

## Risk Factors Comparison 2024-02-29 to 2023-02-17 Form: 10-K

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

You should carefully consider the following factors, together with all the other information included in this ~~2022~~ **2023** Form 10-K, in evaluating our company and our business. If any of the following risks actually occur, our business, financial condition and results of operations could be materially and adversely affected, and the value of our stock could decline. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. As such, you should not consider this list to be a complete statement of all potential risks or uncertainties.

**Risks Related to Financing**

- Our inability to access funding, **including through the capital markets**, or the terms on which such funding is available could have a material adverse effect on our financial condition, ~~particularly during times of severe market disruption in the financial, mortgage, housing or related sectors.~~
- An increase in our borrowing costs relative to the interest ~~income we receive on our assets~~ may materially adversely affect our profitability.
- Volatile market conditions may result in a decline in the market value of our assets, which may result in margin calls that may force us to sell assets, which may materially adversely affect our liquidity and profitability.
- Our business strategy involves the use of leverage, and we may not achieve what we believe to be optimal levels of leverage ~~or we may become overleveraged~~, which may materially adversely affect our liquidity, results of operations or financial condition.
- Failure to effectively manage our liquidity would adversely affect our results and financial condition. ~~We may have difficulty accessing or be unable to access capital markets.~~
- ~~The elimination of LIBOR may affect our financial results.~~

**Risks Related to Hedging**

- Hedging against interest rate exposure may not be successful ~~in mitigating the risks associated with interest rates~~ and may adversely affect our earnings, which could reduce our cash available for distribution to our stockholders.
- ~~We may enter into hedging~~ **Hedging** instruments **may that could expose us to contingent liabilities in the future, which could materially adversely affect our results of operations.**
- ~~The characteristics of hedging instruments present various concerns, including illiquidity, enforceability, and counterparty risks, as well as expose us to contingent liabilities~~ which could adversely affect our business and results of operations.
- Clearing facilities or exchanges upon which our hedging instruments are traded may increase margin requirements on our hedging instruments in the event of adverse economic developments.

**Risks Associated with Our Investments**

- Interest rate fluctuations may ~~have various negative effects on us and may lead to reduced earnings and increased volatility in our earnings.~~
- The current ~~flattening and~~ inversion of the yield curve has caused and may continue to cause differences in timing of interest rate adjustments on our interest earning assets and our borrowings, which ~~has and~~ may continue to adversely affect the net interest spread ~~we earn on our assets.~~
- The impact of inflation may adversely affect our financial performance.
- A significant portion of our ~~investments are in the most subordinated Non- Agency RMBS, making us the first- loss security holder.~~ **A significant portfolio --- portion of the RMBS we acquire through securitization** is subject to ~~the~~ U. S. **credit** risk retention rules.
- ~~We have a significant amount~~ **Risks related to our subprime portfolio may affect our financial condition and results of operations**
- ~~Risks related to our investments in RMBS and Non- Agency MBS~~ **collateralized by mortgage loans that do not meet the prime loan underwriting standards and are subject to increased risk of losses.**
- The nature of the mortgage loans we acquire and that underlie the MBS we acquire, ~~exposes us to credit risk that could negatively affect the value of those assets and investments.~~
- Changes in prepayment rates could negatively affect the value of our investment portfolio, which could result in reduced earnings or losses and negatively affect the cash available for distribution to our stockholders.
- A significant portion of our Non- Agency MBS and residential loans are secured by properties in a small number of geographic areas and may be disproportionately affected by ~~economic or housing downturns, natural disasters, terrorist events, regulatory changes, or other adverse events~~ **in specific to those markets.**
- We may change our investment strategy, asset allocation, or financing plans without stockholder consent, ~~which may result in riskier investments.~~

**Risks** ~~Changes in the fair values of our assets, liabilities, and derivatives can reduce earnings, increase earnings volatility, and related --- create to volatility in our book value.~~ **Changes in the fair values of our assets, liabilities, and derivatives can reduce earnings, increase earnings volatility, and related --- create to volatility in our book value.**

- Our calculations of the fair value ~~and our calculation of fair value~~ of the assets we own ~~or consolidate are based upon assumptions that are inherently subjective and involve a high degree of management judgment.~~ **Any deterioration or uncertainty in market conditions for mortgages and mortgage- related assets, as well as in broader U. S. and global economic and geopolitical conditions, could have a material adverse effect on us.**

**Risks Associated with Our Operations**

- Through certain of our wholly- owned subsidiaries we ~~may from time~~ have engaged in the past, and expect to ~~time~~ continue to engage in, ~~securitization transactions relating to residential mortgage loans, which may~~ **These types of transactions and investments** expose us to potentially material risks.
- Our ability to profitably execute ~~or participate in~~ future securitization transactions may be negatively impacted by adverse market conditions ~~beyond our control.~~
- Competition may affect ability and pricing of our target assets.
- ~~The~~ Our executive officers and other key personnel are critical to our success and the loss of any executive officer or key employee may materially adversely affect our business.
- Risks related to ~~servicers and other~~ third- parties, including their ~~capability~~ **ability** to perform ~~certain their~~ services, ~~compliance at a high level and comply~~ with applicable laws, and the use of third- party analytical models and data.
- The expanding body of ~~federal, state and local~~ regulations and the investigations of servicers may increase their cost of compliance and the risks of noncompliance ~~and may adversely affect their ability to perform their servicing obligations.~~
- We are dependent on information systems and their failure, **including through cyber- attacks**, could significantly disrupt our business.

**Risks Related to Regulatory Matters, Accounting, and Our 1940 Act Exemption**

- Our business is subject to extensive regulation. ~~We are required~~ **There is no assurance we will be able** to obtain various state licenses to purchase mortgage loans ~~in the secondary market and there is no assurance we will be able to obtain or maintain those licenses.~~
- Our GAAP financial results may not be an accurate indicator of taxable

income and dividend distributions. • Changes in accounting rules could occur at any time and could impact us in significantly negative **negatively** ways that we are unable to predict or protect against. • Loss of our 1940 Act exemption would adversely affect us and negatively affect the market **our share** price, of shares of our capital stock and our ability to distribute dividends, **and us generally**. • We have an indirect ownership interest in a registered investment adviser. U. S. Federal Income Tax Risks **and Risk Related to Our REIT Status** • Your investment has various U. S. federal income tax risks. • Risks related to compliance with REIT requirements. • Risks related to our qualification as a REIT and our election to qualify as a REIT. • Potential characterization of distributions or gain on sale may be treated as unrelated business taxable income to tax- exempt investors. • Classification of our securitizations or financing arrangements as a taxable mortgage pool could subject us or certain of our stockholders to increased taxation. • Failure to make required distributions would subject us to tax, which would reduce the cash available for distribution to our stockholders. • Our ownership of and relationship with our TRSs will be limited, and a failure to comply with the limits would jeopardize our REIT status and may result in the application of a 100 % excise tax. • The tax on prohibited transactions will limit our ability to engage in transactions, including certain methods of securitizing mortgage loans, that would be treated as sales for U. S. federal income tax purposes. • The interest apportionment rules may affect our ability to comply with the REIT asset and gross income tests. • ~~Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow.~~ • We may be subject to adverse ~~legislative or regulatory~~ tax changes that could reduce the market price of our capital stock. Risks Related to Our Organization and Structure • Certain provisions of Maryland Law, of our charter, and of our bylaws ~~contain provisions that~~ may inhibit potential acquisition bids that stockholders may consider favorable, and **may affect** the market price of our capital stock ~~may be lower as a result~~. • Our rights and the rights of our stockholders to take action against our directors and officers are limited, which could limit stockholders' recourse in the event of actions, not in their best interests. Risks Related to Our Capital Stock • The market price and trading volume of our shares of capital stock may be volatile. • We may not be able to pay dividends or other distributions on our capital stock. • The declaration, amount and payment of future cash dividends on our common stock are subject to uncertainty ~~due to (among other things) disruption in the mortgage, housing or related sectors~~. • Capital stock eligible for future sale may have adverse consequences for investors and ~~adverse effects~~ on our share price. • Future offerings of debt securities, which would rank senior to our capital stock upon liquidation, and future offerings of equity securities (including upon the exercise of warrants we have issued to certain lenders), which would dilute our existing stockholders and may be senior to our capital stock for the purposes of dividend and liquidating distributions, may adversely affect the market price of our capital stock. • There is a risk that stockholders may not receive dividend distributions, or those dividend distributions may decrease over time. ~~Changes in the amount of dividend distributions we pay or in the tax characterization of dividend distributions we pay may adversely affect the market price of our common stock or may result in holders of our common stock being taxed on dividend distributions at a higher rate than initially expected~~. • Dividends payable by REITs generally do not qualify for the reduced tax rates available for some dividends. • **Shares repurchased under our share repurchase program may not benefit stockholders.** • Holders of our Preferred Stock have limited voting rights. Our inability to access funding, our cost of funding or the terms on which such funding is available could have a material adverse effect on our financial condition, particularly during times of severe market disruption in the financial, mortgage, housing or related sectors. Our ability to fund our operations, meet financial obligations and finance target asset acquisitions may be impacted by our ability to secure and maintain our master repurchase agreements, warehouse facilities and repurchase agreement facilities with our counterparties. Because repurchase agreements and warehouse facilities are short- term commitments of capital, lenders may respond to market conditions making it more difficult for us to renew or replace on a continuous basis our maturing short- term borrowings and have and may continue to impose more onerous conditions when rolling such financings. If we are not able to renew our existing facilities or arrange for new financing on terms acceptable to us, or if we default on our covenants or are otherwise unable to access funds under our financing facilities or if we are required to post more collateral or face larger haircuts, we may have to curtail our asset acquisition activities and / or dispose of assets at a loss. Issues related to financing are exacerbated in times of significant dislocation in the financial markets, such as current conditions. It is possible our lenders will become unwilling or unable to provide us with financing and we could be forced to sell our assets at an inopportune time when prices are depressed. In addition, if the regulatory capital requirements imposed on our lenders change, they may be required to significantly increase the cost of the financing that they provide to us. Our lenders also have and may continue to revise their eligibility requirements for the types of assets they are willing to finance or the terms of such financings, including haircuts and requiring additional collateral in the form of cash, based on, among other factors, the regulatory environment and their management of actual and perceived risk, particularly with respect to assignee liability. Moreover, the amount of financing we receive under our repurchase agreements will be directly related to our lenders' valuation of our target assets that cover the outstanding borrowings. Typically, repurchase agreements grant the lender the absolute right to reevaluate the fair market value of the assets that cover outstanding borrowings at any time. If a lender determines in its sole discretion that the value of the assets has decreased, it has the right to initiate a margin call. These valuations may be different than the values that we ascribe to these assets and may be influenced by recent asset sales and distressed levels by forced sellers. A margin call requires us to transfer additional assets or cash to a lender without any advance of funds from the lender for such transfer or to repay a portion of the outstanding borrowings. **An increase in our borrowing costs relative to the interest we receive on our assets may materially adversely affect our profitability**. Our earnings are primarily generated from the difference between the interest income we earn on our investment portfolio, less net amortization of purchase premiums and discounts, and the interest expense we pay on our borrowings. Historically, we relied primarily on borrowings under repurchase agreements to finance our investments, which have short- term contractual maturities. In an effort to be less impacted by market dislocations, we have moved some of our financing to longer- term mark- to- market financing and longer- term non- market- to- market and limited mark- to- market financing which is more expensive than traditional short- term mark- to- market financing. In general, if the interest expense on our borrowings increases relative to the interest income

we earn on our investments, our profitability may be materially adversely affected. Interest rates are highly sensitive to many factors, including fiscal and monetary policies and domestic and international economic and political conditions, as well as other factors beyond our control. **Starting in 2022, the Federal Reserve adopted monetary policies designed to address a rapid acceleration of inflation, raising the federal funds rates multiple times starting in 2022 and through a portion of 2023, and may do so again in the future, which could impact our borrowing costs and our ability to invest generally.** During a period of rising interest rates and flattening or inverted yield curves such as the current market, our borrowing costs generally will increase at a faster pace than our interest earnings on the leveraged portion of our investment portfolio, which could result in a decline in our net interest spread and net interest margin. The severity of any such decline would depend on our asset / liability composition, including the impact of hedging transactions, at the time as well as the magnitude and period over which interest rates increase. Further, an increase in short- term interest rates could also have a negative impact on the market value of our investments. As these events occurred in **2023 and 2022**, and are continuing, we have and may continue to experience **a net decrease** in net income or **our interest expense** incur a net loss. In general, the market value of our residential mortgage and MBS investments is impacted by changes in interest rates, prevailing market yields and other market conditions, including general economic conditions, home prices, and the real estate market generally. A decline in the market value of our residential mortgage or MBS investments may limit our ability to borrow against such assets or result in lenders initiating margin calls, which require a pledge of additional collateral or cash to re- establish the required ratio of borrowing to collateral value, under ~~our repurchase agreements~~. ~~During periods of market dislocation, such as those experienced in the early stages of COVID-19 pandemic or in connection with the Federal Funds Rate increases starting in early 2022, we may experience significantly higher margin calls and haircuts with respect to~~ our repurchase agreements. Posting additional collateral or cash to support our credit will reduce our liquidity and limit our ability to leverage our assets, which could materially adversely affect our business. Thus, we could be forced to sell a portion of our assets, including MBS in an unrealized loss position, to maintain liquidity. Our business strategy involves the use of leverage. We may not achieve what we believe to be optimal levels of leverage or we may become overleveraged, which may materially adversely affect our liquidity, results of operations or financial condition. Our business strategy involves the use of borrowing, or leverage. Pursuant to our leverage strategy, we borrow against a substantial portion of the market value of our assets and use the borrowed funds to finance our investment portfolio and the acquisition of additional investment assets. Future increases in the amount by which the collateral value is required to contractually exceed the amount borrowed in such leverage financing transactions, decreases in the market value of our residential mortgage investments, increases in interest rate volatility and changes in the availability of acceptable financing could cause us to be unable to achieve the amount of leverage we believe to be optimal. The return on our assets and cash available for distribution to our stockholders may be reduced to the extent that changes in market conditions prevent us from achieving the desired amount of leverage on our investments or cause the cost of our financing to increase relative to the income earned on our leveraged assets. For example, in response to the changes in rates and margins calls we received during the first months of the COVID- 19 pandemic, in 2020, we entered into several non- mark- to- market and mark- to- market holiday financing facilities. Similarly, in **2023 and 2022**, as the Federal Reserve increased interest rates we added more non- MTM facilities. These facilities typically have higher interest rates and cash trapping provisions which reduce the net cash we receive from these levered assets. If the interest income on the investments that we have purchased with borrowed funds fails to cover the interest expense of the related borrowings, we will experience net interest losses and may experience net losses from operations. Such losses could be significant because of our leveraged structure. The risks associated with leverage are more acute during periods of economic slowdown or recession. The use of leverage to finance our investments involves many other risks, including, among other things, the following: • Our profitability may be materially adversely affected by a reduction in our leverage. As long as we earn a positive spread between interest and other income we earn on our leveraged assets and our borrowing costs, we believe that we can generally increase our profitability by using greater amounts of leverage. There can be no assurance, however, that repurchase financing will remain an efficient source of financing for our assets. The amount of leverage that we use may be limited because our lenders might not make funding available to us at acceptable rates or they may require that we provide additional collateral to secure our borrowings. If our financing strategy is not viable, we will have to find alternative forms of financing for our assets which may not be available to us on acceptable terms or at all. In addition, in response to certain interest rate and investment environments or to changes in market liquidity, we could adopt a strategy of reducing our leverage by selling assets or not reinvesting principal payments as MBS amortize or prepay, thereby decreasing the outstanding amount of our related borrowings. Such an action could reduce interest income, interest expense and net income, the extent of which would depend on the level of reduction in assets and liabilities as well as the sale prices for which the assets were sold. • If a counterparty to our repurchase transactions defaults on its obligation to resell the underlying security back to us at the end of the transaction term or if we default on our obligations under the repurchase agreement, we could incur losses. When we engage in repurchase transactions, we generally sell assets to the counterparty to the agreement for cash. Because the cash we receive from the counterparty is less than the value of those securities (this difference is referred to as the “ haircut ”), if the lender defaults on its obligation to transfer the same securities back to us, we would incur a loss on the transaction equal to the amount of the haircut (assuming there was no change in the value of the securities). (See Item 7, “ Management ’ s Discussion and Analysis of Financial Condition and Results of Operations ” of this ~~2022~~ **2023** Form 10- K, for further discussion regarding risks related to exposure to financial institution counterparties in light of recent market conditions.) Our exposure to defaults by counterparties may be more pronounced during periods of significant volatility in the market conditions for mortgages and mortgage- related assets as well as the broader financial markets. At December 31, ~~2022~~ **2023**, we the ~~Company~~ had amounts at risk with Nomura Securities International, Inc., or Nomura, of ~~12-17~~ % of ~~its~~ **our** equity related to the collateral posted on secured financing agreements. In addition, generally, if we default on a repurchase transaction the counterparty could liquidate the assets and use the proceeds to repay the amounts it is owed. If the amount received from the

sale is equal to or less than the amount owed, we will incur a loss equal to the haircut and the counterparty has recourse to us to repay any remaining deficiency. In addition, if we default on a transaction under any one agreement and fail to honor the related guarantee, the counterparties on our other repurchase agreements could also declare a default under their respective repurchase agreements. Any losses we incur on our repurchase transactions could materially adversely affect our earnings and thus our cash available for distribution to our stockholders.

- Our financing facilities may contain covenants that restrict our operations. Certain financing facilities we may enter **into** contain restrictions, covenants, and representations and warranties that, among other things, **may** require us to satisfy specified financial, asset quality, loan eligibility, and loan performance tests. If we fail to meet or satisfy any of these covenants or representations and warranties, we would be in default under these agreements and our lenders could elect to declare all amounts outstanding under the agreements to be immediately due and payable, enforce their respective rights against collateral pledged under such agreements, and restrict our ability to make additional borrowings. Certain financing agreements may contain cross- default provisions by a guarantor so that if a default occurs under any guaranty agreement, the lenders under our other financing agreements could also declare a default under their respective agreements. Further, under our mark- to- market agreements, we are typically required to pledge additional assets to our lenders in the event the estimated fair value of the existing pledged collateral under such agreements declines and such lenders demand additional collateral, which may take the form of additional securities, loans or cash. These restrictions may interfere with our ability to obtain financing or to engage in other business activities, which may have a significant negative impact on our business, financial condition, liquidity and results of operations. A default and resulting repayment acceleration could significantly reduce our liquidity, which could require us to sell our assets to repay amounts due and outstanding whether or not the prices and terms of such sales are favorable to us. This could also significantly harm our business, financial condition, results of operations, and our ability to make distributions, which could cause the value of our stock to decline. A default will also significantly limit our financing alternatives such that we will be unable to pursue our leverage strategy, which could lower our investment returns.
- Adverse developments involving major financial institutions or involving one of our lenders could result in a rapid reduction in our ability to borrow and materially adversely affect our business, profitability, and liquidity. As of December 31, **2022-2023**, we had amounts outstanding under repurchase agreements with **16-12** separate lenders. A material adverse development involving one or more major financial institutions or the financial markets, in general, could result in us reducing exposure to certain lenders to mitigate credit risk or our lenders reducing our access to funds available under our repurchase agreements or terminating such repurchase agreements altogether. Because substantially all our repurchase agreements are uncommitted and renewable at our lenders' discretion, our lenders could determine to reduce or terminate our access to future borrowings at virtually any time, which could materially adversely affect our business and profitability. Furthermore, if a few of our lenders became unwilling or unable to continue to provide us with financing, we could be forced to sell assets, including assets in unrealized loss positions, to maintain liquidity. Forced sales, particularly under adverse market conditions, may result in lower sale prices than ordinary market sales made in normal market conditions. If our investments were liquidated at prices below our amortized cost of such assets, we would incur losses, which would adversely affect our earnings.
- Our use of repurchase agreements to borrow money may give our lenders greater rights in the event of bankruptcy. In the event of our insolvency or bankruptcy, certain repurchase agreements may qualify for special treatment under the Bankruptcy Code, the effect of which, among other things, would be to allow the creditor under the agreement to avoid the automatic stay provisions of the Bankruptcy Code and take possession of, and liquidate, the collateral under such repurchase agreements without delay.
- A re-characterization of the repurchase agreements as sales for tax purposes rather than as secured lending transactions would adversely affect our ability to maintain our qualification as a REIT and to maintain our 1940 Act exemption. When we enter a repurchase agreement, we generally sell assets to our counterparty to the agreement for cash. The counterparty is obligated to resell the assets back to us at the end of the transaction term. We believe that for U. S. federal income tax purposes we will be treated as the owner of the assets that are the subject of repurchase agreements and that the repurchase agreements will be treated as secured lending transactions 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 or the SEC could successfully assert that we did not own these assets during the term of the repurchase agreements, in which case we could fail to qualify as a REIT or fail to maintain our 1940 Act exemption, respectively. Our ability to meet cash needs depends on many factors, several of which are beyond our control. Ineffective management of liquidity levels could cause us to be unable to meet certain financial obligations. Potential conditions that could impair our liquidity include: unwillingness or inability of any of our potential lenders to provide us with or renew financing, margin calls, additional capital requirements applicable to our lenders, a disruption in the financial markets or declining confidence in our creditworthiness or in financial markets in general. These conditions could force us to sell our assets at inopportune times or otherwise cause us to potentially revise our strategic business initiatives. We may **have difficulty accessing or be unable to access capital markets. We may** not be able to readily raise capital from external sources in a timely manner or on favorable terms. Many of the same factors that could make the pricing for investments in real estate loans and securities attractive, such as the availability of assets from distressed owners who need to liquidate them at reduced prices, and uncertainty about credit risk, housing, and the economy, may limit investors' and lenders' willingness to provide us with additional capital on terms that are favorable to us, if at all. There may also be other reasons we are not able to readily raise capital in a timely manner or on favorable terms, and, as a result, may not be able to finance growth in our business and in our portfolio of assets and we could experience other adverse impacts. To the extent we need to raise capital on unfavorable terms, we may experience greater dilution of existing shareholders, higher interest costs, or higher transaction costs. **The Hedging against interest rate exposure may not be successful in mitigating the risks associated with** interest rates **on our secured financing agreements, as well as adjustable- rate mortgage loans in our securitizations, are generally based on LIBOR. On March 5, 2021, the United Kingdom Financial Conduct Authority, or FCA, which regulates LIBOR, announced that all LIBOR tenors relevant to us will cease to be published or will no longer be representative after June 30, 2023. The FCA's**



announcement coincides with the March 5, 2021, announcement of LIBOR's administrator, the ICE Benchmark Administration Limited, or IBA, indicating that, as a result of not having access to input data necessary to calculate LIBOR tenors relevant to us on a representative basis after June 30, 2023, IBA would have to cease publication of such LIBOR tenors immediately after the last publication on June 30, 2023. These announcements mean that any of our LIBOR-based borrowings that extend beyond June 30, 2023 will need to be converted to a replacement rate. Moreover, any adjustable-rate mortgage loans based upon LIBOR will need to convert by that time too. In the United States, the Alternative Reference Rates Committee, or ARRC, a committee of private sector entities with ex-officio official sector members convened by the Federal Reserve Board and the Federal Reserve Bank of New York, has recommended the Secured Overnight Financing Rate, or SOFR, and in some cases, the forward-looking term rate based on SOFR published by CME Group Benchmark Administration Ltd, or CME Term SOFR, plus in each case, a recommended spread adjustment as LIBOR's replacements. The Board of Governors of the Federal Reserve has also named CME Term SOFR as the Board-selected replacement rate for most cash products under the Adjustable Interest Rate (LIBOR) Act of 2021, which governs instruments for which there is no determining person to choose a LIBOR replacement or which have no fallback provisions specifying an **and may adversely affect** alternate replacement rate. There are significant differences between LIBOR and SOFR, such as LIBOR being an unsecured lending rate while SOFR is a secured lending rate, and SOFR is an overnight rate while LIBOR reflects term rates at different maturities. If our LIBOR-based borrowings are converted to SOFR or **our earnings** CME Term SOFR, the differences between LIBOR and SOFR, plus the recommended spread adjustment, could result in interest costs that are higher than if LIBOR remained available, which could **reduce** have a material adverse effect on our operating results. Although SOFR and CME Term SOFR are the ARRC's recommended replacement rates, it is also possible that lenders may instead choose alternative replacement rates that may differ from LIBOR in ways similar to SOFR or **our cash available** in other ways that would result in higher interest costs for **distribution** us. Furthermore, lenders may select alternative rates sooner than June 30, 2023, either in amendments to existing facilities or **our stockholders** as we decide to enter into new facilities. It is possible that not all of our assets and liabilities will transition away from LIBOR at the same time, and it is possible that not all of our assets and liabilities will transition to the same alternative reference rate, in each case increasing the difficulty of hedging. We and other market participants have less experience understanding and modeling SOFR-based assets and liabilities than LIBOR-based assets and liabilities, increasing the difficulty of investing, hedging, and risk management. The process of transition involves operational risks. It is not yet possible to predict the magnitude of LIBOR's end on our borrowing costs and other operations given the remaining uncertainty about which rates will replace LIBOR and the related timing. Our fixed-to-floating preferred shares may also be impacted by USD-LIBOR cessation, although the nature and extent of such impact is currently uncertain, particularly in light of the federal legislative and regulatory actions designed to alleviate uncertainties related to such instruments, which were completed December 2022 and are being evaluated by the Company. We do not currently intend to amend any classes of our fixed-to-floating preferred shares to change the existing USD-LIBOR cessation fallbacks. Each such class that is currently outstanding becomes callable at the same time it begins to pay a USD-LIBOR-based rate. We are not required to call any class of our fixed-to-floating preferred shares in connection with USD-LIBOR cessation. However, should we choose to call a class of preferred shares in order to avoid a dispute over the results of the USD-LIBOR fallbacks for that class, we may be forced to raise **additional funds at an unfavorable time**. Subject to maintaining our qualification as a REIT, we use various hedging strategies to reduce our exposure to losses from rising interest rates in the current market. Hedging activity varies in scope based on the level and volatility of interest rates, the type of assets held, financing used, and other changing market conditions. There are no perfect hedging strategies, and interest rate hedging may fail to protect us from loss. Alternatively, we may fail to properly assess a risk to our investment portfolio or may fail to recognize a risk entirely, leaving us exposed to losses without the benefit of any offsetting hedging activities. The derivative financial instruments we could select may not have the effect of reducing our interest rate risk. The nature and timing of hedging transactions may influence the effectiveness of these strategies. Poorly designed strategies or improperly executed transactions could increase our risk and losses. In addition, hedging activities could result in losses if the event against which we hedge does not occur. For example, interest rate hedging could fail to protect us or 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 correlate directly with the interest rate risk for which protection is sought; • the duration of the hedge may not match the duration of the related liability; • the amount of income that a REIT may earn from hedging transactions to offset interest rate losses may be limited by U. S. federal tax provisions governing REITs; • the credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; • the party owing money in the hedging transaction may default on its obligation to pay; and • 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 **-with Downward downward** adjustments, or "mark-to-market losses," **reducing would reduce** our stockholders' equity; • **during periods of high volatility we may need to post significant cash collateral, which may limit our ability to invest and deteriorate liquidity**. The hedging transactions we undertake, which are intended to limit losses, may limit gains and increase our exposure to losses. Thus, our hedging activity may adversely affect our earnings, which could reduce our cash available for distribution to our stockholders. In addition, some hedging instruments involve risk since they are not currently traded on regulated exchanges, guaranteed by an exchange or its clearing house, or regulated by any U. S. or foreign governmental authorities. **We may enter into hedging instruments that could expose us to contingent liabilities in the future, which could materially adversely affect our results of operations.** Subject to maintaining our qualification as a REIT, part of our financing strategy involves entering into hedging instruments that could require us to fund cash payments in certain circumstances (e. g., the early termination of a hedging instrument caused by an event of default or other voluntary or involuntary termination event or the decision by a hedging counterparty to request the posting of collateral that it is contractually owed under the terms of a hedging instrument). With respect to the termination of an existing swap, the

amount due would generally be equal to the unrealized loss of the open swap position with the hedging counterparty and could also include other fees and charges. These economic losses will be reflected in our financial results of operations and our ability to fund these obligations will depend on the liquidity of our assets and access to capital at the time. Any losses we incur on our hedging instruments could materially adversely affect our earnings and thus our cash available for distribution to our stockholders. **The characteristics of hedging instruments present various concerns, including illiquidity, enforceability, and counterparty risks, which could adversely affect our business and results of operations.** As indicated above, from time to time we enter into swaps. Entities entering into swaps are exposed to credit losses in the event of non-performance by counterparties to these transactions. Rules issued by the Commodities Futures Trading Commission or, CFTC, that became effective in October 2012 require the clearing of all swap transactions through registered derivatives clearing organizations, or swap execution facilities, through standardized documents under which each swap counterparty transfers its position to another entity whereby the centralized clearinghouse effectively becomes the counterparty to each side of the swap. It is the intent of the Dodd-Frank Act that the clearing of swaps in this manner is designed to avoid concentration of swap risk in any single entity by spreading and centralizing the risk in the clearinghouse and its members. In addition to greater initial and periodic margin (collateral) requirements and additional transaction fees both by the swap execution facility and the clearinghouse, the swap transactions are now subjected to greater regulation by both the CFTC and the SEC. These additional fees, costs, margin requirements, documentation requirements, and regulations could adversely affect our business and results of operations. In response to events having or expected to have adverse economic consequences or which create market uncertainty, clearing facilities or exchanges upon which some of our hedging instruments (i. e., interest rate swaps) are traded may require us to post additional collateral against our hedging instruments. In the event that future adverse economic developments or market uncertainty (including those due to governmental, regulatory, or legislative action or inaction) result in increased margin requirements for our hedging instruments, it could materially adversely affect our liquidity position, business, financial condition and results of operations. **Interest rate fluctuations, including as a result of the Federal Reserve's monetary policy may have various negative effects on us and may lead to reduced earnings and increased volatility in our earnings.** Changes in interest rates, the interrelationships between various interest rates, and interest rate volatility, such as the changes that have occurred during 2022-2023 and ~~are~~ **may continue to continue** to occur as the Federal Reserve's interest rate policies in response to inflation continue to affect the financial markets, have had, and may continue to have, negative effects on our earnings, the fair value of our assets and liabilities, loan prepayment rates, and our access to liquidity. Changes in interest rates may harm the credit performance of our assets. We may seek to hedge a majority of, but not all interest rate risks. Our hedging may not work effectively, and we may change our hedging strategies or the degree or type of interest rate risk we assume. Some of the loans and securities we own or may acquire have adjustable-rate coupons (i. e., they may earn interest at a rate that adjusts periodically based on an interest rate index) and some of the subordinate securities we own are entitled to cash flow only after the more senior securities have been paid and those senior securities have adjustable-rate coupons. As such, the cash flows, and earnings, we receive from these assets may vary as a function of interest rates. For example, if interest rates increase, the cash flow we receive from securities with adjustable-rate coupons is expected to increase while the cash flow we receive on securities that are subordinate to adjustable-rate securities may decrease. We also acquire loans and securities for future sale, as assets we are accumulating for securitization, or as a longer-term investment. We expect to fund assets, loans, and securities with a combination of equity and debt. If we use adjustable rate debt to fund assets that have a fixed interest rate (or use fixed rate debt to fund assets that have an adjustable interest rate), an interest rate mismatch could exist and we could earn less (and fair values could decline) if interest rates rise, at least for a time. We may seek to mitigate interest rate mismatches for these assets with hedges such as swaps and other derivatives, which may not be successful. Higher interest rates generally reduce the fair value of many of our assets and increase the cost of our financing. This may affect our earnings results, reduce our ability to securitize, re-securitize, or sell our assets, or reduce our liquidity. Higher interest rates could reduce borrowers' ability to make interest payments or to refinance their loans. Higher interest rates could reduce property values and increased credit losses could result. Higher interest rates could reduce mortgage originations, thus reducing our opportunities to acquire new assets. In addition, when short-term interest rates are high relative to long-term interest rates, an increase in adjustable-rate residential loan prepayments may occur, which would likely reduce our returns from owning interest-only securities backed by adjustable-rate residential loans. **The current inversion of the yield curve has caused and may continue to cause differences in timing of interest rate adjustments on our interest earning assets and our borrowings, which has and may continue to adversely affect the net interest spread we earn on our assets.** Our investment portfolio contains a significant allocation to MBS, as well as Residential Loans. The relationship between short-term and longer-term interest rates is often referred to as the "yield curve." In a normal yield curve environment, short-term interest rates are lower than longer-term interest rates, and an investment in such assets will generally decline in value if long-term interest rates increase. Declines in market value may ultimately reduce earnings or result in losses to us, which may negatively affect cash available for distribution to our stockholders. If short-term interest rates ~~rise disproportionately relative to longer-term interest rates (a flattening of the yield curve), our borrowing costs will generally increase more rapidly than the interest income earned on our assets. Because our investments on average, generally bear interest based on longer-term rates than our borrowings, a flattening of the yield curve would tend to decrease, and has during 2022 decreased, our net interest margin, net income, book value and the market value of our net assets. It is also possible that short-term interest rates may~~ continue to, as has occurred in 2022-2023, exceed longer-term interest rates (a yield curve inversion), ~~in which event our borrowing costs have and may continue to exceed our interest income and we could continue to incur operating losses.~~ Additionally, to the extent cash flows from investments that return scheduled and unscheduled principal are reinvested, the spread between the yields on the new investments and available borrowing rates may decline, which would likely decrease our net income. A significant risk associated with our target assets is the risk that both long-term and short-term interest rates will increase significantly, as occurred during 2022-2023. To the

extent long- term rates increase significantly, the market value of these investments will decline, and the duration and weighted average life of the investments will increase. At the same time, an increase in short- term interest rates will increase the amount of interest owed on the repurchase agreements we enter into to finance the purchase of our investments. Additionally, a yield curve inversion may significantly influence the pace and volume of activity in securitization market, which may impact the profitability of any securitization transaction we perform. Inflation by some measures **remained elevated is at the highest readings** since 1982, and inflationary pressures have broadened from goods earlier in the pandemic to include shelter costs and a number of labor- intensive services. The rapid acceleration of inflation led to an abrupt shift in the Federal Reserve’ s monetary policy stance. Persistent high inflation during **the first half of 2023 and throughout** 2022 continued to put pressure on the Federal Reserve to raise its benchmark interest rates at a faster pace than previously estimated. The Federal Reserve responded by undertaking a series of **75 basis- points** rate hikes throughout **2023 and** 2022, which brought the Federal Funds Rate to a range of **4.5** . 25 % to **4.5** . 50 %, the highest level since 2008. As a result, mortgage rates continued to surge reaching the highest level in more than 15 years causing more home buyers to pull back from the market. This has negatively impacted both the primary and secondary markets for residential mortgages. As the Federal Reserve lifts the Federal Funds Rate, the margin between short and long- term rates could further compress. Given our reliance on short- term borrowings to generate interest income, if the curve continues to flatten or even invert, or if Federal Reserve finds itself falling behind on inflation and more aggressively tightens their current projections, our results of operations, financial condition and business could be materially adversely impacted. A significant portion of our investments are in Non- Agency RMBS that are the most subordinate securities in securitizations, making us the first- loss security holder, which means these securities are subject to significant credit risk, are illiquid, and are difficult to value. A significant portion of our Non- Agency RMBS are subordinate classes we have acquired through securitization of mortgage loans. The mortgage loans we have securitized are generally recorded on our balance sheet as “ securitized mortgage loans ” for GAAP purposes, but in effect we own these assets in the form of securities. A substantial portion of the mortgage loans that we securitize and the subordinate securities that we retain are not newly originated “ prime mortgage loans ” but rather seasoned reperforming mortgage loans and Non- QM loans that have less strict underwriting standards and are therefore subject to greater risk of loss, as discussed below. When we securitize mortgage loans, we sell the most senior securities backed by those loans and retain the most subordinate classes of securities, which means we are the first- loss security holder and the securities we own represent a portion of the “ securitized mortgage loans ” on our balance sheet. Losses on any residential mortgage loan securing our RMBS will be borne first by the owner of the property (i. e., the owner will first lose any equity invested in the property) and, thereafter, by us as the first- loss security holder, and then by holders of more senior securities. If the losses incurred upon loan default exceed any reserve fund, letter of credit, and classes of securities junior to those we own (if any), we may not be able to recover our investment in such securities. Also, if the underlying properties have been overvalued by the originating appraiser or if the values subsequently decline resulting in less collateral available to satisfy interest and principal payments due on the related security, as the first- loss security holder, we may suffer a total loss of principal, followed by losses on the more senior securities (or other RMBS that we may own). Losses with respect to these investments, which are subject to significant credit risk, could increase or otherwise be higher than anticipated. For a description of the credit risk we are exposed to, see the Risk Factor below captioned “ The nature of the mortgage loans we acquire and that underlie the MBS we acquire, exposes us to credit risk that could negatively affect the value of those assets and investments. ” In addition, many of our Non- Agency RMBS securities are first loss and subject to the Risk Retention Rules (see the Risk Factor below captioned “ A significant portion of the RMBS we acquire through securitization is subject to the U. S. credit risk retention rules which materially limit our ability to sell or hedge such investments as needed, which may require us to hold investments that we may otherwise desire to sell during times of severe market disruption in the financial, mortgage, housing or related sectors. ”) and are therefore illiquid for a period of time. The fair value of securities, especially our first loss credit risk retention securities, reperforming mortgage loans (loans that typically were significantly delinquent and subsequently modified), and other investments we make that are not frequently traded may not be readily determinable and it may be difficult to obtain third party pricing on such investments. Also, validating third party pricing for illiquid investments may be more subjective than more liquid investments and may not be reliable. Illiquid investments may also experience greater price volatility because an active market does not exist. We value our investments quarterly based on our judgment and valuation models and in accordance with our valuation policy. Because such valuations are inherently uncertain, our fair value determination may differ materially from the values obtained from third parties or the values that would have been used, if an active trading market existed for these investments. Our results of operations, financial condition and business could be materially adversely affected if our fair value determinations of the investments were materially different than the values that would exist if a ready market existed for these assets. The illiquidity of our investments may make it difficult, or impossible for certain assets subject to the Risk Retention Rules, for us to sell and these assets may be more difficult to finance. Also, if we quickly liquidate all or a portion of our portfolio (for example, to meet a margin call), we may realize significantly less than the value at which we have previously recorded our investments. Thus, our ability to adjust our portfolio in response to changes in economic and other conditions may be relatively limited, which could adversely affect our results of operations, financial condition and the value of our capital stock. A significant part of our business and growth strategy is to engage in securitization transactions to finance the acquisition of residential mortgage loans. Pursuant to the Risk Retention Rules, when we sponsor a residential mortgage loan securitization, we are required to retain at least 5 % of the fair value of the mortgage- backed securities issued in the securitization. We can retain either an “ eligible vertical interest ” (which consists of at least 5 % of each class of securities issued in the securitization), an “ eligible horizontal residual interest ” (which is the most subordinate class of securities with a fair market value of at least 5 % of the aggregate credit risk) or a combination of both totaling 5 %, or the Required Credit Risk. We typically own the eligible horizontal residual interest. We are required to hold the Required Credit Risk until the later of (i) the fifth anniversary of the securitization closing date and (ii) the date on which the aggregate unpaid

principal balance of the mortgage loans in such securitization has been reduced to 25 % of the aggregate unpaid principal balance of the mortgage loans as of the securitization closing date, but no longer than the seventh anniversary of the closing date (such date, the Sunset Date). In addition, before the Sunset Date, we may not engage in any hedging transactions if payments on the hedge instrument are materially related to the Required Credit Risk and the hedge position would limit our financial exposure to the Required Credit Risk. Also, we may not pledge our interest in any Required Credit Risk as collateral for any financing unless such financing is full recourse to us. We have financed our Required Credit Risk in full recourse transactions. Our Required Credit Risk subjects us to the first losses on our securitizations and is illiquid, which may make it more difficult to meet our liquidity needs, each of which may materially and adversely affect our business and financing condition. Thus, the Risk Retention Rules materially limit our ability to sell and hedge a portion of our RMBS that we acquire through our securitizations and subjects us to the credit risk related to the retained RMBS that we otherwise may have sold. ~~We have a significant amount of investments in Non-Agency MBS collateralized by mortgage loans that do not meet the prime loan underwriting standards and are subject to increased risk of losses.~~ A majority of the Non-Agency MBS we have acquired on the secondary market or retained in our securitizations are backed by collateral pools containing mortgage loans that were originated using underwriting standards that were less strict than those used in underwriting "prime mortgage loans." These lower standards permitted mortgage loans, often with LTV ratios exceeding 80 %, to be made to borrowers having impaired credit histories, lower credit scores, higher debt-to-income ratios or unverified income. Such mortgage loans are likely to experience delinquency, foreclosure, bankruptcy, and other losses at rates that are higher, may be substantially higher, than those experienced by prime mortgage loans. Thus, the performance of our Non-Agency MBS that are backed by these types of loans could be correspondingly lower than those backed by prime mortgage loans especially during times of economic stress, which could materially adversely impact our results of operations, financial condition, and business. We assume credit risk primarily through the ownership of securities backed by residential, multi-family, and commercial real estate loans and through direct investments in residential real estate loans. The substantial majority of our investment assets are subject to various credit risks, as discussed below. No U. S. Government Guarantee. We acquire residential loans including reperforming loans, nonperforming loans (the borrower is severely delinquent), and Non-QMs, which are subject to increased risk of loss. Unlike Agency RMBS, residential mortgage loans generally are not guaranteed by the U. S. Government or any government-sponsored enterprise such as Fannie Mae and Freddie Mac. Additionally, by directly acquiring residential loans, we do not receive the structural credit enhancements that benefit senior tranches of RMBS. A residential loan is directly exposed to losses resulting from the 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 such mortgage loan. In the event of a foreclosure, we may assume direct ownership of the underlying real estate. The liquidation proceeds upon sale of such real estate may not be sufficient to recover our cost basis in the loan, and any costs or delays involved in the foreclosure or liquidation process may increase losses. The value of residential 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. We could also be responsible for property taxes. In some cases, these claims may lead to losses exceeding the purchase price of the related mortgage or property. The occurrence of any of these risks could materially adversely impact our results of operations, financial condition, and business. Enhanced Non-QM Loan Risks. In addition, we acquire Non-QMs that will not have the benefit of enhanced legal protections otherwise available to residential mortgage loans originated to a more restrictive credit standard than just determining a borrower's ability to repay. The ownership of Non-QMs subjects us to legal, regulatory and other risks, including those arising under federal consumer protection laws and regulations designed to regulate residential mortgage loan underwriting and originators' lending processes, standards, and disclosures to borrowers. Failure of residential mortgage loan originators or servicers to comply with the ability-to-repay laws and regulations could subject us, as an assignee or purchaser of these loans (or as an investor in securities backed by these loans), to monetary penalties assessed by the Consumer Financial Protection Bureau, or 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 adversely impact our business and financial results. Greater General Credit Risks. In addition, credit losses on residential real estate loans can occur for many reasons (many of which are beyond our control), including: fraud; poor underwriting; poor servicing practices; weak economic conditions; increases in payments required to be made by borrowers; declines in the value of homes; earthquakes, the effects of climate change (including flooding, drought, wildfire and severe weather), and other natural disaster events; uninsured property loss; borrower over-leveraging; costs of remediation of environmental conditions, such as indoor mold; changes in zoning or building codes and the related costs of compliance; acts of war or terrorism; pandemics; changes in legal protections for borrowers and other changes in law or regulation; and personal events affecting borrowers, such as reduction in income and job loss. Additionally, the amount and timing of credit losses could be affected by loan modifications, delays in the liquidation process, documentation errors, and other actions by servicers. Weakness in the U. S. economy or the housing market could cause our credit losses to increase beyond levels that we currently anticipate. There are seldom any restrictions on borrowers' abilities to prepay their residential mortgage loans. Homeowners tend to prepay mortgage loans faster when interest rates decline. Consequently, owners of the loans have to reinvest the money received from the prepayments at the lower prevailing interest rates. Conversely, homeowners tend not to prepay mortgage loans when interest rates increase. Consequently, owners of the loans are unable to reinvest money that would have otherwise been received from prepayments at the higher prevailing interest rates. Volatility in prepayment rates may affect our ability to maintain targeted amounts of leverage and return on our portfolio of residential mortgage loans and RMBS and may result in reduced earnings or losses for us and negatively affect the



cash available for distribution to our stockholders. In addition, if we purchased an investment at a premium, faster than expected prepayments will result in a faster than expected amortization of the premium paid, which would adversely affect our earnings. Conversely, if these investments were purchased at a discount, faster than expected prepayments accelerate our recognition of income. A significant **portion of our Non- Agency MBS and residential loans are secured by properties in a small number of geographic areas and may be disproportionately affected by economic or housing downturns, natural disasters including natural disasters exacerbated by climate change, terrorist events, regulatory changes, or other adverse events specific to those markets. A significant** number of the mortgages underlying our Non- Agency MBS and Loans held for investments are concentrated in certain geographic areas. For example, we have significant exposure in California, New York and Florida. For further information on the geographic concentration of our investments see Note 3 and Note 4 to the consolidated financial statements within this **2022-2023** Form 10- K. Certain markets within these states (particularly in California and Florida) have experienced significant decreases in residential home values from time to time. Any event that adversely affects the economy or real estate market in any of these states could have a disproportionately adverse effect on our Non- Agency MBS and Loans held for investments. In general, any material decline in the economy or significant problems in a particular real estate market would likely cause a decline in the value of residential properties securing the mortgages in that market, thereby increasing the risk of delinquency, default, and foreclosure of mortgage loans underlying our Non- Agency MBS and residential loan investments and the risk of loss upon liquidation of these assets. This could have a material adverse effect on our Non- Agency MBS credit loss experience and residential loan investments in the affected market if higher- than- expected rates of default or higher- than- expected loss severities on such loans were to occur. In addition, the occurrence of a natural disaster or a terrorist attack may cause a sudden decrease in the value of real estate in the area or areas affected and would likely reduce the value of the properties securing the mortgages collateralizing our Non- Agency MBS or Loans held for investments. **Recent years have seen frequent and severe natural disasters in the U. S., including wildfires, hurricanes, high winds, severe flooding and mudslides, the frequency and intensity of which may be indicative of the impact of climate change. The impacts of climate change, which are expected to persist and worsen in the future, could have a more significant localized effect in the areas where our borrowers are concentrated, resulting in a disproportionate impact on us.** Because certain natural disasters such as hurricanes or certain flooding are not typically covered by the standard hazard insurance policies maintained by borrowers, or the proceeds payable under any such policy are not sufficient to cover the related repairs, the affected borrowers may have to pay for any repairs themselves. Under these circumstances, borrowers may decide not to repair their property or may stop paying their mortgages. This would cause defaults and credit loss severities to increase. Changes in local laws and regulations, fiscal policies, property taxes and zoning ordinances in such states can also have a negative impact on property values, which could result in borrowers' deciding to stop paying their mortgages. This circumstance could cause defaults and loss severities to increase, thereby adversely impacting our results of operations. We may change our investment strategy, asset allocation, or financing plans **without stockholder consent, which may result in riskier investments. We may change our investment strategy, asset allocation, or financing plans** at any time without the consent of our stockholders, which could result in our making investments that are different from, and possibly riskier than, the investments described in this **2022-2023** Form 10- K. A change in our investment strategy or financing plans may increase our exposure to interest rate and default risk and real estate market fluctuations. Furthermore, a change in our asset allocation could result in our making investments in asset categories different from those described in this **2022-2023** Form 10- K. Additionally, we may enter other operating businesses that may or may not be closely related to our current business. These new assets or business operations may have new, different or increased risks than what we are currently exposed to in our business and we may not be able to manage these risks successfully. Additionally, when investing in new assets or businesses we will be exposed to the risk that those assets, or income generated by those assets or businesses, will affect our ability to meet the requirements to maintain our qualification as a REIT or our exemption from registration under the 1940 Act. If we are not able to successfully manage the risks associated with new asset types or businesses, it could have an adverse effect on our business, results of operations and financial condition. Changes in the fair values of our assets, liabilities, and derivatives can have various negative effects 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. The 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 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 GAAP purposes, we may mark- to- market most, but not all, of the assets and liabilities on our Consolidated Statements of Financial Condition. In addition, valuation adjustments on certain consolidated assets and our derivatives are reflected in our Consolidated Statements of Operations. Assets that are funded with certain liabilities and hedges may have different mark- to- market treatment than the liability or hedge. If we sell an asset that has not been marked to market through our Consolidated Statements of Operations at a reduced market price relative to its cost basis, our reported earnings will be reduced. Our loan sale profit margins are generally reflective of gains (or losses) over the period from when we identify a loan for purchase until we subsequently sell or securitize the loan. These profit margins may encompass elements of positive or negative market valuation adjustments on loans, hedging gains or losses associated with related risk management activities, and any other related transaction expenses; however, under GAAP, the different elements may be realized unevenly over the course of one or more quarters for financial reporting purposes, with the result that our financial results may be more volatile and less reflective of the underlying economics of our business activity. Our calculations of the fair value of the assets we own or consolidate are based upon assumptions that are inherently subjective and involve a high degree of management judgment, and such assumptions may be more difficult to calculate during times of severe market disruption in the mortgage, housing or related sectors. We report the fair values of securities, loans, derivatives,

and certain other assets on our Consolidated Statements of Financial Condition. In computing the fair values for these assets, we may make several market- based assumptions, including assumptions regarding future interest rates, prepayment rates, discount rates, credit loss rates, and the timing of credit losses. These assumptions are inherently subjective and involve a high degree of management judgment, particularly for illiquid securities and other assets for which market prices are not readily determinable. These assumptions may be more difficult to calculate during times of severe market disruption in the mortgage, housing or related sectors. For further information regarding our assets recorded at fair value see Note 5 to the consolidated financial statements within this 2022-2023 Form 10- K. Use of different assumptions could materially affect our fair value calculations and our financial results and our actual experience may cause us to substantially revise our assumptions. Further discussion of the risk of our ownership and valuation of illiquid securities is set forth in the Risk Factors above and in this 2022-2023 Form 10- K. **The COVID-19 pandemic has volatility in market conditions resulting from deterioration in or uncertainty regarding global economic conditions can adversely affect the value of our assets, which could materially adversely affect our results of operations, net worth and financial condition. To the extent global economic conditions negatively affected-- affect us the U. S. economy, they also could negatively affect the credit performance of the loans in our investment portfolio. Volatility or uncertainty in global or domestic political conditions also have improved since the initial outbreak of COVID-19 in 2020, the COVID-19 pandemic continues to cause disruptions in the economy, supply chains and work forces, while contributing an can significantly affect overall level of ongoing uncertainty for the U. S. and global economies economic : These conditions may continue, and any future pandemic financial markets. Global or domestic political unrest also could have similar adverse effects-- affect growth on the economy and financial markets , further increasing inflationary pressure and interest rates, as well as our business, negatively affecting economic growth and result in disruptions in the financial condition markets. In addition , liquidity in January 2023, the outstanding debt of the United States reached the statutory debt limit and the U. S. Treasury Department had to take extraordinary measures to prevent the United States from defaulting on its obligations. Although the Fiscal Responsibility Act of 2023 brought the 2023 debt ceiling crisis to and-- an results of operations. Any end, there is no assurance that the United States will not face another debt ceiling crisis in the future, which if unaddressed, could cause significant decrease in harm to the U. S. economic economy activity and global financial stability. Through certain of or our wholly- owned subsidiaries we resulting decline in the housing market could have engaged in the past, an and adverse effect on our investments expect to continue to engage in , securitization transactions relating to residential mortgage loans . These types of transactions , Non-Agency RMBS, Agency RMBS, Agency CMBS, and other real estate assets investments expose us to potentially material risks .** A significant part of our business and growth strategy is to engage in various securitization transactions related to mortgage assets, and such transactions expose us to potentially material risks, including without limitation:

- **Financing Risk:** Engaging in securitization transactions and other similar transactions generally require us to incur short- term debt on a recourse basis to finance the accumulation of residential mortgage loans. If investor demand for securitization transactions weakens sufficiently, we may be unable to complete the securitization of loans accumulated for that purpose on favorable terms, or at all, which may hurt our business or financial results. We have a limited capacity to hold loans on our balance sheet as investments, and our business is not structured to buy- and- hold the full volume of loans that we routinely acquire with the intent to sell. If demand for buying loans weakens, we may be forced to incur additional debt on unfavorable terms or may be unable to borrow to finance these assets, which may in turn impact our ability to continue acquiring loans over the short or long term
- **Diligence Risk:** We engage in due diligence with respect to the loans or other assets we are securitizing and make representations and warranties relating to those loans and assets. When conducting due diligence, we rely on resources and data available to us and on a review of the collateral by third parties, each of which may be limited. We may also only conduct due diligence on a sample of a pool of loans or assets we are acquiring and assume that the sample is representative of the entire pool. Our due diligence efforts may not reveal matters which could lead to losses. If our due diligence process is not robust enough, or the scope of our due diligence is limited, we may incur losses. Losses could occur because a counterparty that sold us a loan or other asset refuses or is unable (e. g., due to its financial condition) to repurchase that loan or asset or pay damages to us if we determine after purchase that one or more of the representations or warranties made to us was inaccurate or because we don't get a representation or warranty that covers a discovered defect or violation. In addition, losses with respect to such loans will generally be borne by us as the holder of the “ first- loss ” securities in our securitizations.
- **Disclosure and Indemnity Risk:** When engaging in securitization transactions, we also prepare marketing and disclosure documentation, including term sheets and prospectuses, that include disclosures regarding the securitization transactions, the securitization transaction agreements and the assets being securitized. If our marketing and disclosure documentation are alleged or found to contain inaccuracies or omissions, we may be liable under federal and state securities laws (or under other laws) for damages to third parties that invest in these securitization transactions, including in circumstances where we relied on a third party in preparing accurate disclosures, or we may incur other expenses and costs disputing these allegations or settling claims. Additionally, we typically retain various third party service providers when we engage in securitization transactions, including underwriters, trustees, administrative and paying agents, servicers and

custodians, among others. We frequently contractually agree to indemnify these service providers against various claims and losses they may suffer from providing these services to us or the securitization trust. If any of these service providers are liable for damages to third parties that have invested in these securitization transactions, we may incur costs and expenses because of these indemnities.

• **Documentation Defects:** 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 residential mortgage loans and establish their rights as priority lien holders on underlying mortgaged property. If there are problems with the establishment of title and lien priority rights are transferred, securitization transactions that we sponsored and third party sponsored securitizations that we hold investments in may experience losses, which could expose us to losses and could damage our ability to engage in future securitization transactions. **Our ability to profitably execute or participate in future securitization transactions depends, in part, on our ability to compete with other purchasers of residential mortgage loans and the cost and availability of short- term debt, which may be negatively impacted by adverse market conditions beyond our control.** A significant part of our business and growth strategy is to engage in various securitization transactions related to residential mortgage loans. There are many factors that can have a significant impact on whether a securitization transaction is profitable to us or ~~results~~ **result** in a loss. One of these factors is the price we pay for the mortgage loans that we securitize, which, in the case of residential mortgage loans, is impacted by the level of competition in the marketplace for acquiring residential mortgage loans and the relative desirability to originators or other financial institutions of retaining residential mortgage loans as investments or selling them to third parties such as us. The cost and availability of the short- term debt we use to finance our mortgage loan before securitization impacts the profitability of our securitization transactions. This short- term debt cost is affected by several factors including its availability to us, its interest rate, its duration, and the percentage of our mortgage loans ~~that~~ **for which** third parties are willing to provide short- term financing. After we acquire mortgage loans that we intend to securitize, we can also suffer losses if the value of those loans declines before securitization. Declines in the value of a residential mortgage loan, for example, can be due to, among other things, changes in interest rates, changes in the credit quality of the loan, changes in the projected yields required by investors to invest in securitization transactions, and increased delinquencies. Hedging against a decline in loan value due to changes in interest rates may impact the profitability of a securitization. The price that investors in mortgage- backed securities will pay for securities issued in our securitization transactions also has a significant impact on the profitability of the transactions to us, and these prices are impacted by numerous market forces and factors including the uncertainty, potential delinquencies, and lack of liquidity. In addition, the underwriter (s) or placement agent (s) we select for securitization transactions, the terms of their engagement and the transaction costs incurred in such securitizations can also impact the profitability of our securitizations. Also, any liability that we may incur, or may be required to reserve for when executing a transaction can cause a loss to us. To the extent that we are not able to profitably execute future securitizations of residential mortgage loans or other assets, including for the reasons described above or for other reasons, it could have a material adverse impact on our business and financial results. We operate in a highly competitive market for investment opportunities. Our profitability depends, in large part, on our ability to acquire our target assets at attractive prices. In acquiring our target assets, we compete with a variety of institutional investors, including other REITs, specialty finance companies, public and private funds, government entities, commercial and investment banks, commercial finance and insurance companies and other financial institutions. Many of our competitors are substantially larger and have considerably greater financial, technical, technological, marketing and other resources than we do. Other REITs with investment objectives that overlap with ours may elect to raise significant amounts of capital, which may create additional competition for investment opportunities. Some competitors may have a lower cost of funds and access to funding sources that may not be available to us. Many of our competitors are not subject to the operating constraints associated with REIT compliance or maintenance of an exemption from the ~~1940 Investment Company~~ Act. 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 investments and establish more relationships than us. Furthermore, competition for investments in our target assets may lead to the price of such assets increasing, which may further limit our ability to generate desired returns. We cannot provide assurance that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, desirable investments in our target assets may be limited in the future and we may not be able to take advantage of attractive investment opportunities from time to time, as we can provide no assurance that we will be able to identify and make investments that are consistent with our investment objectives. **Our executive officers and other key personnel are critical to our success and the loss of any executive officer or key employee may materially adversely affect our business.** Our success and our ability to manage anticipated future growth depend, in large part, upon the efforts of our highly- skilled employees, and particularly on our key personnel, including our executive officers. Our executive officers have extensive experience and strong reputations in our industry and have been instrumental in setting our strategic direction, operating our business, identifying, recruiting, and training our other key personnel, and arranging necessary financing. The departure of any of our executive officers or other key personnel, or our inability to attract, motivate and retain highly qualified employees at all levels of the firm in light of the intense competition for talent, could adversely affect our business, operating results or financial condition; diminish our investment opportunities; or weaken our relationships with lenders, counter- parties and other parties important to our business and strategy. We rely on third parties to perform certain services particularly as it relates to servicing, comply with applicable laws and regulations, and carry out contractual covenants and terms, the failure of which by any of these third parties may adversely impact our business and financial results. To conduct our business of acquiring loans, engaging in securitization transactions, and investing in third party issued securities and other assets, we rely on third party service providers to perform certain services, comply with applicable laws and regulations, and carry out contractual covenants and terms. Thus, we are subject to the risks associated with a third party' s failure to perform, including failure to perform due to reasons such as fraud, negligence, errors, miscalculations, or insolvency. The negative impact

on the business and operations of such servicers or other parties responsible for funding such advances could be significant. Sources of liquidity typically available to servicers and other relevant parties for the purpose of funding advances of monthly mortgage payments, especially entities that are not depository institutions, may not be sufficient to meet the increased need that could result from significantly higher delinquency and / or forbearance rates. The extent of such liquidity pressures in the future is not known at this time and is subject to continual change. We rely on third party servicers to service and manage the mortgage loans we beneficially own and that underlie our MBS. The ultimate returns generated by these investments may depend on the quality of the servicer. If a servicer is not vigilant in seeing that borrowers make their required monthly payments, borrowers may be less likely to make these payments, resulting in higher default rates. If a servicer takes longer than expected to liquidate non- performing loans, our losses related to those loans may be higher than originally anticipated. Any failure by servicers to service these mortgages or to competently manage and dispose of the related real properties could negatively impact the value of these investments and our financial performance. In addition, while we have contracted with third party servicers to carry out the actual servicing of the loans we beneficially own, other than our securitized loans (including all direct interface with the borrowers) we are nevertheless ultimately responsible, vis- à- vis the borrowers and state and federal regulators, for ensuring that the loans are serviced in accordance with the terms of the related notes and mortgages and applicable law and regulation (See “ Risks Related to Regulatory Matters, Accounting, and Our 1940 Act Exemption ” for further discussion). Considering the current regulatory environment, such exposure could be significant even though we might have contractual claims against our servicers for any failure to service the loans to the required standard. For a majority of the loans that we beneficially own (other than securitized loans), we also beneficially own the right to service those loans and we retain a sub- servicer to service those loans. In these circumstances, we are exposed to certain risks, including, without limitation, that we may not be able to enter into sub- servicing agreements on favorable terms to us or at all, or that the sub- servicer may not properly service the loan in compliance with applicable laws and regulations or the contractual provisions governing their sub- servicing role, and that we would be held liable for the sub- servicer’ s improper acts or omissions. Additionally, in its capacity as a servicer of residential mortgage loans, a sub- servicer will have access to borrowers’ non- public personal information, and we could incur liability for a data breach relating to a sub- servicer or misuse or mismanagement of data by a sub- servicer. We also rely on technology infrastructure and systems of third parties who provide services to us and with whom we transact business. To the extent any one sub- servicer counterparty services a significant percentage of the loans with respect to which we own the servicing rights, the risks associated with our use of that sub- servicer are concentrated around this single sub- servicer counterparty. To the extent that there are significant amounts of advances that need to be funded in respect of loans where we own the servicing right, it could have a material adverse effect on our business and financial results. We also rely on corporate trustees to act on behalf of us in enforcing our rights as security holders. Under the terms of most RMBS we hold, we do not have the right to directly enforce remedies against the issuer of the security but instead must rely on a trustee to act on behalf of us and other security holders. Should a trustee not be required to act under the terms of the securities, or fail to act, we could experience losses . We rely on third party servicers..... to pay dividends to be adversely affected . We utilize third party analytical models and data to value our investments, and any incorrect, misleading or incomplete information used in connection therewith would subject us to potential risks. Given the complexity of our investments and strategies, we rely heavily on analytical models and information and data supplied by third parties, or Third Party Data. Third Party Data is used to value investments or potential investments and to hedge our investments. When we rely on Third Party Data that proves to be incorrect, misleading or incomplete, our decisions expose us to potential risks. For example, by relying on Third Party Data, especially valuation models, we may be induced to buy certain investments at prices that are too high, to sell certain other investments at prices that are too low, or to miss favorable opportunities altogether. Similarly, any hedging based on faulty Third Party Data may prove to be unsuccessful. Furthermore, any valuations of our investments that are based on valuation models may prove to be incorrect. These risks include the following: (i) 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; (ii) information about collateral may be incorrect, incomplete, or misleading; (iii) collateral or bond historical performance (such as historical prepayments, defaults, cash flows, etc.) may be incorrectly reported, or subject to interpretation (e. g., different issuers may report delinquency statistics based on different definitions of what constitutes a delinquent loan); or (iv) collateral or bond information may be outdated, in which case the models may contain incorrect assumptions as to what has occurred since the date information was last updated. Some of the Third Party Data we use, such as mortgage prepayment models or mortgage default models, are predictive in nature. The use of predictive models has inherent risks. For example, such models may incorrectly forecast future behavior, leading to potential losses on a cash flow and / or a mark- to- market basis. In addition, the predictive models we use 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 investments than actual market prices. Furthermore, since 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 the ability of these historical models to accurately reflect future periods. All valuation models rely on correct market data inputs. Certain assumptions used as inputs to the models may be based on historical trends and these trends may not be indicative of future results. If incorrect market data is used, even a well- designed valuation model may result in incorrect valuations. Even if market data is appropriately captured in the model, the resulting “ model prices ” will often differ substantially from market prices, especially for securities with complex characteristics, such as derivative securities. Volatility in any asset class, including real estate and mortgage- related assets, increases the likelihood of Third- Party Data being inaccurate as market participants attempt to value assets that have frequent, significant swings in pricing. ~~The expanding body of federal, state and local regulations and the investigations of servicers may increase their cost of compliance and the risks of noncompliance and may adversely affect their ability to perform their servicing obligations.~~ We rely on third party servicers to service the residential mortgage loans that we acquire through



consolidated trusts and that underlie the MBS that we acquire. The mortgage servicing business is subject to extensive regulation by federal, state and local governmental authorities and is subject to various laws and judicial and administrative decisions imposing requirements and restrictions and increased compliance costs on a substantial portion of their operations. The volume of new or modified laws and regulations has increased in recent years. Some jurisdictions and municipalities have enacted laws that restrict loan servicing activities, including delaying, preventing foreclosures, forcing the modification of certain mortgages, or preventing the collection of interest or other charges from borrowers under certain circumstances. Federal laws and regulations have also been proposed or adopted which, among other things, could hinder the ability of a servicer to foreclose promptly on defaulted residential loans, and which could result in assignees being held responsible for violations in the residential loan origination process. **The ,such as those adopted during the COVID- 19 pandemic expanded the relief available to borrowers under federal, state and local regulation by, among other things, encouraging loan modification programs, further restricting the ability of servicers to foreclose on defaulted residential loans, modifying credit reporting requirements associated with borrowers who received financial accommodations, and enhancing the regulatory complexity and regulatory risk of mortgage servicing .** Certain mortgage lenders and third party servicers **have may also** voluntarily, or as part of settlements with law enforcement authorities, **establish established** loan modification programs relating to loans they hold or service. These federal, state and local legislative or regulatory actions that result in modifications of our outstanding mortgages, or interests in mortgages acquired by us either directly through consolidated trusts or through our investments in residential MBS, may adversely affect the value of, and returns on, such investments. Mortgage servicers may be incented by the federal 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 beneficial owners of the mortgages. The foregoing matters may cause our business, financial condition, results of operations and ability to pay dividends to be adversely affected. ~~We are dependent on information systems, including those of third parties, and their failure~~ Our business is highly dependent on our information and communications systems. **These information and communications systems include hardware, software and cloud- based solutions. Our business is also highly dependent on the information and communications systems of third parties with whom we do business or that facilitate our business activities, including clearing agents, mortgage servicers, trustees, business counterparties, technology service providers and financial intermediaries. Our relationships with certain of these third- parties allow for the external storage and processing of our information, including personal information, and counterparty and borrower information, including on cloud- based systems. In addition, third parties may also share their confidential information, including personal information, with us, which information may be processed and stored in, and transmitted through, our computer systems and networks. We may not be able to anticipate, detect or recognize threats to our systems and assets, or to implement effective preventive measures against all cyber threats, especially because the techniques used in cyber attacks are increasingly sophisticated, change frequently, are complex, and are often not recognized until launched. Cyber- attacks can occur and persist for an extended period of time without detection. Investigations of cyber- attacks are inherently unpredictable, and it takes time to complete an investigation and have full and reliable information. These and other challenges could further increase the costs and consequences of a cyber- attack and may inhibit our ability to provide rapid, complete and reliable information about a cyber- attack to our business partners, counterparties and regulators, as well as the public.** Any failure or interruption of our systems **or those of key third parties** or cyber- attacks or security breaches of our networks or systems could cause delays or other problems in our investment activities ~~business or result in the disclosure or misuse of confidential or other information, including personal information, which could damage our reputation, result in regulatory sanctions and / or increase our costs and cause losses that have a material adverse impact on our business, financial results and financial condition. Cyber criminals are now deploying sophisticated techniques to conduct more advanced and persistent attacks. We have been and continue to be the target of such attacks. From time to time, third parties with whom we do business have experienced data breaches or other cybersecurity incidents. Such attacks, as well as subject an actual or perceived failure by us to or third penalties-- parties to comply with privacy, data protection and information security laws, regulations, standards, policies and contractual obligations could result in legal liabilities , fines , and other regulatory actions- action , which could and reputational harm that have a material adverse effect impact on operating our business, financial results , the market price of our common stock and financial condition other securities and our ability to pay dividends.~~ We **cannot assure you that our** have a suite of controls including technology hardware and software solutions as well as regular training sessions on cybersecurity **control and response plans will be sufficient to prevent or mitigate all potential risks of** and mitigation strategies. We have established an incident response team to take steps it determines are appropriate to contain, mitigate and remediate a cybersecurity **threats and incident incidents** and to respond to the associated business, legal and reputational risks. **Especially** However, due to the current hybrid working environments, where more of our personnel are spending more time working from home, than they did prior to the COVID- 19 pandemic, and as the policies we implemented as a result of the pandemic moderate but also may become more permanent there is an elevated risk of such events occurring. ~~Additionally, there is no assurance that these efforts will fully mitigate cybersecurity risk and mitigation efforts are not an assurance that no cybersecurity incidents will occur. We also face the risk of operational failure, termination, or capacity constraints of any of the third parties with which we do business or that facilitate our business activities, including clearing agents, mortgage servicers, trustees, business counterparties, technology service providers including hardware, software and cloud based solutions or other financial intermediaries we use to facilitate our business.~~ Our business is subject to extensive regulation by federal and state governmental authorities, self- regulatory organizations, and securities exchanges. We are required to comply with numerous federal and state laws. The laws, rules and regulations comprising this regulatory framework change frequently, as can the interpretation and enforcement of existing laws, rules, and regulations. Some of the laws, rules and regulations to which we are subject are intended primarily to safeguard and protect

consumers, rather than stockholders or creditors. From time to time, we may receive requests from federal and state agencies for records, documents, and information regarding our policies, procedures, and practices regarding our business activities. We incur significant ongoing costs to comply with these government regulations. Our portfolio includes or may include investments in mortgage pass-through certificates issued or guaranteed by Ginnie Mae, Fannie Mae or Freddie Mac. The Federal Housing Finance Agency, or FHFA, and both houses of Congress have discussed and considered various measures intended to restructure the U. S. housing finance system and the operations of Fannie Mae and Freddie Mac. Congress may continue to consider legislation that would significantly reform the country's mortgage finance system, including, among other things, eliminating Freddie Mac and Fannie Mae and replacing them with a single new MBS insurance agency. Details remain unsettled, including the scope and costs of the agencies' guarantee and their affordable housing mission, some of which could be addressed even in the absence of large-scale reform.

~~On March 27, 2019, then President Trump issued a memorandum on federal housing finance reform that directed the Secretary of the Treasury to develop a plan for administrative and legislative reforms as soon as practicable to achieve the following housing reform goals: 1) ending the conservatorships of the Government-sponsored enterprises, or GSEs, upon the completion of specified reforms; 2) facilitating competition in the housing finance market; 3) establishing regulation of the GSEs that safeguards their safety and soundness and minimizes the risks they pose to the financial stability of the United States; and 4) providing that the federal government is properly compensated for any explicit or implicit support it provides to the GSEs or the secondary housing finance market. On September 5, 2019, in response to then President Trump's memorandum, the U. S. Department of the Treasury released a plan, developed in conjunction with the FHFA, the Department of Housing and Urban Development, and other government agencies, which includes legislative and administrative reforms to achieve each of these reform goals. On June 23, 2021, the United States Supreme Court concluded that the FHFA was unconstitutional as structured and remanded the case for further proceedings. After the Supreme Court's ruling, President Biden dismissed the FHFA director and appointed an acting replacement, raising further questions as to whether any of the legislative or regulatory reforms discussed above will be enacted or implemented. The prospects for passage of any of these plans are uncertain and the change in FHFA leadership underscores the potential for change to Fannie Mae and Freddie Mac.~~

While the likelihood that major mortgage finance system reform will be enacted in the short term remains uncertain, it is possible that the adoption of any such reforms could adversely affect the types of assets we can buy, the costs of these assets and our business operations. A reduction in the ability of mortgage loan originators to access Fannie Mae and Freddie Mac to sell their mortgage loans may adversely affect the mortgage markets generally and adversely affect the ability of mortgagors to refinance their mortgage loans. In addition, any decline in the value of securities issued by Fannie Mae and Freddie Mac may affect the value of MBS in general.

~~The change of FHFA leadership raise further uncertainties about whether, and if so on what timeline, the Biden administration will address the conservatorships of the GSEs and any comprehensive housing reform.~~

Although we do not originate or directly service residential mortgage loans, we must comply with various federal and state laws, rules, and regulations because we purchase residential mortgage loans. These rules generally focus on consumer protection and include, among others, rules promulgated under the Dodd- Frank Act and the Gramm- Leach- Bliley Financial Modernization Act of 1999. The Consumer Financial Protection Bureau, or CFPB, has broad authority over a wide range of consumer financial products and services, including mortgage lending and servicing. One portion of the Dodd- Frank Act, the Mortgage Reform and Anti- Predatory Lending Act, or Mortgage Reform Act, contains underwriting and servicing standards for the mortgage industry and various other requirements related to mortgage origination and servicing. In addition, the Dodd- Frank Act grants enforcement authority and broad discretionary regulatory authority to the CFPB to prohibit or condition terms, acts or practices relating to residential mortgage loans that the CFPB finds abusive, unfair, deceptive or predatory, as well as to take other actions that the CFPB finds are necessary or proper to ensure responsible affordable mortgage credit remains available to consumers. The Dodd- Frank Act also affects the securitization of mortgages (and other assets) with requirements for risk retention by securitizers and requirements for regulating rating agencies. Numerous regulations have been issued pursuant to the Dodd- Frank Act, including regulations regarding mortgage loan servicing, underwriting and loan originator compensation and others could be issued in the future. These requirements can and do change as statutes and regulations are enacted, promulgated, amended, and interpreted, and the recent trends among federal and state lawmakers and regulators have been toward increasing laws, regulations, and investigative proceedings concerning the mortgage industry generally. As a result, we are unable to fully predict at this time how the Dodd- Frank Act, as well as other laws or regulations that may be adopted in the future, will affect our business, results of operations and financial condition, or the environment for repurchase financing and other forms of borrowing, the investing environment for Agency MBS, Non- Agency MBS and / or residential mortgage loans, the securitization industry, swaps and other derivatives. We believe that the Dodd- Frank Act and the regulations promulgated thereunder are likely to continue to increase the economic and compliance costs for participants in the mortgage and securitization industries, including us.

**In Various regulatory measures enacted in response to the COVID- 19 pandemic affect mortgage servicing, wide- ranging legal protections for homeowners, including foreclosure moratoria and could have a material adverse effect on forbearance provisions, were enacted including through the Coronavirus Aid, Relief, and Economic Security Act ( our- or business and financial results. For example, on March 27, 2020, the CARES Act ), which was signed into law -Among on March 27, 2020, and rules and letters issued by the provisions in this wide- ranging law are FHA and the CFPB. Availability for foreclosure and forbearance** protections for homeowners experiencing financial difficulties due to COVID- 19, including forbearance provisions and procedures. Borrowers **borrowers** with federally backed mortgage loans, regardless of delinquency status, were permitted to request loan forbearance for a six- month period, with the option to extend forbearance for another six- month period if necessary. The CARES Act also modified the manner in which accounts subject to financial accommodation are reported to consumer reporting agencies. Although the initial deadline to request forbearance on federally backed loans was set to expire under the CARES Act on December 31, 2020, FHFA and CFPB announced extensions of several measures to align COVID- 19 mortgage relief policies across the federal government, including

additional three-month extensions of COVID-19 forbearance or payment deferral options for certain borrowers. Federally backed mortgage loans are loans secured by first- or subordinate- liens on 1-4 family residential real property, including individual units of condominiums and cooperatives, which are insured or guaranteed pursuant to certain government housing programs, such as by the Federal Housing Administration or U. S. Department of Agriculture, or are purchased or securitized by Fannie Mae or Freddie Mac. The CARES Act also included a temporary 60-day foreclosure moratorium that applied to federally backed mortgage loans, which lasted until July 24, 2020. However, the foreclosure moratorium was extended several **multiple** times to July 31, 2021 and the forbearance enrollment window was extended through September 30, 2021 by Department of Housing and Urban Development, Department of Veterans Affairs, the Department of Agriculture and FHFA, which includes mortgages backed by Fannie Mae and Freddie Mac. **If** Although the Federal foreclosure moratorium expired on July 31, 2021, various states and local jurisdictions also imposed foreclosure moratoriums, some of which will still be in effect after the federal moratorium expires. On July 30, 2021, FHFA announced that Fannie Mae and Freddie Mac are extending the moratorium on single-family real estate owned (REO) evictions until September 30, 2021. On September 1, 2020, the Centers for Disease Control and Prevention, or CDC, issued an order effective September 4, 2020 through December 31, 2020 temporarily halting residential evictions to prevent the further spread of COVID-19. The Second Stimulus extended the order to January 31, 2021. On January 20, 2021, President Biden signed an executive order that, among other things, further extended the temporary eviction moratorium promulgated by the CDC through March 31, 2021. The CDC order was further extended through July 31, 2021, and on August 3, 2021, it was further extended through October 3, 2021, to those U. S. counties experiencing substantial and high spread of the COVID-19 as of such date (which includes a significant majority of the counties in the United States). However, on August 26, 2021, the United States Supreme Court declared the order unconstitutional and so it is no longer in effect. The Court's ruling does not affect or preclude state and local jurisdictions from issuing orders stopping or limiting evictions and foreclosures in an effort to lessen the financial burden created by COVID-19 in their jurisdictions. These limitations on foreclosures and evictions could adversely impact the cash flow on mortgage loans. The Biden Administration may pass additional stimulus bills, foreclosure relief measures and may reinstate foreclosure and eviction moratoriums that may continue to adversely impact the cash flow on mortgage loans. The CFPB Director has publicly stated that CFPB is carefully monitoring conditions in the mortgage market and taking steps to minimize avoidable foreclosures and address any compliance failures, including by conducting prioritized assessments, or targeted supervisory reviews, designed to obtain real-time information from mortgage servicers due to the elevated risk of consumer harm because of the COVID-19 pandemic. **On June 28, 2021, resurges or another public health crisis breaks out in the future, similar measures may be reenacted, which could adversely affect our business, results of** CFPB finalized amendments to the federal mortgage servicing regulations designed to support the housing market's transition to post-pandemic operation **operations**. The rules establish temporary special safeguards to help ensure that borrowers have time before foreclosure to explore their options, including loan modifications and selling their homes. The rules cover loans on principal residences, generally exclude small servicers, and took effect on August 31, 2021. On November 10, 2021, the Board of Governors of the Federal Reserve, the CFPB, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the state financial **condition** regulators (collectively, agencies) announced that they were discontinuing the more flexible supervisory approach announced in April 2020, concluding that servicers have had sufficient time to adjust their operations by, among other things, taking steps to work with consumers affected by the COVID-19 pandemic and developing more robust business continuity and remote work capabilities. **In addition** CFPB's December 2021 Supervisory Highlights shows, **certain** among other things, that CFPB is prioritizing compliance with Regulation Z and Regulation X, as well as unfair and deceptive acts or practices prohibited by the CFPB. CFPB's November 2022 Supervisory Highlights shows, among other things, that CFPB's examinations continue to focus on credit reporting, mortgage servicing fees charged to consumers, and proper handling of COVID-19 protections. This enhanced scrutiny is likely to continue to increase the economic and compliance costs for participants in the mortgage and securitization industries, including us. On October 19, 2022, a three-judge panel of the Fifth Circuit Court **court rulings** of Appeals issued an opinion in *Community Financial Services Association of America, et al. v. Consumer Financial Protection Bureau, et al.*, concluding that the CFPB's funding structure unconstitutionally violates the Appropriations Clause of the U. S. Constitution. As a result, the Court vacated the payday lending rule that was the subject of challenge. Although the Fifth Circuit's decision applies only to the disputed regulation in that case, it may call into question the Bureau **CFPB**'s authority and other rules promulgated during CFPB's self-funding structure. **The CFPB has filed a petition for writ of certiorari seeking review of example, in October 2022, the Fifth Circuit Court of Appeals issued an opinion in Community Financial Services Association of America, et al. v. Consumer Financial Protection Bureau, et al., concluding that the CFPB's decision on an expedited basis and more than thirty states attorney general have filed amicus briefs asking funding structure unconstitutionally violates the Appropriations Clause of the U. S. Constitution. The Community Financial case is still pending before** the Supreme Court to hear the case. It is unclear yet what impact **the these** Court's ruling **rulings** may have on the mortgage lending markets but **if they** may give rise to uncertainty, particularly in those markets in the Fifth Circuit. Any such uncertainty could adversely impact the cash flow on mortgage loans. Although we believe that we have structured our operations and investments to comply with existing legal and regulatory requirements and interpretations, changes in regulatory and legal requirements, including changes in their interpretation and enforcement by lawmakers and regulators, could materially and adversely affect our business and our financial condition, liquidity, and results of operations. **We are required to obtain various state licenses to purchase mortgage loans in the secondary market and there is no assurance we will be able to obtain or maintain those licenses.** While we are not required to obtain licenses to purchase mortgage-backed securities, the purchase of residential mortgage loans in the secondary market may, in some circumstances, require us to maintain various state licenses. Acquiring the right to service residential mortgage loans may also, in some circumstances, require us to maintain various state licenses even though we



currently do not expect to directly engage in loan servicing ourselves. Thus, we could be delayed in conducting certain business if we were first required to obtain a state license. We cannot assure you that we will be able to obtain all the licenses we need or that we would not experience significant delays in obtaining these licenses. Furthermore, once licenses are issued, we are required to comply with various information reporting and other regulatory requirements to maintain those licenses, and there is no assurance that we will be able to satisfy those requirements or other regulatory requirements applicable to our business of acquiring residential mortgage loans on an ongoing basis. Our failure to obtain or maintain required licenses or our failure to comply with regulatory requirements that are applicable to our business of acquiring residential mortgage loans may restrict our business and investment options and could harm our business and expose us to penalties or other claims. Generally, the cumulative net income we report over the life of an asset will be the same for GAAP and tax purposes, although the timing of this income recognition over the life of the asset could be materially different. Differences exist in the accounting for GAAP net income and REIT taxable income, which can lead to significant variances in the amount and timing of when income and losses are recognized under these two measures. Due to these differences, our reported GAAP financial results could materially differ from our determination of taxable income, which impacts our dividend distribution requirements, and, therefore, our GAAP results may not be an accurate indicator of future taxable income and dividend distributions. **Changes in accounting rules could occur at any time and could impact us in significantly negative ways that we are unable to predict or protect against.** The Financial Accounting Standards Board, or the FASB, and other regulatory bodies that establish the accounting rules applicable to us have recently proposed or enacted a wide array of changes to accounting rules. Moreover, in the future, these regulators may propose additional changes that we do not currently anticipate. Changes to accounting rules that apply to us could significantly impact our business or our reported financial performance in ways that we cannot predict or protect against. We cannot predict whether any changes to current accounting rules will occur or what impact any codified changes will have on our business, results of operations, liquidity or financial condition, directly or through their impact on our business partners or counterparties. **Loss of our 1940 Act exemption would adversely affect us and negatively affect the market price of shares of our capital stock and our ability to distribute dividends.** We conduct our operations so that neither we nor any of our subsidiaries are required to register as an investment company under the 1940 Act. Section 3 (a) (1) (A) of the 1940 Act defines an investment company as any issuer that is or holds itself out as being engaged primarily in the business of investing, reinvesting, or trading in securities. Section 3 (a) (1) (C) of the 1940 Act defines an investment company as any issuer that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding, or trading in securities and owns or proposes to acquire investment securities having a value exceeding 40 % of the value of the issuer' s total assets (exclusive of U. S. Government securities and cash items) on an unconsolidated basis, which we refer to as the 40 % test. Excluded from the term " investment securities, " among other things, are U. S. Government securities and securities issued by majority- owned subsidiaries that are not themselves investment companies and are not relying on the exclusion from the definition of investment company set forth in Section 3 (c) (1) or Section 3 (c) (7) of the 1940 Act. Because we are a holding company that conducts its businesses primarily through wholly- owned subsidiaries and majority- owned subsidiaries, the securities issued by these subsidiaries that are excepted from the definition of " investment company " under Section 3 (c) (1) or Section 3 (c) (7) of the 1940 Act, together with any other investment securities we may own, may not have a combined value in excess of 40 % of the value of our adjusted total assets on an unconsolidated basis. This requirement limits the types of businesses in which we may engage through our subsidiaries. In addition, the assets we and our subsidiaries may acquire are limited by the provisions of the 1940 Act, the rules and regulations promulgated under the 1940 Act and SEC staff interpretative guidance, which may adversely affect our performance. If the value of securities issued by our subsidiaries that are excepted from the definition of " investment company " by Section 3 (c) (1) or 3 (c) (7) of the 1940 Act, together with any other investment securities we own, exceeds 40 % of our adjusted total assets on an unconsolidated basis, or if one or more of such subsidiaries fail to maintain an exception or exemption from the 1940 Act, we could, among other things, be required either (a) to substantially change the manner in which we conduct our operations to avoid being required to register as an investment company or (b) to register as an investment company under the 1940 Act, either of which could have an adverse effect on us and the market price of our securities. If we were required to register as an investment company under the 1940 Act, we would become subject to substantial regulation with respect to our capital structure (including our ability to use leverage), management, operations, transactions with affiliated persons (as defined in the 1940 Act), portfolio composition, including restrictions with respect to diversification and industry concentration, and other matters. Certain of our subsidiaries rely on the exemption from registration provided by Section 3 (c) (5) (C) of the 1940 Act. Section 3 (c) (5) (C) as interpreted by the staff of the SEC, requires us to invest at least 55 % of our assets in " mortgages and other liens on and interest in real estate ", or Qualifying Real Estate Assets, and at least 80 % of our assets in Qualifying Real Estate Assets plus real estate- related assets. The assets that we acquire, therefore, are limited by the provisions of the 1940 Act and the rules and regulations promulgated under the 1940 Act. If the SEC determines that any of our subsidiaries' securities are not Qualifying Real Estate Assets or real estate- related assets or otherwise believes such subsidiary does not satisfy the exemption under Section 3 (c) (5) (C) **of the 1940 Act**, we could be required to restructure our activities or sell certain of our assets. The net effect of these factors will be to lower our net interest income. If we fail to qualify for exemption from registration as an investment company, our ability to use leverage would be substantially reduced, and we would not be able to conduct our business as described. Certain of our subsidiaries may rely on the exemption provided by Section 3 (c) (6) **of the 1940 Act** which excludes from the definition of " investment company " any company primarily engaged, directly or through majority- owned subsidiaries, in a business, among others, described in Section 3 (c) (5) (C) of the 1940 Act (from which not less than 25 % of such company' s gross income during its last fiscal year was derived) together with an additional business or additional businesses other than investing, reinvesting, owning, holding or trading in securities. The SEC staff has issued little interpretive guidance with respect to Section 3 (c) (6) and any guidance published by the staff could require us to adjust our strategy accordingly. Certain of our subsidiaries may rely on Section 3 (c) (7) for their 1940 Act



exemption and, therefore, our interest in each of these subsidiaries would constitute an “ investment security ” for purposes of determining whether we pass the 40 % test. Certain of our subsidiaries may rely on Rule 3a- 7, which exempts certain securitization vehicles. There are numerous requirements that must be met to exclude such subsidiaries from the definition of an investment company. Our ability to manage assets held in a special purpose subsidiary that complies with Rule 3a- 7 will be limited and we may not be able to purchase or sell assets owned by that subsidiary when we would otherwise desire to do so, which could lead to losses. The determination of whether an entity is a majority- owned subsidiary of our company is made by us. The 1940 Act defines a majority- owned subsidiary of a person as a company of which 50 % or more of the outstanding voting securities are owned by such person, or by another company which is a majority- owned subsidiary of such person. The 1940 Act further defines voting securities as any security presently entitling the owner or holder thereof to vote for the election of directors of a company. We treat companies in which we own at least a majority of the outstanding voting securities as majority- owned subsidiaries for purposes of the 40 % test. We have not requested the SEC to approve our treatment of any company as a majority- owned subsidiary and the SEC has not done so. If the SEC were to disagree with our treatment of one or more companies as majority- owned subsidiaries, we may need to adjust our strategy and our assets to continue to pass the 40 % test. Any such adjustment in our strategy could have a material adverse effect on us. There can be no assurance that the laws and regulations governing the 1940 Act status of REITs, including guidance from the Division of Investment Management of the SEC regarding these exemptions, will not change in a manner that adversely affects our operations. If we or our subsidiaries fail to maintain an exception or exemption from the 1940 Act, we could, among other things, be required either to (a) change the manner in which we conduct our operations to avoid being required to register as an investment company, (b) effect sales of our assets in a manner that, or at a time when, we would not otherwise choose to do so, or (c) register as an investment company, any of which could negatively affect the value of our capital stock, the sustainability of our business model, and our ability to make distributions, which could have an adverse effect on our business and the market price for our shares of capital stock. We own 20. 0 % of a holding company that wholly owns a registered investment adviser and we are an investor in a fund managed by that adviser. While we believe we have structured our investment so that we are not deemed a “ control person ” with respect to that adviser; such that we do not have significant control rights and none of our employees is an officer of the adviser, we cannot assure you that the SEC or a court will not determine that we are a “ control person ”. Control Persons may be held liable for violations committed by persons under their control. Sanctions the SEC may impose on control persons include industry bars and suspensions, financial penalties, disgorgement of financial proceeds obtained through the violation, and cease and desist orders. Civil litigants may recover financial compensation from control persons for damages suffered because of misconduct by controlled persons. Control persons are not automatically liable for violations committed by the persons under their control. It is a defense to regulatory and private civil liability if the control person acted in good faith and did not induce the act or acts constituting the violation or cause of action. This defense can be established by showing that the control person exercised due care in his supervision of the violator’ s activities by maintaining and enforcing a reasonable and proper system of supervision and internal control.

**U. S. Federal Income Tax Risks and Risks Related to Our REIT Status** This summary of certain tax risks is limited to the U. S. federal tax risks addressed below. Additional risks or issues may exist that are not addressed in this Form 10- K and that could affect the U. S. federal tax treatment of us or our stockholders. This is not intended to be used and cannot be used by any stockholder to avoid penalties that may be imposed on stockholders under Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder, or the Code. We strongly urge you to seek advice based on your particular circumstances from an independent tax advisor concerning the effects of U. S. federal, state and local income tax law on an investment in common stock or preferred stock and on your individual tax situation. Complying with REIT requirements may cause us to forego otherwise attractive opportunities. To maintain our qualification as a REIT for U. S. federal income tax purposes, we must continually satisfy various tests 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 forego investments we might otherwise make. We may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution. Thus, compliance with the REIT requirements may hinder our investment performance. Complying with REIT requirements may force us to liquidate otherwise attractive investments. To maintain our qualification as a REIT, we generally must ensure that at the end of each calendar quarter at least 75 % of the value of our total assets consists of cash, cash items, government securities and qualifying real estate assets, including certain mortgage loans and mortgage- backed securities. The remainder of our investments in securities (other than government securities and qualifying 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, qualifying real estate assets, and stock in one or more TRSs) can consist of the securities of any one issuer, and no more than 20 % of the value of our total assets can be represented by securities of one or more TRSs. If we fail to comply with these requirements at the end of any quarter, we must correct the failure within 30 days after the end of such calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT status and suffering adverse tax consequences. Thus, we may be required to liquidate from our portfolio otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders. Complying with REIT requirements may limit our ability to hedge effectively. The REIT provisions of the Code substantially limit our ability to hedge our assets and related borrowings. Under these provisions, any income that we generate from transactions intended to hedge our interest rate, inflation and / or currency risks will be excluded from gross income for purposes of the REIT 75 % and 95 % gross income tests if the instrument hedges (1) interest rate risk on liabilities incurred to carry or acquire real estate or (2) risk of currency fluctuations with respect to any item of income or gain that would be qualifying income under the REIT 75 % or 95 % gross income tests, and such instrument is properly identified under applicable Treasury Department regulations. Our annual gross income from non- qualifying hedges, together with any

other income not generated from qualifying real estate assets, cannot exceed 25 % of our annual gross income. In addition, our aggregate gross income from non-qualifying hedges, fees, and certain other non-qualifying sources cannot exceed 5 % of our annual gross income. As a result, we might have to limit our use of advantageous hedging techniques or implement certain hedges through a TRS. This could increase the cost of our hedging activities or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. Failure to qualify as a REIT would subject us to U. S. federal income tax, which would reduce the cash available for distribution to our stockholders. We have elected to be treated as a REIT for U. S. federal income tax purposes and intend to operate so that we will qualify as a REIT. However, the U. S. federal income tax laws governing REITs are extremely complex, and interpretations of the U. S. federal income tax laws governing qualification as a REIT are limited. Qualifying as a REIT requires us to meet various tests regarding the nature of our assets and our income, the ownership of our outstanding stock, and the amount of our distributions on an ongoing basis. While we intend to operate so as to maintain our qualification as a REIT, given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, including the tax treatment of certain investments we may make, and the possibility of future changes in our circumstances, no assurance can be given that we will so qualify for any particular year. We also indirectly own an entity that has elected to be taxed as a REIT under the U. S. federal income tax laws, or a "Subsidiary REIT." Our Subsidiary REIT is subject to the same REIT qualification requirements that are applicable to us. If our Subsidiary REIT were to fail to qualify as a REIT, then (i) that Subsidiary REIT would become subject to regular U. S. federal, state and local corporate income tax, (ii) our interest in such Subsidiary REIT would cease to be a qualifying asset for purposes of the REIT asset tests, and (iii) it is possible that we would fail certain of the REIT asset tests, in which event we also would fail to qualify as a REIT unless we could avail ourselves of certain relief provisions. While we believe that the Subsidiary REIT has qualified as a REIT under the Code, we have joined the Subsidiary REIT in filing a "protective" TRS election under Section 856 (l) of the Code for each taxable year in which we have owned an interest in the Subsidiary REIT. We cannot assure you that such "protective" TRS election would be effective to avoid adverse consequences to us. Moreover, even if the "protective" election were to be effective, the Subsidiary REIT would be subject to regular corporate income tax, and we cannot assure you that we would not fail to satisfy the requirement that not more than 20 % of the value of our total assets may be represented by the securities of one or more TRSs. See "Our ownership of and relationship with our TRSs will be limited, and a failure to comply with the limits would jeopardize our REIT status and may result in the application of a 100 % excise tax." below. If we fail to qualify as a REIT in any calendar year and we do not qualify for certain statutory relief provisions, we would be required to pay U. S. federal income tax on our taxable income at regular corporate income tax rates. We might need to borrow money or sell assets to pay any such tax. Our payment of income tax would decrease the amount of our income available for distribution to our stockholders. Furthermore, if we fail to maintain our qualification as a REIT and we do not qualify for certain statutory relief provisions, we no longer would be required to distribute substantially all our REIT taxable income to our stockholders. Unless our failure to qualify as a REIT was excused under U. S. federal tax laws, we would be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost. The ability of our Board of Directors to revoke our REIT election without stockholder approval may cause adverse consequences to our stockholders. Our charter provides that our Board of Directors may revoke or otherwise terminate our REIT election, without the approval of our stockholders, if our Board of Directors determines that it is no longer in our best interest to attempt to, or continue to, qualify as a REIT. If we cease to qualify as a REIT, we would become subject to U. S. federal income tax on our net taxable income and we generally would no longer be required to distribute any of our net taxable income to our stockholders, which may have adverse consequences on the total return to our stockholders. If (1) all or a portion of our assets are subject to the rules relating to taxable mortgage pools, (2) we are a "pension-held REIT," (3) a tax-exempt stockholder has incurred debt to purchase or hold our capital stock, or (4) the residual REMIC interests, we buy (if any) generate "excess inclusion income," then a portion of the distributions to and, in the case of a stockholder described in clause (3), gains realized on the sale of capital stock by such tax-exempt stockholder may be subject to U. S. federal income tax as unrelated business taxable income under the Code. We intend to structure our securitization and financing arrangements so as to not allocate "excess inclusion income" to our stockholders. However, if we have borrowings with two or more maturities and, (1) those borrowings are secured by mortgages or mortgage-backed securities and (2) the payments made on the borrowings are related to the payments received on the underlying assets, then the borrowings and the pool of mortgages or mortgage-backed securities to which such borrowings relate may be classified as a taxable mortgage pool under the Code. If any part of our investments were to be treated as a taxable mortgage pool, then our REIT status would not be impaired, but a portion of the taxable income we recognize may, under regulations to be issued by the Treasury Department, be characterized as excess inclusion income and allocated among our stockholders to the extent of and generally in proportion to the distributions we make to each stockholder. Any excess inclusion income would: • not be allowed to be offset by a stockholder's net operating losses; • be subject to a tax as unrelated business income if a stockholder were a tax-exempt stockholder; • be subject to the application of U. S. federal withholding tax at the maximum rate (without reduction for any otherwise applicable income tax treaty) with respect to amounts allocable to foreign stockholders; and • be taxable (at the highest corporate tax rate) to us, rather than to our stockholders, to the extent the excess inclusion income relates to stock held by disqualified organizations (generally, tax-exempt organizations not subject to tax on unrelated business income, including governmental organizations). To maintain our qualification as a REIT, we must distribute to our stockholders each calendar year at least 90 % of our REIT taxable income (excluding certain items of non-cash income in excess of a specified threshold), 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 federal corporate income tax on our undistributed income. In addition, we will incur a 4 % nondeductible excise tax on the amount, if any, by which our distributions in any calendar year are less than the sum of: • 85 % of our REIT ordinary income for that year; • 95 % of our REIT capital gain net income for that year; and • any undistributed taxable income from

prior years. We intend to distribute our REIT taxable income to our stockholders in a manner intended to satisfy the 90 % distribution requirement and to avoid both corporate income tax and the 4 % nondeductible excise tax. REIT taxable income only includes after- tax TRS net income to the extent such TRS distributes a dividend to the REIT. Therefore, our REIT dividend distributions may or may not include after- tax net income from our TRSs. Our taxable income may substantially exceed our net income as determined by GAAP. As an example, realized capital losses may be included in our GAAP net income, but may not be deductible in computing our taxable income. In addition, we may invest in assets that generate taxable income in excess of economic income or in advance of the corresponding cash flow from the assets. Also, our ability, or the ability of our subsidiaries, to deduct interest may be limited under Section 163 (j) of the Code. To the extent that we generate such non- cash taxable income or have limitations on our deductions in a taxable year, we may incur corporate income tax and the 4 % nondeductible excise tax on that income if we do not distribute such income to stockholders in that year. In that event, we may be required to use cash reserves, incur debt, or liquidate non- cash assets at rates or at times that we regard as unfavorable to satisfy the distribution requirement and to avoid corporate income tax and the 4 % nondeductible excise tax in that year. Moreover, our ability to distribute cash may be limited by available financing facilities. Therefore, our dividend payment level may fluctuate significantly, and, under some circumstances, we may not pay dividends at all. A REIT may own up to 100 % of the equity of one or more TRSs. A TRS may earn income that would not be qualifying income if earned directly by the parent REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. Overall, no more than 20 % of the value of a REIT' s assets may consist of stock or securities of one or more TRSs. A TRS will pay U. S. federal, state and local income tax at regular corporate rates on any taxable income that it earns and could be subject to the 15 % corporate alternative minimum tax on its adjusted financial statement income if certain income thresholds are met. In addition, the TRS rules impose a 100 % excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm' s- length basis. Our TRS after- tax net income would be available for distribution to us but would not be required to be distributed to us. We anticipate that the aggregate value of the TRS stock and securities owned by us will be less than 20 % of the value of our total assets (including the TRS stock and securities). Furthermore, we will monitor the value of our investments in our TRSs to ensure compliance with the rule that no more than 20 % of the value of our assets may consist of TRS stock and securities (which is applied at the end of each calendar quarter). In addition, we will scrutinize all our transactions with TRSs to ensure that they are entered on arm' s- length terms to avoid incurring the 100 % excise tax described above. There can be no assurance, however, that we will be able to comply with the 20 % limitation discussed above or to avoid application of the 100 % excise tax discussed above. A REIT' s net income from prohibited transactions is subject to a 100 % tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, but including mortgage loans, held primarily for sale to customers in the ordinary course of business. We might be subject to this tax if we sold or securitized our assets in a manner that was treated as a sale for U. S. federal income tax purposes. Therefore, to avoid the prohibited transactions tax, we may choose not to engage in certain sales of assets at the REIT level and may securitize assets in transactions that are treated as financing transactions and not as sales for tax purposes even though such transactions may not be the optimal execution on a pre- tax basis. We could avoid any prohibited transactions tax concerns by engaging in securitization transactions through a TRS, subject to certain limitations described above. To the extent that we engage in such activities through domestic TRSs, the income associated with such activities will be subject to U. S. federal (and applicable state and local) corporate income tax. There can be no assurance, however, that we will avoid the application of the 100 % tax on net income from prohibited transactions described above. The mortgage loans we acquire may be subject to the interest apportionment rules under Treasury Regulations Section 1. 856- 5 (c), or the Interest Apportionment Regulation, which generally provides that if a mortgage is secured by both real property and other property, a REIT is required to apportion its annual interest income for purposes of the REIT 75 % gross income test. If a mortgage is secured by both real property and personal property and the value of the personal property does not exceed 15 % of the aggregate value of the property securing the mortgage, the mortgage is treated as secured solely by real property for this purpose. For purposes of the asset tests applicable to REITs, Revenue Procedure 2014- 51 provides a safe harbor under which the IRS will generally not challenge a REIT' s treatment of a loan as being in part a real estate asset in an amount equal to the lesser of the fair market value of the loan or the fair market value of the real property securing the loan at certain relevant testing dates. We believe that all of the mortgage loans that we acquire are secured only by real property. Therefore, we believe that the Interest Apportionment Regulation does not apply to our portfolio. Nevertheless, if the IRS were to assert successfully that our mortgage loans were secured by property other than real estate, that the Interest Apportionment Regulation applied for purposes of our REIT testing, and that the position taken in Revenue Procedure 2014- 51 should be applied to our portfolio, then we might not be able to meet the REIT 75 % gross income test, and possibly the asset tests applicable to REITs. If we did not meet these tests, we could lose our REIT status or be required to pay a tax penalty to the IRS. Even if we remain qualified **as a REIT, we may face other tax liabilities that reduce our cash flow. Even if we remain qualified** for taxation as a REIT, we may be subject to certain U. S. federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted because of a foreclosure, excise taxes, state or local income, property and transfer taxes, such as mortgage recording taxes, and other taxes. In addition, to meet the REIT qualification requirements, prevent the recognition of certain types of non- cash income, or to avert the imposition of a 100 % tax that applies to certain gains derived by a REIT from dealer property or inventory, we may hold some of our assets through our TRSs or other subsidiary corporations that will be subject to corporate- level income tax at regular corporate rates. In certain circumstances, the ability of our TRSs to deduct net interest expense may be limited. Any of these taxes would decrease cash available for distribution to our stockholders. **We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our capital stock.** At any time, the U. S. federal income tax laws or regulations governing REITs or the administrative interpretations of those laws or regulations may be amended. We cannot predict when or if any new U. S. federal income tax law, regulation or administrative

interpretation, or any amendment to any existing U. S. federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective and any such law, regulation or interpretation may take effect retroactively. We and our stockholders could be adversely affected by any such change in, or any new, U. S. federal income tax law, regulation or administrative interpretation.

**Certain provisions of Maryland Law, of our charter, and of our bylaws contain provisions that may inhibit potential acquisition bids that stockholders may consider favorable, and the market price of our capital stock may be lower as a result.**

- There are ownership limits and restrictions on transferability and ownership in our charter. To qualify as a REIT, not more than 50 % of the value of our outstanding stock may be owned, directly or constructively, by five or fewer individuals during the second half of any calendar year. To assist us in satisfying this test, among other things, our charter generally prohibits any person or entity from beneficially or constructively owning more than 9.8 % in value or number of shares, whichever is more restrictive, of any class or series of our outstanding capital stock. This restriction may discourage a tender offer or other transactions or a change in the composition of our Board of Directors or control that might involve a premium price for our shares or otherwise be in the best interests of our stockholders and any shares issued or transferred in violation of such restrictions being automatically transferred to a trust for a charitable beneficiary, thereby resulting in a forfeiture of the additional shares.
- Our charter permits our Board of Directors to issue stock with terms that may discourage a third party from acquiring us. Our charter permits our Board of Directors to amend the charter without stockholder approval to increase the total number of authorized shares of stock or the number of shares of any class or series and to issue common or preferred stock, having preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications, and terms or conditions of redemption as determined by our Board of Directors. Thus, our Board of Directors could authorize the issuance of stock with terms and conditions that could have the effect of discouraging a takeover or other transaction in which holders of some or a majority of our shares might receive a premium for their shares over the then-prevailing market price of our shares.
- Maryland Control Share Acquisition Act. Maryland law provides that holders of “control shares” of our company (defined as voting shares of stock which, when aggregated with all other shares controlled by the acquiring stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a “control share acquisition” (defined as the direct or indirect acquisition of ownership or control of “control shares”) have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares. Our bylaws provide that we are not subject to the “control share” provisions of Maryland law. Our Board of Directors, however, may elect to make the “control share” statute applicable to us at any time and may do so without stockholder approval.
- Business Combinations. We are subject to the “business combination” provisions of Maryland law that, subject to limitations, prohibit certain business combinations (including a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities) between us and an “interested stockholder” (defined generally as any person who beneficially owns 10 % or more of our then outstanding voting capital stock or an affiliate or associate of ours who, at any time within the two - year period before the date in question, was the beneficial owner of 10 % or more of our then outstanding voting capital stock) or an affiliate thereof for five years after the most recent date on which the stockholder becomes an interested stockholder. After the five - year prohibition, any business combination between us and an interested stockholder generally must be recommended by our Board of Directors and approved by the affirmative vote of at least (i) 80 % of the votes entitled to be cast by holders of outstanding shares of our voting capital stock and (ii) two - thirds of the votes entitled to be cast by holders of voting capital 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 super - majority voting requirements do not apply if our common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares. These provisions of Maryland law also do not apply to business combinations that are approved or exempted by a Board of Directors before the time that the interested stockholder becomes an interested stockholder. Pursuant to the statute, our Board of Directors has by resolution exempted business combinations between us and any other person, provided, that such business combination is first approved by our Board of Directors (including a majority of our directors who are not affiliates or associates of such person).
- Unsolicited Takeovers: The “unsolicited takeover” provisions of Maryland law, permit our Board of Directors, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to elect to be subject to any or all of five provisions, including a classified board, a two-thirds vote requirement for removing a director, a requirement that the number of directors be fixed only by vote of the directors, a requirement that a vacancy on the board be filled only by the remaining directors and for the remainder of the full term of the class of directors in which the vacancy occurred, and majority requirement for the calling of a special meeting of stockholders. **In addition,** ~~Through~~ **through** provisions in our charter and Bylaws unrelated to this statute, we ~~already~~ **(a-i)** require, unless called by the chairman of our Board of Directors, our chief executive officer, our president or our Board of Directors, the request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at the meeting to call a special meeting of stockholders, **(b-ii)** require that the number of directors be fixed only by our Board of Directors, **(c-iii)** have a classified board and **(d-iv)** have a two-thirds vote requirement for the removal of a director. We have elected in our charter to be subject to the provision whereby any vacancy on the board is filled only by a vote of the remaining directors (whether or not they constitute a quorum) for the remainder of the full term of the directorship in which the vacancy occurred and until a successor is duly elected and qualifies. 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 common stock with the opportunity to realize a premium over the then current market price.
- Classified Board. Our Board of Directors is divided into three classes of directors. Directors of each class are chosen for terms expiring at the annual meeting of stockholders held in the third year following the year of their election, and each year one class of directors is elected



by the stockholders. The staggered terms of our directors may reduce the possibility of a tender offer or an attempt at a change in control, even though a tender offer or change in control might be in the best interests of our stockholders. Our charter limits the liability of our directors and officers to us and our stockholders for money damages, except for liability resulting from: • actual receipt of an improper benefit or profit in money, property or services; or • a final judgment based upon a finding of active and deliberate dishonesty by the director or officer that was material to the cause of action adjudicated for which Maryland law prohibits such exemption from liability. In addition, our charter authorizes us to obligate our company to indemnify our present and former directors and officers for actions taken by them in those capacities to the maximum extent permitted by Maryland law. Our bylaws require us to indemnify each present or former director or officer, to the maximum extent permitted by Maryland law, in the defense of any proceeding to which he or she is made or threatened to be made, a party because of his or her service to us. The market price and trading volume of shares of our capital stock may be volatile. The market price of shares of our capital stock, including our common and preferred stock, may be highly volatile and could be subject to wide fluctuations. **A variety of factors may influence the price of our common and preferred stock in the public trading markets. For example, some investors may perceive REITs as yield-driven investments and compare the annual yield from dividends by REITs with yields on various other types of financial instruments. An increase in market interest rates may lead purchasers of stock to seek a higher annual dividend rate from other investments, which could adversely affect the market price of the stock.** Also, the trading volume in shares of our capital stock may fluctuate and cause significant price variations to occur. We cannot assure you that the market price of shares of our capital stock will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our shares of common and preferred stock include those set forth in this Item 1A. “ Risk Factors ” section. Under Maryland law, no distributions on stock may be made if, after giving effect to the distribution, (i) the corporation would not be able to pay the indebtedness of the corporation as such indebtedness becomes due in the usual course of business or (ii) except in certain limited circumstances when distributions are made from net earnings, the corporation’s total assets would be less than the sum of the corporation’s total liabilities plus, unless the charter provides otherwise (which our charter does, with respect to any outstanding series of preferred stock), the amount that would be needed, if the corporation were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of stockholders whose preferential rights on dissolution are superior to those receiving the distribution. There can be no guarantee that we will have sufficient cash to pay dividends on any series of our capital stock. Our ability to pay dividends may be impaired if any of the risks described in this Item 1A “ Risk Factors ” section were to occur. In addition, payment of our dividends depends upon our earnings, our financial condition, maintenance of our REIT qualification and other factors as our Board of Directors may deem relevant from time to time. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to make distributions on our common stock or any series of our preferred stock. The declaration, amount and payment of future cash dividends on our common stock are subject to uncertainty due to (among other things) disruptions in the mortgage, housing or related sectors. The declaration, amount and payment of any future dividends on shares of common stock will be at the sole discretion of our Board of Directors, and may depend upon our earnings, our financial condition, maintenance of our REIT qualification and other factors as our Board of Directors may deem relevant from time to time. In light of these factors, our Board of Directors may adjust our quarterly cash dividend on our shares of common stock from prior quarters. The payment of dividends may be more uncertain during disruptions in the mortgage, housing or related sectors, such as the current rising interest rate environment. **Capital stock eligible for future sale may have adverse consequences for investors and adverse effects on our share price.** We cannot predict the effect, if any, of future sales of capital stock, or the availability of shares for future sales, on the market price of the capital stock. Sales of substantial amounts of capital stock, or the perception that such sales could occur, may adversely affect prevailing market prices for the common stock. In addition, with certain limited exceptions related to some financing facilities, we are not required to offer any such shares to existing shareholders on a pre-emptive basis. Therefore, it may not be possible for existing shareholders to participate in such future share issues, which may dilute the existing shareholders’ interests in us. Future offerings of debt securities, which would rank senior to our capital stock upon liquidation, and future offerings of equity or equity-linked securities, which would dilute our existing stockholders and may be senior to our capital stock for the purposes of dividend and liquidating distributions, may adversely affect the market price of our capital stock. In the future, we may attempt to increase our capital resources by making offerings of debt or additional offerings of equity or equity-linked securities, including commercial paper, warrants, senior or subordinated notes and series or classes of preferred stock or common stock. Upon liquidation, holders of our debt securities and shares of preferred stock, if any, and lenders with respect to other borrowings will receive a distribution of our available assets before the holders of our common stock. Additional offerings of equity securities, including securities that may be converted into or exchanged for equity securities, may dilute the holdings of our existing stockholders or reduce the market price of our capital stock, or both. Preferred stock, including our Series A, Series B, Series C, and Series D Preferred Stock, will have a preference on liquidating distributions or a preference on dividend payments or both that could limit our ability to make a dividend distribution to the holders of our capital stock, including 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 our capital stock bear the risk of our future offerings reducing the market price of our capital stock and diluting their stock holdings in us. There is a risk that you may not receive dividend distributions, or those dividend distributions may decrease over time. Changes in the amount of dividend distributions we pay or in the tax characterization of dividend distributions we pay may adversely affect the market price of our common stock or may result in holders of our common stock being taxed on dividend distributions at a higher rate than initially expected. Our dividend distributions are driven by a variety of factors, including our minimum dividend distribution requirements under the REIT tax laws and our REIT taxable income as calculated for tax purposes pursuant to the

Code. We generally intend to distribute to our common shareholders at least 90 % of our REIT taxable income, although our reported financial results for GAAP purposes may differ materially from our REIT taxable income. Our ability to pay a dividend per common share per quarter and the dividend on each series of our preferred stock at the stated dividend rate may be adversely affected by many factors, including the risk factors described herein. These same factors may affect our ability to pay other future dividends. In addition, to the extent we determine that future dividends would represent a return of capital to investors, rather than the distribution of income, we may determine to discontinue dividend payments until such time that dividends would again represent a distribution of income. Any reduction or elimination of our payment of dividend distributions would not only reduce the number of dividends you would receive as a holder of our common stock but could also have the effect of reducing the market price of our common stock. Qualified dividend income payable to U. S. investors that are individuals, trusts, and estates is subject to the reduced maximum tax rate applicable to long- term capital gains. Dividends payable by REITs, however, generally are not eligible for the reduced qualified dividend rates. For taxable years beginning before January 1, 2026, non- corporate taxpayers may deduct up to 20 % of certain pass- through business income, including “ qualified REIT dividends ” (generally, dividends received by a REIT shareholder that are not designated as capital gain dividends or qualified dividend income), subject to certain limitations. Although the reduced U. S. federal income tax rate applicable to qualified dividend income does not adversely affect the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends and the reduced corporate tax rate could cause certain non- corporate investors to perceive investments in REITs to be relatively less attractive than investments in the stocks of non- REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our stock. **We cannot guarantee that any share repurchase program will be fully consummated or will enhance long- term stockholder value, and share repurchases could increase the volatility of our stock prices and could diminish our cash reserves. We may engage in share repurchases of our common stock and preferred stock from time to time in accordance with authorizations from the Board of Directors. Our repurchase program does not have an expiration date and does not obligate us to repurchase any specific dollar amount or to acquire any specific number of shares. Further, our share repurchases could affect our share trading prices, increase their volatility, reduce our cash reserves and may be suspended or terminated at any time, which may result in a decrease in the trading prices of our stock.** Holders of our preferred stock have limited voting rights. The voting rights of holders of any series of our outstanding preferred stock are limited. Our common stock is the only class of our securities that currently carries full voting rights. Holders of any series of our preferred stock may vote only (i) to elect, voting together as a single class, with holders of parity stock having similar voting rights two additional directors to our Board of Directors if six full quarterly dividends (whether or not consecutive) payable on any series of our preferred stock are in arrears, (ii) on amendments to our charter, including the articles supplementary designating any series of our outstanding preferred stock, that materially and adversely affect the rights of the holders of such series or (iii) to authorize or create, or increase the authorized or issued amount of, additional classes or series of stock ranking senior to our outstanding preferred stock.