of such required distribution over the sum of (x) the amounts actually distributed, (y) the amounts of income we retained and on which we have paid corporate income tax and (z) any excess distributions from prior periods. Our taxable income will typically differ from income prepared in accordance with GAAP due to temporary and permanent differences. For example, realized gains and losses on our hedging instruments, such as interest rate swaps, may be deferred for income tax purposes and amortized into taxable income over the remaining contract term of the instrument even if we have exited the instrument and settled such gains or losses for cash. We are also not allowed to reduce our taxable income for net capital losses incurred; instead, the capital losses may be carried forward for a period of up to five years and applied against future capital gains subject to our ability to generate sufficient capital gains, which cannot be assured. Therefore, it is possible that our taxable income could be in excess of the net cash generated from our operations. If we do not have funds available in these situations to meet our REIT distribution requirements or to avoid corporate and excise taxes altogether, we could be required to borrow funds on unfavorable terms, sell investments at disadvantageous prices or distribute amounts that would otherwise be invested in future acquisitions. We may choose to pay dividends in our own stock, in which case stockholders may be required to pay income taxes in excess of cash dividends received. We may in the future distribute taxable dividends that are payable at least in part in shares of our common stock. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income to the extent of our current and accumulated earnings and profits for U. S. federal income tax purposes. As a result, stockholders may be required to pay income taxes with respect to such dividends that are in excess of the cash dividends received. If a U. S. stockholder sells the stock that it receives as a dividend to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to certain non- U. S. stockholders, we may be required to withhold U. S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow. Even if we remain qualified for taxation as a REIT, we may nonetheless be subject to certain federal, state and local taxes on our income and assets, including the following items. Any of these or other taxes we may incur would decrease cash available for distribution to our stockholders. • Regular U. S. federal and state corporate income taxes on any undistributed taxable income, including undistributed net capital gains. • A non- deductible 4 % excise tax if the actual amount distributed to our stockholders in a calendar year is less than a minimum amount specified under Federal tax laws. • Corporate income taxes on the earnings of subsidiaries, to the extent that such subsidiaries are subchapter C corporations and are not qualified REIT subsidiaries or other disregarded entities for federal income tax purposes. • A 100 % tax on certain transactions between us and our TRSs that do not reflect arm' s- length terms. • If we acquire appreciated assets from a corporation that is not a REIT (i. e., a corporation taxable under subchapter C of the Internal Revenue Code) in a transaction in which the adjusted tax basis of the assets in our hands is determined by reference to the adjusted tax basis of the assets in the hands of the subchapter C corporation, we may be subject to tax on such appreciation at the highest corporate income tax rate then applicable if we subsequently recognize a gain on a disposition of any such assets during the five- year period following their acquisition from the subchapter C corporation. • A 100 % tax on net income and gains from " prohibited transactions." • Penalty taxes and other fines for failure to satisfy one or more requirements for REIT qualification. Complying with REIT requirements may cause us to liquidate or forgo attractive investment opportunities. To remain qualified as a REIT, we must ensure that, at the end of each calendar quarter, at least 75 % of the value of our assets consists of cash, cash items, government securities and qualified real estate assets. The remainder of our investments in securities (other than government securities and qualified real estate assets) generally cannot include more than 10 % of the outstanding voting securities of any one issuer or more than 10 % of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5 % of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, and no more than 20 % of the value of our total assets can be represented by securities of one or more TRSs. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. We must also satisfy tests concerning the sources of our income and the amounts that we distribute to our stockholders. Complying with these requirements may prevent us from acquiring certain attractive investments or we may be required to sell otherwise attractive investments. Thus, the potential returns on our investment portfolio may be lower than if we were not subject to such requirements. Additionally, if we must liquidate our investments to repay our lenders or to satisfy other obligations, we may be unable to comply with these requirements, potentially jeopardizing our qualification as a REIT. Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities. The REIT provisions of the Internal Revenue Code could substantially limit our ability to hedge our risks. Any income from a properly designated hedging transaction to manage risk of interest rate changes with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, to acquire or carry real estate assets generally does not constitute " gross income" for purposes of the 75 % or 95 % gross income tests (" qualified hedges"). To the extent that we enter into other types of hedging transactions, or fail to properly designate qualified hedges, the income from those transactions is likely to be treated as non- qualifying income for purposes of both gross income tests. As such, we may have to limit our use of advantageous hedging techniques or implement those hedges through a TRS. This could increase the cost of our hedging activities as our TRS would be subject to tax on gains or expose us to greater risks than we would otherwise want to bear. In addition, losses in a TRS will generally not provide any tax benefit, except for being carried forward against future taxable income in the TRS. Uncertainty exists with respect to the treatment of our TBAs for purposes of the REIT asset and income tests. There is no direct

authority with respect to the qualification of TBAs as real estate assets or U. S. Government securities for purposes of the 75 % asset test or the qualification of income or gains from dispositions of TBAs as gains from the sale of real property or other qualifying income for purposes of the 75 % gross income test. However, we treat our TBAs as qualifying assets for purposes of the REIT 75 % asset test, and we treat income and gains from our TBAs as qualifying income for purposes of the 75 % gross income test, based on a legal opinion of Skadden, Arps, Slate, Meagher & Flom LLP (“ Skadden ”) substantially to the effect that (i) for purposes of the REIT asset tests, our ownership of a TBA should be treated as ownership of the underlying Agency RMBS, and (ii) for purposes of the 75 % REIT gross income test, any gain recognized by us in connection with the settlement of our TBAs should be treated as gain from the sale or disposition of the underlying Agency RMBS. Opinions of counsel are not binding on the IRS, and no assurance can be given that the IRS will not successfully challenge the conclusions set forth in such opinions. In addition, it must be emphasized that Skadden’ s opinion is based on various assumptions relating to our TBAs and is conditioned upon fact- based representations and covenants made by our management regarding our TBAs. No assurance can be given that the IRS would not assert that such assets or income are not qualifying assets or income. If the IRS were to successfully challenge Skadden’ s opinion, we could be subject to a penalty tax or we could fail to remain qualified as a REIT if a sufficient portion of our assets consists of TBAs or a sufficient portion of our income consists of income or gains from the disposition of TBAs. Qualifying as a REIT involves highly technical and complex provisions of the Internal Revenue Code. Qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions on a continuous basis for which only limited judicial and administrative authorities exist. Our application of such provisions may be dependent on interpretations of the provisions by the staff of the Internal Revenue Service, which may change over time. Even a technical or inadvertent violation of the Internal Revenue Code provisions could jeopardize our REIT qualification. The tax on prohibited transactions could limit our ability to engage in certain transactions. Net income that we derive from a " prohibited transaction" is subject to a 100 % tax. The term " prohibited transaction" generally includes a sale or other disposition of property that is held primarily for sale to customers in the ordinary course of a trade or business by us or by a borrower that has issued a shared appreciation mortgage or similar debt instrument to us. We could be subject to this tax if we were to dispose of assets or structure transactions in a manner that is treated as a prohibited transaction for federal income tax purposes. We intend to structure our activities to avoid classification as prohibited transactions. As a result, we may choose not to engage in certain transactions at the REIT level that might otherwise be beneficial to us. In addition, whether property is held " primarily for sale to customers in the ordinary course of a trade or business" depends on the particular facts and circumstances. Thus, no assurance can be given that any property that we sell will not be treated as such or that we can comply with certain safe- harbor provisions of the Internal Revenue Code that would prevent such treatment. The 100 % tax does not apply to gains from the sale of property that is held through a TRS or other taxable corporation, although such income will be subject to tax at the entity’ s regular corporate rates. Distributions to tax- exempt investors may be classified as unrelated business taxable income. Although distributions with respect to our common stock generally do not constitute unrelated business taxable income, there are some circumstances where they may. If (i) we generate " excess inclusion income" as a result of all or a portion of our assets being subject to rules relating to " taxable mortgage pools" or as a result of holding residual interests in a REMIC or (ii) we become a " pension held REIT," then a portion of the distributions to tax exempt investors may be subject to U. S. federal income tax as unrelated business taxable income under the Internal Revenue Code. Legislative and Regulatory Risks Loss of our exemption from regulation pursuant to the Investment Company Act would adversely affect us. We conduct our business so as not to become regulated as an investment company under the Investment Company Act in reliance on the exemption provided by Section 3 (c) (5) (C) of the Investment Company Act. Section 3 (c) (5) (C), as interpreted by the staff of the SEC, requires that: (i) at least 55 % of our investment portfolio consists of " mortgages and other liens on and interest in real estate," or " qualifying real estate interests," and (ii) at least 80 % of our investment portfolio consists of qualifying real estate interests plus " real estate- related assets." The specific real estate related assets that we acquire are limited by the provisions of the Investment Company Act and the rules and regulations promulgated thereunder. In satisfying the 55 % requirement, we treat Agency RMBS issued with respect to an underlying pool of mortgage loans in which we directly or indirectly hold all the certificates issued by the pool (" whole pool" securities) as qualifying real estate interests based on pronouncements of the SEC staff. We treat partial pool securities, CRT and other mortgage related securities as real estate- related assets. Consequently, our ability to satisfy the exemption under the Investment Company Act is dependent upon our ability to acquire and hold on a continuous basis a sufficient amount of whole pool securities. The availability of whole pool securities may be adversely impacted by a variety of factors, including GSE pooling practices, which can change over time, housing finance reform initiatives and competition for whole pool securities with other mortgage REITs. Additionally, if the SEC determines that any of our securities are not qualifying interests in real estate or real estate- related assets, otherwise believes we do not satisfy the above exceptions or changes its interpretation with respect to these securities or the above exceptions, we could be required to restructure our activities or sell certain of our assets. As such, we cannot guarantee that we will be able to acquire or hold enough whole pool securities to maintain our exemption under the Investment Company Act, and our compliance with these requirements may at times lead us to adopt less efficient methods of investing in certain securities or to forego acquiring more desirable securities. Importantly, if we fail to qualify for this exemption, our ability to use leverage would be substantially reduced and we would be unable to conduct our business as we currently conduct it, which could materially and adversely affect our business. Failure to satisfy regulatory requirements of our captive broker- dealer subsidiary could result in our inability to access tri- party repo funding through the FICC’ s GCF Repo service and could be harmful to our business operations. BES is subject to ongoing membership and regulatory requirements as a member of the FICC and FINRA and as a **an SEC** registered broker- dealer that include but are not limited to trade practices, use and safekeeping of funds and securities, capital structure, recordkeeping and conduct of directors, officers and employees. Additionally, as a self- clearing, registered broker- dealer, BES is subject to minimum net capital requirements. Our ability to access tri- party repo funding through the FICC’ s GCF Repo service, which

represents a significant portion of our total borrowing capacity, and our ability to conduct self-clearing of our investment and funding activity through BES are reliant on BES' ability to continually meet these regulatory and membership requirements. If BES were to lose its memberships in FICC and FINRA or its status as a self-clearing registered broker-dealer, we may be unable to find alternative sources of financing on favorable terms and we may experience business interruptions as we attempt to transfer custody and clearing activities to alternative providers that would be harmful to our business. New legislation or administrative or judicial action could make it more difficult or impossible for us to remain qualified as a REIT or it could otherwise adversely affect REITs and their stockholders. The present U. S. federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time, which could affect our ability to maintain our REIT status and / or the federal income tax treatment of an investment in us. The federal income tax rules dealing with REITs constantly are under review by persons involved in the legislative process, the IRS and the U. S. Treasury Department, which results in statutory changes as well as frequent revisions to regulations and interpretations. Revisions in Federal tax laws and interpretations thereof could affect or cause us to change our investments and affect the tax considerations of an investment in us. Actions of the U. S. Government, including the U. S. Congress, Fed, U. S. Treasury, Federal Housing Finance Administration ("FHFA") and other governmental and regulatory bodies may adversely affect our business. U. S. Government legislative and administrative actions may have an adverse impact on the financial markets. To the extent the markets do not respond favorably to any such actions or such actions do not function as intended, they could have broad adverse market implications and could negatively impact our financial condition and results of operations. For example, the actual or anticipated actions or inaction on U. S. fiscal policy matters, including the U. S. debt ceiling **and the amount and tenor of U. S. Treasury debt required to fund the government**, could result in a wide range of negative economic effects, including increased financial market and interest rate volatility and wider market spreads between mortgage assets and benchmark interest rates. Additionally, new regulatory requirements, including the imposition of more stringent **bank capital rules and changes to the manner and timing of clearing U. S. Treasury and Agency RMBS transactions**, could adversely affect the availability or terms of financing from our lending counterparties, reduce market liquidity, restrict the origination of residential mortgage loans and the formation of new issuances of mortgage-backed securities and limit the trading activities of certain banking entities and other systemically significant organizations that are important to our business. **For example, the Fed and Federal Deposit Insurance Commission have proposed amendments to the capital rules for banks subject to their supervision that would apply risk weights (and costs) to Agency RMBS that may, if adopted as proposed, impact the source, pricing, volume, financing, and nature of Agency RMBS, and the SEC Division of Trading and Markets has adopted regulations requiring the central clearing of U. S. Treasury and U. S. Treasury repo transactions that will require significant changes to trading operations and has the potential to adversely impact liquidity, funding and efficiency of these markets, which could adversely impact the cost and other terms or availability of financing and hedging arrangements for our business.** Together or individually new regulatory requirements could materially affect our financial condition or results of operations in **an adverse way ways**. Federal housing finance reform and potential changes to the Federal conservatorship of Fannie Mae and Freddie Mac or to laws or regulations affecting the relationship between the GSEs and the U. S. Government may adversely affect our business. The payments of principal and interest we receive on our Agency RMBS are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. The guarantees on Agency securities created by Ginnie Mae are explicitly backed by the full faith and credit of the U. S. Government, whereas the guarantees on Agency securities created by Fannie Mae and Freddie Mac are not. In September 2008, Fannie Mae and Freddie Mac were placed into the conservatorship of the FHFA, their federal regulator. In addition to the conservatorships, the U. S. Department of the Treasury has provided a liquidity backstop to Fannie Mae and Freddie Mac to ensure their financial stability. Over time, efforts to end the conservatorships and the guarantee-payment structure of Fannie Mae and Freddie Mac have garnered attention from the U. S. Government. During the final year of the Trump Administration, FHFA established new regulatory capital requirements necessary for Fannie Mae and Freddie Mac to exit conservatorship, and the U. S. Treasury Department amended the terms of its liquidity backstop to enable Fannie Mae and Freddie Mac to retain a greater amount of capital in order to achieve these levels, subject to certain conditions. Since taking office, the Biden Administration and the FHFA have delayed implementation or reversed some of these initiatives and have taken steps intended to advance other housing finance policy objectives. **Although** ~~However,~~ ~~the FHFA has taken steps~~ **adopted amendments to GSE implement portions of the regulatory capital requirements, it has also taken steps to implement them**, including by permitting the GSEs to charge fees that seek to offset related capital charges on certain Agency RMBS. These or future administrative actions may significantly impact the source, pricing, volume and nature of Agency RMBS and other mortgage securities that Fannie Mae and Freddie Mac issue. Further administrative and / or legislative actions may be taken that affect structural GSE and federal housing finance reform, alter the amount or nature of the credit support provided by the U. S. Treasury to Fannie Mae and Freddie Mac, modify the future roles of Fannie Mae and Freddie Mac in housing finance or otherwise impact the value or relative fungibility of Agency RMBS issued by each GSE. Such actions may create market uncertainty, may have the effect of reducing the actual or perceived credit quality of securities issued or guaranteed by them or may otherwise impact the size and scope of the Agency RMBS markets. To the extent such actions would terminate the conservatorships without also providing for a sufficiently robust U. S. government guaranty, they could re-define what constitutes an Agency security and subject Agency RMBS to **greater Fannie Mae or Freddie Mac** credit risk, make them more difficult to finance, and cause their values to decline, all of which could have broad adverse implications for the mortgage markets and our business. Risks Related to Our Common Stock The market price and trading volume of our common stock may be volatile. The market price and trading volume of our common stock may be highly volatile and subject to wide fluctuations. If the market price of our common stock declines significantly, stockholders may be unable to resell shares at a gain. Furthermore, fluctuations in the trading price of our common stock may adversely affect the liquidity of our common stock and our ability to raise additional equity capital. Price fluctuations may result in our stock trading below our reported net

tangible book value per share for extended periods of time. Variations in the price of our common stock can be affected by any one of the risk factors described herein. Variations may also occur due to a variety of factors unrelated to our financial performance, such as:

- general market and economic conditions, including actual and anticipated changes in interest rates and mortgage spreads;
- changes in government policy, rules and regulations applicable to mortgage REITs, including tax laws, financial accounting and reporting standards, and exemptions from the Investment Company Act of 1940, as amended;
- actual or anticipated variations in our quarterly operating results as well as relative to levels expected by securities analysts;
- issuance of shares of common stock or securities convertible into common stock, which may be issued at a price below tangible net book value per share of common stock;
- changes in market valuations of similar companies;
- adverse market reaction to any increased indebtedness we incur in the future or issuance of preferred stock senior in priority to our common stock;
- actions by stockholders, individually or collectively;
- additions or departures of key management personnel;
- speculation in the press or investment community;
- actual or anticipated changes in our dividend policy; and
- changes to our targeted investments or investment guidelines.

We have not established a minimum dividend payment level and may be unable to pay dividends in the future. We intend to pay monthly dividends to our common stockholders in an amount that all or substantially all our taxable income is distributed within the limits prescribed by the Internal Revenue Code. However, we have not established a minimum dividend payment level and the amount of our dividend may fluctuate. Our ability to pay dividends may be adversely affected by the risk factors described herein. All distributions will be made at the discretion of our Board of Directors and will depend on our earnings and financial condition, the requirements for REIT qualification and such other factors as our Board of Directors deems relevant from time to time. Additionally, our preferred stock has a preference on dividend payments and liquidating distributions that could limit our ability to pay dividends to the holders of our common stock. Therefore, we may not be able to make distributions in the future or our Board of Directors may change our dividend policy. Our certificate of incorporation generally does not permit ownership of more than 9.8% of our common or capital stock and attempts to acquire amounts above this limit will be ineffective unless an exemption is granted by our Board of Directors. For the purpose of complying with REIT ownership limitations under the Internal Revenue Code, our amended and restated certificate of incorporation generally prohibits beneficial or constructive ownership by any person of more than 9.8% of our common or capital stock (by value or by number of shares, whichever is more restrictive), unless exempted by our Board of Directors. Such constructive ownership rules are complex and may cause the outstanding stock owned by a group of related individuals or entities to be deemed to be constructively owned by one individual or entity. As a result, the acquisition of 9.8% or less of the outstanding stock by an individual, entity or group could result in constructive ownership greater than 9.8% and thus be subject to our amended and restated certificate of incorporation's ownership limit. Any attempt to own or transfer shares of our common or preferred stock more than the ownership limit without the consent of the Board of Directors will result in the shares being automatically transferred to a charitable trust or, if the transfer to a charitable trust would not be effective, such transfer being treated as invalid from the outset. Such ownership limit could also delay or prevent a transaction or a change in our control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.