Risk Factors Comparison 2024-03-15 to 2023-03-20 Form: 10-K

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

An investment in our common stock involves significant risks. Before making a decision to invest in our common stock, you should carefully consider the following risks in addition to the other information contained in this Annual Report on Form 10-K. The risks discussed in this Annual Report on Form 10- K can materially adversely affect our business, financial condition, liquidity, results of operations and prospects and our ability to make distributions to our stockholders (which we refer to collectively as " materially and adversely affecting us " or having " a material adverse effect on us, " and comparable phrases). This could cause the market price of our common stock to decline significantly, and you could lose all or part of your investment in our common stock. Some statements in this Annual Report on Form 10- K, including statements in the following risk factors, constitute forward- looking statements. Please refer to the section entitled " Special Note Regarding Forward-Looking Statements. " Summary Risk Factors We are subject to a number of risks that, if realized, could materially and adversely affect our business, financial condition, liquidity, results of operations and prospects and our ability to make distributions to our stockholders. Some of our more significant challenges and risks include, but are not limited to, the following, which are described in greater detail below: • We are dependent on our Manager and certain key personnel of Angel Oak who are or may be provided to us through our Manager **,** and may not find a suitable replacement if our Manager terminates the Management Agreement or such key personnel are no longer available to us. • There are conflicts of interest in our relationship with Angel Oak, including our Manager, and we may compete with existing and future managed entities of Angel Oak, which may present various conflicts of interest that restrict our ability to pursue certain investment opportunities or take other actions that are beneficial to our business and result in decisions that are not in the best interests of our stockholders. • We rely on Angel Oak Mortgage Lending to source non - QM loans and other target assets for acquisition by us and it is under no contractual obligation to sell to us any loans that it originates. • Our Manager' s fee structure may not create proper incentives or may induce our Manager and its affiliates to make certain loans or other investments, including speculative investments, which increase the risk of our portfolio. • The Management Agreement with our Manager was not negotiated on an arm' s - length basis and may not be as favorable to us as if it had been negotiated with an unaffiliated third party and may be costly and difficult to terminate. Our Manager' s liability is limited under the Management Agreement, and we have agreed to indemnify our Manager against certain liabilities. • Our operating results are dependent upon our Manager' s ability to source a large volume of desirable non - QM loans and other target assets for our investment on attractive terms. • Difficult conditions in the residential mortgage and residential real estate markets as well as general market concerns **, including macroeconomic events,** may adversely affect the value of residential mortgage loans, including non - QM loans, and other target assets in which we invest. • Non- QM loans that are underwritten pursuant to less stringent underwriting guidelines could experience ~~substantially~~ higher rates of delinquencies, defaults and foreclosures than those experienced by loans underwritten to more stringent underwriting guidelines. • Angel Oak Mortgage Lending is subject to extensive licensing requirements and regulation, which could materially and adversely affect us if Angel Oak Mortgage Lending does not comply with these requirements. • Currently, we are focused on acquiring and investing in non - QM loans, which may subject us to legal, **administrative,** regulatory, and other risks, which could materially and adversely affect us. • Prepayment rates may adversely affect the value of our portfolio. • Our investment in lower rated non - Agency RMBS resulting from the securitization of our assets or otherwise ~~,~~ exposes us to the first loss on the mortgage assets held by the securitization vehicle. Additionally, the principal and interest payments on non - Agency RMBS are not guaranteed by any entity, including any government entity or GSE, and therefore are subject to increased risks, including credit risk. • ~~The COVID - 19 pandemic disrupted, and new variants and additional outbreaks may cause additional disruptions in, U. S. and global economic activity and financial markets, including increased market volatility, which could materially and adversely affect us. •~~ Mortgage loan modification programs and future legislative action may adversely affect the value of, and the returns on, our target assets, which could materially and adversely affect us. • We are highly dependent on information systems, and system failures could significantly disrupt our business, which may, in turn, have a material adverse effect on us. • Our industry is highly regulated and we or Angel Oak, including our Manager, may be subject to adverse legislative or regulatory changes. • Maintenance of our exclusion from regulation as an investment company under the Investment Company Act imposes significant limitations on our operations. • **Our** ~~We may incur~~ significant debt ~~, which will subject~~ **subjects** us to increased risk of loss, and our charter and bylaws contain no limitation on the amount of debt we may incur. • Our access to financing sources, which may not be available on favorable terms, or at all, may be limited, and this may materially and adversely affect us. • Market conditions and other factors may affect our ability to securitize assets, which could increase our financing costs and materially and adversely affect us. • We may be unable to profitably execute securitization transactions, which could materially and adversely affect us. • Interest rate fluctuations could increase our financing costs, which could materially and adversely affect us. • Our significant stockholders and their respective affiliates have significant influence over us and their actions might not be in your best interest as a stockholder. • Legislative or other actions affecting REITs could materially and adversely affect us. • Our failure to qualify as a REIT would subject us to U. S. federal income tax and potentially increased state and local taxes, which would reduce the amount of our income available for distribution to our stockholders. • Complying with REIT requirements and avoiding a prohibited transaction tax may force us to hold a significant portion of our assets and conduct a significant portion of our activities through a **taxable REIT subsidiary ("** TRS **")** , and a significant portion of our income may be earned through a TRS. The above list is not exhaustive, and we face additional challenges and risks. Please carefully consider all of the information in this Annual Report on Form 10- K, including the matters set forth below in this **“** Item 1A ~~. In addition to the other information set forth in this Annual Report on Form 10- K~~ , **Risk Factors.** ~~you should carefully consider the following risks, which could materially and adversely affect our business, financial condition, liquidity, results of operations and prospects, and our ability to make distributions to our stockholders (which we refer to collectively as “ materially and adversely affecting us~~ ” ~~or having “ a material adverse effect on us, ” and comparable phrases). The risks described below are not the only risks that we face. Additional risks not presently known to us or that we currently deem immaterial may also have a material adverse effect on us.~~ Risks Related to Our Relationship with Our Manager and its Affiliates ~~We are dependent on our Manager and certain key personnel of Angel Oak who are or may be provided to us through our Manager, and may not find a suitable replacement if our Manager terminates the Management Agreement or such key personnel are no longer available to us.~~ We are externally managed by our Manager, and all of our officers are employees of Angel Oak, including our Manager. We have no separate facilities, and are substantially reliant on our Manager, which has significant discretion as to the implementation of our operating policies and execution of our business strategies and risk management practices. We also depend on our Manager’ s access to the professionals and principals of Angel Oak as well as information and loan flow generated by Angel Oak Mortgage Lending. The employees of Angel Oak assist in identifying, evaluating, negotiating, structuring, closing, and monitoring our portfolio. The departure of any of the members of the senior management team of our Manager, or of a significant number of investment professionals or principals of Angel Oak, could have a material adverse effect on us. We can offer no assurance that our Manager will remain our manager or that we will continue to have access to Angel Oak’ s, including our Manager’ s, senior management. We are subject to the risk that our Manager will terminate the ~~Aanagement~~ **Management** Agreement or that we may deem it necessary to terminate the Management Agreement or prevent certain individuals from performing services for us and that no suitable replacement will be found to manage us. The Angel Oak personnel provided to us by our Manager pursuant to the Management Agreement are not required to dedicate a specific portion of their time to the management of our business. Neither our Manager nor Angel Oak is obligated to dedicate any specific personnel exclusively to us, nor is our Manager or its personnel obligated to dedicate any specific portion of their time to the management of our business. Key personnel provided to us by our Manager may become unavailable to us as a result of their departure from our Manager or for any other reason. As a result, we cannot provide any assurances regarding the amount of time our Manager will dedicate to the management of our business, and Angel Oak, including our Manager, may have conflicts in allocating employees’ time, resources, and services among our business and any other entities they manage, and such conflicts may not be resolved in our favor. Consequently, we may not receive the level of support and assistance that we otherwise might receive if we were internally managed. Our Manager and its affiliates are not restricted from entering into other investment advisory relationships or from engaging in other business activities. We are dependent on our Manager, whose senior management team has limited experience operating a REIT and a public company. ~~Our Manager was formed in February 2018.~~ Although Angel Oak has been active in the mortgage credit market since 2008, our Manager’ s senior management team has limited experience operating a REIT and operating a business in compliance with the numerous technical restrictions and limitations set forth in the Code and the Investment Company Act. Moreover, our Manager’ s senior management team has limited experience operating a public company with listed equity securities, which is required to comply with numerous laws, regulations and requirements, including the requirements of the Securities Exchange Act of 1934 (the “ Exchange Act ”), certain corporate governance provisions of the Sarbanes- Oxley Act, related regulations of the SEC, and requirements of the NYSE. This limited experience may hinder our Manager’ s ability to successfully operate our business. In addition, maintaining our REIT qualification and complying with the applicable Investment Company Act exclusions limit the types of investments we are able to make. We cannot assure you that our Manager’ s senior management team will be successful on our behalf or at all. Our business may be adversely affected if our reputation, the reputation of our Manager or Angel Oak, or the reputation of counterparties with whom we associate is harmed. We may be harmed by reputational issues and adverse publicity relating to us, our Manager, or Angel Oak. Reputational risk issues could include, but are not limited to, real or perceived legal **, administrative** or regulatory violations, or could be the result of a failure in performance, risk- management, governance, technology, or operations, or claims related to employee misconduct, allegations of employee wrongful termination, conflict of interests, ethical issues, ~~or~~ **cybersecurity events, the** failure to protect private information **or environmental, social and governance practices** , among others. Similarly, market rumors and actual or perceived association with counterparties whose own reputations may become under question could harm our business. Such reputational issues may depress the market price of our common stock, have a negative effect on our ability to conduct business with our counterparties, hinder our abilities to attract and / or retain personnel, including key personnel, or otherwise materially adversely affect us. We are subject to conflicts of interest arising out of our relationship with Angel Oak, including our Manager. Currently, all of our officers, including our dedicated Chief Financial Officer and Treasurer and our partially dedicated Chief Executive Officer and President, and one of our directors also serve as employees of Angel Oak including our Manager. As a result, our Manager, our officers and this director may have conflicts between their duties to us and their duties to, and interests in, Angel Oak, including our Manager. For example, Mr. Fierman, the Chairman of our Board of Directors, also serves as a Managing Partner and Co- Chief Executive Officer of Angel Oak Companies, and Sreeniwas Prabhu, our Chief Executive Officer and President, also serves as Managing Partner, Co- Chief Executive Officer, and Group Chief Investment Officer at Angel Oak Capital. Some examples of conflicts of interest that may arise by virtue of our relationship with Angel Oak, including our Manager, include: • Loans Originated by Angel Oak Mortgage Lending. Our strategy is to make credit- sensitive investments primarily in newly- originated first lien non- QM loans that are primarily sourced from Angel Oak’ s proprietary mortgage lending platform, Angel Oak Mortgage Lending. Since our commencement of operations in September 2018 through December 31, ~~2022~~ **2023** , a substantial portion of the target assets in our portfolio had been acquired from Angel Oak Mortgage Lending, and we expect that, in the future, a substantial portion of our portfolio will continue to consist of target assets acquired from Angel Oak Mortgage Lending. As our Manager directs our investment activities, there are conflicts of interest related to the fact that Angel Oak Mortgage Lending consists of affiliates of our Manager, including the following: ◦ Our Manager has an incentive to favor the acquisition of non- QM loans or other target assets from Angel Oak Mortgage Lending over third- party sellers because purchasing non- QM loans or other target assets from Angel Oak Mortgage Lending generates fees for Angel Oak Mortgage Lending (including fees payable by us and origination fees payable by the borrowers of the loans originated by Angel Oak Mortgage Lending), which benefit Angel Oak. In addition, our acquisition of non- QM loans or other target assets from Angel Oak Mortgage Lending allows Angel Oak Mortgage Lending to sell such non- QM loans or other target assets and obtain liquidity to make more loans, even where Angel Oak Mortgage Lending would be unable to sell the non- QM loans or other target assets on favorable terms to unaffiliated third parties in the market due to unfavorable market conditions or other reasons. Our Manager could acquire non- QM loans or other target assets on our behalf from Angel Oak Mortgage Lending even if such non- QM loans or other target assets were unsuitable for us, or we could identify better quality non- QM loans or other target assets, or obtain better pricing, from unaffiliated third parties. Although we utilize third- party pricing vendors to evaluate the fairness of the price for non- QM loans or other target assets we acquire from Angel Oak Mortgage Lending, there can be no assurance that we will purchase such non- QM loans or other target assets from Angel Oak Mortgage Lending at a fair price. ◦ In addition, although our strategy is to make credit- sensitive investments primarily in newly- originated first lien non- QM loans that are primarily sourced from Angel Oak Mortgage Lending, this strategy may need to adapt to changing market conditions or other factors. If investment in non- QM loans falls out of favor or otherwise becomes unattractive because of perceived risks, unfavorable pricing or otherwise, our Manager will have a conflict of interest in determining whether our strategy should continue to focus on the acquisition of non- QM loans, particularly if the origination of such loans continues to be a focus of Angel Oak Mortgage Lending. The continued pursuit of our strategy under these circumstances may result in losses. The significant majority of the loans that Angel Oak Mortgage Lending currently originates are non- QM loans. Similarly, failure to adjust our strategy may cause us to forego other attractive investment opportunities outside investments in non- QM loans. Our Manager has a conflict in determining whether to adjust our strategy and to pursue investments in other types of target assets that may be more attractive even if Angel Oak Mortgage Lending continues to originate non- QM loans. ◦ We have purchased RMBS and CMBS, and expect to continue to purchase RMBS that are collateralized by loans originated by Angel Oak Mortgage Lending, and our portfolio may consist of a significant amount of such securities. Certain affiliates of our Manager may receive certain benefits for their activities related to the creation of the securitization and the issuance and sale of such securities. We will also bear all or a portion of the expense incurred in connection with the securitization vehicle to which we sell the loans we have acquired. Such expenses include, but are not limited to, the costs and expenses related to structuring the securitization vehicle and the transactions related to the sale of the loans by us to the securitization vehicle. • Other Angel Oak Managed Entities. Angel Oak currently advises, and in the future expects to continue to advise, other entities that may have investment objectives and strategies similar, in whole or in part, to ours and may use the same or similar strategies to those we employ. For example, Angel Oak has previously formed private REITs as well as other funds that invest in residential mortgage loans, and may raise additional investment vehicles in the future, including entities formed to make investments that we could be precluded or materially limited from making because of laws or regulations applicable to us. Angel Oak is not restricted in any way from sponsoring or accepting capital from new entities, even for investing in asset classes or strategies that are similar to, or overlapping with, our asset classes or strategies. The existence of such multiple managed entities may create conflicts of interest, including, without limitation, with respect to the allocation of investment opportunities between us and other managed entities. See " — Allocation of Investment Opportunities " below. In addition, we may make an investment that may be pari passu, senior, or junior in ranking to an investment made by another managed entity, and actions taken by such managed entity with respect to such investment may not be in our best interests, and vice versa. Furthermore, such activities may involve substantial time and resources of Angel Oak. • Allocation of Investment Opportunities. Although Angel Oak may manage investments on behalf of a number of managed entities, including us, investment decisions and allocations will not necessarily be made in parallel among us and these other managed entities. Investments made by us may not, and are not intended in all cases to, replicate the investments, or the investment methods and strategies, of other entities managed by Angel Oak. Nevertheless, Angel Oak from time to time may elect to apportion major or minor portions of the investments to be made by us among other entities that they manage, and vice versa. When allocating investment opportunities among us and one or more other managed entities, Angel Oak Capital allocates such opportunities pursuant to its written investment allocation policy. ~~Angel Oak Capital' s written investment allocation policy allocates investment opportunities based on each managed entity' s guidelines, the strategy and available cash of Angel Oak managed entities, market supply and other factors. Target allocations for each managed entity are established by Angel Oak Capital' s portfolio management team prior to the execution of any aggregated trade. In the event an aggregated trade is partially filled, Angel Oak' s managed entities will generally receive a pro rata share of the executed trade based upon the target allocation set by Angel Oak Capital' s portfolio management team. For loans acquired from Angel Oak Mortgage Lending, Angel Oak Capital receives a loan tape from Angel Oak Mortgage Lending on a weekly basis. The loan tape is reviewed to ensure compliance with our and other Angel Oak managed entities' investment guidelines. If any exceptions are found, the loan is further reviewed to ensure there are accompanying compensating factors. Following review of the loan tape, a custodial review is performed to ensure necessary documentation exists or is provided. Concurrently with the custodial review, loans are priced based on the current rate sheet and an allocation among Angel Oak managed entities is determined. Angel Oak' s portfolio management team establishes a monthly target allocation first by loan type and then by loan size. Loans from Angel Oak Mortgage Lending that fit the investment guidelines of Angel Oak' s managed entities, including us, are allocated to such managed entities. Each round of loan purchases is allocated to each participating managed entity based on the target allocation (or as closely as possible given available loan sizes) in order to avoid one managed entity from being fully allocated ahead of any other managed entity. Loans are allocated on an alternating basis to each eligible managed entity. Angel Oak Capital' s compliance team approves each loan allocation and our affiliated transactions committee, which is comprised of three of our independent directors, must approve,~~

~~among other matters, our acquisition of any non- QM loans and any other target assets we acquire from Angel Oak Mortgage Lending or other affiliate of our Manager.~~ Accordingly, not all investments which are consistent with our investment objective and strategies may be presented to us. There is no assurance that any such conflicts arising out of the foregoing will be resolved in our favor. Angel Oak Capital is entitled to amend its investment allocation policy at any time without ~~prior~~ **our consent although it must provide** notice to ~~us or~~ **our** ~~our consent~~ **Affiliated Transactions and Risk Committee** . • Service Providers. Our Manager may engage affiliated service providers ~~, including affiliates~~ , that act as the servicer for the loans in our portfolio. Such relationships may influence our Manager in deciding whether to select such service providers. Our Manager' s affiliates may receive benefits, including compensation, for these activities. Additionally, affiliated service providers will not have the same independence with respect to the performance of their duties to us as an unaffiliated service provider. The use of affiliated service providers may impair our ability to obtain the most favorable terms with respect to such services and transactions, which could materially and adversely affect us. • Management. During turbulent conditions in the mortgage industry, distress in the credit markets, or other times when we will need focused support and assistance from Angel Oak employees, other entities that Angel Oak manages will likewise require greater focus and attention, placing Angel Oak' s resources in high demand. In such situations, we may not receive the necessary support and assistance we require or would otherwise receive if we were internally managed or if Angel Oak did not act as a manager or advisor for other entities. • Securitizations. There can be no assurance that the valuation of any of the assets that we have contributed or may contribute to any securitization vehicles were not or will not be understated or, that the assets contributed by other Angel Oak- managed entities have not been or will not be overstated, resulting in less cash proceeds or securities issued by the securitization vehicle to us or more cash proceeds or securities issued by the securitization vehicle to such managed entities than would otherwise be the case. AOMT' s securitizations are typically structured with a two- ~~or three~~ **to four** - year non- call period for the securities issued in the securitization. After such period has ended, the XS tranche holders, as the controlling tranche, have the option to call the securitization at any point. These holders would consider exercising this option if the financing marketplace is more attractive, or if the underlying asset values have increased. If the call option is exercised, we may be unable to reinvest the proceeds we receive from any such call option for some period of time and such proceeds may be reinvested by us in assets yielding less than the yields on the securities that were called. • Material Non- Public Information. We, directly or through Angel Oak, may obtain material non- public information about the investments in which we have invested or may invest. If we do possess material non- public information about such investments, there may be restrictions on our ability to dispose of, increase the amount of, or otherwise take action with respect to such investments. Our Manager' s and Angel Oak' s management of other managed entities could create a conflict of interest to the extent our Manager or Angel Oak is aware of material non- public information concerning potential investment decisions. In addition, this conflict may limit the freedom of our Manager to make potentially profitable investments, which could have an adverse effect on our operations. These limitations imposed by access to material non- public information could therefore materially and adversely affect us. We rely on Angel Oak Mortgage Lending to source non- QM loans and other target assets for acquisition by us and it is under no contractual obligation to sell to us any loans that it originates. Our operating results are dependent upon our Manager' s ability to source non- QM loans and other target assets for acquisition by us from Angel Oak Mortgage Lending. Although we are a party to mortgage loan purchase agreements with Angel Oak Mortgage Lending, and such agreements provide the framework pursuant to which we have agreed to purchase from Angel Oak Mortgage Lending certain target assets, Angel Oak Mortgage Lending has no obligation to sell non- QM loans or other target assets to us and we may be unable to locate other originators that are able or willing to originate non- QM loans and other target assets that meet our standards. If Angel Oak Mortgage Lending is unable to originate non- QM loans due to business, competitive, regulatory or other reasons, or for any other reason is unable or unwilling to provide non- QM loans and other target assets for sale to us in sufficient quantity, we may not be able to source acquisitions of non- QM loans and other target assets from other originators, banks and other sellers, on favorable terms and conditions or at all. In this regard, mortgage originators are subject to significant regulation and oversight and failure by Angel Oak Mortgage Lending to comply with its obligations under law may result in an inability to originate non- QM loans or other target assets in certain jurisdictions or at all. Similarly, if Angel Oak Mortgage Lending otherwise separates from its affiliation with our Manager, it may determine to sell the non- QM loans or other target assets that it originates to other parties. Angel Oak Mortgage Lending could also enter into commitments with third parties to sell them non- QM loans or other assets, and reduce the quantity of loans that would otherwise be available for purchase by us. If we cannot source an adequate volume of attractive non- QM loans and other target assets from Angel Oak Mortgage Lending on desirable terms, we may not be able to acquire a sufficient amount of attractive non- QM loans or other target assets to make our strategy profitable, and we may be materially and adversely affected. Our agreements with Angel Oak Mortgage Lending were negotiated between related parties, and their terms might not be as favorable to us as if they had been negotiated with an unaffiliated third party. In addition, conflicts could arise if Angel Oak Mortgage Lending breaches the applicable agreement relating to our acquisition of target assets from Angel Oak Mortgage Lending, or otherwise fails to perform its obligations under such agreement, resulting in harm or damages to us. Further, Angel Oak Mortgage Lending provides representations and warranties regarding the target assets we purchase from them. If Angel Oak Mortgage Lending breaches a representation or warranty relating to one of the target assets we purchase from them, our Manager may not seek the same recourse against Angel Oak Mortgage Lending as it would with unaffiliated third parties. Our Manager could have a potential conflict in determining what action to take against an affiliate, which could have a material adverse effect on us. We pay our Manager base management fees regardless of the performance of our portfolio. Our Manager' s entitlement to base management fees (which are based on our Equity as defined in the Management Agreement) might reduce its incentive to devote its time and effort to seeking loans or other investments that provide attractive risk- adjusted returns for our stockholders and instead may incentivize our Manager to advance strategies that increase our equity. There may be circumstances where increasing our equity will not optimize the returns for our stockholders, and consequently, we will be required to pay our Manager base management fees in a particular period despite experiencing a net loss or a decline in the value of our portfolio during that period. In addition, our Manager has the ability to earn incentive fees each quarter based on our Distributable Earnings as calculated in accordance with the Management Agreement, which may create an incentive for our Manager to invest in assets with higher yield potential, which are generally riskier or more speculative, or sell an asset prematurely for a gain, in an effort to increase our Distributable Earnings and thereby increase the incentive fee to which it is entitled. This could result in increased risk to our portfolio. If our interests and those of our Manager are not aligned, the execution of our strategies could be adversely affected, which could materially and adversely affect us. The Management Agreement with our Manager was not negotiated on an arm’ s- length basis and may not be as favorable to us as if it had been negotiated with an unaffiliated third party and may be costly and difficult to terminate. Our Manager’ s liability is limited under the Management Agreement, and we have agreed to indemnify our Manager against certain liabilities. The Management Agreement that we and our operating partnership entered into with our Manager was negotiated between related parties, and its terms, including fees payable, may not be as favorable to us as if it had been negotiated with an unaffiliated third party. Various potential and actual conflicts of interest may arise from the activities of Angel Oak by virtue of the fact that our Manager is controlled by Angel Oak. A termination without **“** cause **”** of the Management Agreement, which is defined in the Management Agreement and includes unsatisfactory performance by our Manager that is materially detrimental to us, is subject to several conditions which may make such a termination difficult and costly. Termination of the Management Agreement with our Manager may require us to pay our Manager a substantial termination fee, which will increase the effective cost to us of terminating the Management Agreement, thereby adversely affecting our ability to terminate our Manager without cause. Our Manager will not assume any responsibility other than to provide the services specified in the Management Agreement in good faith and will not be responsible for any action of our Board of Directors in following or declining to follow its advice or recommendations. None of our Manager or its affiliates or their respective managers, officers, directors, trustees, employees or members or any person providing sub- advisory services to our Manager will be liable to us, any of our subsidiaries, our Board of Directors, our stockholders or any subsidiary’ s interest holders for any acts or omissions performed under the Management Agreement, except because of acts constituting bad faith, willful misconduct, gross negligence or reckless disregard of our Manager’ s duties under the Management Agreement. We have agreed to indemnify our Manager and its affiliates and their respective managers, officers, directors, trustees, employees and members and any person providing sub- advisory services to our Manager with respect to all expenses, losses, damages, liabilities, demands, charges and claims of any nature whatsoever (including reasonable attorneys’ fees) in respect of or arising from such person’ s acts or omissions performed in good faith under the Management Agreement and not constituting bad faith, willful misconduct, gross negligence or reckless disregard of our Manager’ s duties under the Management Agreement. As a result, we could experience poor performance or losses for which our Manager would not be liable. Our Manager’ s failure to identify and acquire assets that meet our target asset criteria or perform its responsibilities under the Management Agreement could materially and adversely affect us. Our ability to achieve our objectives depends on our Manager’ s ability to identify and acquire assets that meet our target asset criteria. We are dependent on our Manager’ s relationship with Angel Oak Mortgage Lending and our Manager’ s ability to source investment opportunities consistent with our strategy, which is currently focused on the acquisition of non- QM loans from Angel Oak Mortgage Lending. Additionally, accomplishing our objectives is largely a function of our Manager’ s identification of target assets, access to financing on acceptable terms and general market conditions. Our stockholders will not have input into our investment decisions. All of these factors increase the uncertainty, and thus the risk, of investing in our common stock. The senior management team of our Manager has substantial responsibilities under the Management Agreement. In order to implement certain strategies, our Manager may need to hire, train, supervise, and manage new employees successfully. Any failure to manage our future growth effectively could have a material adverse effect on us. We do not own the Angel Oak brand or trademark, but may use the brand and trademark pursuant to the terms of a trademark license agreement with Angel Oak. We do not own the brand, trademark, or logo that we ~~will~~ **may** use in our business and may be unable to protect this intellectual property against infringement from third parties. **We are party to** ~~In connection with our IPO, we entered into~~ a trademark license agreement (the “ trademark license agreement ”) with an affiliate of our Manager (the “ licensor ”) pursuant to which ~~has~~ **the licensor** granted us a non- exclusive, non- transferable, non- sublicensable, royalty- free license to use the name “ Angel Oak Mortgage **REIT** , Inc. ” ~~Under this agreement, we have a right to use this name~~ for so long as our Manager (or another Angel Oak affiliate that serves as our manager) remains an affiliate of the licensor ~~under the trademark license agreement~~ . The trademark license agreement is subject to automatic termination if our Manager or another affiliate of Angel Oak is no longer acting as our manager under the Management Agreement. The trademark license agreement may be terminated by the licensor without cause and in its sole judgment after ~~thirty~~ **30** days’ written notice to us or immediately if the licensor believes that we are using the licensed marks improperly. ~~The~~ **Pursuant to the trademark license agreement, the** licensor ~~will retain~~ **retains** the right to continue using the “ Angel Oak ” name **and the** ~~. The trademark license~~ **licensor is** ~~agreement does~~ not ~~permit us to preclude~~ **precluded** ~~the licensor~~ from licensing or transferring the ownership of the “ Angel Oak ” name to third parties, some of whom may compete against us. Consequently, we may be unable to prevent any damage to goodwill that may occur as a result of the activities of the licensor, Angel Oak or others. Furthermore, in the event that the trademark license agreement is terminated, we will be required to, among other things, change our name and NYSE ticker symbol. Any of these events could disrupt our recognition in the marketplace, damage any goodwill we may have generated, and otherwise have a material adverse effect on us. Under the Management Agreement, our Manager has a contractually defined duty to us rather than a fiduciary duty. Under the Management Agreement, our Manager maintains a contractual as opposed to a fiduciary relationship with us which limits our Manager’ s obligations to us to those specifically set forth in the Management Agreement. The right of our Manager or its personnel and its officers to engage in other business activities may reduce the time our Manager spends managing us. In addition, unlike for directors, there is no statutory standard of conduct under the Maryland General Corporation Law (“ MGCL ”) for officers of a Maryland corporation. Our Manager manages our portfolio pursuant to very broad investment guidelines, which may result in us making riskier investments, and our Manager may change its investment process, or elect not to follow it, without stockholder consent at any time, which may materially and adversely affect us. Our Manager is authorized to follow very broad investment guidelines and our Manager may change its investment process without stockholder consent at any time. In addition, in conducting periodic reviews, our Board of Directors relies primarily on information provided to them by our Manager. Furthermore, our Manager may arrange for us to use complex strategies or to enter into complex transactions **before** ~~that may be difficult or impossible to unwind by the time~~ they are reviewed by our Board of Directors. Our Manager has great latitude within our broad investment guidelines to determine the types of assets it may decide are proper for purchase by us, which could result in investment returns that are substantially below expectations or that result in losses, which would materially and adversely affect us. In addition, there can be no assurance that our Manager will follow its investment process in relation to the identification and underwriting of prospective investments. Changes in our Manager' s investment process may result in inferior due diligence and underwriting standards, which may materially and adversely affect us. Risks Related to Our Investment Activities Our operating results are dependent upon our Manager' s ability to source a large volume of desirable non- QM loans and other target assets for our investment on attractive terms. Our operating results are dependent upon our Manager' s ability to source a large volume of desirable non- QM loans and other target assets for our investment on attractive terms, and our Manager may be unable to do so for many reasons. Angel Oak Mortgage Lending has no obligation to sell non- QM loans and other target assets to us, and our Manager may be unable to ~~locate~~ **identify** other originators that are able or willing to originate non- QM loans and other target assets that meet our standards on favorable terms or at all. General economic factors, such as recession, declining home values, unemployment, and high interest rates, may limit the supply of available non- QM loans and other target assets. Moreover, competition for non- QM loans and other target assets may drive down supply or drive up prices, making it uneconomical to purchase such loans or other target assets. For instance, in acquiring non- QM loans and other target assets from unaffiliated parties, we compete with a broad spectrum of institutional investors ~~, many of which have greater financial resources than us~~ . Increased competition for, or a reduction in the available supply of, qualifying investments could result in higher prices for (and thus lower yields on) such investments, which could narrow the yield spread over borrowing costs. Competition may also reduce the number of investment opportunities available to us and may adversely affect the terms upon which investments can be made. We may incur due diligence or other costs on investments which may not be successful or may not be completed at all. As a result, we may incur additional costs to acquire a sufficient volume of non- QM loans and other target assets or be unable to acquire such loans and other target assets at reasonable prices or at all. There can be no assurance that attractive investments will be available for us or that available investments will meet our strategies. If we cannot source an adequate volume of desirable non- QM loans and other target assets on attractive terms or at all, we may be materially and adversely affected. Difficult conditions in the residential mortgage and residential real estate markets as well as general market concerns **, including macroeconomic events,** may adversely affect the value of residential mortgage loans, including non- QM loans, and other target assets in which we invest. Our business is materially affected by conditions in the residential mortgage market, the residential real estate market, the financial markets, and the economy, including increasing inflation, ~~the long- term impact of the COVID- 19 pandemic,~~ energy costs, unemployment, geopolitical issues **, pandemics** , concerns over the creditworthiness of governments worldwide and the stability of the global banking system. In particular, the residential mortgage market in the United States has experienced, in the past, a variety of difficulties and challenging economic conditions, including defaults, credit losses, and liquidity concerns. Certain commercial banks, investment banks, insurance companies, and mortgage- related investment vehicles (including publicly traded mortgage REITs) incurred extensive losses from exposure to the residential mortgage market as a result of these difficulties and conditions. **Continuing concerns over** ~~These~~ **these** factors ~~may~~ **have contributed to increased volatility and unclear expectations for the economy and markets going forward and** continue to impact investor perception of the risks associated with the residential real estate market, residential mortgage loans and various other target assets in which we may invest. As a result, values for residential mortgage loans, including non- QM loans, and various other target assets in which we invest have **also** experienced, and may **continue to** ~~in the future~~ experience, significant volatility. Any deterioration of the residential mortgage market and investor perception of the risks associated with residential mortgage loans, including non- QM loans, and various other of our target assets could have a material adverse effect on us ~~. Non- QM loans that are underwritten pursuant to less stringent underwriting guidelines could experience higher rates of delinquencies, defaults and foreclosures than those experienced by loans underwritten to more stringent underwriting guidelines~~ . Non- QM loans have flexibility in underwriting guidelines and are subject to credit risk. The underwriting guidelines for non- QM loans may be permissive as to the borrower' s DTI, credit history, and / or income documentation. Loans that are underwritten pursuant to less stringent underwriting guidelines could experience substantially higher rates of delinquencies, defaults and foreclosures than those experienced by loans underwritten to more stringent underwriting guidelines. If our non- QM loans are underwritten to more flexible guidelines which have increased risk and may cause higher delinquency, default, or foreclosure rates given economic stress, the performance of our investments in non- QM loan portfolio could be correspondingly adversely affected, which could materially and adversely affect us. As of December 31, ~~2022~~ **2023** , Angel Oak Mortgage Lending was licensed to originate loans in ~~45~~ **46** states and in the District of Columbia, and is currently subject to significant regulation by both U. S. federal and state regulators, including the CFPB and various state offices of financial regulation. Over the years, regulators have vigilantly enforced the regulation of loan originators and have penalized or, in some cases, even suspended non- compliant originators' ability to originate loans in their jurisdictions for their failure to comply with regulatory requirements. Our strategy is to make credit- sensitive investments primarily in newly- originated first lien non- QM loans that are primarily made to non- QM loan borrowers and primarily sourced from Angel Oak Mortgage Lending and a substantial portion of our portfolio may consist of non- QM loans and other assets acquired from Angel Oak Mortgage Lending. If Angel Oak Mortgage Lending is unable to originate loans in one or more jurisdictions as a result of regulatory issues or otherwise, it may result in fewer investment opportunities for us or in opportunities that are less geographically diversified. Further, any such regulatory issues for Angel Oak Mortgage Lending could result in damage to the reputation of Angel Oak in the market and impact Angel Oak Mortgage Lending' s ability to continue to source a significant volume of non- QM loan originations. If Angel Oak Mortgage Lending is unable to originate the volume of loans anticipated, we may also be unable to identify other sources of non- QM loans for acquisition to satisfy our strategy and we may need to alter such strategy to seek other investments. Currently, we are focused on acquiring and investing in non- QM loans, which may subject us to legal, **administrative,** regulatory, and other risks, which could materially and adversely affect us. Currently, we are focused on acquiring and investing in non- QM loans that will not have the benefit of enhanced legal protections otherwise available in connection with the origination of QM loans ~~, as further described below~~ . The ownership of non- QM loans could subject us to legal **, administrative** , regulatory, and other risks, including those arising under U. S. federal consumer protection laws and regulations designed to regulate residential mortgage loan underwriting and originators' lending processes, standards and disclosures to borrowers. These laws and regulations include the CFPB' s " Know Before You Owe " mortgage disclosure rule, the ATR rules under the Truth- in- Lending Act, and QM loan regulations, in addition to various U. S. federal, state, and local laws and regulations intended to discourage predatory lending practices by residential mortgage loan originators. ~~The ATR rules specify the characteristics of a QM loan and two levels of presumption of compliance with the ATR rules: a safe harbor and a rebuttable presumption for higher priced loans. The " safe harbor " under the ATR rules applies to a covered transaction that meets the definition of a QM loan and is not a " higher- priced covered transaction. " For any covered transaction that meets the definition of a QM loan and is not a " higher- priced covered transaction, " the creditor or assignee will be deemed to have complied with the ability- to- repay requirement and, accordingly, will be conclusively presumed to have made a good faith and reasonable determination of the consumer' s ability to repay. Creditors or assignees will have the benefit of a rebuttable presumption of compliance with the applicable ATR rules if they have complied with the QM loan characteristics of the ATR rules other than the residential mortgage loan being higher- priced in excess of certain thresholds. Non- QM loans, such as residential mortgage loans with a DTI exceeding 43 %, do not have the benefit of either a safe harbor from liability under the ATR rules or a rebuttable presumption of compliance with the ATR rules.~~ Application of certain standards set forth in the ATR rules is highly subjective and subject to interpretive uncertainties. As a result, a court may determine that a residential mortgage loan did not meet the standard or test even if the originator reasonably believed such standard or test had been satisfied. Failure of residential mortgage loan originators or servicers to comply with these laws and regulations could subject us, as a purchaser or an assignee of these loans (or as an investor in securities backed by these loans), to monetary penalties assessed by the CFPB through its administrative enforcement authority and by mortgagors through a private right of action against lenders or as a defense to foreclosure, including by recoupment or setoff of finance charges and fees collected, and could result in rescission of the affected residential mortgage loans, which could materially and adversely affect us. Such risks may be higher in connection with the acquisition of non- QM loans, which is currently the focus of our strategy. Borrowers under non- QM loans may be more likely to challenge the analysis conducted under the ATR rules by lenders. Even if a borrower does not succeed in the challenge, additional costs may be incurred in connection with challenging and defending such claims, which may be more costly in judicial foreclosure jurisdictions than in non- judicial foreclosure jurisdictions, and there may be more of a likelihood such claims are made since the borrower is already exposed to the judicial system to process the foreclosure ~~.~~ The non- QM loans in which we invest are subject to increased risks. The non- QM loans in which we invest are subject to increased risk of loss compared to investments in certain of our other target assets, such as Agency RMBS. A non- QM loan is directly exposed to losses resulting from default. Therefore, the value of the underlying property, the creditworthiness and financial position of the borrower, and the priority and enforceability of the lien will significantly impact the value of any such non- QM loan. In the event of a foreclosure, we may assume direct ownership of the underlying real estate. The liquidation proceeds upon the sale of such real estate may not be sufficient to recover our cost basis in the non- QM loan, and any costs or delays involved in the foreclosure or liquidation process may increase losses. The value of non- QM loans is also subject to property damage caused by hazards, such as earthquakes or environmental hazards, not covered by standard property insurance policies and to a reduction in a borrower' s mortgage debt by a bankruptcy court. In addition, claims may be assessed against us because of our position as a mortgage holder or property owner, including assignee liability, environmental hazards and other liabilities. In some cases, these claims may lead to losses exceeding the purchase price of the related non- QM loan or property. Unlike Agency RMBS, non- QM loans are not guaranteed by the U. S. Government or any GSE. Additionally, by directly acquiring non- QM loans, we do not receive the structural credit enhancements that benefit senior tranches of RMBS. The occurrence of any of these risks could have a material adverse effect on us. Our portfolio is concentrated, and may continue to be concentrated, by asset type and by region, increasing our risk of loss if there are adverse developments or greater risks affecting the particular concentration. Our investment guidelines do not require us to observe specific diversification criteria. Currently, we are focused on acquiring and investing in first lien non- QM loans in the U. S. mortgage market. As of December 31, ~~2022~~ **2023** , substantially all of the loans underlying our portfolio of RMBS and residential loans held in securitization trusts consisted of non- QM loans. In addition, as of December 31, ~~2022~~ **2023** , more than ~~10~~ **5** % of the unpaid principal balance of the loans underlying our portfolio of RMBS from the AOMT securitizations in which we participated and / or were the primary beneficiary were secured by properties located in each of California, Florida, Texas, and Georgia. As a result, our portfolio is concentrated, and may continue to be concentrated, by asset type and geographic region, increasing our risk of loss if there are adverse developments or greater risks affecting the particular concentration. Accordingly, downturns relating generally to non- QM loans may result in defaults on a number of our non- QM loans within a short time period, and adverse conditions in the areas where the properties securing or otherwise underlying our investments are concentrated (including unemployment rates, changing demographics and other factors) and local real estate conditions (such as oversupply or reduced demand) may have an adverse effect on the value of our investments, any of which may materially and adversely affect us. The non- QM loans and other residential mortgage loans in which we invest are subject to a risk of default, among other risks. Our strategy is to make credit- sensitive investments primarily in newly- originated first lien non- QM loans **, which include investment property** ~~that are primarily made to non- QM loan~~ **loans ,** ~~borrowers and~~ primarily sourced from ~~Angel Oak' s proprietary mortgage lending platform,~~ Angel Oak Mortgage Lending. We also may invest in other target assets. Further, we may identify and acquire our target assets through the secondary market when market conditions and asset prices are conducive to making attractive purchases. Such acquisitions and investments will subject us to risks which include, among others: • declines in the value of residential or commercial real estate; • risks related to benchmark rates such as the Secured Overnight Financing Rate (" SOFR ") as reference rates for loans **, borrowings** and securities; • risks related to general and local economic conditions, including unemployment rates; • lack of available mortgage funding for borrowers to refinance or sell their homes or other properties; • overbuilding **and / or housing availability** ; • increases in property taxes; • changes in U. S. federal and state lending laws; • changes in zoning laws; • costs resulting from the clean- up of, and liability to third parties for damages resulting from, environmental problems, such as indoor mold; • casualty or condemnation losses; • acts of God, terrorism, social unrest, and civil disturbances; • uninsured damages from floods, earthquakes, or other natural disasters, including those resulting from global climate change; • limitations on and variations in rents; • fluctuations in interest rates; • undetected or unknown fraudulent activity by borrowers, originators, ~~and / or~~ sellers of mortgage loans **and / or other third party service providers** ; • undetected deficiencies and / or inaccuracies in underlying mortgage loan documentation and calculations; and • failure of the borrower to adequately maintain the property ~~, particularly during times of financial difficulty~~ . To the extent that assets underlying our investments are concentrated geographically, by property type or in certain other respects, we may be subject to certain of the foregoing risks to a greater extent. Additionally, we may be required to foreclose on a mortgage loan and such actions would subject us to greater concentration of the risks of the real estate markets and risks related to the ownership and management of real property. We may need to foreclose on certain of the residential mortgage loans we acquire, which could result in losses that materially and adversely affect us. We may find it necessary or desirable to foreclose on certain of the residential mortgage loans, including non- QM loans, we acquire, and the foreclosure process may be lengthy and expensive. There are a variety of factors that may inhibit the ability to foreclose upon a residential mortgage loan and liquidate real property. These factors include, without limitation: (1) extended foreclosure timelines in states that require judicial foreclosure, including states where we may hold high concentrations of residential mortgage loans; (2) significant collateral documentation deficiencies; (3) U. S. federal, state or local laws that are borrower friendly, including legislative action or initiatives designed to provide homeowners with assistance in avoiding residential mortgage loan foreclosures and that serve to delay the foreclosure process; (4) programs that require specific procedures to be followed to explore the refinancing of a residential mortgage loan prior to the commencement of a foreclosure proceeding; and (5) declines in real estate values and sustained high levels of unemployment that increase the number of foreclosures and place additional pressure on the ~~already overburdened~~ judicial and administrative systems. In periods following home price declines, " strategic defaults " (decisions by borrowers to default on their mortgage loans despite having the ability to pay) also may become more prevalent. Even if we are successful in foreclosing on a residential mortgage loan, the liquidation proceeds upon sale of the underlying real estate may not be sufficient to recover our cost basis in the loan, resulting in a loss to us. We will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the residential mortgage loan. Furthermore, any costs or delays involved in the foreclosure of the loan or a liquidation of the underlying property will further reduce the net proceeds and, thus, increase the loss. The incurrence of any such losses could materially and adversely affect us. Additionally, in the event of the bankruptcy of a residential mortgage loan borrower, the residential mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the residential mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor- in- possession to the extent the lien is unenforceable under state law. If borrowers default on their residential mortgage loans and we are unable to recover any resulting loss through the foreclosure process, we could be materially and adversely affected. Increases in interest rates could adversely affect the value of our assets, cause our interest expense to increase, increase the risk of default on our assets and cause a decrease in the volume of certain of our target assets, which could materially and adversely affect us. Our operating results depend in large part on the difference between the income from our assets, net of credit losses, and financing costs. We anticipate that, in many cases, the income from our assets will respond more slowly to interest rate fluctuations than the cost of our borrowings. Consequently, changes in interest rates, particularly short- term interest rates, to the extent not offset by our interest rate hedges, may significantly influence our financial results. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations, and other factors beyond our control. ~~Inflation in~~ **For example, recently,** ~~the~~ **there** ~~U. S.~~ has **been a significant rise in inflation** ~~recently accelerated and is currently expected to continue at an~~ **and** ~~elevated level in the near- term. In 2022,~~ the U. S. Federal Reserve ~~Bank began raising the federal funds~~ **Board has raised, and may continue to raise, interest** ~~rate~~ **rates** in an effort to curb inflation ~~, and~~ **. These increases in interest** rates **and inflation have led, and** may continue to ~~rise~~ **lead** , ~~and such~~ **to economic volatility,** ~~increases~~ **increased** ~~, coupled with other macroeconomic factors, may trigger a recession in the U. S., globally, or both. Interest rate fluctuations present a variety of risks, including the risk that our~~ borrowing costs ~~will approach~~ , **price increases** ~~or even exceed, the yields on our assets,~~ and ~~the risk~~ **risks** of **recession** ~~adverse fluctuations in prepayment rates~~ . Fixed income assets typically decline in value if interest rates increase. If long- term interest rates were to increase significantly, not only would the market value of these assets be expected to decline, but these assets could lengthen in duration because **, for example,** borrowers would be less likely to prepay their mortgages. Further, an increase in short- term interest rates would increase the rate of interest payable on any short- term borrowings used to finance these assets. Subject to maintaining our qualification as a REIT and maintaining our exclusion from regulation as an investment company under the Investment Company Act, we expect to continue to utilize various derivative instruments and other hedging instruments to mitigate interest rate risk, but there can be no assurances that our hedges will be successful, or that we will be able to enter into or maintain such hedges. As a result, interest rate fluctuations can cause significant losses, reductions in income, and could materially and adversely affect us. In addition, rising interest rates generally reduce the demand for mortgage loans due to the higher cost of borrowing. A reduction in the volume of mortgage loans originated may affect the volume of target assets available to us, which could adversely affect our ability to acquire assets that **may** satisfy our investment objectives. If rising interest rates cause us to be unable to acquire a sufficient volume of our target assets with a yield that is above our borrowing cost, it could materially and adversely affect us. An increase in interest rates could also cause financial strain on borrowers with adjustable rate mortgages, who might then be more likely to default. In addition, we cannot **ensure** ~~assure you~~ that our access to capital and other sources of funding will not become constrained, which could adversely affect the availability and terms of future borrowings, renewals or refinancings. Such future constraints could increase our borrowing costs, which would make it more difficult or expensive to obtain additional financing or refinance existing obligations and commitments, which could slow or deter future growth. Changes in the fair values of our assets, liabilities, and derivatives can have a material adverse effect on us, including reduced earnings, increased earnings volatility, and volatility in our book value. Fair values for our assets and liabilities, including derivatives, can be volatile and our revenue and income can be impacted by changes in fair values. Fair values can change rapidly and significantly, and changes can result from changes in interest rates, perceived risk, supply, demand, and actual and projected cash flows, prepayments, and credit performance. A decrease in fair value may not necessarily be the result of **or an expectation for** deterioration in future cash flows. Fair values for illiquid assets can be difficult to estimate, which may lead to volatility and uncertainty of earnings and book value. For example, real estate- related investments in our target asset portfolio may be subject to changes in credit spreads. Credit spreads measure the yield demanded on securities by the market based on their credit relative to a specific benchmark and ~~is~~ **are** a measure of the perceived risk of the investment. Fixed rate securities are valued based on a market credit spread over the rate payable on fixed rate swaps or fixed rate U. S. Treasuries of ~~like~~ **similar** ~~maturity~~ **maturities** . Floating rate securities are typically valued based on a market credit spread over a floating rate index such as SOFR and are affected similarly by changes in index spreads. Excessive supply of these securities or reduced demand may cause the market to require a higher yield on these securities, resulting in the use of a higher, or " wider, " spread over the benchmark rate to value such securities. Under such conditions, the value of our securities portfolios would tend to decline. Conversely, if the spread used to value such securities were to decrease, or " tighten, " the value of our real estate and other securities portfolio would tend to increase. Such changes in the market value of our real estate- related securities portfolio may affect our net equity, net income, comprehensive income, or cash flow directly through their impact on unrealized gains or losses or other comprehensive income (loss), and therefore our ability to realize gains on such assets, or indirectly through their impact on our ability to borrow and access capital. Widening credit spreads could cause net unrealized gains to decrease or net unrealized losses to increase, and result in overall net losses and / or comprehensive net losses. For purposes of generally accepted accounting principles in the United States of America (" GAAP "), ~~,~~ we mark to market most of the assets and some of the liabilities on our consolidated balance sheet. In addition, valuation adjustments on certain consolidated assets and many of our derivatives are reflected in our consolidated statement of income. Assets that are funded with certain liabilities and hedges may have differing mark- to- market treatment than the liability or hedge. If we sell an asset **at a lower price than has been reflected in** that ~~has not been~~ **asset' s most recent** ~~marked~~ -- **mark** to market **value** ~~through our consolidated statement of income at a reduced market price relative to its cost basis~~ , our reported earnings will be reduced. SOFR has generally replaced U. S. dollar LIBOR as a reference rate of interest, which subjects us to various risks. **U. S. dollar** LIBOR (~~the~~ London **Interbank** ~~Inter- Bank~~ Offered Rate) **has** ~~was formerly the principal floating rate benchmark in the financial markets. Publication of LIBOR for certain currencies and tenors (including 1- week and 2- month U. S. dollar LIBOR) permanently ceased with effect from December 31, 2021. The remaining tenors of U. S. dollar LIBOR will continue to be published on the basis of panel- bank rate submissions only until June 30, 2023. Thereafter, publication of overnight and 12- month U. S. dollar LIBOR will permanently cease; while it is proposed that 1- month, 3- month and 6- month U. S. dollar LIBOR will continue to be published (on a " synthetic " basis only) until September 30, 2024, at which time their publication also will permanently cease. In the United States, there have~~ been ~~efforts to identify alternative reference interest rates for U. S. dollar LIBOR. The cash markets have generally coalesced around recommendations from the Alternative Reference Rates Committee (the " ARRC "), which was convened by the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of New York. The ARRC has recommended that U. S. dollar LIBOR be~~ replaced by rates based on SOFR ~~plus, in the case of existing LIBOR contracts and obligations, a spread adjustment. The derivatives markets are also expected to use SOFR- based rates to replace U. S. dollar LIBOR. During 2021, and by January 1, 2022, our warehouse lenders transitioned to base their interest rates from U. S. dollar LIBOR to varying terms of SOFR plus a spread~~ . SOFR has a limited history, having been first published in April 2018. The future performance of SOFR, and SOFR- based reference rates, cannot be predicted based on SOFR' s history or otherwise. Future levels of SOFR may bear little or no relation to historical levels of SOFR, LIBOR or other rates ~~. SOFR- based rates will differ from U. S. dollar LIBOR, and the differences may be material. SOFR is intended to be a broad measure of the cost of borrowing funds overnight in transactions that are collateralized by U. S. Treasury Securities~~ . Because SOFR is a financing rate based on overnight secured funding transactions, it differs fundamentally from LIBOR. LIBOR **was** ~~(except where published only on a " synthetic " basis) is~~ intended to be an unsecured rate that ~~represents~~ **represented** interbank funding costs for different short- term tenors; and ~~is~~ **was** a forward- looking rate reflecting expectations regarding interest rates for those tenors. Thus, LIBOR **was** ~~(except where published only on a " synthetic basis ") is~~ intended to be sensitive to bank credit risk and to short- term interest rate risk. In contrast, SOFR is a secured overnight rate reflecting the credit of U. S. Treasury ~~Securities~~ **securities** as collateral. Thus, it is intended to be insensitive to credit risk and to risks related to interest rates other than overnight rates. SOFR has been more volatile than other benchmark or market rates ~~, such as three- month U. S. dollar LIBOR,~~ during certain periods ~~. It is expected that more than one SOFR- based rate will be used in the~~

~~financial markets~~. Like LIBOR, some SOFR- based rates **are** ~~will be~~ forward- looking term rates; other SOFR- based rates **are** ~~will be~~ intended to resemble rates for term structures through their use of averaging mechanisms applied to rates from overnight transactions, as in the case of " simple average " or " compounded average " SOFR. Different kinds of SOFR- based rates ~~will~~ result in different interest rates. Mismatches between SOFR- based rates, and between SOFR- based rates and other rates, may cause economic inefficiencies, particularly if market participants seek to hedge one kind of SOFR- based rate by entering into hedge transactions based on another SOFR- based rate or another rate. For these reasons, among others, there is no assurance that SOFR, or rates derived from SOFR, will perform in the same or a similar way as U. S. dollar LIBOR would have performed at any time, and there is no assurance that SOFR- based rates **are** ~~will be a~~ suitable ~~substitute~~ **substitutes** for U. S. dollar LIBOR. Non- LIBOR floating rate obligations, including SOFR- based obligations, may have returns and values that fluctuate more than those of floating rate obligations that ~~are~~ **were** based on LIBOR or other rates. Also, because SOFR and some alternative floating rates are relatively new market indexes, markets for certain non- LIBOR obligations may never develop or may not be liquid. Market terms for non- LIBOR floating rate obligations, such as the spread over the index reflected in interest rate provisions, may evolve over time, and prices of non- LIBOR floating rate obligations may be different depending on when they are issued and changing views about correct spread levels. ~~These matters may adversely affect financial markets generally and may also adversely affect our operations specifically, particularly as financial markets continue to transition away from LIBOR. Any credit~~ **Credit** ratings assigned to our investments **are or** will be subject to ongoing evaluations and revisions and we cannot assure you that those ratings will not be downgraded. Some of our investments, including ~~the~~ bonds ~~that may be~~ issued in our **existing or** future securitization transactions for which we would be required to retain a portion of the credit risk, **are or** may be rated by rating agencies. Any credit ratings on our investments are subject to ongoing evaluation by credit rating agencies, and we cannot assure you that any such ratings would not be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. If rating agencies assign a lower- than- expected rating or reduce or withdraw, or indicate that they may reduce or withdraw, their ratings of our investments in the future, the value and liquidity of our investments could significantly decline, which would adversely affect the value of our portfolio and could result in losses ~~upon disposition or the failure of borrowers to satisfy their debt service obligations to us~~. Prepayment rates may adversely affect the value of our portfolio. Prepayment rates on our investments, where contractually permitted, are influenced by changes in current interest rates, significant improvement in the performance of underlying real estate assets and a variety of economic, geographic and other factors beyond our control. Consequently, prepayment rates cannot be predicted with certainty and no strategy can completely insulate us from increases in such rates. The ~~constant~~ **conditional** prepayment rate (" CPR ") is a method of expressing the prepayment rate for a mortgage pool that assumes that a constant fraction of the remaining principal is prepaid each month or year. An increase in prepayment rates, as measured by the CPR, will typically accelerate the amortization of our securitized portfolio of loans, thereby reducing the yield or interest income earned on such assets. In periods of declining interest rates, prepayments on investments generally increase and the proceeds of prepayments received during these periods may ~~generally~~ be reinvested by us in comparable assets at reduced yields. In addition, the market value of investments subject to prepayment may, because of the risk of prepayment, benefit less than other fixed- income securities from declining interest rates. Conversely, in periods of rising interest rates, prepayments on investments, where contractually permitted, generally decrease, in which case we would not have the prepayment proceeds available to invest in comparable assets at higher yields. Under certain interest rate and prepayment scenarios, we may fail to recoup fully our cost of certain investments. Our investments in Agency RMBS and non- Agency RMBS may result in losses stemming from prepayments on the underlying asset and changes in interest rates. We ~~intend to~~ invest ~~(or continue to invest)~~ in Agency RMBS and non- Agency RMBS. RMBS in general are subject to particular risks because they have yield and maturity characteristics corresponding to their underlying assets. Unlike traditional debt securities, which may pay a fixed rate of interest until maturity when the entire principal amount comes due, payments on certain RMBS include both interest and a partial payment of principal. This partial payment of principal may be comprised of a scheduled principal payment, as well as an unscheduled payment from the voluntary prepayment, refinancing, or foreclosure of the underlying assets. As a result of these unscheduled payments of principal, or prepayments on the underlying assets, the price and yield of RMBS can be adversely affected. For example, during periods of declining interest rates, prepayments can be expected to accelerate, and we **may** ~~would be required to~~ reinvest proceeds at the lower interest rates then available. Prepayments of mortgages that underlie securities purchased at a premium could result in capital losses because the premium may not have been fully amortized at the time the obligation is prepaid. In addition, like other interest- bearing securities, the values of RMBS generally fall when interest rates rise, but when interest rates fall, their potential for capital appreciation ~~is~~ **may be** limited due to the existence of the prepayment feature. The performance of any RMBS, and the results of hedging arrangements entered into with respect thereto, will be affected by: (1) the rate and timing of principal payments on the underlying assets; and (2) the extent to which such principal payments are applied to reduce, or otherwise result in the reduction of, the principal or notional amount of such RMBS. The rate of principal payments on a pool of RMBS will in turn be affected by the amortization schedules of the assets (which, in the case of assets with an adjustable- rate feature, may change periodically to accommodate adjustments to the mortgage rates thereon) and the rate of principal prepayments thereon (including for this purpose, voluntary prepayments by borrowers and prepayments resulting from liquidations of RMBS due to defaults, casualties, or condemnations affecting the related properties). The extent of prepayments of principal of the assets underlying RMBS may be affected by a number of factors, including the availability of mortgage credit, the relative economic vitality of the area in which the related properties are located, the servicing of the underlying assets, possible changes in tax laws, other opportunities for investment, homeowner mobility, and other economic, social, geographic, demographic, and legal factors. In general, any factors that increase the attractiveness of selling a mortgaged property or refinancing such property, enhance a borrower' s ability to sell or refinance or increase the likelihood of default under a MBS would be expected to cause the rate of prepayment in respect of a pool of MBS to accelerate. In contrast, any factors having an opposite effect would be expected to cause the rate of prepayment of a pool of MBS to slow. The rate of prepayment on a pool of MBS is likely to be affected by prevailing market interest rates for mortgages of a comparable type, term, and risk level. When the prevailing market interest rate is below a mortgage coupon, a borrower generally has an increased incentive to refinance. Even in the case of assets with an adjustable- rate component, as prevailing market interest rates decline, and without regard to whether the mortgage rates on such assets decline in a manner consistent therewith, the related borrowers may have an increased incentive to refinance for purposes of either: (1) converting to a fixed rate security ~~and thereby " locking in " such rate~~ ; or (2) taking advantage of a different index, margin, or rate cap or floor on another adjustable- rate note. Therefore, as prevailing market interest rates decline, prepayment speeds would be expected to accelerate. Increases in monthly payments on adjustable- rate mortgages due to higher interest rates may result in greater future delinquency rates. Borrowers with adjustable payments may be exposed to increased monthly payments when the related mortgage interest rate adjusts upward from the initial fixed rate or a low introductory rate, as applicable, to the rate computed in accordance with the applicable index and margin. This increase in borrowers' monthly payments, together with any increase in prevailing market interest rates, may result in significantly increased monthly payments for borrowers subject to adjustable- rates. Borrowers seeking to avoid these increased monthly payments by refinancing may no longer be able to find alternatives at comparably low interest rates. A decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. Furthermore, borrowers who intend to sell their homes on or before the expiration of the fixed rate periods may find that they cannot sell their properties for an amount equal to or greater than their unpaid principal balances. These events, alone or in combination, may contribute to higher delinquency rates and therefore potentially higher losses on RMBS. Our investment in lower rated non- Agency RMBS resulting from the securitization of our assets or otherwise exposes us to the first loss on the mortgage assets held by the securitization vehicle. Additionally, the principal and interest payments on non- Agency RMBS are not guaranteed by any entity, including any government entity or GSE, and therefore are subject to increased risks, including credit risk. Our portfolio includes, and is expected to continue to include, non- Agency RMBS which are backed by non- QM and other residential mortgage loans that are not issued or guaranteed by an Agency or a GSE. Within a securitization of residential mortgage loans, various securities are created, each of which has varying degrees of credit risk. **Our** ~~We anticipate that our~~ investments in non- Agency RMBS ~~will be~~ **generally are** concentrated in lower- rated and unrated securities in which we are exposed to the first loss on the residential mortgage loans held by the securitization vehicle, which ~~will subject~~ **subjects** ~~to~~ us to the most concentrated credit risk associated with the underlying residential mortgage loans ~~.~~ Additionally, the principal and interest on non- Agency RMBS, unlike those on Agency RMBS, are not guaranteed by GSEs such as Fannie Mae and Freddie Mac or, in the case of Ginnie Mae, the U. S. Government. Non- Agency RMBS are subject to many of the risks of the respective underlying mortgage loans. A residential mortgage loan is typically secured by a single- family residential property and is subject to risks of delinquency and foreclosure and risk of loss. The ability of a borrower to repay a loan secured by a residential property is dependent upon the income or assets of the borrower. A number of factors, including, but not limited to, a general economic downturn, unemployment, acts of God, terrorism, social unrest, and civil disturbances, may impair the borrower' s ability to repay its mortgage loan. In periods following home price declines, " strategic defaults " (decisions by borrowers to default on their mortgage loans despite having the ability to pay) also may become more prevalent. In the event of defaults under residential mortgage loans backing any of our non- Agency RMBS, we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the residential mortgage loan. Additionally, in the event of the bankruptcy of a residential mortgage loan borrower, the residential mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the residential mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor- in- possession to the extent the lien is unenforceable under state law. Foreclosure of a residential mortgage loan can be an expensive and lengthy process which could have a substantial negative effect on our anticipated return on the foreclosed residential mortgage loan. If borrowers default on the residential mortgage loans backing our non- Agency RMBS and we are unable to recover any resulting loss through the foreclosure process, we could be materially and adversely affected. We ~~may~~ invest in investment property loans, which ~~would~~ **may** expose us to an increased risk of loss. We ~~may~~ invest in investment property loans, which are mortgage loans made on portfolios of residential rental properties. The repayment of such a loan by the property owner (i. e., the borrower) often depends primarily on its tenant' s continuing ability to pay rent to the property owner. If the property owner is unable to find or retain a tenant for the rental property, the property owner would cease to have a continuous rental income stream with respect to the property and, as a result, the property owner' s ability to repay the loan on a timely basis or at all could be adversely affected. In addition, the physical condition of non- owner- occupied properties can be below that of owner- occupied properties due to lax property maintenance standards, which can have a negative impact on the value of the collateral properties. Moreover, loans on non- owner- occupied residential properties ~~generally~~ **may** involve larger principal amounts and a greater degree of risk than owner- occupied residential mortgage loans, resulting in a higher likelihood that we will be subject to losses on such investment property loans. We have invested in, and may continue to invest in, jumbo prime mortgage loans, which ~~will~~ **may** expose us to ~~additional credit~~ **an increased** risk **of loss** . We have invested in, and may continue to invest in jumbo prime mortgage loans, which generally ~~do~~ **may** not conform to GSE underwriting guidelines ~~primarily because the mortgage balance~~ **for a variety of reasons, such as** ~~exceeds~~ **exceeding** ~~the maximum amount permitted by~~ GSE ~~underwriting guidelines~~ **loan limits** . Jumbo prime mortgage loans are subject to the risks described above relating to investments in residential mortgage loans, but may expose us to increased risks because of their larger balances and because they cannot be immediately sold to GSEs. Additionally, in the event of a default by a borrower on a jumbo prime mortgage loan, we could experience greater losses than a typical loan in our portfolio due to the large mortgage balance associated with jumbo prime mortgage loans. The performance of our investments in commercial mortgage loans, including senior mortgage loans and small balance commercial mortgage loans, is dependent upon factors that are outside our control. We have invested in small balance commercial mortgage loans, and we may continue to invest in these and other commercial mortgage loans, including senior mortgage loans, which are secured (directly or indirectly) by commercial property and are subject to risks of delinquency and foreclosure. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property, which is outside our control. If the operating income of the property decreases ~~due to a variety of factors affecting the property' s commercial operations~~ , the borrower' s ability to repay the loan may be impaired. ~~Special~~ **Additional** risks associated with commercial real mortgage investments include **, but are not limited to,** changes in the general economic climate or local conditions (such as an oversupply of space or a reduction in demand for space), competition based on rental rates, attractiveness and location of the properties, changes in the financial condition of tenants, **increases in work- from- home policies,** and changes in operating costs **. For example, recently the office sector has been adversely affected by a decrease in demand as a result of, among other factors, an increase in remote and hybrid working arrangements, and a continuation of this trend could over time erode the overall demand for office space and, in turn, place downward pressure on occupancy rates, rental rates and property values** . Real estate values are also affected by such factors as governmental regulations (including those governing usage, improvements, zoning, and taxes), interest rate levels, the availability of financing, and potential liability under changing environmental and other laws. Of particular concern may be those mortgaged properties which are, or have been, the site of manufacturing, industrial, or disposal activities. Such environmental risks may **cause** ~~give rise to~~ a diminution in the value of property (including real property securing our investment) or **a** liability for cleanup costs or other remedial actions, which ~~liability~~ could exceed the value of such property or the principal balance of the related investment. In certain circumstances, a lender may choose not to foreclose on contaminated property rather than risk incurring **a** liability for remedial actions. In the event of any default under a commercial mortgage loan held by us, we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the mortgage loan, which could materially and adversely affect us. We have acquired and may continue to acquire second lien mortgage loans, which pose additional risks for us. We have acquired and may continue to acquire second lien mortgage loans. A second lien mortgage loan is a residential mortgage loan that is subordinate to the primary or first lien mortgage loan on a residential property. In the event of a default or a bankruptcy of the borrower, the second lien mortgage loan will not **receive payment** ~~be paid off~~ until the first lien mortgage loan is **fully** paid ~~off~~ , resulting in a higher likelihood that we will be subject to losses on such second lien mortgage loan. As a result, we may not recover all or ~~even~~ a significant part of our investment, which could result in losses and have a material adverse effect on us. We may invest in commercial bridge loans, mezzanine loans, construction loans, and B- Notes, which would subject us to an increased risk of loss. We may invest in commercial bridge loans, mezzanine loans, construction loans, and B- Notes as part of our strategy. Our investments in these asset classes would subject us to an increased risk of loss, as described below. • Commercial Bridge Loans. Commercial bridge loans are, generally, floating rate whole loans secured by first priority mortgage liens on the commercial real estate made to borrowers seeking short- term capital to be used in the acquisition, construction, or redevelopment of commercial properties. Commercial bridge loans provide interim financing to borrowers seeking short- term capital for the acquisition or transition (for example, lease up and / or rehabilitation) of commercial real estate and generally have a maturity of five years or less. Such a borrower under a transitional loan has usually identified an asset that has been under- managed or is located in a recovering market. If the market in which the asset is located fails to recover according to the borrower' s projections, or if the borrower fails to improve the quality of the asset' s management or the value of the asset, the borrower may not receive a sufficient return on the asset to satisfy the transitional loan, and we will bear the risk that we may not recover some or all of our investment. In addition, borrowers usually use the proceeds of a conventional mortgage loan to repay a transitional loan. We may therefore be dependent on a borrower' s ability to obtain permanent financing to repay a transitional loan, which could depend on market conditions and other factors. In the event of any failure to repay under a transitional loan held by us, we will bear the risk of loss of principal and non- payment of interest and fees to the extent of any deficiency between the value of the mortgage collateral and the principal amount and unpaid interest of the commercial bridge loan, which could materially and adversely affect us. • Mezzanine Loans. We may acquire mezzanine loans made to commercial property owners that are secured by pledges of the borrowers' ownership interests, in whole or in part, in entities that directly or indirectly own the properties, such loans being subordinate to whole loans secured by first or second mortgage liens on the properties themselves. In each instance where an investment is a mezzanine loan secured by interests in a property- owning entity, our investment in such loan will be subject, directly or indirectly, to the mortgage or other security interest of a senior lender. The rights and remedies afforded a senior lender may limit or preclude the exercise of rights and remedies by us, with resultant loss to us. Further, the equity owners of properties or entities in which we invest may raise defenses (including protection under bankruptcy laws) to enforcement of rights or imposition of remedies by us. In the event such defenses were successful, or resulted in delay, we could incur losses, which could materially and adversely affect us. • Construction Loans. If we fail to fund our entire commitment on a construction loan or if a borrower otherwise fails to complete the construction of a project, there could be adverse consequences associated with the loan, including, without limitation: (1) a loss of the value of the property securing the loan, especially if the borrower is unable to raise funds to complete it from other sources; (2) a borrower claim against us for failure to perform under the loan documents; (3) increased costs to the borrower that the borrower is unable to pay; (4) a bankruptcy filing by the borrower; and (5) abandonment by the borrower of the collateral for the loan. Additionally, the process of foreclosing on a property is time- consuming, and we may incur significant expense if we foreclose on a property securing a loan under these or other circumstances. The occurrence of any of the foregoing events could result in losses to us, which could materially and adversely affect us. • B- Notes. We may acquire B- Notes that are subordinated in right of payment to an A- Note, which is a senior interest in such loan. The B- Notes ~~in which we may invest~~ may be subject to additional risks relating to the privately negotiated structure and terms of the transaction, which may result in losses. If a borrower defaults, there may not be sufficient funds remaining for B- Note holders after payment to the A- Note holders. Since each transaction is privately negotiated, B- Notes can vary in their structural characteristics and risks. For example, the rights of holders of B- Notes to control the process following a borrower default may be limited in certain investments. We cannot predict the terms of each B- Note investment. B- Notes are not as liquid as some forms of debt instruments and, as a result, we may be unable to dispose of performing, underperforming or non- performing B- Note investments. The higher risks associated with our subordinate position in such investment could subject us to increased risk of losses, which could materially and adversely affect us. We may invest in residential bridge ~~(" fix and flip ")~~ loans, which would expose us to the risk that the borrower of such loan may not be able to sell the property on attractive terms or at all once the property has been re- developed, which may materially and adversely affect us. We may invest in residential bridge ~~(" fix and flip ")~~ loans, which are particularly illiquid investments due to their short life and the greater difficulty of recoupment in the event of a borrower' s default. As these loans provide borrowers with short- term capital typically in connection with the acquisition and re- development of a single family or multi- family residence, with a view to the borrower selling the property, there is a risk that a borrower may not be able to sell the property on attractive terms or at all once the property has been re- developed. Moreover, the borrower may experience difficulty in completing the re- development of the property on schedule or at all, whether as a result of cost over- runs, construction- related delays, or other issues, which may result in delays selling the property or an inability to sell the property at all. Since the borrower would typically use the proceeds of the sale of the property to repay the bridge loan, if any of the foregoing events were to occur, the borrower may be unable to repay its loan on a timely basis or at all, which may materially and adversely affect us. We may invest in Alt- A mortgage loans and subprime residential mortgage loans or RMBS collateralized by Alt- A mortgage loans and subprime residential mortgage loans, which are subject to increased risks. We may invest in Alt- A mortgage loans and subprime residential mortgage loans or RMBS backed by collateral pools of Alt- A mortgage loans and subprime residential mortgage loans. Due to economic conditions, including increased interest rates and lower home prices, as well as aggressive lending practices, Alt- A mortgage loans and subprime residential mortgage loans have in recent periods experienced increased rates of delinquency, foreclosure, bankruptcy, and loss, and are likely to continue to experience delinquency, foreclosure, bankruptcy, and loss rates that are higher, and that may be substantially higher, than those experienced by mortgage loans underwritten in a more traditional manner. These loans are also more likely to be negatively impacted by governmental interventions, such as mandated modification programs or foreclosure moratoria, bankruptcy cramdown, regulatory enforcement actions and other requirements. Thus, because of the higher delinquency rates and losses associated with Alt- A mortgage loans and subprime residential mortgage loans, the performance of Alt- A mortgage loans and subprime residential mortgage loans or RMBS backed by Alt- A mortgage loans and subprime residential mortgage loans in which we may invest could be correspondingly adversely affected, which could materially and adversely affect us. We may invest in CRT securities that are subject to mortgage credit risk. We may invest in CRT securities, which are risk- sharing instruments issued by GSEs, or similarly structured transactions arranged by third- party market participants, that transfer a portion of the risk associated with credit losses within pools of conventional residential mortgage loans to investors such as us. The securities issued in the CRT sector are designed to synthetically transfer mortgage credit risk from the GSEs to private investors, and transactions arranged by third- party market participants in the CRT sector are similarly structured to reference a specific pool of loans that have been securitized by the GSEs and to synthetically transfer mortgage credit risk related to those loans to the purchaser of the securities. The holder of CRT securities therefore bears the risk that the borrowers may default on their obligations to make full and timely payments of principal and interest. To the extent that we are a holder of CRT securities, we will be exposed to such risks and may suffer losses. Investments that we make in CMBS pose additional risks. Our portfolio includes CMBS, which are mortgage- backed securities secured by interests in a single commercial mortgage loan or a pool of mortgage loans secured by commercial properties. CMBS are issued in public and private transactions by a variety of public and private issuers using a variety of structures, including senior and subordinated classes. CMBS generally lack standardized terms and tend to have shorter maturities than RMBS. Additionally, certain CMBS lack regular amortization of principal, resulting in a single " balloon " principal payment due at maturity. If the underlying mortgage borrower experiences business problems, or other factors limit refinancing alternatives, such balloon principal payment mortgages are likely to experience payment delays or even default. All of these factors increase the risk involved with investments in CMBS. Most CMBS are effectively non- recourse obligations of the borrower, meaning that there is no recourse against the borrower' s assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgages, payments on the subordinated classes of the related CMBS are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of CMBS may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note, or the foreclosure (or deed- in- lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property. We may acquire MSRs or excess MSRs, which would expose us to significant risks. We may acquire MSRs or excess MSRs. MSRs would arise from contractual agreements between us and investors (or their agents) in mortgage loans and mortgage securities. The determination of the value of MSRs will require us to make numerous estimates and assumptions. Such estimates and assumptions include, without limitation, estimates of future cash flows associated with MSRs based upon assumptions involving interest rates as well as the prepayment rates, delinquencies, and foreclosure rates of the underlying serviced mortgage loans. The ultimate realization of the fair value of MSRs may be materially different than the values of such MSRs estimated by us. The use of different estimates or assumptions in connection with the valuation of these assets could produce materially different fair values for such assets, which could have a material adverse effect on us. Changes in interest rates are a key driver of the performance of MSRs. Historically, the fair value of MSRs has increased when interest rates rise and decreased when interest rates decline due to the effect those changes in interest rates have on prepayment estimates. To the extent we do not hedge against changes in the value of MSRs, our investments in MSRs would be more susceptible to volatility due to changes in the value of, or cash flows from, the MSRs as interest rates change. Prepayment speeds significantly affect MSRs. Prepayment speed is the measurement of how quickly borrowers pay down the unpaid principal balance of their loans or how quickly loans are otherwise brought current, modified, liquidated, or charged off. We may base the price we pay for MSRs and the rate of amortization of those assets on, among other things, projections of the cash flows from the related pool of mortgage loans. Our Manager' s expectation of prepayment speeds is a significant assumption underlying those cash flow projections. If prepayment speed expectations increase significantly, the value of the MSRs could decline. Furthermore, a significant increase in prepayment speeds could materially reduce the ultimate cash flows we receive from MSRs, and we could ultimately receive substantially less return on such assets. Moreover, delinquency rates have a significant impact on the valuation of any MSRs. An increase in delinquencies generally results in lower revenue because typically we would only collect servicing fees for performing loans. Our Manager' s expectation of delinquencies is also a significant assumption underlying projections of potential returns. If delinquencies are significantly greater than expected, the estimated value of the MSRs could be diminished. If the estimated value of MSRs is reduced, we could suffer a loss. Furthermore, MSRs and the related servicing activities are subject to numerous U. S. federal, state, and local laws and regulations and may be subject to various judicial and administrative decisions imposing various requirements and restrictions on the holders of such investments. Our failure to comply, or the failure of the servicer to comply, with the laws, rules, or regulations to which they are subject by virtue of ownership of MSRs, whether actual or alleged, could expose us to fines, penalties, or potential litigation liabilities, including costs, settlements, and judgments, any of which could have a material adverse effect on us. Because excess MSRs are a component of the related MSR, the risks of owning an excess MSR are similar to the risks of owning an MSR. The valuation of excess MSRs is based on many of the same estimates and assumptions used to value MSR assets, thereby creating the same potential for material differences between estimated value and the actual value that is ultimately realized. Also, the performance of excess MSRs is impacted by the same drivers as the performance of MSR assets, including interest rates, prepayment speeds, and delinquency rates. We may invest in ABS and consumer loans, which poses additional risks. To a limited extent, we may invest in ABS and consumer loans if doing so would be consistent with qualifying and maintaining our qualification as a REIT under the Code and maintaining our exclusion from regulation as an investment company under the Investment Company Act. ABS are subject to the credit exposure of the underlying assets. Unscheduled prepayments of ABS may result in a loss of income. Movements in interest rates (both increases and decreases) may quickly and significantly reduce the value of certain types of ABS. Borrower loan loss rates may be significantly affected by delinquencies, defaults, economic downturns, or general economic conditions beyond the control of individual borrowers. Increases in borrower loan loss rates reduce the income generated by, and the value of, ABS. The value of ABS may be affected by other factors, such as the availability of information concerning the pool and its structure, the creditworthiness of the servicing agent for the pool, the originator of the underlying assets or the entities providing credit enhancements and the ability of the servicer to service the underlying collateral. In addition, issuers of ABS may have limited ability to enforce the security interest in the underlying assets, collateral securing the payment of loans may not be sufficient to ensure repayment, and credit enhancements (if any) may be inadequate in the event of default. The ability of borrowers to repay consumer loans may be adversely affected by numerous borrower- specific factors, including unemployment, divorce, major medical expenses, or personal bankruptcy. General factors, including an economic downturn, high energy costs, or acts of God or terrorism, may also affect the financial stability of borrowers and impair their ability or willingness to repay their loans. Whenever a consumer loan held by us defaults, we will be at risk of loss to the extent of any deficiency between the liquidation value of the collateral, if any, securing the loan, and the principal and accrued interest of the loan. In addition, investments in consumer loans may entail greater risk than investments in residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly. Pursuing any remaining deficiency following a default is often difficult or impractical, especially when the borrower has a low credit score, making further substantial collection efforts unwarranted. In addition, repossessing personal property securing a consumer loan can present additional challenges, including locating and taking physical possession of the collateral. We may rely on servicers who service these consumer loans to, among other things, collect principal and interest payments on the loans and perform loss mitigation services, and these servicers may not perform in a manner that promotes our interests. We may invest in distressed or non- performing residential mortgage loans and commercial mortgage loans, which could increase our risk of loss. We may invest in distressed residential mortgage loans and commercial mortgage loans where the borrower has failed to make timely payments of principal and / or interest or where the loan was performing but subsequently could or did become non- performing. There are no limits on the percentage of non- performing loans we may hold. Further, the borrowers on non- performing residential mortgage loans may be in economic distress and / or may have become unemployed, bankrupt, or otherwise unable or unwilling to make payments when due. Borrowers of non- performing commercial mortgage loans may be in economic distress due to changes in the general economic climate or local conditions (such as an oversupply of space or a reduction in demand for space), competition based on rental rates, attractiveness and location of the properties, changes in the financial condition of tenants, and changes in operating costs. Distressed assets may entail characteristics that make disposition or liquidation more challenging, including, among other things, severe document deficiencies or underlying real estate located in states with extended foreclosure timelines. Additionally, many of these loans may have LTVs in excess of 100 %, meaning the amount owed on the loan exceeds the value of the underlying real estate. Any loss we may incur on such investments may be significant and could materially and adversely affect us. We have invested in, and may continue to invest in, TBAs and execute TBA dollar roll transactions. It could be uneconomical to roll our TBA contracts or we may be unable to meet margin calls on our TBA contracts, which could expose us to risks. We have invested in, and may continue to invest in, TBAs. In connection with these investments, we may execute TBA dollar roll transactions, which effectively delay the settlement of a forward purchase (or sale) of a TBA by entering into an offsetting TBA position, net settling the paired- off positions in cash, and simultaneously entering an identical TBA long (or short) position with a later settlement date. Under certain market conditions, TBA dollar roll transactions may result in negative net interest income whereby the Agency RMBS purchased (or sold) for forward settlement under a TBA contract are priced at a premium to Agency RMBS for settlement in the current month. Market conditions could also adversely impact the TBA dollar roll market and, in particular, shifts in prepay expectations on Agency RMBS or changes in the reinvestment policy on Agency RMBS by the U. S. Federal Reserve. Under such conditions, it may be uneconomical to roll our TBA positions prior to the settlement date, and we could have to take physical delivery of the underlying securities and settle our obligations for cash, or in the case of a short position, we could be forced to deliver one of our Agency RMBS, which would mean using cash to pay off any repurchase agreement amounts collateralized by that security. We may not have sufficient funds or alternative financing sources available to settle such obligations. In addition, pursuant to the margin provisions established by the Mortgage- Backed Securities Division (" MBSD ") of the Fixed Income Clearing Corporation, we are subject to margin calls on our TBA contracts and our trading counterparties may require us to post additional margin above the levels established by the MBSD. Negative income on TBA dollar roll transactions or failure to procure adequate financing to settle our obligations or meet margin calls under our TBA contracts could result in defaults or force us to sell assets under adverse market conditions or through foreclosure. We rely on analytical models and other data to analyze potential asset acquisition and disposition opportunities and to manage our portfolio. Such models and other data may be incorrect, misleading, or incomplete, which could cause us to purchase assets that do not meet our expectations or to make asset management decisions that are not in line with our strategy. Our Manager relies on the analytical models (both proprietary and third- party models) of Angel Oak and information and data supplied by third parties. Models and data are used to value assets or potential assets, assess asset acquisition and disposition opportunities, manage our portfolio, assess the timing and amount of cash flows expected to be collected, and may also be used in connection with any hedging of our investments. Many of the models are based on historical trends. These trends may not be indicative of future results. Furthermore, the assumptions underlying the models may prove to be inaccurate, causing the models to also be incorrect. In the event models and data prove to be incorrect, misleading or incomplete, any decisions made in reliance thereon expose us to potential risks. For example, by relying on incorrect models and data, especially valuation or cash flow models, we may be induced to buy certain assets at prices that are too high, to sell certain other assets at prices that are too low, to overestimate or underestimate the timing or amount of cash flows expected to be collected, or to miss favorable opportunities altogether. Similarly, any hedging activities based on faulty models and data may prove to be unsuccessful. Some of the risks of relying on analytical models and third- party data include the following: • collateral cash flows and / or liability structures may be incorrectly modeled in all or only certain scenarios, or may be modeled based on simplifying assumptions that lead to errors; • information about assets or the underlying collateral may be incorrect, incomplete, or misleading; • asset, collateral, RMBS or CMBS historical performance (such as historical prepayments, defaults, cash flows, etc.) may be incorrectly reported, or subject to interpretation; and • asset, collateral, RMBS or CMBS 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. Some models, such as prepayment models or default models, may be predictive in nature. The use of predictive models has inherent risks. For example, such models may incorrectly forecast future behavior, leading to potential losses. In addition, the predictive models used by our Manager may differ substantially from those models used by other market participants, with the result that valuations based on these predictive models may be substantially higher or lower for certain assets than actual market prices. Furthermore, because predictive models are usually constructed based on historical data supplied by third parties, the success of relying on such models may depend heavily on the accuracy and reliability of the supplied historical data, and, in the case of predicting performance in scenarios with little or no historical precedent (such as extreme broad- based declines in home prices, or deep economic recessions or depressions), such models must employ greater degrees of extrapolation and are therefore more speculative and of more limited reliability. All valuation models rely on correct market data inputs. If incorrect market data is entered into even a well- founded valuation model, the resulting valuations will be incorrect. However, even if market data is input correctly, " model prices " may differ substantially from market prices. If our market data inputs are incorrect or our model prices differ substantially from market prices, we could be materially and adversely affected. Valuations of some of our assets are inherently uncertain, may be based on estimates, may fluctuate over short periods of time and may differ from the values that would have been used if a ready market for these assets existed. The values of some of the assets in our portfolio or in which we intend to invest are not readily determinable. We value our assets quarterly at fair value, as determined in good faith by our Manager. Because such valuations are inherently uncertain, may fluctuate over short periods of time, and may be based on estimates, our Manager' s determinations of fair value may differ from the values that would have been used if a ready market for these assets existed or from the prices at which trades occur. While in many cases our Manager' s determination of the fair value of our assets is based on valuations provided by third- party dealers and pricing services, our Manager may value assets based upon its judgment and such valuations may differ from those provided by third- party dealers and pricing services. Furthermore, we may not obtain third- party valuations for all of our assets. Changes in the fair value of our assets directly impact our net income through recording unrealized appreciation or depreciation of our investments and derivative instruments, and so our Manager' s determination of fair value has a material impact on our net income. Valuations of certain assets are often difficult to obtain or are unreliable. In general, dealers and pricing services heavily disclaim their valuations. Additionally, dealers may claim to furnish valuations only as an accommodation and without special compensation, and so they may disclaim any and all liability for any direct, incidental, or consequential damages arising out of any inaccuracy or incompleteness in valuations, including any act of negligence or breach of any warranty. Depending on the complexity and illiquidity of an asset, valuations of the same asset can vary substantially from one dealer or pricing service to another. We could be materially and adversely affected if our Manager' s fair value determinations of our assets were materially different from the values that would exist if a ready market existed for our assets. The lack of liquidity in our assets may have a material adverse effect on us. The investments made or to be made by us in our target assets may be or may become illiquid. Market conditions could significantly and negatively impact the liquidity of these investments. Illiquid assets typically experience greater price volatility, as a ready market may not exist, and can be more difficult to value. It may be difficult or impossible to obtain third- party pricing on the assets that we acquire. If third- party pricing is obtained, validating such pricing may be more subjective than it would be for more liquid assets due to the uncertainties inherent in valuing assets for which reliable market quotations are not available. Any illiquidity of our assets may make it difficult for us to sell such assets on favorable terms or at all. If we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the intrinsic value of the assets and / or the value at which we previously recorded such assets. Assets that are illiquid are more difficult to finance using leverage. When we use leverage to finance assets and such assets subsequently become illiquid, we may lose or be subject to reductions on the financing supporting our leverage. Assets tend to become less liquid during times of financial stress, which is often when liquidity is most needed. As a result, our ability to sell assets or vary our portfolio in response to changes in economic and other conditions may be limited by liquidity constraints, which could have a material adverse effect on us. Additionally, we have engaged, and intend to continue to engage, in securitizations to finance the acquisition and accumulation of mortgage loans or other mortgage- related assets that will be subject to the U. S. Risk Retention Rules. Securitizations for which we act as " sponsor " (as defined in the U. S. Risk Retention Rules), and / or have previously acted as co- sponsor and were selected to be the party obligated to comply with the U. S. Risk Retention Rules, require us (or a " majority- owned affiliate " within the meaning of the U. S. Risk Retention Rules) to retain a 5 % interest in the related securitization issuing entity (the " Risk Retention Securities "). The Risk Retention Securities are required to be (1) a first loss residual interest in the issuing entity representing 5 % of the fair value of the securities and other interests issued as part of the securitization transaction (a " horizontal slice "), (2) 5 % of each class of the securities and other interests issued as part of the securitization transaction (a " vertical slice ") or (3) a combination of a horizontal slice and a vertical slice that, in the aggregate, represents 5 % of the transaction. Regardless of the form of risk retention selected, we or a majority- owned affiliate will be required to hold the Risk Retention Securities until the end of the time period required under the U. S. Risk Retention Rules (i. e., the respective risk retention holding period). We are or will be, as the case may be, generally prohibited from hedging the credit risk of the Risk Retention Securities or from financing the Risk Retention Securities except on a " full recourse " basis in accordance with the U. S. Risk Retention Rules. Accordingly, some of our securitizations **require, or in the case of certain future securitizations,** will require us to hold Risk Retention Securities for an extended period and contribute to the lack of liquidity in our assets, which may have a material adverse effect on us. In addition, in certain cases, we have also covenanted to retain an interest, and to take certain other action, with respect to such securitizations for purposes of the EU / UK Securitization Rules, and we may covenant to retain an interest, and to take certain other action, with respect to certain future securitizations for purposes of the EU / UK Securitization Rules; and, in each case, this has subjected us, or will subject us, to certain risks, including risks similar to those that arise under the U. S. Risk Retention Rules. We may be exposed to environmental liabilities with respect to properties in which we have an interest. In the course of our business, we may take title to real estate, and, if we do take title, we could be subject to environmental liabilities with respect to these properties. In such a circumstance, we may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation, and clean- up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, the presence of hazardous substances may adversely affect an owner' s ability to sell real estate or borrow using real estate as collateral. To the extent that an owner of an underlying property becomes liable for removal costs, the ability of the owner to make debt payments may be reduced, which in turn may materially adversely affect the value of the relevant mortgage- related assets held by us. Insurance proceeds on a property may not cover all losses, which could result in the corresponding non- performance of or loss on our investment related to such property. There are certain types of losses, generally of a catastrophic nature, such as acts of God, earthquakes, floods, hurricanes, terrorism, or acts of war, which may be uninsurable or not economically insurable. Inflation, changes in building codes and ordinances, environmental considerations, and other factors, including acts of God, terrorism, or acts of war, also might result in insurance proceeds that are insufficient to repair or replace a property if it is damaged or destroyed. Under these circumstances, the insurance proceeds received with respect to a property relating to one of our investments might not be adequate to restore our economic position with respect to our investment. Any uninsured loss could result in the corresponding non- performance of or loss on our investment related to such property. Risks Related to Our Company We have a limited operating history and may not be able to operate our business successfully or generate sufficient revenue to make or sustain distributions to our stockholders. We commenced operations ~~in September 2018 and are organized as a Maryland corporation. In October 2018~~ , ~~we~~ **and** began investing in non- QM loans and other target assets **, in 2018** . As a result, we have a limited operating history. We cannot assure you that we will be able to operate our business successfully or implement our operating policies and strategies. There can be no assurance that we will be able to generate sufficient returns to pay our operating expenses and make satisfactory distributions to our stockholders or any distributions at all. Our results of operations depend on several factors, including the availability of opportunities to acquire non- QM loans and other target assets, the level and volatility of interest rates, the availability of adequate short and long- term financing, conditions in the financial markets and general economic conditions. Additionally, our results of operations depend on executing our strategy of making credit- sensitive investments primarily in newly- originated first lien non- QM loans that are primarily sourced from Angel Oak Mortgage Lending, but there can be no assurance that we will be able to acquire such loans from Angel Oak Mortgage Lending on favorable terms or at all. ~~The~~ **We are subject to risks associated with pandemics or other public health crises, which could materially and adversely affect us. We are subject to risks associated with pandemics or other public health crises, including the** COVID- 19 pandemic ~~caused severe and unprecedented disruptions to the U~~ . **While many countries around** ~~S. and global economies and contributed to volatility and negative pressure in financial markets. During~~ the ~~earlier stages of~~ **world have removed the restrictions taken in response to** the COVID- 19 pandemic ~~, governments~~ and **the negative impacts of COVID- 19 have significantly improved, the emergence of new variants of COVID- 19 or another pandemic or** other **public health crisis may result in new preventive measures taken by governmental** authorities **or others** ~~around the world~~

~~imposed measures intended~~ to ~~control its spread~~ **alleviate the crisis** , ~~including~~ **such as mandatory business closures,** quarantines ~~,~~ **and** restrictions on travel ~~, limits on~~ **. Any such measures could adversely impact** the **economy globally or locally, including by leading to further economic slowdowns and additional volatility and disruption of financial markets. Our** operations ~~of non- essential businesses~~ and **financial performance could be materially and adversely impacted as** ~~other~~ -- **the result of** ~~workforce pressures. We are not able to predict~~ the ~~ongoing or~~ future ~~impact~~ **emergence** of ~~the~~ **new variants of** COVID- 19 ~~pandemic~~ , or another pandemic **or other public health crisis** , **and any related shutdowns or other significant business disruptions. The scope and duration of any future pandemic or other public health crisis, the pace at which government and other restrictions are imposed and lifted, the scope of additional actions taken to mitigate the spread of disease, global vaccination and booster rates, the speed and extent to which global or local markets recover from any such disruptions caused by such a public health crisis, and the impact of these factors** on us **would depend on future developments** that ~~may result from~~ **would be highly uncertain and unpredictable. To the extent any** future **pandemic** ~~outbreaks, surges in cases of COVID- 19 or related variants,~~ or other **public health crisis** ~~infectious agents. Future outbreaks or surges in cases of COVID- 19 or related variants, or other pandemic diseases, may result in a material adverse effect on us in the future. While many or all areas of our business could be~~ adversely ~~affected~~ **affects economic** ~~by future or ongoing outbreaks of COVID- 19, including related variants, or another pandemic, we currently believe the following would be among the most material to us: • Residential and commercial real estate values could experience further volatility, which could have a material adverse effect on the value of our investments. • We could fail to meet or satisfy one or more of the covenants in our loan financing lines or other financing arrangements, which could result in a cross- default or cross- acceleration under other financing arrangements, and our lenders could elect to declare outstanding amounts due and payable (or such amounts may automatically become due and payable), terminate their commitments, require the posting of additional collateral or enforce their respective interests against existing collateral. • Difficulty accessing capital on attractive terms, or at all, and a severe disruption and instability in the global financial markets or deterioration in credit and financing~~ conditions **and** ~~could adversely affect our ability to execute our strategy, fund~~ our operations ~~or address maturing liabilities on a timely basis~~ , **it** ~~as well as the ability of the mortgage loan borrowers underlying the loans and securities that we own to meet their obligations to us. • A decline in the housing market and a resulting decline in demand for mortgage financing resulting from the economic effects of the COVID- 19 pandemic could adversely affect our ability to make new investments. • Disruptions to the normal operation of mortgage finance markets could cause our investment activities to cease to function efficiently because of, among other factors, an inability to access short- term or long- term financing, a disruption to the securitization market, or our inability to access these markets or execute securitization transactions. In addition to the foregoing, we have experienced and may in the future experience other negative impacts to our business as a result of the COVID- 19 pandemic, any of which~~ could also have the effect of heightening other risks described in this **“** Item 1A. **Risk Factors. ”** We may change our strategy, investment guidelines, hedging strategy, ~~and~~ asset allocation, operational, and management policies without notice or stockholder consent, which could materially and adversely affect us. Our Board of Directors has the authority to change our strategy, investment guidelines, hedging strategy, ~~and~~ asset allocation, operational, and management policies at any time without notice to or consent from our stockholders, which could result in our purchasing assets or entering into hedging transactions that are different from, and possibly riskier **or less accretive** than, the investments described in this Annual Report on Form 10- K. A change in our investment or hedging strategy may increase our exposure to real estate values, interest rates, and other factors. A change in our asset allocation could result in us purchasing assets in classes different from those described in this Annual Report on Form 10- K, which could materially and adversely affect us. Our due diligence on potential investments may not reveal all of the risks associated with such investments and may not reveal other weaknesses in such investments, which could materially and adversely affect us. Before making an investment, our Manager conducts (either directly or using third parties) certain due diligence. There can be no assurance that our Manager will conduct any specific level of due diligence, or that, among other things, our Manager' s due diligence processes will uncover all relevant facts or that any investment will be successful, which could result in losses on these investments, which, in turn, could materially and adversely affect us. In connection with the investments we make in residential mortgage loans, our Manager often utilizes, and will continue to utilize, third- party due diligence firms to perform independent due diligence on such loans. These firms review every loan and provide grades taking into account factors such as compliance, property appraisal, adherence to guidelines and documentation governing the loan. Our Manager also utilizes third- party pricing vendors to help ensure that the loans we acquire are purchased at a fair price. There can be no assurance that the third parties that our Manager engages will uncover all relevant risks associated with such investments, which could result in losses on these investments, which, in turn, could materially and adversely affect us. Additionally, our strategy is to make credit- sensitive investments primarily in newly- originated first lien non- QM loans that are primarily sourced from Angel Oak Mortgage Lending. Angel Oak Mortgage Lending consists of affiliates of our Manager and, accordingly, our Manager may not conduct as thorough of a review of the loans acquired from Angel Oak Mortgage Lending in comparison to the review our Manager would conduct for loans acquired from unaffiliated third parties. If our Manager conducts more limited due diligence on the loans acquired from Angel Oak Mortgage Lending, such due diligence may not reveal all of the risks associated with such loans, which could materially and adversely affect us. The failure of our third- party servicers to service our investments effectively would materially and adversely affect us. We rely on external third- party servicers to service our investments, including the collection of all interest and principal payments on the loans in our portfolio and to perform loss mitigation services. If our third- party servicers are not vigilant in encouraging borrowers to make their monthly payments, the borrowers may be ~~far~~ less likely to make these payments, which could result in a higher frequency of default. The failure of our third- party servicers to effectively service our mortgage loan investments could negatively impact the value of such investments and our performance, which would materially and adversely affect us. In addition, legislation that has been enacted or that may be enacted in order to reduce or prevent foreclosures through, among other things, loan modifications may reduce the value of our mortgage loans or loans underlying our investments. Mortgage servicers may be incentivized by the U. S. Government to pursue such loan modifications, as well as forbearance plans and other actions intended to prevent foreclosure, even if such loan modifications and other actions are not in the best interests of the owners of the mortgage loans. In addition to legislation that creates financial incentives for mortgage loan servicers to modify loans and take other actions that are intended to prevent foreclosures, legislation has also been adopted that creates a safe harbor from liability to creditors for servicers that undertake loan modifications and other actions that are intended to prevent foreclosures. Finally, laws may delay the initiation or completion of foreclosure proceedings on specified types of residential mortgage loans or otherwise limit the ability of mortgage servicers to take actions that may be essential to preserve the value of the loan. Any such limitations are likely to cause delayed or reduced collections from mortgagors and generally increase servicing costs. As a result of these legislative actions, the mortgage servicers on which we rely may not perform in our best interests or up to our expectations. If our third- party servicers, including mortgage servicers, do not perform as expected, it ~~would~~ **may** materially and adversely affect us. We may be affected by deficiencies in foreclosure practices of third parties, as well as related delays in the foreclosure process. There continues to be uncertainty regarding the timing and ability of servicers to remove delinquent borrowers from their homes, so that they can liquidate the underlying properties and ultimately pass the liquidation proceeds through to owners of the residential mortgage loans or other assets. Since the **2008** housing crisis, and in response to the well- publicized failures of many servicers to follow proper foreclosure procedures (such as involving " robo- signing "), mortgage servicers are being held to much higher foreclosure- related documentation standards than they previously were. However, because many mortgages have been transferred and assigned multiple times (and by means of varying assignment procedures), mortgage servicers have historically had difficulty, and may continue to have difficulty, furnishing the requisite documentation to initiate or complete foreclosures. This leads to stalled or suspended foreclosure proceedings, and ultimately additional foreclosure- related costs. Foreclosure- related delays also tend to increase ultimate loan loss severities as a result of property deterioration, amplified legal and other costs, and other factors. Many factors delaying foreclosure, such as borrower lawsuits and judicial backlog and scrutiny, are outside a servicer' s control and have delayed, and will likely continue to delay, foreclosure processing in both judicial states (where foreclosures require court involvement) and non- judicial states. The concerns about deficiencies in foreclosure practices of servicers and related delays in the foreclosure process may impact our loss assumptions and affect the values of, and our returns on, our investments in residential mortgage loans, including non- QM loans, and in other target assets. Additionally, a servicer' s failure to remove delinquent borrowers from their homes in a timely manner could increase our costs, adversely affect the value of the property and residential mortgage loans **,** and have a material adverse effect on us. The U. S. Government, through the U. S. Treasury, the Federal Housing Administration, and the Federal Deposit Insurance Corporation, has in the past, and may in the future, implement programs designed to provide homeowners with assistance in avoiding mortgage loan foreclosures. The programs may involve, among other things, the modification of mortgage loans to reduce the principal amount of the loans or the rate of interest payable on the loans, or to extend the payment terms of the loans. Loan modification and refinance programs may adversely affect the performance of our residential mortgage loans and other target assets. A significant number of loan modifications relating to our investments in residential mortgage loans and other target assets, including those related to principal forgiveness and coupon reduction, could negatively impact the realized yields and cash flows on such investments. In addition, it is also likely that loan modifications would result in increased prepayments on our investments. See " — Risks Related to Our Investment Activities — Prepayment rates may adversely affect the value of our portfolio " for information relating to the impact of prepayments on our investments. The U. S. Congress and various state and local legislatures may pass mortgage- related legislation that would affect our business, including legislation that would permit limited assignee liability for certain violations in the mortgage loan origination process, and legislation that would allow judicial modification of loan principal in the event of personal bankruptcy. We cannot predict whether or in what form Congress or the various state and local legislatures may enact legislation affecting our business or whether any such legislation will require us to change our practices or make changes in our portfolio in the future. These changes, if required, could materially and adversely affect us, particularly if we make such changes in response to new or amended laws, regulations, or ordinances in any state where we hold a significant portion of our investments, or if such changes result in us being held responsible for any violations in the mortgage loan origination process. Existing loan modification programs, together with future legislative or regulatory actions, including possible amendments to the bankruptcy laws, which result in the modification of outstanding residential mortgage loans and / or changes in the requirements necessary to qualify for refinancing of mortgage loans with Fannie Mae, Freddie Mac, or Ginnie Mae, may adversely affect the value of, and the returns on, our target assets, which could materially and adversely affect us. We operate in a highly competitive market. Our profitability depends, in large part, on our ability to acquire our target assets at favorable prices. Although our strategy is to make credit- sensitive investments primarily in newly- originated first lien non- QM loans that are primarily sourced from Angel Oak Mortgage Lending, Angel Oak Mortgage Lending has no obligation to sell non- QM loans and other target assets to us and, as a result, we may need to acquire non- QM loans and other target assets from unaffiliated third parties, including through the secondary market when market conditions and asset prices are conducive to making attractive purchases. In acquiring non- QM loans and other target assets from unaffiliated third parties, we compete with other mortgage REITs, specialty finance companies, savings and loan associations, banks, mortgage bankers, insurance companies, mutual funds, institutional investors, investment banking firms, financial institutions, governmental bodies and other entities. Additionally, we may also compete with the U. S. Federal Reserve and the U. S. Treasury to the extent they purchase assets meeting our objectives pursuant to various purchase programs. Many of our competitors are ~~significantly~~ larger than us, have greater access to capital and other resources and may have other advantages over us. Our competitors may include other entities managed by Angel Oak, including with respect to loans originated by Angel Oak Mortgage Lending. In addition to existing companies, other companies may be organized for similar purposes, including companies focused on purchasing mortgage assets. A proliferation of such companies may increase the competition for equity capital and thereby adversely affect the market price of our common stock. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of assets and establish more relationships than us. We also may have different operating constraints from those of our competitors including, among others, (1) tax- driven constraints such as those arising from our qualifying and maintaining our qualification as a REIT, (2) restraints imposed on us as a result of maintaining our exclusion from the definition of an " investment company " or other exemptions under the Investment Company Act and (3) restraints and additional costs arising from our status as a public company. Furthermore, competition for our target assets may lead to the price of such assets increasing, which may further limit our ability to generate desired returns. We cannot assure you that the competitive pressures we face will not have a material adverse effect on us. A change to the conservatorship of Fannie Mae and Freddie Mac and related actions, along with any changes in laws and regulations affecting the relationship between Fannie Mae and Freddie Mac and the U. S. Government, could materially and adversely affect us. **Since 2008,** ~~There is significant uncertainty surrounding the futures of~~ Fannie Mae and Freddie Mac **have been in conservatorship** ~~. The continued flow of MBS from these GSEs~~ , **with** ~~supported by~~ their **primary regulator** ~~guarantees against borrower defaults~~ , ~~is~~ **the Federal Housing Finance Agency, acting as conservator. While Fannie Mae and Freddie Mac currently act as the primary sources of liquidity in the** ~~essential~~ **residential** ~~to the operation of the~~ mortgage markets **, both by purchasing mortgage loans for their own portfolios and by guaranteeing mortgage-backed securities, the U. S. Government may enact structural changes to one or more of the GSEs, including privatization, consolidation and / or a reduction in the ability of GSEs to purchase mortgage loans or guarantee mortgage obligations. We cannot predict if, when or how the conservatorships will end, or what associated changes (if any) may be made to the structure, mandate or overall business practices of either of the GSEs. Accordingly, there continues to be uncertainty regarding the future of the GSEs, including whether they will continue to exist** in their current form ~~,~~ and ~~important to our strategies. The U. S. Congress has announced its intention to consider the elimination or restructuring of these GSEs. In addition, in September 2019, the U. S. Department of Treasury released its Housing Reform Plan, which outlines potential changes to the U. S. Government' s role in the mortgage market, such as recommendations to end the conservatorships of the GSEs and restructure and privatize Fannie Mae and Freddie Mac. However, no legislation has been enacted with respect to any of the foregoing, and it is not possible at this time to predict the timing of the enactment of the Housing Reform Plan, or~~ whether ~~the~~ **they** ~~Housing Reform Plan~~ will **continue** ~~be enacted as proposed or at all, or the scope and nature of any other actions that the U. S. Government will ultimately take with respect~~ to **meet** ~~these GSEs. As a result, there can be no assurance of the continuation of Fannie Mae and Freddie Mac as currently constituted and operated. Any significant changes to the structure of these GSEs or any failure by the GSEs to honor~~ their guarantees and other obligations **. A substantial reduction in mortgage purchasing activity by the GSEs** could ~~materially and adversely affect us~~ **result in increased volatility in the residential housing market** . Certain actions by the U. S. Federal Reserve could materially and adversely affect us. Changing benchmark interest rates, and the U. S. Federal Reserve' s actions and statements regarding monetary policy, can affect the fixed- income and mortgage finance markets in ways that could adversely affect the value of, and returns on, our investments, which could materially and adversely affect us. Statements by the U. S. Federal Reserve regarding monetary policy and the actions it takes to set or adjust monetary policy may affect the expectations and outlooks of market participants in ways that adversely affect our investments. Over the past few years, statements made by the Chair and other members of the ~~Board of Governors of the~~ U. S. Federal Reserve **Board** and by other U. S. Federal Reserve officials regarding the U. S. economy, future economic growth, the U. S. Federal Reserve' s future open market activity and monetary policy had a significant impact on, among other things, benchmark interest rates, the value of residential mortgage loans and, more generally, the fixed- income markets. **In addition, recently the U. S. Federal Reserve Board has raised, and may continue to raise, certain benchmark interest rates in an effort to curb inflation.** These statements **and** ~~, the~~ actions of the U. S. Federal Reserve, and other factors also significantly impacted many market participants' expectations and outlooks regarding future levels of benchmark interest rates and the expected yields these market participants would require to invest in fixed- income instruments. To the extent benchmark interest rates rise, one of the immediate potential impacts on our assets would be a reduction in the overall value of our assets and the overall value of the pipeline of mortgage loans that our Manager identifies, including from Angel Oak Mortgage Lending. Rising benchmark interest rates also generally have a negative impact on the overall cost of borrowings we may use to finance our acquisitions and holdings of assets, including as a result of the requirement to post additional margin (or collateral) to lenders to offset any associated decline in value of the assets we finance with the use of leverage. Rising benchmark interest rates may also cause sources of leverage that we may use to finance our investments to be unavailable or more limited in their availability in the future. These and other developments could materially and adversely affect us. We are subject to counterparty risk and may be unable to seek indemnity or require our counterparties to repurchase mortgage loans if they breach representations and warranties, which could have a material adverse effect on us. When selling mortgage loans, sellers typically make customary representations and warranties about such loans. Our residential mortgage loan purchase agreements may entitle us to seek indemnity or demand repurchase or substitution of the loans in the event our counterparties breach a representation or warranty given to us. However, there can be no assurance that our mortgage loan purchase agreements will contain appropriate representations and warranties, that we will be able to enforce our contractual right to repurchase or substitution, or that our counterparties will remain solvent or otherwise be able to honor their obligations under these mortgage loan purchase agreements. Our inability to obtain indemnity or require repurchase of a significant number of loans could have a material adverse effect on us **. Maintaining cybersecurity and data security is important to our business and a breach of our cybersecurity or data security could result in serious harm to our reputation and have a material adverse impact on our business and financial results When we acquire or originate real estate mortgage loans, we come into possession of borrower non- public personal information that an identity thief could utilize in engaging in fraudulent activity or theft. We and our Manager may share this information with third parties, such as loan sub-**

servicers, outside vendors, third parties interested in acquiring such loans from us, or lenders extending credit to us collateralized by such loans. We have acquired more than 8, 000 residential mortgage loans since 2018. While our Manager has security measures in place to protect this information and prevent security breaches, these security measures may be compromised as a result of third- party action, including intentional misconduct by computer hackers, cyber- attacks, " phishing " attacks, service provider or vendor error, or malfeasance or other intentional or unintentional acts by third parties and bad actors, including third- party service providers. Furthermore, borrower data, including personally identifiable information, may be lost, exposed, or subject to unauthorized access or use as a result of accidents, errors, or malfeasance by our Manager and its employees, independent contractors, or others working with us or on our behalf. Our and our Manager' s servers and systems, and those of our service providers, may be vulnerable to computer malware, break- ins, denial- of- service attacks, and similar disruptions from unauthorized tampering with our or our Manager' s computer systems, which could result in someone obtaining unauthorized access to borrowers' data or our or our Manager' s data, including other confidential business information. We and our Manager have developed our cybersecurity systems and processes that are intended to protect this type of data and information; however, they may not be effective in preventing unauthorized access in the future. While past unauthorized access has been immaterial to our business and financial results, there can be no assurance of a similar result in the future. Furthermore, because the techniques used to obtain unauthorized access to, or to sabotage, systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or implement adequate preventative measures. We may also experience security breaches that may remain undetected for an extended period. We may be liable for losses suffered by individuals whose identities are stolen as a result of a breach of the security of the systems that we, our Manager or third- parties and service providers of ours store this information on, and any such liability could be material. Even if we are not liable for such losses, any breach of these systems could expose us to material costs in notifying affected individuals and providing credit monitoring services to them, as well as regulatory fines or penalties. In addition, any breach of these systems could disrupt our normal business operations and expose us to reputational damage and lost business, revenues, and profits. Any insurance we maintain against the risk of this type of loss may not be sufficient to cover actual losses, or may not apply to the circumstances relating to any particular breach. Security breaches could also significantly damage our reputation with existing and prospective loan sellers, borrowers, and third parties with whom we do business. Any publicized security problems affecting our businesses and / or those of such third parties may negatively impact the market perception of our products and discourage market participants from doing business with us. These risks may increase in the future as we continue to increase our reliance on the internet and our or our Affiliates use of web- based product offerings and on the use of cybersecurity . Our business is highly dependent on communications and information systems. Any failure or interruption of our systems or cyber- attacks or security breaches of our networks or systems could cause delays or other problems in acquiring mortgage loans or our securitization activities, which could have a material adverse effect on us. In addition, we also face the risk of operational failure, termination or capacity constraints of any of the third parties with which we do business, including our Manager, Angel Oak Mortgage Lending, due diligence firms, pricing vendors, and servicers, or that facilitate our business activities, including clearing agents or other financial intermediaries we use to facilitate our securitization transactions, if their respective systems experience failure, interruption, cyber- attacks, or security breaches. Computer malware, viruses, and computer hacking and phishing attacks have become more prevalent in the financial services industry and may occur on our systems in the future. We rely heavily on our financial, accounting, and other data processing systems. Financial services institutions have reported 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 have experienced an undetected breach, and it is likely that other financial institutions have experienced more breaches than have been detected and reported. There is no assurance that we, or the third parties that facilitate our business activities, have not or will not experience a breach. It is difficult to determine what, if any, negative impact may directly result from any specific interruption or cyber- attacks or security breaches of our networks or systems (or the networks or systems of third parties that facilitate our business activities) or any failure to maintain performance, reliability and security of our technical infrastructure, but such computer malware, viruses, and computer hacking and phishing attacks may have a material adverse effect on us. We or Angel Oak, including our Manager and its affiliates, may be subject to regulatory inquiries or proceedings. At any time, industry- wide or company- specific regulatory inquiries or proceedings can be initiated and we cannot predict when or if any such regulatory inquiries or proceedings will be initiated that involve us or Angel Oak, including our Manager and its affiliates. Over the years, Angel Oak has received, and we expect in the future that they may receive, inquiries, and requests for documents and information from various U. S. federal and state regulators. Any such regulatory inquiries may result in investigations of us or Angel Oak, including our Manager or its affiliates, enforcement actions, fines, or penalties or the assertion of private litigation claims against us or Angel Oak, including our Manager or its affiliates. We can give no assurances that any future regulatory inquiries will not result in investigations of us or Angel Oak, including our Manager or its affiliates, enforcement actions, fines or penalties, or the assertion of private litigation claims against us or Angel Oak, including our Manager or its affiliates. In the event regulatory inquiries were to result in investigations, enforcement actions, fines, penalties, or the assertion of private litigation claims against us or Angel Oak, including our Manager or its affiliates, our reputation or the reputation of Angel Oak, including our Manager and its affiliates, could be damaged, and our Manager' s ability to perform its obligations to us under the Management Agreement could be adversely impacted, which could in turn have a material adverse effect on us. At any time, U. S. federal, state, local, or foreign laws or regulations that impact our business, or the administrative interpretations of those laws or regulations, may be enacted or amended. For example, the Dodd- Frank Act significantly revised many financial regulations. Certain portions of the Dodd- Frank Act were effective immediately, while other portions have become or will become effective following rule- making and transition periods, but many of these changes could materially impact the profitability of our business or the business of Angel Oak, including our Manager, our access to financing or capital, and the value of the assets that we hold, and could expose us to additional costs, require changes to business practices or otherwise materially and adversely affect us. For example, the Dodd- Frank Act alters the regulation of commodity interests, imposes regulation on the over- the- counter (" OTC ") derivatives market, places restrictions on residential mortgage loan originations, and reforms the asset- backed securitization markets most notably by imposing credit requirements. While there continues to be uncertainty about the exact impact of ~~all~~ **certain** of these changes, ~~we do know that~~ we and our Manager are subject to a ~~more~~ complex regulatory framework, and are incurring and will in the future incur costs to comply with new or ~~recent~~ **existing** requirements as well as to monitor compliance ~~in the future~~. We cannot predict when or if any new law, regulation, or administrative interpretation, including those related to the Dodd- Frank Act, or any amendment to or repeal of any existing law, regulation, or administrative interpretation, will be adopted or promulgated or will become effective. Additionally, the adoption or implementation of any new law, regulation, or administrative interpretation, or any revisions in or repeals of these laws, regulations, or administrative interpretations, including those related to the Dodd- Frank Act, could cause us to change our portfolio, could constrain our strategy, or increase our costs. We could be adversely affected by any change in or any promulgation of new law, regulation, or administrative interpretation. We intend to conduct our operations so that neither we nor any of our subsidiaries are required to register as an investment company under the Investment Company Act. We are organized as a holding company and conduct our business through our operating partnership' s wholly- owned and majority- owned subsidiaries. The securities issued to our operating partnership by any wholly- owned or majority- owned subsidiaries that it may form that are excluded from the definition of " investment company " based on Section 3 (c) (1) or Section 3 (c) (7) of the Investment Company Act, together with any other investment securities our operating partnership may own, may not have a value in excess of 40 % of the value of our operating partnership' s total assets on an unconsolidated basis, exclusive of U. S. Government securities and cash items. This requirement limits our ability to make certain investments and could require us to restructure our operations, sell certain of our assets or abstain from the purchase of certain assets, which could materially and adversely affect us. Most of our investments are, and we expect ~~the~~ **they** will continue to be, held by our operating partnership' s wholly- owned or majority- owned subsidiaries and that most of these subsidiaries will rely on the exclusion from the definition of an investment company under Section 3 (c) (5) (C) of the Investment Company Act, which is available for entities " primarily engaged in [the business of]... purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. " This exclusion, as interpreted by the SEC staff, generally requires that at least 55 % of a subsidiary' s portfolio must be comprised of qualifying real estate assets and at least 80 % of its portfolio must be comprised of qualifying real estate assets and real estate- related assets (and no more than 20 % comprised of miscellaneous assets). For purposes of the exclusion provided by Section 3 (c) (5) (C), we classify our investments based in large measure on no- action letters issued by the SEC staff and other SEC interpretive guidance and, in the absence of SEC guidance, on our view of what constitutes a qualifying real estate asset and a real estate- related asset. Although we intend to monitor our portfolio on a regular basis, there can be no assurance that we will be able to maintain this exclusion from registration for each of these subsidiaries. These requirements limit the assets those subsidiaries can own and the timing of sales and purchases of those assets, which could materially and adversely affect us. **The** ~~On August 31, 2011, the~~ SEC ~~published~~ **has periodically solicited public comment on** a **wide range** ~~concept release entitled " Companies Engaged in the Business~~ of **issues relating to** ~~Acquiring Mortgages and Mortgage Related Instruments " (Investment Company Act Rel. No. 29778). This release notes that the SEC is reviewing~~ the Section 3 (c) (5) (C) exclusion relied upon by companies similar to us that invest in mortgage loans and mortgage- backed securities **, including the nature of the assets that qualify for purposes of the exemption and whether mortgage REITs should be regulated in a manner similar to investment companies** . There can be no assurance that the laws and regulations governing the Investment Company Act status of companies similar to ours, or the guidance from the SEC or its staff regarding the treatment of assets as qualifying real estate assets or real estate- related assets, will not change in a manner that adversely affects our operations as a result of this review. To the extent that the SEC or its staff provides more specific guidance regarding any of the matters bearing upon our exclusion from the need to register under the Investment Company Act, we may be required to adjust our strategy accordingly. Any additional guidance from the SEC staff could further inhibit our ability to pursue the strategies that we have chosen. Accounting rules for certain of our transactions are highly complex and involve significant judgment and assumptions. Changes in accounting interpretations or assumptions could impact our consolidated financial statements. Accounting rules for transfers of financial assets, securitization transactions, consolidation of VIEs, and other aspects of our anticipated operations are highly complex and involve significant judgment and assumptions. These complexities could lead to a delay in preparation of financial information and the delivery of this information to our stockholders. Changes in accounting interpretations or assumptions could impact our consolidated financial statements and our ability to timely prepare our consolidated financial statements. Our inability to timely prepare our consolidated financial statements in the future would likely materially and adversely affect us. Future joint venture investments could be adversely affected by our lack of sole decision- making authority, our reliance on joint venture partners' financial condition and liquidity, and disputes between us and our joint venture partners. **In** ~~We may in~~ the future **, we may** make investments through joint ventures. Such joint venture investments may involve risks not otherwise present when we make investments without partners, including the following: • we may not have exclusive control over the investment or the joint venture, which may prevent us from taking actions that are in our best interest; • joint venture agreements often restrict the transfer of a partner' s interest or may otherwise restrict our ability to sell the interest when we desire and / or on advantageous terms; • any future joint venture agreements may contain buy- sell provisions pursuant to which one partner may initiate procedures requiring the other partner to choose between buying the other partner' s interest or selling its interest to that partner; • we may not be in a position to exercise sole decision- making authority regarding the investment or joint venture, which could create the potential risk of creating impasses on decisions, such as with respect to acquisitions or dispositions; • a partner may, at any time, have economic or business interests or goals that are, or that may become, inconsistent with our business interests or goals; • a partner may be in a position to take action contrary to our instructions, requests, policies or objectives, including our policy with respect to qualifying and maintaining our qualification as a REIT and maintaining our exclusion from regulation as an investment company under the Investment Company Act; • a partner may fail to fund its share of required capital contributions or may become bankrupt, which may mean that we and any other remaining partners generally would remain liable for the joint venture' s liabilities; • our relationships with our partners are contractual in nature and may be terminated or dissolved under the terms of the applicable joint venture agreements and, in such event, we may not continue to own or operate the interests or investments underlying such relationship or may need to purchase such interests or investments at a premium to the market price to continue ownership; • disputes between us and a partner may result in litigation or arbitration that could increase our expenses and prevent our Manager and our officers and directors from focusing their time and efforts on our business and could result in subjecting the investments owned by the joint venture to additional risk; or • we may, in certain circumstances, be liable for the actions of a partner, and the activities of a partner could adversely affect our qualification and maintenance of our qualification as a REIT and maintenance of our exclusion from regulation as an investment company under the Investment Company Act, even though we do not control the joint venture. Any of the above may subject us to liabilities in excess of those contemplated and adversely affect the value of our future joint venture investments. If we fail to develop, enhance and implement strategies to adapt to changing conditions in the residential real estate and capital markets, our financial condition and results of operations may be materially and adversely affected. The manner in which we compete and the types of assets in which we seek to invest will be affected by changing conditions resulting from sudden changes in our industry, regulatory environment, the role of GSEs, the role of credit rating agencies or their rating criteria or process, or the U. S. and global economies generally. If we do not effectively respond to these changes, or if our strategies to respond to these changes are not successful, we may be materially and adversely affected. In addition, we may not be successful in executing our business strategies and, even if we successfully implement our business strategies, we may not generate revenues or profits. Risks Related to Our Financing and Hedging As of December 31, ~~2022~~ **2023**, we had approximately $ ~~692~~ **484**. ~~4~~ **3** million of debt outstanding, including approximately $ ~~639~~ **290**. ~~9~~ **6** million outstanding under various uncommitted loan financing lines ~~and static loan pool financing arrangements~~ with a combination of multinational and global money center banks, ~~institutional investors, and large regional banks,~~ which permitted borrowings in an aggregate amount of up to $ 1. ~~21~~ **1** billion as of December 31, ~~2022~~ **2023**; and approximately $ ~~52~~ **193**. ~~5~~ **7** million outstanding under short- term repurchase facilities. **Our charter,bylaws and investment guidelines contain no limitation on the amount of debt we may incur,and our Manager has the discretion**,without the need for further approval by our Board of Directors,to change both our overall leverage and the leverage used for individual asset classes. ~~Because our strategy is flexible,dynamic,and opportunistic,our overall leverage and the leverage used for individual asset classes will vary over time.~~ Our **substantial indebtedness** ~~leverage ratio may increase as we continue to purchase additional loans,if those loans are financed.Depending on market conditions,we expect that our primary sources of financing going forward will include securitizations,loan financing lines~~ and **any** ~~repurchase facilities.In the~~ future ~~,~~ **indebtedness** we **incur** ~~may also utilize other types of borrowings,including bank credit facilities and warehouse lines of credit,among others.Incurring substantial debt could subject~~ **subjects** us to many risks that,if realized,would materially and adversely affect us,including the risk that:• our cash flow from operations may be insufficient to make required payments of principal ~~of~~ and interest on our debt,which is likely to result in (1) acceleration of such debt (and any other debt containing a cross- default or cross- acceleration provision),which we then may be unable to repay from internal funds or to refinance on favorable terms,or at all,(2) our inability to borrow undrawn amounts under our financing arrangements,even if we are current in payments on borrowings under those arrangements,which would result in a decrease in our liquidity,and / or (3) the loss of some or all of our collateral assets to foreclosure or sale;• our debt may increase our vulnerability to adverse economic and industry conditions with no assurance that investment yields will increase in an amount sufficient to offset the higher financing costs;• we may be required to dedicate a substantial portion of our cash flow from operations to payments on our debt,thereby reducing funds available for operations,future business opportunities,stockholder distributions or other purposes;and • we may not be able to refinance any debt that matures prior to the maturity (or realization) of an underlying investment it was used to finance on favorable terms or at all. **In addition,our substantial indebtedness could limit our ability to obtain additional financing on acceptable terms,or at all,for working capital and general corporate purposes.Our liquidity needs vary significantly from time to time and may be affected by general economic conditions,industry trends,performance and many other factors outside our control.** There can be no assurance that our leverage strategy will be successful,and our leverage strategy may cause us to incur significant losses,which could materially and adversely affect us.We depend upon the availability of adequate capital and financing sources to fund our operations.Our lenders include or are expected to include global money center and large regional banks,with exposures both to global financial markets and to more localized conditions.Whether because of a global or local financial crisis or other circumstances,if one or more of our lenders experiences severe financial difficulties,they or other lenders could become unwilling or unable to provide us with financing,or could increase the costs of that financing,or could become insolvent.Moreover,we are currently party to short- term borrowings (in the form of loan financing lines and repurchase facilities) and there can be no assurance that we will be able to replace these borrowings,or " roll " them,as they mature on a continuous basis and it may be more difficult for us to obtain debt financing on favorable terms or at all.In addition,if regulatory capital requirements imposed on our lenders change,they may be required to limit,or increase the cost of,financing they provide to us.In general,this could potentially increase our financing costs and reduce our liquidity or require us to sell assets at an inopportune time or price.Consequently,depending on market conditions at the relevant time,we may have to rely on additional equity issuances to meet our capital and financing needs,which may be dilutive to our stockholders,or we may have to rely on less efficient forms of debt financing that consume a larger portion of our cash flow from operations,thereby reducing funds available for our operations,future business opportunities,cash distributions to our stockholders,and other purposes.We cannot assure you that we will have access to such equity or debt capital on favorable terms (including,without limitation,cost and term) at the desired times,or at all,which may cause us to curtail our asset acquisition activities and / or dispose of assets,which could materially and adversely affect us.We use leverage in executing our business strategy,which may materially and adversely affect us.We use leverage in connection with the investment in and holding of mortgage loans and other assets,and we have financed,and expect to continue to finance,a substantial portion of our mortgage loans through securitizations.Leverage will magnify both the gains and the losses on an investment.Leverage will increase our returns as long as we earn a greater return on investments purchased with borrowed funds than our cost of borrowing such funds although there can be no assurance that would be able to earn such a greater return.Moreover,if we use leverage to acquire an asset and the value of the asset decreases,the leverage will increase our losses.We may be required to post large amounts of cash as collateral or margin to secure our leveraged positions.In the event of a sudden,precipitous drop in the value of our financed assets,we might not be able to liquidate assets quickly enough to repay our borrowings,further magnifying losses.See " — Our lenders and our derivative counterparties may require us to post additional collateral,which may force us to liquidate assets,and if we fail to post sufficient collateral our debts may be accelerated and / or our derivative contracts terminated on unfavorable terms." Even a small decrease in the value of a leveraged asset may require us to post additional margin or cash collateral **.This may materially and adversely affect us.** We expect **to continue** to use loan financing lines to finance the acquisition and accumulation of mortgage loans or other mortgage- related assets pending their eventual securitization. ~~We may use static loan pool financing arrangements to hold loans already acquired for eventual securitization or other disposition.~~ Upon accumulating an appropriate amount of assets, we expect **to continue** to finance a substantial portion of our mortgage loans utilizing fixed rate term securitization funding that provides long- term financing for our mortgage loans and locks in our cost of funding, regardless of future interest rate movements . We may also issue additional equity......, regardless of future interest rate movements , but also exposes us to the risk of first loss. Our ability to continue to obtain permanent non- recourse financing through securitizations is affected by a number of factors, including: • conditions in the securities markets, generally; • conditions in the asset- backed securities markets, specifically; • yields on our portfolio of mortgage loans; • the credit quality of our portfolio of mortgage loans; and • our ability to obtain any necessary credit enhancement. Securitization markets are negatively impacted by any factors which reduce liquidity, increase risk premiums for issuers, reduce investor demand, cause financial distress among financial guaranty insurance providers, or by a general tightening of credit and / or increased regulation. Conditions such as these may from time to time result in a delay in the timing of our securitization of mortgage loans or may reduce or even eliminate our ability to securitize mortgage loans and sell securities in the RMBS or CMBS market, any of which would increase the cost of funding our mortgage loan portfolio. Our loan financing lines may not be adequate to fund our mortgage loan purchasing activities until such time as disruptions in the securitization markets subside. This would require us to hold the mortgage loans we acquire on our balance sheet, which would significantly delay our ability to fund the acquisition of additional mortgage loans or use equity capital to acquire any other target assets. Disruptions in the securitization market, including any adverse change, delay, or inability to access the securitization market, could therefore materially and adversely affect us. Low investor demand for asset- backed securities could also force us to hold mortgage loans until investor demand improves, but our capacity to hold such mortgage loans in our portfolio is not unlimited. Additionally, adverse market conditions could result in increased costs and reduced margins earned in connection with our securitization transactions. Our ability to execute securitizations may be impacted, delayed, limited, or precluded by legislative and regulatory reforms applicable to asset- backed securities and the institutions that sponsor, service, rate, or otherwise participate in, or contribute to, the successful execution of a securitization transaction. With respect to any securitization transaction engaged in by us, these factors could limit, delay, or preclude our ability to execute securitization transactions and could also reduce the returns we would otherwise expect to earn in connection with securitization transactions. The Dodd- Frank Act imposed significant changes to the legal and regulatory framework applicable to the asset- backed securities markets and securitizations, directing various U. S. federal regulators to engage in rule- making actions aimed at dramatically reforming regulation of U. S. financial markets. Included among those changes were the adoption of several rules by the SEC as part of Regulation AB II, which set forth disclosure requirements for securitization transactions, and the joint establishment of the U. S. Risk Retention Rules by a group of U. S. federal regulators, which require that the sponsors of securitizations **(or their " majority- owned affiliates, " as defined under Regulation RR)** retain a minimum of 5 % of the credit risk of the assets collateralizing any securitization transaction they bring to market **, subject to certain exemptions and exclusions** . While many of the rule- makings required by the Dodd- Frank Act have been finalized and are either effective or pending effectiveness, others remain to be finalized or even proposed. Further, many of the rules that have been finalized have been subject to modification or interpretation since their effective date, oftentimes in order to **clarify** ~~clear up~~ ambiguities present in the final rules. Accordingly, it is difficult to predict with certainty how the Dodd- Frank Act and the other regulations that have been proposed, finalized or recently implemented will affect our ability to execute securitizations. In addition to the Dodd- Frank Act, its related rules and Regulation AB II, other U. S. federal or state laws and regulations that could affect our ability to execute securitization transactions may be proposed, enacted, **modified** or implemented **. In addition, the securitization industry continues to craft changes to securitization practices, including changes to representations and warranties in securitization transaction documents, new underwriting guidelines and disclosure guidelines** . These laws and regulations **and changes to securitization practices** could **alter the structure of securitizations in the future, could pose additional risks to our participation in future securitizations or** effectively preclude us from executing securitization transactions, could delay our execution of these types of transactions, or could reduce the returns we would otherwise expect to earn from executing securitization transactions. Additionally, capital and leverage requirements applicable to banks and other regulated financial institutions that traditionally purchase and hold asset- backed securities, could result in less investor demand for securities issued through securitization transactions or increased competition from other institutions that execute securitization transactions ~~. The securitization process is subject to an evolving~~

~~regulatory environment that may affect certain aspects of our current business. As a result of the dislocation of the credit markets during the 2008 recession, and in anticipation of more extensive regulation, including regulations promulgated pursuant to the Dodd- Frank Act, the securitization industry has crafted and continues to craft changes to securitization practices, including changes to representations and warranties in securitization transaction documents, new underwriting guidelines and disclosure guidelines. Pursuant to the Dodd- Frank Act, various U. S. federal agencies, including the SEC, have promulgated regulations with respect to issues that affect securitizations. The U. S. Risk Retention Rules generally require the sponsor of a securitization to retain not less than 5 % of the credit risk of the assets collateralizing the issuer' s securities. When applicable, the U. S. Risk Retention Rules generally require the " securitizer " of a " securitization transaction " to retain at least 5 % of the " credit risk " of " securitized assets, " as such terms are defined for purposes of that statute, and generally prohibit a securitizer from directly or indirectly eliminating or reducing its credit exposure by hedging or otherwise transferring the credit risk that the securitizer is required to retain. The regulatory environment in the United States may be impacted by future legislative developments, such as amendments to key provisions of the Dodd- Frank Act. On February 3, 2017, an executive order was signed calling for the administration to review U. S. financial laws and regulations in order to determine their consistency with a set of core principles identified in the order. Future changes may include certain de- regulatory measures for the U. S. financial services industry, including changes to Financial Stability Oversight Council, the Volcker Rule and credit risk retention requirements, among other areas. These developments, and other proposed regulations affecting securitizations, could alter the structure of securitizations in the future, pose additional risks to our participation in future securitizations or reduce or eliminate the economic incentives for participating in future securitizations, increase the costs associated with our acquisition or securitization activities, or otherwise increase the risks or costs of our doing business~~. A number of factors may determine whether a securitization transaction that we execute or participate in is profitable. One such factor is the price at which we acquire the mortgage loans that we intend to securitize, which may be impacted by, among other things, the level of competition in the marketplace or the relative desirability to originators, including Angel Oak Mortgage Lending, of retaining mortgage loans as investments versus selling them to third parties such as us. See " — Risks Related to Our Relationship with Our Manager — We rely on Angel Oak Mortgage Lending to source non- QM loans and other target assets for acquisition by us and they are under no contractual obligation to sell to us any loans that they originate. " Another factor that impacts the profitability of a securitization transaction is the cost of the short- term debt used to finance our holdings of mortgage loans after acquisition and prior to securitization. This cost may vary depending on the availability of short- term financing, interest rates, the duration of the financing, and the extent to which third parties are willing to provide such financing. Additionally, the value of mortgage loans held by us prior to securitization may vary over the course of the holding period due to changes in interest rates or the credit quality of the mortgage loans. To the extent we seek to hedge against interest rate fluctuations that affect loan value, the cost of any hedging transaction will decrease returns on the respective securitization transaction. The price that investors pay for securities issued in our securitization transactions will also significantly affect our profitability margin. Additionally, in effecting securitization transactions, we may incur transaction costs or may incur or be required to make reserves for any liability in connection with executing a transaction, and such costs can also reduce the profitability of a transaction. Furthermore, in the securitization transactions we participate in, we ~~will~~ make certain representations and warranties about the underlying mortgage loans that we intend to securitize and we ~~will~~ assume the obligation to repurchase or replace those mortgage loans in certain circumstances if those representations or warranties are untrue. If we are required to repurchase or replace such mortgage loans, it may impact our ability to profitably execute securitizations of mortgage loans. To the extent that we are not able to profitably execute securitizations of mortgage loans, we could be materially and adversely affected. Rating agencies have historically played a central role in the securitization markets. Many purchasers of asset- backed securities require that a security be rated by the agencies at or above a specific grade before they will consider purchasing it. The rating agencies could adversely affect our ability to execute securitization transactions by deciding not to publish ratings for our securitization transactions or assigning ratings that are below the thresholds investors require. Further, rating agencies could alter their ratings processes or criteria after we have accumulated loans for securitization in a manner that reduces the value of previously acquired loans or that requires us to incur additional costs to comply with those processes and criteria. Our securitization transactions may result in litigation, which could materially and adversely affect us. In connection with our past and future securitization transactions, we have prepared, or will prepare, disclosure documentation, including term sheets and offering memoranda, which contained, or will contain, disclosures regarding the securitization transactions and the assets being securitized. If such disclosure documentation is alleged or found to contain inaccuracies or omissions, we may be liable under U. S. federal securities laws, state securities laws, or other applicable laws for damages to third parties that invest in these securitization transactions, including in circumstances in which we relied on a third party in preparing accurate disclosures, or we may incur other expenses and costs in connection with disputing these allegations or settling claims. We may also sell or contribute mortgage loans to third parties who, in turn, securitize those loans. In these circumstances, we may also prepare disclosure documentation, including documentation that is included in term sheets and offering memoranda relating to those securitization transactions. We could be liable under U. S. federal securities laws, state securities laws or other applicable laws for damages to third parties that invest in these securitization transactions, including liability for disclosures prepared by third parties or with respect to loans that we did not sell or contribute to the securitization. In recent years, there has also been debate as to whether there are defects in the legal process and legal documents governing transactions in which securitization trusts and other secondary purchasers take legal ownership of mortgage loans and establish their rights as first priority lien holders on underlying mortgaged property. To the extent there are problems with the manner in which title and lien priority rights were or are established or transferred, the securitization transaction that we have sponsored, or securitization transaction that we will sponsor, and third- party sponsored securitizations in which we will hold investments, we may be materially and adversely affected. Defending a lawsuit can consume significant resources and may divert our and our Manager' s attention from our operations. We may be required to establish reserves for potential losses from litigation, which could be material. To the extent we are unsuccessful in our defense of any lawsuit, we could suffer losses which could be in excess of any reserves established relating to that lawsuit, which could materially and adversely affect us. Our securitization transactions may be on significantly less advantageous terms than we had anticipated and we may be materially and adversely affected. ~~A substantial portion of our portfolio is expected to consist of non-QM loans originated by Angel Oak Mortgage Lending and other target assets acquired from Angel Oak Mortgage Lending and RMBS and CMBS acquired from AOMT securitization vehicles affiliated with us, which creates certain conflicts of interest. See " — Risks Related to Our Relationship with Our Manager — There are conflicts of interest in our relationship with Angel Oak, including our Manager, and we may compete with existing and future managed entities of Angel Oak, which may present various conflicts of interest that restrict our ability to pursue certain investment opportunities or take other actions that are beneficial to our business and result in decisions that are not in the best interests of our stockholders. "~~ In connection with our securitizations of mortgage loans into " real estate mortgage investment conduit " (" REMIC ") securities backed by mortgage loans or other assets (" REMIC Certificates "), (1) our ~~taxable REIT subsidiary ("~~ TRS ~~")~~ will sell a substantial portion of the loans it purchases from Angel Oak Mortgage Lending or unaffiliated third parties to an AOMT securitization vehicle; (2) we or another affiliate will be expected to purchase one or more tranches of the REMIC Certificates issued by such AOMT securitization vehicle, including any securities required to be retained pursuant to the U. S. Risk Retention Rules; (3) our TRS will make certain representations and warranties about the underlying assets and assume the obligation to repurchase or replace those assets in certain circumstances if those representations or warranties are untrue; and / or (4) **in circumstances where Angel Oak Mortgage Lending has made certain representations and warranties about the underlying assets,** our TRS and / or we will guarantee the obligations of certain of the entities included in Angel Oak Mortgage Lending to repurchase or replace those assets in certain cases if the representations or warranties made by Angel Oak Mortgage Lending about those assets are untrue or if certain covenants made regarding the servicing of those assets by Angel Oak Mortgage Lending are breached and, in any case, the related Angel Oak Mortgage Lending entity does not repurchase or replace the assets itself. In such event, we will be contractually obligated to repurchase loans at a price that **may** ~~exceeds~~ **exceed** their market value at the time that they are subject to our repurchase obligation. Additionally, a guarantee of the obligations of ours or any of our subsidiaries under any agreements we enter into in connection with a securitization may be required from us. Due to general market conditions, the performance of the related loans, the performance of prior loans originated by Angel Oak Mortgage Lending or other investments, RMBS or CMBS originated by AOMT or other reasons, our consummation of the securitization utilizing those loans may be on significantly less advantageous terms than we had anticipated and we may be materially and adversely affected. Our loan financing lines subject us to additional risks, which could materially and adversely affect us. We expect to **continue to** use loan financing lines to finance the acquisition and accumulation of mortgage loans or other mortgage- related assets pending their eventual securitization. Loan financing lines involve either the sale of a loan by us and our agreement to repurchase the loan at a specified time and price (thereby financing our acquisition of such loan) or the purchase by us of a loan with an agreement to resell it to the seller at a specified time and price. Such transactions afford an opportunity for us to invest temporarily available cash or to leverage our assets. If the counterparty to a loan financing line to whom a loan is sold should default, as a result of bankruptcy or otherwise, we could experience delays in liquidating the underlying loan, resulting in a lack of access to income on the underlying loan during this period and expenses in our enforcement of our rights. Ultimately, we may not be able to recover the loans sold, which could result in a loss to us if the value of such loans has increased over their repurchase price. If we act as the purchaser under a loan financing line, a risk exists that the seller will not pay to us the agreed upon sum on the delivery date at which point we would generally be entitled to sell the relevant loans that we purchased. However, if the value of such loans has declined, then we may be unable to recover the full repurchase price and this could materially and adversely affect us. Our ~~loan financing lines and our future~~ loan financing lines and derivative contracts, such as interest rate swap contracts, index swap contracts, interest rate cap or floor contracts, futures or forward contracts or options, may allow our lenders and derivative counterparties, as the case may be, to varying degrees, to determine an updated market value of our collateral and derivative contracts to reflect current market conditions. If the market value of our collateral or our derivative contracts with a particular lender or derivative counterparty declines in value, we may be required by the lender or derivative counterparty to provide additional collateral or repay a portion of the funds advanced on minimal notice, which is known as a margin call. Posting additional collateral will reduce our liquidity and limit our ability to leverage our assets. Additionally, in order to satisfy a margin call, we may be required to liquidate assets at a disadvantageous time, which could materially and adversely affect us. We have received, and may in the future receive, margin calls from our lenders and derivative counterparties from time to time in the ordinary course of business. In the event we default on our obligation to satisfy these margin calls, our lenders or derivative counterparties can accelerate our indebtedness, terminate our derivative contracts (potentially on unfavorable terms requiring additional payments, including additional fees and costs), increase our borrowing rates, liquidate our collateral, and terminate our ability to borrow. In certain cases, a default on one loan financing line or derivative contract (whether caused by a failure to satisfy margin calls or another event of default) can trigger " cross defaults " on other such agreements. A significant increase in margin calls could materially and adversely affect us, and could increase our risk of insolvency. To the extent we might be compelled to liquidate qualifying real estate assets to repay debts, our compliance with the REIT requirements regarding our assets and our sources of income could be negatively affected, which could jeopardize our qualification as a REIT. Losing our REIT qualification would cause us to be subject to U. S. federal income tax (and any applicable state and local taxes) on all of our income and decrease profitability and cash available for distributions to our stockholders. Additionally, if we are compelled to liquidate qualifying real estate assets to repay debts, this could jeopardize our exclusion from regulation as an investment company under the Investment Company Act. Our rights under loan financing lines are subject to the effects of the bankruptcy laws in the event of the bankruptcy or insolvency of us or our lenders. In the event of our insolvency or bankruptcy, certain loan financing lines may qualify for special treatment under the U. S. Bankruptcy

Code, the effect of which, among other things, would be to allow the lender to avoid the automatic stay provisions of the U. S. Bankruptcy Code and to foreclose on and / or liquidate the collateral pledged under such agreements without delay. In the event of the insolvency or bankruptcy of a lender during the term of a loan financing line, the lender may be permitted, under applicable insolvency laws, to repudiate the contract, and our claim against the lender for damages may be treated simply as an unsecured creditor. In addition, if the lender 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 exercise our rights to recover our assets under a loan financing line or to be compensated for any damages resulting from the lenders' insolvency may be further limited by those statutes. These claims would be subject to significant delay and costs to us and, if and when received, may be substantially less than the damages we actually incur. **Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations, and other factors beyond our control. Recently, there has been a significant rise in inflation and the U. S. Federal Reserve Board has raised, and may continue to raise, interest rates in an effort to curb inflation. These increases in interest rates and inflation have led, and may continue to lead, to economic volatility, increased borrowing costs, price increases and risks of recession.** Our primary interest rate exposures relate to the yield on our loans and the financing cost of our debt, as well as any interest rate swaps utilized for hedging purposes. Changes in interest rates affect our net interest income, which is the difference between the interest income we earn on our interest- earning assets and the interest expense we incur in financing these assets. In a period of rising interest rates, our interest expense on floating rate debt would increase, while any additional interest income we earn on floating rate assets may not compensate for such increase in interest expense and the interest income we earn on fixed rate assets would not change. Similarly, in a period of declining interest rates, our interest income on floating rate assets would decrease, while any decrease in the interest we are charged on our floating rate debt may not compensate for such decrease in interest income and the interest expense we incur on our fixed rate debt would not change. Consequently, changes in interest rates may significantly influence our net income. Interest rate fluctuations resulting in our interest expense exceeding interest income would result in operating losses, which could materially and adversely affect us. Changes in the level of interest rates also may affect our ability to acquire loans, the value of our investments and our ability to realize gains from the disposition of assets. Moreover, changes in interest rates may affect borrower default rates. Hedging against interest rate changes and other risks may materially and adversely affect us. As of December 31, ~~2022~~ **2023** , we had approximately $ ~~692~~ **484** . ~~4~~ **3** million of recourse debt outstanding, all of which bears interest at a floating rate. Subject to maintaining our qualification as a REIT and maintaining our exclusion from regulation as an investment company under the Investment Company Act, we have utilized, and in the future expect to continue to utilize various derivative instruments and other hedging instruments to mitigate interest rate risk, credit risk and other risks. For example, we may opportunistically enter into hedging transactions with respect to interest rate exposure on one or more of our assets or liabilities. Any such hedging transactions could take a variety of forms, including the use of derivative instruments such as interest rate swap contracts, index swap contracts, interest rate cap or floor contracts, futures or forward contracts and options. Hedging may fail to protect or could adversely affect us because, among other things: • interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates; • available interest rate hedges may not correspond directly with the interest rate risk for which protection is sought; • the duration of the hedge may not match the duration of the related assets or liabilities being hedged; • most hedges are structured as OTC contracts with private counterparties, raising the possibility that the hedging counterparty may default on its obligations; • to the extent that the creditworthiness of a hedging counterparty deteriorates, it may be difficult or impossible to terminate or assign any hedging transactions with such counterparty to another counterparty; • to the extent hedging transactions do not satisfy certain provisions of the Code and are not made through a TRS, the amount of income that a REIT may earn from hedging transactions to offset interest rate losses is limited by U. S. federal tax provisions governing REITs; • the value of derivatives used for hedging may be adjusted from time to time in accordance with accounting rules to reflect changes in fair value (i. e., our operating results may suffer because losses, if any, on the derivatives that we enter into may not be offset by a change in the fair value of the related hedged transaction or item). Downward adjustments, or " mark- to- market losses, " would reduce our earnings and our stockholders' equity; • we may fail to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the assets in the portfolio being hedged; • our Manager may fail to recalculate, re- adjust, and execute hedges in an efficient and timely manner; and • the hedging transactions may actually result in poorer overall performance for us than if we had not engaged in the hedging transactions. Our hedging transactions, which would be intended to limit losses, may actually adversely affect our earnings, which could materially and adversely affect us. Our hedging activities may expose us to additional risks. Subject to maintaining our qualification as a REIT and maintaining our exclusion from regulation as an investment company under the Investment Company Act, we expect to continue to utilize various derivative instruments and other hedging instruments to mitigate interest rate risk, credit risk, and other risks. For example, we may opportunistically enter into hedging transactions with respect to interest rate exposure on one or more of our assets or liabilities. Any such hedging transactions could take a variety of forms, including the use of derivative instruments such as interest rate swap contracts, index swap contracts, interest rate cap or floor contracts, futures or forward contracts and options. However, it is **not** ~~impossible~~ -- **possible** to fully hedge **all of the risks associated with** our investments. Furthermore, certain hedging transactions could require us to fund cash payments in certain circumstances (such as the early termination of the hedging instrument caused by an event of default or other early termination event, or the decision by a counterparty to request margin securities it is contractually owed under the terms of the hedging instrument). The amount due would be equal to the unrealized loss of the open swap positions with the respective counterparty and could also include other fees and charges **, which may result in an economic loss** . These economic losses would be reflected in our results of operations, and our ability to fund these obligations would depend on the liquidity of our assets and access to capital at the time, and the need to fund these obligations could materially and adversely affect us. To the extent that any hedging strategy involves the use of OTC derivatives transactions, such a strategy would be affected by various regulations adopted pursuant to the Dodd- Frank Act. OTC derivative dealers are required to register with the U. S. Commodity Futures Trading Commission (the " CFTC ") and / or the SEC. Registered swap and security- based swap dealers are subject to minimum capital and margin requirements and business conduct standards, disclosure requirements, reporting and recordkeeping requirements, transparency requirements, position limits, limitations on conflicts of interest, and other regulatory burdens. These requirements further increase the overall costs for OTC derivative dealers, which ~~costs~~ may be passed along to market participants as market changes continue to be implemented. Although the Dodd- Frank Act required many OTC derivative transactions previously entered into on a principal- to- principal basis to be submitted for clearing by a regulated clearinghouse, not all of our derivative transactions will be subject to the clearing requirements. The " bid- ask " spreads may be unusually wide in these heretofore substantially unregulated markets. The risk of counterparty nonperformance can be significant in the case of these OTC instruments, and although generally we will seek to reserve the right to terminate our hedging positions, it may not always be possible to dispose of or close out a hedging position without the consent of the hedging counterparty and we may not be able to enter into an offsetting contract in order to cover our risk. A liquid secondary market may not exist for hedging instruments **to be** purchased or sold, and we may be required to maintain a position until exercise or expiration, which could result in significant losses. While the Dodd- Frank Act is intended to bring more stability and lower counterparty risk to the derivatives market by requiring central clearing of certain standardized derivatives trades, not all of our trades are or will be subject to a clearing requirement because the trades are grandfathered or because they are bespoke, or because they are within a class that is not currently subject to mandatory clearing. Furthermore, it is yet to be seen whether the Dodd- Frank Act will be effective in reducing counterparty risk or if such risk may actually increase as a result of market uncertainty, mutuality of loss to clearinghouse members, or other reasons. Further, Title VII of the Dodd- Frank Act requires that certain derivative instruments be executed through an exchange or other approved trading platform, which could result in increased costs in the form of intermediary fees and additional margin requirements imposed by derivatives clearing organizations and their respective clearing members. In addition, under Title VII of the Dodd- Frank Act, the SEC, the CFTC and U. S. federal banking regulators adopted margin requirements for uncleared OTC swaps and security- based swaps. Such margin requirements may result in increased costs and could adversely affect our ability to use derivatives to hedge our risks in the future and / or to amend or novate existing swaps. Changes in regulations relating to swaps activities may cause us to limit our swaps activity or subject us and our Manager to additional disclosure, recordkeeping, and other regulatory requirements. The enforceability of swap agreements underlying hedging transactions may depend on compliance with applicable derivatives regulatory requirements and, depending on the identity of the counterparty, applicable international requirements. Recently, new regulations have been promulgated by U. S. and foreign regulators attempting to strengthen the oversight of derivatives contracts, including swap agreements and futures contracts. Any actions taken by regulators could constrain our strategy and could increase our costs, either of which could materially and adversely affect us. In particular, the Dodd- Frank Act requires many swap agreements to be executed on a regulated exchange and cleared through a central clearinghouse, which may result in increased margin requirements and costs. Regulators have also recently required swap dealers to collect margin on the uncleared swap transactions that they enter into with financial entities such as mortgage REITs, thereby potentially also increasing our costs. Furthermore, **unless it satisfies the criteria for no- action relief from the CFTC' s commodity pool operator registration rules,** a mortgage REIT that enters into derivatives transactions, including swap agreements and futures contracts, may be considered to be a regulated commodity pool that is required to be operated by a registered or exempt " commodity pool operator. " **Although we believe we satisfy** ~~On December 7, 2012,~~ the ~~CFTC issued a No~~ **criteria for this no** - ~~Action~~ **action** ~~Letter~~ **relief, there can be no assurance** that **we will continue to do so** ~~provides mortgage REITs relief from such commodity pool operator registration requirement (the " No- Action Letter ") if they meet certain conditions and submit a claim for~~ - **or that** such no- action relief ~~by email~~ **will continue** to ~~the CFTC~~ **be available** . **If such** ~~We believe we meet the conditions set forth in the No- Action Letter and have filed our claim with the CFTC to perfect the use of the~~ no- action relief ~~from commodity pool operator registration. However, if in the future we do not meet the conditions set forth in the No- Action Letter or the relief provided by the No- Action Letter~~ becomes unavailable for any ~~other~~ reason, we ~~may~~ **would** need to seek to obtain an alternative exemption from registration for our Manager, which is currently not registered as a commodity pool operator with the CFTC, and we may become subject to additional compliance, disclosure, recordkeeping and reporting requirements, which may increase our costs and materially and adversely affect us. Risks Related to Our Organizational Structure Two of our stockholders, NHTV Atlanta Holdings LP (the " MS Entity "), an affiliate of Morgan Stanley & Co. LLC, and Xylem Finance LLC (the " DK Entity "), an affiliate of Davidson Kempner Capital Management LP, each beneficially own over 10 % of our outstanding common stock. As a result, each of the MS Entity and the DK Entity ~~have~~ **has** significant influence in the election of our directors, who exercise overall supervision and control over us and our subsidiaries. In addition, pursuant to the shareholder rights agreement that we and our Manager entered into with the MS Entity in connection with our IPO, the MS Entity, subject to certain limitations, has the right to designate one nominee for election to our Board of Directors for so long as the MS Entity and its affiliates beneficially own, in the aggregate, shares of our common stock representing at least 10 % of the shares of our common stock then outstanding (excluding shares of our common stock that are subject to issuance upon the exercise or exchange of rights of conversion, or any options, warrants or other rights to acquire shares of our common stock). Furthermore, pursuant to the shareholder rights agreement that we and our Manager entered into with the DK Entity in connection with our IPO, the DK Entity, subject to certain limitations, has the right to designate one nominee for election to our Board of Directors for so long as the DK Entity and its affiliates (1) maintain beneficial ownership of shares of our common stock equal to at least 10 % of the shares of our common stock then outstanding or (2) are one of the largest three (3) beneficial owners of shares of our common stock and maintain beneficial ownership, in the aggregate, of shares of our common stock equal to at least 7 % of the shares of our common stock then outstanding. For purposes of the ownership requirements in this shareholder rights agreement, shares of our common stock that are subject to issuance upon the exercise or exchange of rights of conversion, or any options, warrants or other rights to acquire shares, will not be counted as outstanding. These and certain other pre- IPO investors were granted rights to receive a share of our Manager' s revenues received under the Management Agreement in connection with their investments prior to the IPO. Additionally, the MS Entity and the DK Entity, and our other pre- IPO investors entered into a registration rights agreement with us in connection with our IPO, pursuant to which they are entitled to registration rights in respect of shares of our common stock. We expect that each of the MS Entity and the DK Entity will continue to exert a significant influence on our business and affairs in the future as a result of their substantial ownership interest in us and the terms of our shareholder rights agreements. As a result, we expect that each of these parties will continue to influence the outcome of matters required to be submitted to stockholders for approval, including the election of our directors, amendments to our charter, the removal of our directors for cause, and the approval of significant transactions, such as mergers or other sales of our company or our assets. The influence exerted by these stockholders over our business and affairs might not be consistent with ~~your~~ **the** best interests ~~as a~~ **of our** ~~stockholder~~ **stockholders** and their receipt of a share of the fees received by our Manager under the Management Agreement may result in their interests not being aligned with the interests of other stockholders. In addition, this concentration of voting control and influence may have the effect of delaying, deferring or preventing a transaction or change in control of us which might involve a premium price for shares of our common stock or otherwise be in ~~your~~ **the** best ~~interest~~ **interests** ~~as a~~ **of our** ~~stockholder~~ **stockholders** . Certain provisions of Maryland law could inhibit a change in control. Certain provisions of the MGCL may have the effect of deterring a third party from making a proposal to acquire us or of inhibiting a change in control under circumstances that otherwise could provide the holders of our common stock with the opportunity to realize a premium over the then- prevailing market price of our common stock. Under the MGCL, certain " business combinations " (including a merger, consolidation, statutory share exchange or, in certain circumstances specified under the statute, an asset transfer or issuance or reclassification of equity securities) between a Maryland corporation and any interested stockholder (as defined in the statute) or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. Thereafter, any such business combination must be recommended by the board of directors of such corporation and approved by the affirmative vote of at least (1) 80 % of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation and (2) two- thirds of the votes entitled to be cast by holders of shares of voting stock of the corporation other than shares held by the interested stockholder with whom (or with whose affiliate) the business combination is to be effected or held by an affiliate or associate of the interested stockholder. These two supermajority votes are not required if, among other conditions, the corporation' s common stockholders receive a minimum price (as defined in the MGCL) for their shares and the consideration is received in cash or in the same form as previously paid by the interested stockholder for its shares. These provisions of the MGCL do not apply, however, to business combinations that are approved or exempted by a corporation' s board of directors prior to the time that the interested stockholder becomes an interested stockholder. Pursuant to the statute, our Board of Directors has adopted a resolution exempting any business combination between us and any other person or group of persons from the provisions of this statute. There is no assurance that our Board of Directors will not amend or revoke this exemption in the future. The MGCL provides that holders of " control shares " (defined as shares of voting stock that, if aggregated with all other shares of stock previously acquired by the acquirer or in respect of which the acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquirer to exercise or direct the exercise of voting power in electing directors within one of three increasing ranges of voting power in electing directors) of a Maryland corporation acquired in a " control share acquisition " (defined as the acquisition, directly or indirectly, of ownership of, or the power to exercise or direct the exercise of voting power (other than solely by revocable proxy) with respect to, issued and outstanding " control shares, " subject to certain exceptions) have no voting rights with respect to those shares except to the extent approved by the affirmative vote of at least two- thirds of the votes entitled to be cast by stockholders entitled to exercise or direct the exercise of the voting power in the election of directors generally, excluding all interested shares. Our bylaws contain a provision exempting from the control share acquisition statute any and all control share acquisitions by any person of shares of our stock. There is no assurance that such provision will not be amended or eliminated at any time in the future. The " unsolicited takeover " provisions of the MGCL permit our Board of Directors, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to implement takeover defenses if we have a class of equity securities registered under the Exchange Act and at least three independent directors. These provisions may have the effect of inhibiting a third party from making an acquisition proposal for us or of delaying, deferring or preventing a change in control of us under the circumstances that otherwise could provide the holders of shares of our common stock with the opportunity to realize a premium over the then- current market price. Our charter contains a provision whereby we have elected to be subject to a provision of Title 3, Subtitle 8 of the MGCL relating to the filling of vacancies on our Board of Directors. Our authorized but unissued common stock and preferred stock may prevent a change in control. Our charter authorizes us to issue additional authorized but unissued shares of our common stock and preferred stock. In addition, a majority of our entire Board of Directors may, without stockholder approval, approve amendments to our charter to increase the aggregate number of our authorized shares of stock or the number of shares of stock of any class or series that we have authority to issue and may classify or reclassify unissued shares of our common stock or preferred stock and may set the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications or terms and conditions of redemption of the classified or reclassified shares. As a result, among other things, our Board of Directors may establish a class or series of shares of our common stock or preferred stock that could delay or prevent a transaction or a change in control of us that might involve a premium price for our common stock or otherwise be in the best interests of our stockholders. Our rights and the rights of our stockholders to take action against our directors and officers are limited, which could limit ~~your~~ **our stockholders'** recourse in the event of actions not in ~~your~~ **their** best ~~interest~~ **interests** . Maryland law permits a Maryland corporation to include in its charter a provision eliminating the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from actual receipt of an improper benefit or profit in money, property or services or active and deliberate dishonesty that is established by a final judgment and is material to the cause of action. Our charter contains such a provision that eliminates such liability to the maximum extent permitted by Maryland law. Our charter obligates us, to the maximum extent permitted by Maryland law in effect from time to time, to indemnify and to pay or reimburse reasonable expenses in advance of final disposition of a proceeding without requiring a preliminary determination of the director' s or officer' s ultimate entitlement to indemnification to: • any present or former director or officer who is made or threatened to be made a party to, or witness in, a proceeding by reason of his or her service in that capacity; or • any individual who, while a director or officer of ours and at our request, serves or has served as a director, officer, partner, member, manager, trustee, employee or agent of another corporation, partnership, limited liability company, joint venture, real estate investment trust, trust, employee benefit plan or any other enterprise and who is made or threatened to be made a party to, or witness in, a proceeding by reason of his or her service in that capacity. As a result, we and our stockholders may have more limited rights against our present and former directors and officers than might otherwise exist absent the current provisions in our charter or that might exist with other companies, which could limit ~~your~~ **our stockholders'** recourse in the event of actions not in ~~your~~ **their** best ~~interest~~ **interests** . Our charter contains provisions that make removal of our directors difficult, which could make it difficult for our stockholders to effect changes to our management. Our charter provides that, subject to the rights of holders of one or more classes or series of preferred stock to elect or remove one or more directors, a director, or the entire Board of Directors, may be removed only for " cause, " and then only by the affirmative vote of at least two- thirds of the votes entitled to be cast generally in the election of directors. For this purpose, " cause " means, with respect to any particular director, conviction of a felony or a final judgment of a court of competent jurisdiction holding that such director caused demonstrable, material harm to us through bad faith or active and deliberate dishonesty. Additionally, vacancies on our Board of Directors may be filled only by the affirmative vote of a majority of the directors remaining in office, even if the remaining directors do not constitute a quorum, and, if our Board of Directors is classified, any individual elected to fill such vacancy will serve for the remainder of the full term of the directorship of the class in which the vacancy occurred and until a successor is duly elected and qualifies. These requirements make it more difficult to change our management by removing and replacing directors and may prevent a change in control of us that is in the best interests of our stockholders. Our charter contains provisions that reduce or eliminate the duties of certain of our directors and officers with respect to corporate opportunities. Our charter provides that, to the maximum extent permitted from time to time by Maryland law, if any of our directors or officers who is also an officer, director, employee, agent, partner, manager, member, or stockholder of Angel Oak acquires knowledge of a potential business opportunity, we renounce any potential interest or expectation in, or right to be offered or to participate in, such business opportunity, unless such director or officer became aware of such business opportunity as a direct result of his or her capacity as our director or officer and (1) we are financially able to undertake such business opportunity, (2) we are not prohibited by contract or applicable law from pursuing or undertaking such business opportunity, (3) such business opportunity, from its nature, is in line with our business, (4) such business opportunity is of practical advantage to us and (5) we have an interest or reasonable expectancy in such business opportunity (a " Retained Opportunity "). Accordingly, except for Retained Opportunities, to the maximum extent permitted from time to time by Maryland law and our charter, none of our directors or officers who is also an officer, director, employee, agent, partner, manager, member, or stockholder of Angel Oak is required to present, communicate or offer any business opportunity to us and can hold and exploit any business opportunity, or direct, recommend, offer, sell, assign or otherwise transfer such business opportunity to any person or entity other than us. As a result, our directors and officers who are also officers, directors, employees, agents, partners, managers, members, or stockholders of Angel Oak may compete with us for investments or other business opportunities and we and our stockholders may have more limited rights against our directors and officers than might otherwise exist, which might limit ~~your~~ **our stockholders** recourse in the event of actions not in ~~your~~ **their** best ~~interest~~ **interests** . The ownership limits in our charter may discourage a takeover or business combination that may have benefited our stock. Due to limitations on the concentration of ownership of REIT stock imposed by the Code, and subject to certain exceptions, our charter provides that no person may beneficially or constructively own (1) shares of common stock in excess of 9. 8 % in value or in number of shares, whichever is more restrictive, of the outstanding shares of our common stock or (2) shares of stock in excess of 9. 8 % in value of the outstanding shares of our stock. These and other restrictions on ownership and transfer of our shares contained in our charter may discourage a change in control of ~~us~~ **our company** and may deter individuals or entities from making tender offers for shares of our common stock on terms that might be financially attractive to ~~you~~ **our stockholders** or which may cause a change in our management. In addition to deterring potential transactions that may be favorable to our stockholders, these provisions may also decrease ~~your~~ **their** ability to sell shares of our common stock. Our charter generally does not permit the ownership in excess of 9. 8 % of our common stock or of all classes and series of our stock, and attempts to acquire our shares in excess of the stock ownership limits will be ineffective unless an exemption is granted by our Board of Directors. Due to limitations on the concentration of ownership of REIT stock imposed by the Code, and subject to certain exceptions, our charter provides that no person may beneficially or constructively own (1) shares of common stock in excess of 9. 8 % in value or in number of shares, whichever is more restrictive, of the outstanding shares of our common stock or (2) shares of stock in excess of 9. 8 % in value of the outstanding shares of our stock. Our charter also contains certain other limitations on the ownership and transfer of our stock. Our charter provides that our Board of Directors, subject to certain limits, upon receipt of such representations and agreements as our Board of Directors may require, may prospectively or retroactively exempt a person from either or both of the ownership limits and establish a different limit on ownership for such person. Our Board of Directors may, in its sole and absolute discretion, increase or decrease one or both of the ownership limits for one or more persons, except that a decreased ownership limit will not be effective for any person whose actual, beneficial or constructive ownership of our stock exceeds the decreased ownership limit at the time of the decrease until the person' s actual, beneficial or constructive ownership of our stock equals or falls below the decreased ownership limit, although any further direct or indirect acquisition of shares of our stock (other than by a previously- exempted person) will violate the decreased ownership limit. Our Board of Directors may not increase or decrease any ownership limit if the new ownership limit would allow five or fewer persons to actually or beneficially own more than 49. 9 % in value of our outstanding stock or could cause us to be " closely held " under Section 856 (h) of the Code (without regard to whether the ownership interest is held during the last half of a taxable year) or otherwise cause us to fail to qualify as a REIT. The constructive ownership rules under the Code are complex and may cause stock owned actually or constructively by a group of related individuals and / or entities to be owned constructively by one individual or entity. As a result, the acquisition of less than 9. 8 % of our common stock (or the acquisition of an interest in an entity that owns, actually or constructively, our common stock) by an individual or entity could, nevertheless, cause that individual or entity, or another individual or entity, to own constructively in excess of 9. 8 % in value or in number of shares, whichever is more restrictive, of the outstanding shares of our common stock or 9. 8 % in value of our outstanding shares of stock and thereby violate the applicable ownership limit. Pursuant to our charter, if any purported transfer of our stock or any other event (1) would otherwise result in any person violating the ownership limits or such other limit established by our Board of Directors, (2) would result in us being " closely held " within the meaning of Section 856 (h) of the Code (without regard to whether the ownership interest is held during the last half of a taxable year) or (3) otherwise would cause us to fail to qualify as a REIT, then the number of shares causing the violation (rounded up to the nearest whole share) will be automatically transferred to, and held by, a trust for the exclusive benefit of one or more charitable beneficiaries selected by us. If the transfer to the trust as described above is not automatically effective, for any reason, to prevent a violation of the applicable restriction on ownership and transfer of our stock, then the transfer of the number of shares that otherwise would cause any person to violate the above restrictions will be void and of no force or effect, regardless of any action or inaction by our Board of Directors, and the intended transferee will acquire no rights in the shares. If any transfer of our stock would result in shares of our stock being beneficially owned by fewer than 100 persons (determined under the principles of Section 856 (a) (5) of the Code), then any such purported transfer will be void and of no force or effect and the intended transferee will acquire no rights in the shares. Our bylaws designate the Circuit Court for Baltimore City, Maryland as the sole and exclusive forum for certain actions and proceedings that may be initiated by our stockholders. Our bylaws provide that, unless we consent in writing to the selection of an alternative forum, the Circuit Court for Baltimore City, Maryland, or, if that court does not have jurisdiction, the U. S. District Court for the District of Maryland, Northern Division, will be the sole and exclusive forum for (1) any Internal Corporate Claim, as such term is defined in the MGCL, (2) any derivative action or proceeding brought on our behalf, other than actions arising under U. S. federal securities laws, (3) any action asserting a claim of breach of any duty owed by any of our directors, officers, or other employees to us or to our stockholders, (4) any action asserting a claim against us or any of our directors, officers, or other employees arising pursuant to any provision of the MGCL or our charter or bylaws or (5) any other action asserting a claim against us or any of our directors, officers, or other employees that is governed by the internal affairs doctrine. None of the foregoing actions, claims or proceedings may be brought in any court sitting outside the State of Maryland unless we consent to such court. These choice of forum provisions may limit a stockholder' s ability to bring a claim in a judicial forum that the stockholder believes is favorable for disputes with us or our directors, officers, or employees and may discourage lawsuits against us and our directors, officers, or employees. We are a holding company with no direct operations and rely on funds received from our operating partnership to pay liabilities. We are a holding company and conduct substantially all of our operations through our operating partnership. We do not have, apart from an interest in our operating partnership, any independent operations. As a result, we rely on distributions from our operating partnership to pay any distributions we might declare on shares of our common stock. We also rely on distributions from our operating partnership to meet any of our obligations, including any tax liability on taxable income allocated to us from our operating partnership. In addition, because we are a holding company, ~~your~~ **stockholders'** claims ~~as stockholders~~ are structurally subordinated to all existing and future liabilities and obligations (whether or not for borrowed money) of our operating partnership and its subsidiaries. Therefore, in the event of our bankruptcy, liquidation or reorganization, our assets and those of our operating partnership and its subsidiaries will be able to satisfy the claims of our stockholders only after all of our and our operating partnership' s and its subsidiaries' liabilities and obligations have been paid in full. Conflicts of interest could arise in the future between the interests of our stockholders and the interests of partners in our operating partnership, which may impede business decisions that could benefit our stockholders. Conflicts of interest could arise in the future as a result of the relationships between us and our affiliates, ~~on the one hand,~~ and our operating partnership or any future partner thereof ~~, on the other~~ . Our directors and officers have duties to our company under applicable Maryland law in connection with the management of our company. At the same time, our wholly- owned subsidiary, Angel Oak Mortgage OP GP, LLC, as the general partner of our operating partnership, has fiduciary duties and obligations to our operating partnership and its limited partners under Delaware law and the partnership agreement of our operating partnership in connection with the management of our operating partnership. The fiduciary duties and obligations of the general partner and its limited partners may come into conflict with the duties of our directors and officers to our company. Under the terms of the partnership agreement of our operating partnership, if there is a conflict between the interests of our stockholders ~~on one hand~~ and any limited partners ~~on the other~~ , the general partner will endeavor in good faith to resolve the conflict in a manner not adverse to either our stockholders or any limited partners; provided ~~, however,~~ that at such times as we own a controlling economic interest in our operating partnership, any conflict that cannot be resolved in a manner not adverse to either our stockholders or any limited partners shall be resolved in favor of our stockholders. The partnership agreement also provides that the general partner will not be liable to our operating partnership, its partners or any other person bound by the partnership agreement for monetary damages for losses sustained, liabilities incurred or benefits not derived by our operating partnership or any limited partner, except for liability ~~for~~ **due to** the general partner' s intentional harm or gross negligence. Moreover, the partnership agreement provides that our operating partnership is required to indemnify the general partner or any affiliate of the general partner or any of their respective trustees, directors, officers, stockholders, partners, members, employees, representatives or agents, and officers, employees, representatives or agents of our operating partnership and other persons that the general partner may designate from time to time, in its sole and absolute discretion, against any and all losses, claims, damages, liabilities, joint or several, expenses (including attorneys' fees and other legal fees and expenses), judgments, fines, settlements, and other amounts arising from any and all claims, demands, actions, suits or proceedings, civil, criminal, administrative or investigative, that relate to the operations of our operating partnership, except (1) if the act or omission of the person was material to the matter giving rise to the action and either was committed in bad faith or was the result of active or deliberate dishonesty, (2) for any loss resulting from any transaction for which the indemnified party actually received an improper personal benefit, in money, property or services or otherwise in violation or breach of any provision of the partnership agreement or (3) in the case of a criminal proceeding, if the indemnified person had reason to believe that the act or omission was unlawful. Risks Related to our REIT Qualification and Certain Other U. S. Federal Income Tax Items The rules dealing with U. S. federal income taxation are constantly under review by persons involved in the legislative process and by the Internal Revenue Service (" IRS ") and the U. S. Treasury Department. Changes to the U. S. federal income tax laws, with or without retroactive application, could materially and adversely affect us. We cannot predict how changes in the tax laws might affect us or our stockholders. New legislation, regulations promulgated by the U. S. Treasury Department (the " U. S. Treasury regulations "), administrative interpretations, or court decisions could significantly and negatively affect our ability to qualify as a REIT or the U. S. federal income tax consequences of such qualification. We have elected to be taxed as a REIT for U. S. federal income tax purposes commencing with our taxable year ended December 31, 2019. As long as we meet the requirements under the Code for qualification and taxation as a REIT each year, we can deduct dividends paid to our stockholders when calculating our REIT taxable income. For us to qualify as a REIT, we must meet detailed technical requirements, including income, asset and stock ownership tests, under several Code provisions that have not been extensively interpreted by judges or administrative officers. In addition, we do not control the determination of all factual matters and circumstances that affect our ability to qualify as a REIT. New legislation, U. S. Treasury regulations, administrative interpretations or court decisions might significantly change the U. S. federal income tax laws with respect to our qualification as a REIT or the U. S. federal income tax consequences of such qualification. We believe that we have been organized and operate in conformity with the requirements for qualification as a REIT under the Code. All of our investments are held indirectly through our operating partnership. We control our operating partnership and intend to operate it in a manner consistent with the requirements for qualification as a REIT. However, we cannot guarantee that we will qualify as a REIT in any given year because: • the rules governing REITs are highly complex; • we do not control all factual circumstances and legal determinations by courts or regulatory bodies that affect REIT qualification; and • our circumstances may change in the future. For any taxable year that we fail to qualify as a REIT, we would be subject to U. S. federal income tax at the regular corporate rate and would not be entitled to deduct dividends paid to our stockholders from our taxable income. **In addition, we could possibly be subject to the corporate alternative minimum tax and the 1 % excise tax on stock repurchases (and certain economically similar transactions).** Consequently, our net assets and distributions to our stockholders would be substantially reduced because of our increased tax liability. If we made distributions in anticipation of our qualification as a REIT, we might be required to borrow additional funds or to liquidate some of our investments in order to pay the applicable tax. If our qualification as a REIT terminates, we may not be able to elect to be treated as a REIT for four taxable years following the year during which we lost the qualification **. Even as a REIT, we may face tax liabilities that reduce our cash flow** . An entity that qualifies as a REIT under the Code generally will not be subject to U. S. federal income tax to the extent that it distributes its net income to its stockholders at least annually. A REIT may be subject to state and local tax in states and localities in which it does business or owns property. Additionally, we may be subject to certain U. S. federal, state and local taxes in certain circumstances, including, but not limited to, taxes on any undistributed income and prohibited transactions, taxes on income from activities conducted as a result of a foreclosure, franchise, property and transfer taxes, including mortgage recording taxes, taxes as a result of failure to satisfy certain REIT qualification requirements, and our TRS will be subject to U. S. federal and state and local taxes. **Complying with REIT requirements and avoiding a prohibited transaction tax may force us to hold a significant portion of our assets and conduct a significant portion of our activities through a TRS, and a significant portion of our income may be earned through a TRS.** We intend that any property the sale or disposition of which could give rise to a " prohibited transaction " tax, including the sale of mortgage loans in connection with the issuance of REMIC Certificates or the sale of REMIC Certificates themselves, will be sold through a TRS with the consequence that any gain realized in such a sale or disposition will be subject to U. S. federal income tax at the regular corporate rate. Because the sale of mortgage loans in connection with the issuance of REMIC Certificates or the sale of REMIC Certificates represents a significant portion of our business activities, we may hold a substantial amount of our assets in one or more TRSs that are subject to corporate income tax on its earnings ~~,~~ (including potentially a 15 % alternative minimum tax (" AMT ") on the adjusted financial statement income (" AFSI ") of TRSs whose three- year average AFSI exceeds $ 1 billion), which may reduce the cash flow generated by us and our subsidiaries in the aggregate, and our ability to make distributions to our stockholders. In addition, we may be required to acquire and hold Fannie Mae multi- family securities, U. S. Treasury ~~Securities~~ **securities** or other similar assets directly, using significant leverage to do so, in order for us to satisfy the requirement that securities of one or more TRSs represent not more than 20 % of the value of our gross assets on each testing date, even though we might not have acquired or held such Fannie Mae multi- family securities, U. S. Treasury ~~Securities~~ **securities** or other similar assets in the absence of that 20 % value test. Additionally, the need to satisfy such 20 % value test may require dividends to be distributed by one or more TRSs to us at times when it may not be beneficial to do so. We may, in turn, distribute all or a portion of such dividends to our stockholders at times when we might not otherwise wish to declare and pay such dividends. These dividends when received by non- corporate U. S. stockholders generally will be eligible for taxation at preferential qualified dividend income tax rates rather than at ordinary income rates. TRS distributions classified as dividends, however, will generally constitute qualifying income for purposes of the 95 % gross income test but not qualifying income for purposes of the 75 % gross income test. It is possible that we may wish to distribute a dividend from a TRS to ourselves in order to reduce the value of TRS securities below 20 % of our assets, but be unable to do so without violating the requirement that 75 % of our gross income in the taxable year be derived from real estate assets and certain other sources. Although there are other measures we can take in such circumstances in order to remain in compliance with REIT requirements, there can be no assurance that we will be able to comply with both of these tests in all market conditions. Finally, we may use a TRS to conduct servicing or other activities that give rise to fees or other similar income, the receipt of which, beyond certain limits, would be inconsistent with our continued qualification as a REIT. In that event, such income less the expenses associated with the business that produced it would be subject to U. S. federal income tax at the regular corporate rate. REIT distribution requirements could adversely affect our ability to execute on our strategies and may require us to incur debt, sell assets or take other actions to make such distributions. In order to qualify and maintain our qualification as a REIT for U. S. federal income tax purposes, we must distribute to our stockholders, each calendar year, at least 90 % of our REIT taxable income (including certain items of non- cash income), determined without regard to the deduction for dividends paid and excluding net capital gain. To the extent that we satisfy the 90 % distribution requirement, but distribute less than 100 % of our taxable income, we will be subject to U. S. federal corporate income tax on our undistributed income. In addition, we would incur a 4 % nondeductible excise tax on the amount, if any, by which our distributions in any calendar year are less than a minimum amount specified under U. S. federal income tax law. We intend to distribute our net income in a manner intended to satisfy the 90 % distribution requirement and to avoid both corporate income tax and the 4 % nondeductible excise tax. Our taxable income may substantially exceed our net income as determined by GAAP or differences in timing between the recognition of taxable income and the actual receipt of cash may occur, in which case we may have taxable income in excess of cash flow from our operating activities. In such event, we may generate less cash flow than taxable income in a particular year. In such circumstances, in order to satisfy the distribution requirement and to avoid U. S. federal corporate income tax and the 4 % nondeductible excise tax in that year, we may be required to: (1) sell assets in adverse market conditions; (2) borrow on unfavorable terms; (3) distribute amounts that would otherwise be invested in our target assets consistent with our strategy, capital expenditures or repayment of debt; or (4) make a taxable distribution of shares of our common stock as part of a distribution in which stockholders may elect to receive shares or (subject to a limit measured as a percentage of the total distribution) cash. Thus, in order to satisfy the distribution requirement or to avoid U. S. federal corporate income tax and the 4 % nondeductible excise tax, we may be required to take actions that may not otherwise be advisable given existing market conditions which actions may hinder our ability to grow, which could materially and adversely affect us. Ordinary dividends payable by REITs do not generally qualify for the reduced tax rates applicable to certain corporate dividends. The Code provides for a 20 % maximum federal income tax rate for dividends paid by regular United States corporations to eligible domestic shareholders that are individuals, trusts or estates. Dividends paid by REITs are generally not eligible for these reduced rates. H. R. 1, commonly known as the 2017 Tax Cuts and Job Act (the " Tax Act "), which was enacted on December 22, 2017, generally may allow domestic shareholders to deduct from their taxable income one- fifth of the REIT ordinary dividends payable to them for taxable years beginning after December 31, 2017 and before January 1, 2026. To qualify for this deduction, the shareholder receiving such dividend must hold the dividend- paying REIT shares for at least 46 days (taking into account certain special holding period rules) of the 91- day period beginning 45 days before the shares become ex- dividend, and cannot be under an obligation to make related payments with respect to a position in substantially similar or related property. However, even if a domestic shareholder qualifies for this deduction, the effective rate for such REIT dividends still remains higher than rates for regular corporate dividends paid to high- taxed individuals. The more favorable rates applicable to regular corporate dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive as a federal income tax matter than investments in the stocks of non- REIT corporations that pay dividends, which could materially and adversely affect the value of the stock of REITs, including our common shares. We may have phantom income from our acquisition and holding of subordinated RMBS and CMBS and excess MSRs. The tax accounting rules with respect to the timing and character of income and losses from our acquisition and holding of subordinated RMBS and CMBS may result in adverse tax consequences. We will be required to include in income accrued interest, original issue discount (" OID ") and, potentially, market discount (each of which will be ordinary income), with respect to subordinated RMBS and CMBS we hold, in accordance with the accrual method of accounting. Income will be required to be accrued and reported, without giving effect to delays or reductions in distributions attributable to defaults or delinquencies on the underlying loans, except to the extent it can be established that such losses are uncollectible. Accordingly, we may incur a diminution in actual or projected cash flow in a given year as a result of an actual or anticipated default or delinquency, but may not be able to take a deduction for the corresponding loss until a subsequent tax year. While we generally may cease to accrue interest income if it reasonably appears that the interest will be uncollectible, the IRS may take the position that OID must continue to be accrued in spite of its uncollectibility until our investments in subordinated RMBS and CMBS are disposed of in a taxable transaction or become worthless. In addition to the foregoing, we intend to treat excess MSRs that we acquire as ownership interests in the interest payments made on the underlying pool of mortgage loans, akin to an " interest only " stripped coupon. Under this treatment, for purposes of determining the amount and timing of taxable income, each excess MSR is treated as a bond that was issued with OID on the date we acquired such excess MSR. In general, we will be required to accrue OID based on the constant yield to maturity of each excess MSR, and to treat such OID as taxable income in accordance with the applicable U. S. federal income tax rules. The constant yield of an excess MSR will be determined, and we will be taxed based on, a prepayment assumption regarding future payments due on the mortgage loans underlying the excess MSR. If the mortgage loans underlying an excess MSR prepay at a rate different than that under the prepayment assumption, our recognition of OID will be either increased or decreased depending on the circumstances. Thus, in a particular taxable year, we may be required to accrue an amount of income in respect of an excess MSR that exceeds the amount of cash collected in respect of that excess MSR. Furthermore, it is possible that, over the life of the investment in an excess MSR, the total amount we pay for, and accrue with respect to, the excess MSR may exceed the total amount we collect on such excess MSR. No assurance can be given as to when we will be entitled to a loss or deduction for such excess and whether that loss will be a capital loss or an ordinary loss. Due to each of these potential differences between income recognition or expense deduction and related cash receipts or disbursements, there is a significant risk that we may have substantial taxable income in excess of cash available for distribution. In that event, we may need to borrow funds or take other actions to satisfy the REIT distribution requirements for the taxable year in which this " phantom income " is recognized. We are dependent on external sources of capital to finance our growth. As with other REITs, but unlike corporations generally, our ability to finance our growth must largely be funded by external sources of capital because we generally have to distribute to our stockholders 90 % of our REIT taxable income in order to qualify as a REIT and 100 % of REIT taxable income in order to avoid U. S. federal corporate income tax and a 4 % nondeductible excise tax. Our access to external capital depends upon a number of factors, including general market conditions, the market' s perception of our growth potential, our current and potential future earnings, cash distributions, and the market price of our common stock. Our stockholders may be required to recognize excess inclusion income unless we do not distribute such income and pay corporate income tax on it. We may engage in securitization transactions that result in our holding one or more REMIC " residual interests " that give rise to excess inclusion income (" EII "). We may also issue bonds secured directly or indirectly by mortgage loans (" Securitized Bonds ") to investors in a " time- tranched, " sequential pay format, in a taxable mortgage pool (" TMP ") structure economically similar to sequential pay RMBS and CMBS issued in REMIC securitization transactions. In the case of the issuance of Securitized Bonds, we will be required to hold an interest in such securitizations that is equivalent to a residual interest in a REMIC. Under special rules applicable to REITs that own a TMP, a portion of our income will be treated as if it were EII derived from a REMIC residual interest. While we do not intend to distribute EII to our stockholders, and ~~instead~~ **intend** to hold any REMIC residual interests that give rise to EII through a TRS and to retain, and to pay corporate income tax on, EII from TMPs, there can be no assurance that we will be able to do so in all situations and that our stockholders will not receive distributions of EII. Additionally, the manner in which EII is calculated, or would be distributed to stockholders, is unclear under current law, and shareholders may be required to take into account EII or the amount taken into account by one or more shareholders could be significantly increased if the IRS were to successfully challenge our method of calculating EII. If EII is distributed by us, a stockholder' s share of such EII (1) cannot be offset by any net operating losses otherwise available to such stockholder, (2) is generally subject to tax as unrelated business taxable income (" UBTI ") in the hands of stockholders that are otherwise generally exempt from U. S. federal income tax but are subject to UBTI taxation, and (3) results in the application of U. S. federal income tax withholding at the maximum rate, without reduction under any otherwise applicable income tax treaty or other exemption, to the extent distributed to non- U. S. stockholders that are not agencies or instrumentalities of a foreign government. To the extent that EII is allocable to tax- exempt stockholders that are not subject to UBTI (such as domestic or foreign government entities or public pension funds), we would incur a corporate- level tax on such income, and, in that case, we may reduce the amount of distributions to those stockholders that gave rise to the tax. Complying with REIT requirements may cause us to forego otherwise attractive investment opportunities. In order to qualify and maintain our qualification as a REIT for U. S. federal income tax purposes, we must on a continuing basis satisfy various tests on an annual and quarterly basis regarding the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders, and the ownership of our stock. To meet these tests, we may be required to forgo investments we might otherwise make. We may be required to make distributions to our stockholders at disadvantageous times or when we do not have funds readily available for distribution and may be unable to pursue investments that would be otherwise advantageous to us in order to satisfy the source of income or asset diversification requirements for qualifying as a REIT. Thus, compliance with the REIT requirements may hinder our investment performance and materially and adversely affect us. Complying with REIT requirements may force us to liquidate otherwise profitable assets, which could materially and adversely affect us. In order to qualify and maintain our qualification as a REIT for U. S. federal income tax purposes, 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 designated real estate assets, including certain mortgage loans and stock in other REITs. Subject to certain exceptions, our ownership of securities, other than government securities and securities that constitute 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 securities that constitute real estate assets, can consist of the securities of any one issuer, and no more than 20 % of the value of our total securities can be represented by securities of one or more TRSs. We generally do not intend, and as the sole owner of the general partner of our operating partnership, do not intend to permit our operating partnership, to take actions we believe would cause us to fail to satisfy the asset tests described above. However, if we fail to comply with these requirements at the end of any calendar quarter after the first calendar quarter for which we qualified as a REIT, we must generally correct such failure within 30 days after the end of such calendar quarter to prevent us from losing our REIT qualification. As a result, we may be required to liquidate otherwise profitable assets prematurely, which could reduce the return on our assets, which could materially and adversely affect us. The failure of assets subject to repurchase agreements to qualify as real estate assets could adversely affect our ability to qualify as a REIT. We have entered into financing arrangements that are structured as sale and repurchase agreements pursuant to which we would nominally sell certain of our assets to a counterparty and simultaneously enter into an agreement to repurchase these assets at a later date in exchange for a purchase price. Economically, these agreements are financings which are secured by the assets sold pursuant thereto. We believe that we are treated for REIT asset and income test purposes as the owner of the assets that are the subject of any such sale and repurchase agreement notwithstanding that such agreement may transfer record ownership of the assets to the counterparty during the term of the agreement. It is possible, however, that the IRS could assert that we do not own the assets during the term of the sale and repurchase agreement, in which case we could fail to qualify as a REIT. We may choose to make distributions to our stockholders in our own stock, in which case our stockholders could be required to pay income taxes in excess of the cash dividends they receive. We may distribute taxable dividends that are payable in cash and shares of our common stock at the election of each stockholder. Taxable stockholders receiving such distributions will be required to include the full amount of the distribution 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 U. S. federal income taxes with respect to such dividends in excess of the cash dividends received. If a U. S. stockholder sells shares of our common stock that it receives as a dividend in order to pay this tax, the sale proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of shares of our common stock at the time of the sale. Furthermore, with respect to certain non- U. S. stockholders, we may be required to withhold U. S. federal income tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our common stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of shares of our common stock. Even though we have elected, and intend to qualify to be taxed, as a REIT, we may be required to pay certain taxes. Even though we have elected, and intend to qualify to be taxed, as a REIT for U. S. federal income tax purposes, we may be subject to certain U. S. federal, state and local taxes on our income and assets, including, but not limited to, taxes on any undistributed income and prohibited transactions, taxes on income from activities conducted as a result of a foreclosure, franchise, property and transfer taxes, including mortgage recording taxes, and taxes as a result of failure to satisfy certain REIT qualification requirements. In addition, we may hold some of our assets through wholly- owned TRSs. Our TRSs and any other taxable corporations in which we own an interest are subject to U. S. federal, state and local corporate taxes (including potentially a 15 % AMT on the AFSI of TRSs whose three- year average AFSI exceeds $ 1 billion). Payment of these taxes generally would reduce our cash flow and the amount available to distribute to our stockholders, which could materially and adversely affect us. Complying with REIT requirements may limit our ability to hedge effectively. The REIT provisions of the Code limit the ability of a REIT to hedge its liabilities. Any income from a hedging transaction we enter into either (i) to manage risk of interest rate or price changes with respect to borrowings made or to be made to acquire or carry real estate assets, (ii) to manage risk of currency fluctuations with respect to items of income that qualify for purposes of the REIT 75 % or 95 % gross income tests or assets that generate such income or (iii) to hedge another instrument that hedges risks described in clause (i) or (ii) for a period following the extinguishment of the liability or the disposition of the asset that was previously hedged by the instrument, and provided that, in each case, the applicable hedging instrument is properly identified under applicable U. S. Treasury regulations, does not constitute " gross income " for purposes of the 75 % or 95 % gross income tests. To the extent that a REIT enters into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of both gross income tests. As a result of these rules, we may need to limit our use of otherwise advantageous hedging techniques or implement those hedges through a TRS. The use of a TRS could increase the cost of our hedging activities (because the TRS would be subject to tax on income or gain resulting from hedges entered into by it) or expose ~~ourselves~~ **us** to greater risks ~~associated with interest rate or other changes~~ than we would otherwise incur. General Risk Factors Future sales of shares of our common stock or other securities convertible into shares of our common stock could cause the market value of shares of our common stock to decline and could result in dilution of ~~your~~ **existing** shares. In connection with the closing of our IPO and a concurrent private placement of shares of our common stock, we entered into registration rights agreements with our pre- IPO investors and the investor in our concurrent private placement, respectively. We also entered into a registration rights agreement with respect to any equity- based awards that we may grant to our Manager under our 2021 Equity Incentive Plan. Registration of these shares under the Securities Act of 1933 (the " Securities Act ") would result in these shares becoming freely tradable without restrictions under the Securities Act immediately upon effectiveness of the registration statement. In addition, a substantial amount of shares of our common stock held by our pre- IPO investors and the investor in our concurrent private offering have become eligible for resale, subject to the requirements of Rule 144 under the Securities Act. Sales of substantial amounts of shares of our common stock (including shares of our common stock issued upon the exchange of limited partnership interests) could cause the market price of shares of our common stock to decrease significantly. We cannot predict the effect, if any, of future sales of shares of our common stock, or the availability of shares of our common stock for future sales, on the value of shares of our common stock. Sales of substantial amounts of shares of our common stock, or the perception that such sales could occur, may adversely affect prevailing market prices for shares of our common stock. Future offerings of debt securities, which would rank senior to shares of our common stock upon our bankruptcy or liquidation, and future offerings of equity securities which would dilute the common stock holdings of our existing stockholders and may be senior to shares of our common stock for the purposes of dividend and liquidating distributions, may adversely affect the market price of shares of our common stock. In the future, we may attempt to increase our capital resources by making offerings of debt securities (or causing our operating partnership to issue debt securities) or additional offerings of equity securities. Upon bankruptcy or liquidation, holders of our debt securities, our ~~Series A preferred stock and other~~ preferred stock, if issued, and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of shares of our common stock. **Any** ~~Our Series A~~ preferred stock ~~does~~ , **if issued,** ~~and additional preferred stock~~ could ~~,~~ have a preference on liquidating distributions or a preference on dividend payments or both that could limit our ability to pay a dividend or other distribution to the holders of shares of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, holders of shares of our common stock bear the risk of our future offerings reducing the market price of shares of our common stock and diluting their stock holdings in us. Our stockholders' ability to control our operations is limited and our charter provides that our Board of Directors may revoke or otherwise terminate our

REIT election without the approval of our stockholders. Our Board of Directors oversees the business and affairs of our company and determines our strategies, including our strategies regarding investments, financing, growth, debt capitalization and distributions. Our Board of Directors may amend or revise these and other strategies without a vote of our stockholders. In addition, our charter provides that our Board of Directors may revoke or otherwise terminate our REIT election, without approval of our stockholders, if it determines that it is no longer in our best interest to attempt to, or continue to, qualify as a REIT. Accordingly, our stockholders' ability to control our operations is limited, which could negatively affect the value of our common stock. If securities analysts do not publish research or reports about our business or if they downgrade our stock or our core market, our stock price and trading volume could decline. The trading market for shares of our common stock may rely in part on the research and reports that industry or financial analysts publish about us or our business or industry. We do not control these analysts. Furthermore, if one or more of the analysts who do cover us downgrade our stock or our industry, or the stock of any of our competitors, or publish inaccurate or unfavorable research about our business or industry, the price of our stock could decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, we could lose visibility in the market, which in turn could cause our stock price or trading volume to decline. Terrorist attacks, other acts of violence or war, civil unrest, or a pandemic, or U. S. consumers' fear of such events may cause a prolonged economic slowdown, which would affect the real estate industry generally and our business, financial condition, and results of operations. We cannot predict the severity of the effect that potential terrorist attacks, other acts of violence or war, civil unrest, or a pandemic, or U. S. consumers' fears of such events, may have on the U. S. economy and on our business, financial condition, and results of operations. We may suffer losses as a result of the adverse impact of any of these events, and these losses may adversely impact our performance and may cause the market value of shares of our common stock to decline or be more volatile. A prolonged economic slowdown, a recession, or declining real estate values could impair the performance of our investments and harm our financial condition and results of operations, increase our funding costs, limit our access to the capital markets, or result in a decision by lenders not to extend credit to us. Losses resulting from these types of events may not be fully insurable. The absence of affordable insurance coverage for these types of events may adversely affect the general real estate lending market, lending volume and the market' s overall liquidity and may reduce the number of suitable investment opportunities available to us and the pace at which we are able to make investments. If the **borrowers and / or** properties underlying our interests are unable to obtain affordable insurance coverage, the value of our interests could decline, and in the event of an uninsured loss, we could lose all or a portion of our investment. The obligations associated with being a public company ~~will~~ require significant resources and attention from our Manager' s senior management team. As a public company with listed equity securities, we are required to comply with various laws, regulations and requirements, including the requirements of the Exchange Act, certain corporate governance provisions of the Sarbanes- Oxley Act, related regulations of the SEC and requirements of the NYSE. The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes- Oxley Act requires, among other things, that we establish and maintain effective internal controls over financial reporting. ~~While~~ **In addition,** Section 404 of the Sarbanes- Oxley Act requires **us to evaluate** ~~, among other things, that we assess the effectiveness of our internal control structure and procedures for financial reporting on an~~ **and** ~~annual basis, for as long as we are both a Smaller Reporting Company and a non- accelerated filer, the registered public accounting firm that issues an audit~~ report on ~~our financial statements will not be required to attest to or report on the effectiveness of~~ our internal control over financial reporting ~~pursuant to Section 404 (b) of the Sarbanes~~ **and, beginning with this Annual Report on Form 10** - ~~Oxley Act. An~~ **K now that we are a Smaller Reporting Company and an accelerated filer, have our** independent ~~assessment of~~ **auditors annually attest to our evaluation, as well as issue** ~~the~~ **their** ~~effectiveness of~~ **own opinion on** our internal ~~controls~~ - **control over financial reporting** ~~could detect problems that our management' s assessment might not~~ . We cannot be certain if the scaled SEC reporting options available to Smaller Reporting Companies will make our common stock less attractive to investors, which could make the market price and trading volume of shares of our common stock be more volatile and decline significantly. Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. We may in the future discover areas of our internal controls that need improvement. We cannot be certain that we will be successful in implementing or maintaining an effective system of internal control over our financial reporting and financial processes. Furthermore, as we grow our business, our internal controls will become more complex, and we will require significantly more resources to ensure our internal controls remain effective. Additionally, the existence of any material weakness or significant deficiency would require our Manager to devote significant time and us to incur significant expense to remediate any such material weaknesses or significant deficiencies and our Manager may not be able to remediate any such material weaknesses or significant deficiencies in a timely manner. The existence of any material weakness in our internal control over financial reporting could also result in errors in our financial statements that could require us to restate our financial statements, cause us to fail to meet our reporting obligations and cause stockholders to lose confidence in our financial results, which could materially and adversely affect us. As a public company with listed equity securities, we also are required to maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file with, or submit to, the SEC is recorded, processed, summarized, and reported, within the time periods specified by the SEC. They include controls and procedures designed to ensure that information required to be disclosed in reports filed with, or submitted to, the SEC is accumulated and communicated to management, including our principal executive and principal financial officers, to allow timely decisions regarding required disclosure. Designing and implementing effective disclosure controls and procedures is a continuous effort that requires significant resources and devotion of time. We may discover deficiencies in our disclosure controls and procedures that may be difficult or time consuming to remediate in a timely manner. These reporting and other obligations place significant demands on us and our Manager' s senior management team, administrative, operational, and accounting resources and cause us to incur significant expenses. From time to time, we may need to upgrade our systems or create new systems, implement additional financial and other controls, reporting systems and procedures, and outsource an effective internal audit function. If we are unable to accomplish these objectives in a timely and effective fashion, our ability to comply with the financial reporting requirements and other rules that apply to public companies could be impaired.