Risk Factors Comparison 2024-02-26 to 2023-02-27 Form: 10-K

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

The following is a discussion of the risk factors that we believe are material to our business. These are factors which, individually or in the aggregate, we think could cause our actual results to differ significantly from anticipated or historical results. In addition to understanding the key risks described below, investors should understand that it is not possible to predict or identify all risk factors, and consequently, the following is not a complete discussion of all potential risks or uncertainties. Additionally, investors should not interpret the disclosure of a risk to imply that the risk has not already materialized. RISKS RELATED TO OUR INVESTMENT ACTIVITIES Declines in the market value of our investments could negatively impact our comprehensive income ~~, shareholders' equity~~ , book value per common share, dividends, and liquidity. Our investments fluctuate in value due to a number of factors including, among others, market volatility, geopolitical events and changes in credit spreads, spot and forward interest rates, and actual and anticipated prepayments. Our investments may also fluctuate in value due to increased or reduced demand for the types of investments we own. The level of demand may be impacted by, among other things, interest rates, capital flows, economic conditions, and government policies and actions, such as purchases and sales by the Federal Reserve. Changes in credit spreads represent the market' s valuation of the perceived riskiness of assets relative to risk- free rates. Credit spreads change based on a number of factors, including, but not limited to, macroeconomic and systemic changes, factors specific to a particular security such as prepayment performance or credit performance, market psychology, and Federal Reserve monetary policies. When credit spreads widen, the market value of our investments will decline because market participants typically require additional yield to hold riskier assets. In addition, the market value of most of our investments will typically decrease as interest rates rise **, as seen during fiscal year 2023** . If market values decrease significantly, we may experience a material reduction in our liquidity if we are forced to sell assets at losses in order to meet margin calls from our lenders **,** to repay or renew repurchase agreements at maturity, or otherwise to maintain our liquidity. A material reduction in our liquidity could lead to a reduction of the dividend or potentially the payment of the dividend in Company stock subject to the Tax Code. Interest rate fluctuations could negatively impact our net interest income, comprehensive income, book value per common share, dividends, and liquidity. Interest rate fluctuations impact us in multiple ways. During periods of rising rates, particularly interest rate increases that occur with increases to the targeted U. S. Federal Funds Rate (" Federal Funds Rate "), we may experience a decline in our ~~profitability~~ **net interest income** because our borrowing rates may increase faster than our investments mature or the coupons on our investments reset. **Since** ~~As seen in~~ 2022, the Federal Reserve ~~increased~~ **has been increasing** the targeted range for the Federal Funds Rate in an effort to slow inflation, which **has** resulted in a significant increase to our repurchase agreement financing costs. Any ~~future~~ **further** increases in the Federal Funds Rate and market anticipation of the same, are likely to cause our borrowing costs to increase further, negatively ~~impact~~ **impacting** our net interest income, dividend, and book value per common share. Interest rate increases may also negatively affect the market value of our securities, and **if** we ~~may~~ **do** not ~~be able to~~ adequately hedge against such increases, ~~resulting in~~ **we will experience** declines in comprehensive income, book value per common share, and liquidity. Since our investment portfolio consists substantially of fixed rate instruments, rising interest rates will reduce the market value of our MBS as market participants will in turn demand higher yielding assets. Reductions in the market value of our MBS typically result in margin calls from our lenders, which impacts our liquidity **. Furthermore, an increasing interest rate environment may expose us to extension risk because prepayments on the loans underlying our MBS are likely to decline, which may reduce our ability to reinvest into higher yielding assets** . Conversely, declining interest rates may expose us to prepayment risk to the extent that prepayments increase on investments we own at a premium to their par value. We amortize the premiums we pay for a security using the effective interest method, so as prepayments increase, the amortization expense of any remaining premium we paid for an investment will also increase, and thereby result in a decline in net interest income. **If** ~~In addition, declining interest rates may result in declining market value on MBS, as~~ market participants factor in potentially faster prepayment rates **, we may also experience declines in the market value of higher coupon MBS** . It can be difficult to predict the impact on interest rates of unexpected and uncertain domestic and global political and economic events, such **as** trade conflicts, international politics, global monetary policy and the impact of economic or other sanctions; however, events such as these may have adverse impacts on, among other things, the U. S. economy, financial markets, the cost of borrowing, the value of the assets we hold, and the financial strength of counterparties with whom we transact business ~~. As we experienced with the onset of COVID- 19 and through the resulting inflation and subsequent market volatility, the impact of interest rate changes may negatively impact the availability and cost of our short- term debt financing, our business operations, and our financial results~~ . We invest in TBA securities and execute TBA dollar roll transactions. It could be uneconomical to roll our TBA contracts or we may be unable to meet margin calls on our TBA contracts. Under certain market conditions, ~~TBA dollar roll transactions may result in negative net interest income whereby the~~ Agency RMBS purchased (or sold) for forward settlement under a TBA contract ~~are~~ **may be** priced at a premium to Agency RMBS for settlement in the current month. **For example,** ~~Changes~~ **changes** to prepay expectations on Agency RMBS as well as changes to the Federal Reserve' s reinvestment policy on Agency RMBS ~~may~~ **have** adversely ~~impact~~ **impacted** the TBA dollar roll market. Under such conditions, we may not be able to roll our TBA positions prior to the settlement date, which could cause us to accept physical delivery of the security (or in the case of a short position, force us to deliver one of our Agency RMBS), which would mean using cash to pay off any amounts outstanding under a repurchase agreement collateralized by that security. We may not have sufficient funds or alternative financing sources available to settle such obligations. In addition, pursuant to the margin provisions established by the Mortgage- Backed Securities Division (“ MBSD ”) of the Fixed Income Clearing Corporation, we are subject to margin calls on our TBA contracts and our trading counterparties may require us to post additional margin above the levels established by the MBSD. Negative income on TBA dollar roll transactions, failure to procure adequate financing to settle our obligations, or failure to meet margin calls under our TBA contracts could result in default or force us to sell assets under adverse market conditions, and thereby adversely affect our financial condition and results of operations. Volatile market conditions for mortgages and mortgage- related assets as well as the broader financial markets can result in a significant contraction in liquidity for mortgages and mortgage- related assets, which may adversely affect the value of the assets in which we invest. Significant adverse changes in financial market conditions can result in a deleveraging of the global financial system and the forced sale of large quantities of mortgage- related and other financial assets. Concerns over economic recession, inflation, **subdued growth expectations,** interest rate increases, policy priorities of the U. S. government, trade wars, unemployment, the availability and cost of financing, or the mortgage market and a declining real estate market may contribute to increased volatility and diminished expectations for the economy and markets **, as experienced in 2023** . Additionally, concern over geopolitical issues may also contribute to prolonged market volatility and instability. For example, the ~~conflict~~ **conflicts** between Russia and Ukraine ~~has~~ **and those in the Middle East have** led to disruption, instability and volatility in global markets and industries. Increased volatility and deterioration in the markets for mortgages and mortgage- related assets as well as the broader financial markets may adversely affect the performance and market value of our investments. When these conditions exist, institutions from which we seek financing for our investments may tighten their lending standards, increase margin calls or become insolvent, which could make it more difficult for us to obtain financing on favorable terms or at all. Our profitability and financial condition including our liquidity may be adversely affected if we are unable to obtain cost- effective financing for our investments. Changes in monetary policy implemented by the Federal Reserve, including its recent increases in the targeted Federal Funds Rate and its reduction of purchases of longer- term Treasury securities and fixed- rate Agency MBS have caused interest rates to rise and the yield curve to invert which has negatively impacted, and may continue to impact, the market value of our investments, borrowing costs, and our ability to earn net interest income. In an effort to tame rising inflation levels, the Federal Reserve has been aggressively increasing the Federal Funds Rate since the first quarter of 2022, ending the fourth quarter of ~~2022~~ **2023** with a target range of ~~4~~ **5** . 25 %- ~~4~~ **5** . 50 % ~~. While the Federal Reserve has signaled that the rate of increases may slow as inflation begins to decrease to the Federal Reserve’ s target amount of 2 %, increases are expected to continue into 2023~~ . In addition, the Federal Reserve’ s quantitative tightening policies have included decreasing the pace of its large- scale purchases of Agency RMBS and U. S. Treasuries, creating excess supply in the market. The combination of these actions have resulted in an increase in interest rates and an inversion of the yield curve, negatively impacting the market value of our investments since the fourth quarter of 2021 ~~and~~ through ~~2022~~ **2023** . **The** ~~In addition, the~~ increase in the Federal Funds Rate has **also** significantly increased our borrowing costs, which is likely to ~~continue~~ **remain elevated** into 2024 as the Federal Reserve seeks to bring inflation down to better align with its target levels. It is difficult to earn net interest income while the yield curve is inverted and it is uncertain when or if the yield curve will steepen. We invest in MBS that are traded in over- the- counter (“ OTC ”) markets which are less liquid and have less price transparency than assets traded on securities exchanges. Owning securities that are traded in OTC markets may increase our liquidity risk, particularly in a volatile market environment, because our assets may be more difficult to borrow against or sell in a prompt manner and on terms acceptable to us which may result in losses upon sale of these assets. ~~Though Agency MBS are generally deemed to be very liquid securities, turbulent~~ **Turbulent** market conditions may significantly and negatively impact the liquidity and market value of **MBS** ~~these assets~~ . ~~Non~~ **During periods of severe economic stress, a market may not exist for certain of our investments at any price, particularly non** - Agency MBS **which** are typically more difficult to value, less liquid, and experience greater price volatility than Agency MBS. ~~In addition, market values for non- Agency MBS are typically more subjective than Agency MBS. In times of severe economic stress, a market may not exist for certain of our assets at any price.~~ If the MBS market were to experience a severe or extended period of illiquidity, lenders may refuse to accept **MBS** ~~our assets~~ as collateral for repurchase agreement financing, which could have a material adverse effect on our ~~results of operations,~~ financial condition and ~~business~~ **results of operations** . A sudden reduction in the liquidity of our investments could limit our ability to finance or could make it difficult to sell investments if the need arises. If we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the fair value at which we have previously recorded our investments. Changes in prepayment rates on the mortgage loans underlying our investments may subject us to reinvestment risk and adversely affect our ~~profitability~~ **interest income** , the market value of our investments, and our liquidity. We are subject to reinvestment risk as a result of the prepayment, repayment, and sales of our investments. In order to maintain our investment portfolio size and our earnings, we need to reinvest capital received from these events into new interest- earning assets or TBA securities, and if market yields on new investments are lower, our interest income will decline. In addition, based on market conditions, our leverage, and our liquidity profile, we may decide to not reinvest the cash flows we receive from our investment portfolio even when attractive reinvestment opportunities are available, or we may decide to reinvest in assets with lower yield but greater liquidity. If we retain capital or pay dividends to return capital to shareholders rather than reinvest capital, or if we invest capital in lower yielding assets for liquidity reasons, the size of our investment portfolio and the amount of income generated by our investment portfolio will likely decline. RMBS have no prepayment protection while CMBS and CMBS IO have voluntary prepayment protection in the form of a prepayment lock- out on the loan for an initial period or by yield maintenance or prepayment penalty provisions, which serve as full or partial compensation for future lost interest income on the loan, although, we may not be able to reinvest the proceeds into a similar yielding asset. Compensation for voluntary prepayment on CMBS IO securities may not be sufficient to compensate us for the loss of interest as a result of the prepayment. We have no protection from involuntary prepayments. The impact of involuntary prepayments on ~~high premium investments including~~ CMBS IO ~~and higher coupon Agency CMBS~~ is particularly acute because the investment consists entirely of premium. An increase in involuntary prepayments will result in the loss of investment premiums at an accelerated rate which could materially reduce our ~~profitability~~ **interest income** and dividend. Involuntary prepayments typically increase in periods of economic slowdown or stress, and actions taken as a result by the GSEs and federal, state and local governments. Defaults in loans underlying our CMBS IO, particularly loans in non- Agency CMBS IO securities collateralized by income producing properties such as retail shopping centers, office buildings, multifamily apartments and hotels, may increase as a result of economic weakness. Prepayments on Agency CMBS, which are often collateralized by a single loan, could result in margin calls by lenders in excess of our available liquidity, particularly for larger balance investments. Typically, there is a 20- day delay between the announcement of prepayments and the receipt of the cash from the prepayment; however, the repurchase agreement lender may initiate a margin call when the prepayment is announced. If we do not have liquidity available to cover the margin call at that time, we may be in default under the repurchase agreement until we receive the cash from the prepayment. Alternatively, we could be forced to sell assets quickly and on terms unfavorable to us to meet the margin call. We may be subject to risks associated with inadequate or untimely services from third- party service providers, which may negatively impact our results of operations. We also rely on corporate trustees to act on behalf of us and other holders of securities in enforcing our rights. Loans underlying our non- Agency MBS receive primary and special servicing from third- party service providers, who control all aspects of loan collection, loss mitigation, default management and ultimate resolution of a defaulted loan. Though the servicer has a fiduciary obligation to act in the best interest of the securitization trust, we have no contractual rights with the third- party servicer and significant latitude exists with respect to certain of its servicing activities. If a third- party servicer fails to perform its duties under the securitization documents, this may result in a material increase in delinquencies or losses to the securities. As a result, the value of the securities may be impacted, and we may incur losses on our investment. In addition, we are exposed to risk to the extent that a third- party servicer becomes insolvent or unable to perform its obligations under the agreements governing the outstanding securities. U. S. bankruptcy laws may also relieve the servicer from its obligations to make advance payments of amounts due from loan borrowers or limit its obligation to the extent that is does not expect to recover the advances due to the deteriorating credit of the delinquent loans. While we expect that the GSEs will transfer the servicing or otherwise make the investors in Agency MBS whole, for non- Agency MBS, financial difficulties with the servicer could lead to a material increase in delinquencies or losses to the securities. As a result, the value of the securities may be impacted, and we may incur losses on our investment. Under the terms of most securities we hold, we do not have the right to ~~directly~~ enforce remedies against the issuer of the security **directly** , but instead must rely on a corporate trustee to act on behalf of us and other security holders. Should a trustee not be required to take action under the terms of the securities, or fail to take action, we could experience losses. Provisions requiring yield maintenance charges, prepayment penalties, defeasance, or lock- outs in CMBS IO securities may not be enforceable. Provisions in loan documents for mortgages in CMBS IO securities in which we invest requiring yield maintenance charges, prepayment penalties, defeasance, or lock- out periods may not be enforceable in some states and under federal bankruptcy law. Provisions in the loan documents requiring yield maintenance charges and prepayment penalties may also be interpreted as constituting the collection of interest for usury purposes. Accordingly, we cannot be assured that the obligation of a borrower to pay any yield maintenance charge or prepayment penalty under a loan document in a CMBS IO security will be enforceable. Also, we cannot be assured that foreclosure proceeds under a loan document in a CMBS IO security will be sufficient to pay an enforceable yield maintenance charge. If yield maintenance charges and prepayment penalties are not collected, or if a lock- out period is not enforced, we may incur losses to write- down the value of the CMBS IO security for the present value of the amounts not collected. We invest in securities guaranteed by Fannie Mae and Freddie Mac which are currently under conservatorship by the Federal Housing Finance Agency (" FHFA "). Potential changes to the federal conservatorship of Fannie Mae and Freddie Mac or to the laws and regulations affecting the support that the GSEs receive from the U. S. government may adversely affect **the availability, pricing, liquidity, market value, and financing of** our ~~business~~ **assets** . As conservator, the FHFA has assumed all the powers of the shareholders, directors and officers of the GSEs with the goal of preserving and conserving their assets. At various times since implementation of the conservatorship, Congress has considered structural changes to the GSEs, including proposals that could lead to the release of the GSEs from conservatorship. Looming recession concerns and market volatility have raised concerns at the FHFA that the GSEs may need additional capital in order to meet their obligations as guarantors on trillions of dollars of MBS. The market value of Agency MBS today is highly dependent on the continued support of the GSEs by the U. S. government. If such support is modified or withdrawn, if the U. S. Treasury fails to inject new capital as needed, or if the GSEs are released from conservatorship, the market value of Agency MBS may significantly decline, making it difficult for us to obtain repurchase agreement financing or forcing us to sell assets at substantial losses. Furthermore, any policy changes to the relationship between the GSEs and the U. S. government may create market uncertainty and have the effect of reducing the actual or perceived credit quality of securities issued by the GSEs. It may also interrupt the cash flow received by investors on the underlying MBS. Finally, reforms to the GSEs could also negatively impact our ability to comply with the provisions of the 1940 Act (see further discussion below regarding the 1940 Act) ~~. All of the foregoing could materially adversely affect the availability, pricing, liquidity, market value and financing of our assets and materially adversely affect our business, operations, financial condition and book value per common share~~ . Credit ratings assigned to debt securities by the credit rating agencies may not accurately reflect the risks associated with those securities. Changes in credit ratings for securities we own or for similar securities might negatively impact the market value of these securities. Rating agencies rate securities based upon their assessment of the safety of the receipt of principal and interest payments on the securities. Rating agencies do not consider the risks of fluctuations in fair value or other factors that may influence the value of securities and, therefore, the assigned credit rating may not fully reflect the true risks of an investment in securities. Also, rating agencies may fail to make timely adjustments to credit ratings based on available data or changes in economic outlook or may otherwise fail to make changes in credit ratings in response to subsequent events, so the credit quality of our investments may be better or worse than the ratings indicate. We attempt to reduce the impact of the risk that a credit rating may not accurately reflect the risks associated with a particular debt security by not relying solely on credit ratings as the indicator of the quality of an investment. We make our acquisition decisions after factoring in other information that we have obtained about the loans underlying the security and the credit subordination structure of the security. Despite these efforts, our assessment of the quality of an investment may also prove to be inaccurate and we may incur credit losses in excess of our initial expectations. Credit rating agencies may change their methods of evaluating credit risk and determining ratings on securities backed by real estate loans and securities. These changes may occur quickly and often. The market' s ability to understand and absorb these changes, and the impact to the securitization market in general, are difficult to predict. Such changes may have a negative impact on the value of securities that we own. RISKS RELATED TO OUR FINANCING AND HEDGING ACTIVITIES Our use of leverage, primarily through repurchase agreements, to enhance shareholder returns increases the risk of volatility in our results and could lead to material decreases in comprehensive income, shareholders' equity, dividends, and liquidity. Leverage increases returns on our invested capital if we earn a greater return on investments than our cost of borrowing ~~,~~ but ~~can decrease~~ **decreases** returns if borrowing costs increase and we have not adequately hedged against such an increase. Further, using leverage magnifies the potential losses to shareholders' equity and book value per common share if our investments' fair market value declines, net of associated hedges. Our ability to fund our operations, meet financial obligations, and finance targeted asset acquisitions may be impacted by an inability to secure and maintain our financing through repurchase agreements or other borrowings with our counterparties. **For example,** ~~Repurchase agreements are short- term commitments of capital with no guaranty of renewal at maturity. Lenders~~ **lenders** may ~~therefore~~ respond to adverse market conditions by changing the terms of such financings in a manner that makes it more difficult for us to renew or replace on a continuous basis our maturing short- term **repurchase agreement** borrowings. Furthermore, we may have to dispose of assets at significantly depressed prices ~~i~~ , which could result in significant losses, or we may be forced to curtail our asset **purchases** ~~acquisition activities~~ if certain events occur including ~~, for example,~~ if we: • are unable to renew or otherwise access new funds under our existing financing arrangements; • are unable to arrange for new financing on acceptable terms; • default on our financial covenants contained in our financing arrangements; or • become subject to larger haircuts under our financing arrangements requiring us to post additional collateral. In addition, if the Federal Reserve revises capital requirements for lenders, the economy may slow or reduce capital market liquidity. As a result, our lenders may be required to significantly increase the cost of the financing that they provide to us, or the amounts of collateral they require as a condition to providing us with financing. At various times, our lenders have revised ~~,~~ and may continue to revise, their eligibility requirements for the types of assets that they are willing to finance or the terms of such financing arrangements, including increased haircuts and requiring additional cash collateral, based on, among other factors, the regulatory environment and a lender' s management of actual and perceived risk. Moreover, the amount of financing ~~that~~ we receive under our financing agreements will be directly related to our lenders' valuation of the assets subject to such agreements. Typically, the master repurchase agreements that govern our borrowings grant the lender the absolute right, at its sole discretion, to reevaluate the fair market value of the assets subject to such repurchase agreements at any time. These valuations may be different from the values that we ascribe to these assets and may be influenced by recent asset sales at distressed levels by forced sellers. If a lender determines that the value of the assets has decreased, the lender has the right to initiate a margin call, which requires us to transfer additional assets to the lender to collateralize the existing borrowing or to repay a portion of the outstanding borrowings. We would also be required to post additional collateral if haircuts increase under a repurchase agreement. Furthermore, if we move financing from one counterparty to another with larger haircut requirements, we would have to repay more cash to settle the original borrowing than we ~~would~~ **could** ~~be able to~~ borrow from the new counterparty. In these situations, we may be forced to sell assets at significantly depressed prices to meet the margin calls and to maintain adequate liquidity, which may cause significant losses. Significant margin calls may have a material adverse effect on our results of operations, financial condition, business, liquidity, and ability to make distributions to our shareholders, and could cause the value of our capital stock to decline. Our ability to access leverage in the conduct of our operations is impacted by certain factors that are beyond our control and are difficult to predict, which could lead to sudden and material adverse effects on our results of operations, financial condition, business, liquidity, and ability to make distributions to shareholders, and could force us to sell assets at significantly depressed prices to maintain adequate liquidity. Market dislocations could limit our ability to access funding or access funding on terms that we believe are attractive, which could have a material adverse effect on our financial condition. For more information about our operating policies regarding our use of leverage, please see " Liquidity and Capital Resources " within Part II, Item 7 " Management' s Discussion and Analysis of Financial Condition and Results of Operations " of our Annual Report on Form 10- K. Our repurchase agreements and agreements governing certain derivative instruments may contain financial and nonfinancial covenants. Our inability to meet these covenants could adversely affect our financial condition, results of operations, and cash flows. In connection with certain of our repurchase agreements and **derivative instruments** ~~interest rate swap agreements~~ , we are required to maintain certain financial and non- financial covenants. As of December 31, ~~2022~~ **2023** , our most restrictive financial covenants require that **the** ~~we have a minimum of $ 30 million of liquidity and~~ declines in **our** shareholders' equity **are** no greater than 25 % in any quarter and 35 % in any year. In addition, virtually all of our repurchase agreements and **derivative** ~~interest rate swap~~ agreements require us to maintain our status as a REIT and to be exempted from the provisions of the 1940 Act. Compliance with these covenants depends on market factors and the strength of our business and operating results. Various risks, uncertainties and events beyond our control, including significant fluctuations in interest rates, market volatility and changes in market conditions, may affect our ability to comply with these covenants. Failure to comply with these covenants could result in an event of default, termination of an agreement, acceleration of all amounts owed under an agreement, and may give the counterparty the right to exercise available remedies under the repurchase agreement, such as the sale of the asset subject to repurchase at the time of default, unless we were able to negotiate a waiver in connection with any such default. Any such waiver may be conditioned on an amendment to the underlying agreement and any related guaranty agreement on terms that may be unfavorable to us. If we are unable to negotiate a covenant waiver, or replace or refinance our assets under a new repurchase agreement on favorable terms or at all, our financial condition, results of operations and cash flows may be adversely affected. Further, certain of our repurchase agreements and **derivative instruments** ~~interest rate swap agreements~~ have cross- default, cross- acceleration or similar provisions, such that if we were to violate a covenant under one agreement, that violation could lead to defaults, accelerations, or other adverse events under other agreements, as well. Our use of hedging strategies to mitigate our interest rate risk may not be effective and may adversely affect our net income, comprehensive income, liquidity, and ~~shareholders' equity~~ **book value per common share** . We use a variety of derivative instruments to help mitigate increased financing costs and volatility in the market value of our investments from adverse changes in interest rates. Our hedging activity will vary in scope based on, among other things, our forecast of future interest rates, our investment portfolio construction and objectives, the actual and implied level and volatility of interest rates, and sources and terms of financing used. No hedging strategy can completely insulate us from the interest rate ~~risks~~ - **risk** to which we are exposed. Interest rate hedging may fail to protect or could adversely affect our results of operations, book value and liquidity because, among other things: • the performance of instruments used to hedge may not completely correlate with the performance of the assets or liabilities being hedged; • available hedging instruments may not correspond directly with the interest rate risk from which we seek protection; • the duration of the hedge may not match the duration of the related asset or liability given management' s expectation of future changes in interest rates or a result of the inaccuracies of models in forecasting cash flows on the asset being hedged; • the value of derivatives used for hedging will be adjusted from time to time in accordance with GAAP to reflect changes in fair value and downward adjustments will reduce our earnings, shareholders' equity, and book value; • the amount of income that a REIT may earn from hedging transactions (other than through taxable REIT subsidiaries) to offset interest rate losses may be limited by U. S. federal income tax provisions governing REITs; • interest rate hedging can be relatively expensive, particularly during periods of volatile interest rates; • 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; and • the party owing money in the hedging transaction may default on its obligation to pay. Our hedging instruments can be traded on an exchange ~~,~~ or administered through a clearing house or under bilateral agreements between us and a counterparty. Bilateral agreements expose us to increased counterparty risk, and we may be at risk of loss of any collateral held by a hedging counterparty if the counterparty becomes insolvent or files for bankruptcy. Clearing facilities or exchanges may increase the margin requirements we are required to post when entering into derivative instruments, which may negatively impact our ability to hedge and our liquidity. We are required to post margin when entering into a hedging instrument that is traded on an exchange or administered through a clearing house. The amount of margin is set for each derivative by the exchange or clearinghouse. In prior periods, exchanges have required additional margin in response to events having, or expected to have, adverse economic consequences. Future adverse economic developments or market uncertainty, such as the Federal Reserve' s interest rate increases ~~during~~ **since** 2022 **and any proposed new reporting requirements by self- regulatory authorities and Congress** , may result in increased margin requirements for our hedging instruments, which may have a material adverse effect on our liquidity ~~position, business~~ , financial condition and results of operations. If a lender to us in a repurchase transaction 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 a repurchase agreement, we will incur losses. Repurchase agreement transactions are legally structured as the sale of a security to a lender in return for cash from the lender. These transactions are accounted for as financing agreements because the lenders are obligated to resell the same securities back to us at the end of the transaction term. Because the cash we receive from the lender when we initially sell the securities to the lender is less than the value of those securities, if the lender defaults on its obligation to resell the same securities back to us, we would incur a loss on the transaction equal to the difference between the value of the securities sold and the amount borrowed from the lender including accrued interest. The lender may default on its obligation to resell if it experiences financial difficulty or if the lender has re- hypothecated the security to another party who fails to transfer the security back to the lender. Additionally, if we default on one of our obligations under a repurchase agreement, the lender can terminate the transaction, sell the underlying collateral and cease entering into any other repurchase transactions with us. Any losses we incur on our repurchase transactions could adversely affect our earnings and reduce our ability to pay dividends to our shareholders. In the event of our bankruptcy or that of one or more of our third- party lenders, under the U. S. Bankruptcy Code, assets pledged as collateral under repurchase agreements may not be recoverable by us. We may incur losses equal to the excess of the collateral pledged over the amount of the associated repurchase agreement borrowing. In the event that one of our lenders under a repurchase agreement files for bankruptcy, it may be difficult for us to recover our assets pledged as collateral to such lender. In addition, if we ever file for bankruptcy, lenders under our repurchase agreements may be able to avoid the automatic stay provisions of the U. S. Bankruptcy Code and take possession of and liquidate our collateral under our repurchase agreements without delay. In the event that either we or one of our lenders file for bankruptcy, we may incur losses in amounts equal to the excess of our collateral pledged over the amount of repurchase agreement borrowing due to the lender. RISKS RELATED TO OUR QUALIFICATION AS A REIT AND TAX RELATED OR OTHER REGULATORY MATTERS If we fail to properly conduct our operations, we may not qualify for exemption under the 1940 Act, which may reduce our flexibility and limit our ability to pursue certain opportunities. We seek to conduct our operations to avoid falling under the definition of an investment company pursuant to the 1940 Act. Specifically, we seek to conduct our operations to comply with Section 3 (c) (5) (C) of the 1940 Act, which provides an exemption to companies primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. According to SEC staff no- action letters, companies relying on this exemption must ensure that at least 55 % of their assets are mortgage loans and other qualifying assets, and at least 80 % of their assets are real estate- related. The 1940 Act requires that we and each of our subsidiaries evaluate our qualification for exemption under the 1940 Act. We believe that we are operating our business in accordance with the exemption requirements of Section 3 (c) (5) (C) of the 1940 Act. Likewise, our subsidiaries will rely either on Section 3 (c) (5) (C) of the 1940 Act or other sections of the 1940 Act that provide exemptions from registration thereunder, including Sections 3 (a) (1) (C) and 3 (c) (7). Under the 1940 Act, an investment company is required to register with the SEC and is subject to extensive regulations relating to, among other things, operating methods, management, capital structure, leverage, dividends, and transactions with affiliates. If we are classified as an investment company, our ability to use leverage and conduct business as we do today would be substantially impaired. This would severely impact our profitability and ability to pay dividends to our shareholders. In order to maintain REIT distribution requirements, we may be forced to increase our dividend distributions which could cause us to liquidate attractive assets or incur debt on unfavorable terms. If we are unable to generate the required cash for a cash dividend distribution, we may be forced to declare a dividend that is payable, at least in part, in the form of common stock, in which case shareholders may be required to pay income taxes in excess of the cash dividends received. To qualify as a REIT and avoid certain taxes, we must generally distribute at least 90 % of our taxable income annually to our stockholders, subject to certain adjustments and excluding any net capital gain. To the extent that we satisfy this 90 % distribution requirement, but distribute less than 100 % of our taxable income, including our net capital gain, we will be subject to federal corporate income tax on our undistributed taxable income. In addition, if we fail to meet certain other thresholds for distribution of our taxable income, we may be subject to a non- deductible 4 % excise tax. While we have not established a minimum dividend payment level, we aim to distribute sufficient dividends to our shareholders to satisfy the 90 % distribution requirement and avoid the corporate income tax and the non- deductible 4 % excise tax. If we do not have the funds available to meet our REIT distribution requirements or to avoid corporate and excise taxes, we could be forced to use unattractive options to generate the necessary cash, such as, for example, selling assets at distressed prices, borrowing on unfavorable terms, distributing amounts that would otherwise be invested or used to repay debt, or paying dividends in the form of common stock. Taxable shareholders receiving common stock will be required to include in income, as a dividend, the full value of such stock, to the extent of our current and accumulated earnings for federal income tax purposes. As a result, a U. S. stockholder may be required to pay income taxes with respect to such dividends in excess of the cash dividends received. As of December 31, ~~2022~~ **2023** , we have $ ~~695~~ **861** . ~~2~~ **8** million of deferred tax hedge gains which were recognized in GAAP net income **(loss)** during ~~2022~~ **2023** and prior periods. Our projected amortization of these deferred tax hedge gains into taxable income for ~~2023~~ **2024** is currently estimated to be $ ~~71~~ **102** . ~~3~~ **9** million, though this amount is subject to change based on a number of factors, particularly given the degree of uncertainty about the trajectory of interest rates. It is possible that our REIT distribution requirements may exceed the net cash we generate from our operations during ~~2023~~ **2024** ~~, particularly if the Federal Funds Rate continues to increase~~ . We have not established a minimum dividend payment level and we may not have the ability to pay dividends in the future. Furthermore, our monthly dividend strategy could attract shareholders that are especially sensitive to the level and frequency of the dividend. If we were to reduce the dividend or change back to a quarterly payment cycle, our share price could materially decline. We currently intend to pay regular dividends to our common shareholders and to make distributions to our shareholders in amounts such that all or substantially all of our taxable income, subject to certain adjustments including utilization of our NOL, is distributed. However, we have not established a minimum dividend payment level, and the amount of our dividend is subject to fluctuation. Our ability to pay dividends may be adversely affected by the risk factors described herein. All distributions will be made at the discretion of our Board of Directors and will depend on our GAAP and tax earnings, our financial condition, the requirements for REIT qualification and such other factors as our Board of Directors may deem relevant from time to time. We may not be able to make distributions, or our Board of Directors may change our dividend policy in the future. To the extent that we decide to pay dividends in excess of our current and accumulated tax earnings and profits, such distributions would generally be considered a return of capital for federal income tax purposes. A return of capital reduces the basis of a shareholder' s investment in our common stock to the extent of such basis and is treated as capital gain thereafter. Our strategy of paying a monthly dividend is designed in part to attract retail shareholders that invest in stocks which pay a monthly dividend. The ownership of our stock may become overly concentrated in shareholders who only invest in monthly dividend paying stocks. These shareholders may be more sensitive to reductions in the dividend or a change in the payment cycle and our share price could materially decline if we were to reduce the dividend or change the payment cycle of our dividend. Qualifying as a REIT involves highly technical and complex provisions of the Tax Code, and a technical or inadvertent violation could jeopardize our REIT qualification. Maintaining our REIT status may reduce our flexibility to manage our operations. Qualification as a REIT involves the application of highly technical and complex Tax Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize our REIT qualification. Our qualification as a REIT will depend on our satisfaction of certain asset, income, organizational, distribution, shareholder ownership and other requirements on a continuing basis. Our operations and use of leverage also subject us to interpretations of the Tax Code, and any violations of the relevant requirements under the Tax Code could cause us to lose our REIT status or to pay significant penalties and interest. In addition, our ability to satisfy the requirements to qualify as a REIT depends in part on the actions of third parties over which we have no control or only limited influence, including in cases where we own an equity interest in an entity that is classified as a partnership for U. S. federal income tax purposes. Maintaining our REIT status may limit flexibility in managing our operations. For instance: • Compliance with the REIT ~~income and asset~~ requirements may limit the type or extent of **investment or** hedging **activities** ~~that we can undertake and could limit our ability to invest in TBA securities~~ . • Our ability to own non- real estate related assets and earn non- real estate related income is limited. Our ability to own equity interests in other entities is limited. If we fail to comply with these limits, we may be forced to liquidate attractive assets on short notice on unfavorable terms in order to maintain our REIT status. • Our ability to invest in taxable subsidiaries is limited under the REIT rules. Maintaining compliance with this limitation could require us to constrain the growth of future taxable REIT affiliates. • Notwithstanding our NOL carryforward, meeting minimum REIT dividend distribution requirements could reduce our liquidity. Earning non- cash REIT taxable income could necessitate our selling assets, incurring debt, or raising new equity in order to fund dividend distributions. • Stock ownership tests may limit our ability to raise significant amounts of equity capital from one source. If we do not qualify as a REIT or fail to remain qualified as a REIT, we may be subject to tax as a regular corporation and could face a tax liability, which would reduce the amount of cash available for distribution to our shareholders. We would also violate debt covenants in certain repurchase and derivative agreements which may put us in default on these agreements. We intend to operate in a manner that will allow us to qualify as a REIT for federal income tax purposes. Our ability to satisfy the asset tests depends upon our analysis of the characterization and fair market values of our assets, some of which are not susceptible to a precise determination, and for which we will not obtain independent appraisals. Our compliance with the REIT income and quarterly asset requirements also depends upon our ability to successfully manage the composition of our income and assets on an ongoing basis. If we were to fail to qualify as a REIT in any taxable year, we would be subject to federal income tax, after consideration of any remaining NOL carryforward but not considering any dividends paid to our shareholders during the respective tax year. The resulting corporate tax liability could be material. Unless we were entitled to relief under certain Tax Code provisions, we also would be disqualified from taxation as a REIT until the fifth taxable year following the year for which we failed to qualify as a REIT. If we were to lose our REIT status, our lenders would have the right to terminate any repurchase agreement borrowings and derivative contracts outstanding at that time. This would further stress our liquidity position, reduce the amount of cash available for distribution to our shareholders and could further exacerbate the adverse impacts on the value of our common stock described above. Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends. The maximum tax rate applicable to “ qualified dividend income ” payable to U. S. shareholders that are taxed at individual rates is lower than corresponding maximum ordinary income tax rates. Dividends payable by REITs, however, are generally not eligible for the reduced rates on qualified dividend income. Rather, under the current law, qualified REIT dividends constitute “ qualified business income ” and thus a 20 % deduction is available to individual taxpayers with respect to such dividends, resulting in a 29. 6 % maximum federal tax rate (plus the 3. 8 % surtax on net investment income, if applicable) for individual U. S. shareholders. Additionally, without further legislative action, the 20 % deduction applicable to qualified REIT dividends will expire on January 1, 2026. The more favorable rates applicable to regular corporate qualified dividends could cause investors who are taxed at individual rates to perceive investments in REITs to be relatively less attractive than equity investments in non- REIT entities that pay dividends, which could adversely affect the value of the shares of REITs, including our common stock. Legislative or other actions affecting REITs could materially and adversely affect us and our shareholders. The rules dealing with U. S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U. S. Treasury. We cannot predict how changes in the tax laws might affect us or our shareholders. New legislation, U. S. Treasury regulations, administrative interpretations or court decisions could significantly and negatively affect our ability to qualify as a REIT or the U. S. federal income tax consequences of such qualification. Uncertainty exists with respect to the treatment of our TBAs for purposes of the REIT asset and income tests. There is no direct authority with respect to the qualification of TBAs as real estate assets or U. S. government securities for purposes of the 75 % asset test or the qualification of income or gains from dispositions of TBAs as gains from the sale of real property or other qualifying income for purposes of the 75 % gross income test. However, we treat our TBAs as qualifying assets for purposes of the REIT 75 % asset test, and we treat income and gains from our TBAs as qualifying income for purposes of the 75 % gross income test, based on an opinion of a nationally recognized accounting and tax services firm, substantially to the effect that (i) for purposes of the REIT asset tests, our ownership of a TBA should more likely than not be treated as ownership of the underlying Agency RMBS, and (ii) for purposes of the 75 % REIT gross income test, any gain recognized by us in connection with the settlement of our TBAs should more likely than not be treated as gain from the sale or disposition of the underlying Agency RMBS. Tax opinions are not binding on the IRS, and no assurance can be given that the IRS will not successfully challenge the conclusions set forth in such opinions. In addition, we must emphasize that the opinion is based on various assumptions relating to our TBAs and is conditioned upon fact- based representations and covenants made by our management regarding our TBAs. No assurance can be given that the IRS would not assert that such assets or income are not qualifying assets or income. If the IRS were to successfully challenge the opinion, we could be subject to a penalty tax or we could fail to remain qualified as a REIT if a sufficient portion of our assets consists of TBAs or a sufficient portion of our income consists of income or gains from the disposition of TBAs. For REIT qualification purposes, we treat repurchase agreement transactions as financing of the investments pledged as collateral. If the IRS disagrees with this treatment, our ability to qualify as a REIT could be adversely affected. Repurchase agreement financing arrangements are structured legally as a sale and repurchase whereby we sell certain of our investments to a counterparty and simultaneously enter into an agreement to repurchase these securities at a later date in exchange for a purchase price. Economically, these agreements are financings which are secured by the investments sold pursuant thereto. We believe that we would be treated for REIT asset and income test purposes as the owner of the securities that are the subject of any such sale and repurchase agreement, notwithstanding that such agreement may legally transfer record ownership of the securities to the counterparty during the term of the agreement. It is possible, however, that the IRS could assert that we did not own the securities during the term of the sale and repurchase agreement, in which case we could fail to qualify as a REIT. Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow and our profitability. Even if we remain qualified for taxation as a REIT, we may be subject to certain federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from certain activities conducted as a result of a foreclosure or considered prohibited transactions under the Tax Code, and state or local income taxes. Any of these taxes would decrease cash available for distribution to our shareholders. In addition, in order to meet the REIT qualification requirements, or to avert the imposition of a 100 % tax that applies to certain gains derived by a REIT from prohibited transactions, we may hold some of our assets through a taxable REIT subsidiary (“ TRS ”) or other subsidiary corporations that will be subject to corporate- level income tax at regular rates to the extent that such TRS does not have an NOL carryforward. Any of these taxes would decrease cash available for distribution to our shareholders. Recognition of excess inclusion income by us could have adverse consequences to us or our shareholders. Certain of our securities have historically generated excess inclusion income and may continue to do so in the future. Certain categories of shareholders, such as foreign shareholders eligible for treaty or other benefits, shareholders with NOLs, and certain tax- exempt shareholders that are subject to unrelated business income tax, could be subject to increased taxes on a portion of their dividend income from us that is attributable to excess inclusion income. In addition, to the extent that our stock is owned by tax- exempt " disqualified organizations, " such as certain government- related entities and charitable remainder trusts that are not subject to tax on unrelated business income, we may incur a corporate level tax on a portion of our income. In that case, we may reduce the amount of our distributions to any disqualified organization whose stock ownership gave rise to the tax. The stock ownership limit imposed by the Tax Code for REITs and our Restated Articles of Incorporation (" Articles of Incorporation ") may restrict our business combination opportunities. The stock ownership limitation may also result in reduced liquidity of our stock and may result in losses to an acquiring shareholder. To qualify as a REIT under the Tax Code, not more than 50 % in value of our outstanding stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Tax Code to include certain entities) at any time during the last half of each taxable year. Our Articles of Incorporation, with certain exceptions, authorize our Board of Directors to take the actions that are necessary and desirable to qualify as a REIT. Pursuant to our Articles of Incorporation, no person may beneficially or constructively own more than 9. 8 % of our capital stock (including our common and preferred stocks). Our Board of Directors may grant an exemption from this 9. 8 % stock ownership limitation, in its sole discretion, subject to such conditions, representations and undertakings as it determines to be reasonably necessary. Our Articles of Incorporation' s constructive ownership rules are complex and may cause the outstanding stock owned by a group of related individuals or entities to be deemed as constructively owned by one individual. As a result, the acquisition of less than 9. 8 % of the outstanding stock by an individual or entity could cause that individual or entity to own constructively in excess of the ownership limit. Our Board of Directors has the right to refuse to transfer any shares of our capital stock in a transaction that would result in ownership in excess of the ownership limit. In addition, we have the right to redeem shares of our capital stock held in excess of the ownership limit. The ownership limits contained in our Articles of Incorporation are intended to assist us in complying with tax law requirements and to minimize administrative burdens. However, these ownership limits might also delay or prevent a transaction or a change in our control that might be in the best interest of our shareholders. The stock ownership limit imposed by the Tax Code for REITs and our Articles of Incorporation may impair the ability of holders to convert shares of our outstanding preferred stock into shares of our common stock upon a change of control. The terms of our outstanding preferred stock provide that, upon occurrence of a change of control (as defined in the Articles of Incorporation), each holder of our outstanding preferred stock may have the right to convert, in conjunction with a change in control, all or part of such outstanding preferred stock held by such holder into a number of shares of our common stock per share of outstanding preferred stock based on the formulas set forth in our Articles of Incorporation. However, the stock ownership restrictions in our Articles of Incorporation also restrict ownership of shares of our outstanding preferred stock. As a result, no holder of outstanding preferred stock will be entitled to convert such stock into our common stock to the extent that receipt of our common stock would cause the holder to exceed the ownership limitations contained in our Articles of Incorporation, endanger the tax status of one or more real estate mortgage investment conduits in which we may have an interest, or result in the imposition of a direct or indirect penalty tax on us. These provisions may limit the ability of a holder of outstanding preferred stock to convert shares of preferred stock into our common stock upon a change of control, which could adversely affect the market price of shares of our outstanding preferred stock. If we fail to abide by certain Commodity Futures Trading Commission (" CFTC ") rules and regulations, we may be subject to enforcement action by the CFTC. **The Dodd- Frank Act established a comprehensive new regulatory framework for derivative contracts commonly referred to as " swaps. " As a result, any investment fund that trades in swaps or other derivatives may be considered a " commodity pool, " which would cause its operators (in some cases, the fund' s directors) to be regulated as commodity pool operators (" CPO ").** On December 7, 2012, the CFTC' s Division of Swap Dealer and Intermediary Oversight (the " Division ") issued no- action relief from ~~commodity pool operator ("~~ CPO ~~")~~ registration to mortgage REITs that use CFTC- regulated products (" commodity interests ") and that satisfy certain enumerated criteria. Pursuant to the no- action letter, the Division will not recommend that the CFTC take enforcement action against a mortgage REIT if its operator fails to register as a CPO, provided that the mortgage REIT (i) submits a claim to take advantage of the relief and (ii) the mortgage REIT: (a) limits the initial margin and premiums required to establish its commodity interest positions to no greater than 5 % of the fair market value of the mortgage REIT' s total assets; (b) limits the net income derived annually from its commodity interest positions, excluding the income from commodity interest positions that are " qualifying hedging transactions, " to less than 5 % of its annual gross income; (c) does not market interests in the mortgage REIT to the public as interests in a commodity pool or otherwise in a vehicle for trading in the commodity futures, commodity options or swaps markets; and (d) either: (1) identified itself as a " mortgage REIT " in Item G of its last U. S. income tax return on Form 1120- REIT; or (2) if it has not yet filed its first U. S. income tax return on Form 1120- REIT, it discloses to its shareholders that it intends to identify itself as a " mortgage REIT " in its first U. S. income tax return on Form 1120- REIT. We believe that we have complied with all of the requirements set forth above as of December 31, ~~2022~~ **2023** . If we fail to satisfy the criteria set forth above, or if the criteria change, we may become subject to CFTC regulation or enforcement action, the consequences of which could have a material adverse effect on our financial condition or results of operations. OTHER RISK FACTORS RELATED TO OUR BUSINESS We rely on a third- party service provider for critical operational and trade functions and on other third parties for information and communication systems, and problems in the use, access, or performance of these systems, including as a result of any cybersecurity incident, could increase our costs and significantly disrupt our ability to operate our business, which may have a significant adverse impact on our financial condition and results of operations. ~~During 2021~~ **Certain critical functions of our business relating to our trading and borrowing activities** , ~~we entered into a long- term relationship with~~ **including MBS trading and repurchase agreement borrowing activities, are operated and managed by** a third- party service provider ~~pursuant to which certain critical functions of our~~

~~business relating to our trading and borrowing activities, including MBS trading and repurchase agreement borrowing activities, are operated and managed~~ . This service and related technologies may become unavailable due to a variety of reasons, including outages, interruptions, or other failure to perform. The risk of operational failure or constraints of this third- party service could cause us to default on contractual obligations, fail to meet margin calls, or otherwise experience breaches or disruptions to our critical business relationships, which could have a significant adverse effect on our financial condition or results of operations. Additionally, any failure or interruption of our operational and trading systems or communication or information systems, caused by a cybersecurity breach of our networks or systems, or the third- party service providers' networks or systems, could cause delays or other problems in our trading or borrowing activities or lead to unauthorized trading activity, any of which may have a significant adverse effect on our financial condition or results of operations. Geopolitical tensions or conflicts ~~, such as Russia' s invasion of Ukraine,~~ may further heighten the risk of cybersecurity attacks. A disruption or breach could also lead to the unauthorized access, release, misuse, loss or destruction of confidential information, including the personal or confidential information of our employees or third parties, which could lead to regulatory fines, increased expenses due to the costs of remediating a breach, reputational harm, and fewer third parties willing to do business with us. Computer malware, viruses, computer hacking, and phishing attacks have become more prevalent and may occur on our or our third- party service providers' systems. We have no control over our third- party service providers' systems, and any cybersecurity breach of their network or systems could compromise our operations. Even with all reasonable security efforts, not every system or network breach can be prevented or even detected. Furthermore, because the vast majority of our employees are working remotely from their homes, there is an increased risk of disruption to our operations because our employees' residential networks and infrastructure may not be as secure as our office environment. We may face increased costs as we (i) continue to evolve our cybersecurity defenses in order to contend with evolving risks, (ii) monitor our systems for cyber- attacks and security threats, and (iii) seek to determine the extent of our losses in the event of a cybersecurity breach. The costs and losses associated with preventing cybersecurity breaches are difficult to predict and quantify and could have a significant adverse effect on our financial condition and results of operations. We rely heavily on the financial, accounting, risk management and other data processing systems provided by our third- party service providers, and any failure to maintain performance, reliability and security of these systems and our other technical infrastructure could have a significant adverse effect on our financial condition or results of operations. Furthermore, we have no control over the cybersecurity systems used by our third- party service providers, and such third- party service providers may have limited indemnification obligations to us ~~. Impacts from COVID- 19 may continue to adversely affect market conditions. Furthermore, we cannot predict the effect that government policies, laws, and plans adopted in response to the COVID- 19 outbreak or other future outbreaks involving highly infectious or contagious diseases and resulting recessionary economic conditions will have on us. The COVID- 19 pandemic caused significant volatility and disruption in the economy and financial markets both globally and in the United States. While the level of disruption due to COVID- 19 lessened in 2022, the pandemic may worsen again and the continued spread of COVID- 19, or an outbreak of another highly infectious or contagious disease in the future, could negatively impact the availability of key personnel necessary to conduct our business. Government policies, laws, and plans intended to address the COVID- 19 outbreak and adverse developments in the credit, financial, and mortgage markets may not be effective, sufficient, or have any positive impact on such markets. Certain actions taken by the U. S. or other governmental authorities that are intended to ameliorate the macroeconomic effects of COVID- 19 or an outbreak due to any highly infectious or contagious disease in the future may also have unintended adverse consequences which impact the mortgage market, and thereby negatively impact our business and results of operations. The replacement of LIBOR with an alternative reference rate may adversely impact short- term interest rates in general, and thereby potentially cause our financing costs to increase. Effective January 1, 2022, the ICE Benchmark Administration Limited, the administrator of the London Interbank Offered Rate (" LIBOR "), ceased the publication of one- week and two- month USD LIBOR and will cease the publications of the remaining tenors of USD LIBOR (one, three, six, and 12- month) immediately after June 30, 2023. The transition to an alternative rate, such as the SOFR, which is an index calculated by reference to short- term repurchase agreements backed by U. S. Treasury securities, will require careful and deliberate consideration and implementation so as not to disrupt the stability of financial markets. Though we do not currently have any financial instruments referenced to LIBOR rates, there is no guarantee that a transition from LIBOR to SOFR or any other alternative rate will not result in, among other things, financial market disruptions, significant increases in benchmark rates, or short- term interest rates, any of which could have an adverse effect on our profitability, liquidity, and financial condition~~ . We may change our investment strategy, operating policies, dividend policy, and / or asset allocations without shareholder consent and / or in a manner in which shareholders, analysts, and capital markets may not agree with us. A change in our investment strategy or asset allocation may materially change our exposure to interest rate and / or credit risk, default risk and real estate market fluctuations. These changes could have a material impact on our ability to continue to pay a dividend at a level that we had previously paid before the change in strategy. Furthermore, if any change in investment strategy, asset allocation, operating or dividend policy is perceived negatively by the markets or analysts covering our stock, our stock price may decline. Part of our investment strategy includes deciding whether to reinvest payments received on our existing investment portfolio. Based on market conditions, our leverage, and our liquidity profile, we may decide to not reinvest the cash flows we receive from our investment portfolio. If we retain, rather than reinvest these cash flows, the size of our investment portfolio and the amount of net interest income generated by our investment portfolio will likely decline. In addition, if the assets we acquire in the future earn lower yields than the assets we currently own, our reported earnings per share will likely decline over time as the older assets pay down or are sold. **We may be subject to risks associated with artificial intelligence (" AI ") and machine learning technology. Recent technological advances in AI and machine learning technology may pose risks to us. In the future, we may utilize machine learning to leverage new technology and create efficiencies or opportunities. Our use of AI could give rise to legal or regulatory action, create liabilities, or materially harm our business. While we aim to develop and use AI and machine learning**

technology responsibly and attempt to mitigate ethical and legal issues presented by its use, we may ultimately be unsuccessful in identifying or resolving issues before they arise. Further, as the technology is rapidly evolving, costs and obligations could be imposed on us to comply with new regulations. We also could be exposed to the risks of machine learning technology if third- party service providers or any counterparties, whether or not known to us, also use machine learning technology in their business activities. We will not be in a position to control the use of such technology in third-party products or services. Use by third- party service providers could give rise to issues pertaining to data privacy, data protection, and intellectual property considerations. Share repurchases of our common stock or Series C Preferred Stock may negatively impact our compliance with covenants in our financing agreements and regulatory requirements (including maintaining exclusions from the requirements of the 1940 Act and qualification as a REIT). Any compliance failures associated with share repurchases could have a material negative effect on our business, financial condition and results of operations. Share repurchases also may negatively impact our ability to invest in our target assets in the future. Our Board of Directors has approved a share repurchase program which permits the Company to repurchase shares of its common stock ~~or its Series C Preferred Stock~~ at any time or from time- to- time at management' s discretion. Certain of our financing agreements have financial covenants that may be impacted by our share repurchases. Furthermore, if we fund share repurchases by selling our investments, the allocation of our investment portfolio for purposes of maintaining an exclusion from the requirements of the 1940 Act could be impacted as well as our ability to comply with income and asset tests required to qualify as a REIT. In addition, our decision to repurchase shares under the Program could adversely affect our competitive position, and could negatively impact our ability in the future to invest in assets that have a greater potential return than our share repurchases. **Our profitability may be impacted by climate- related events and increasing regulatory requirements. The effects of climate change could affect our profitability and adversely impact the value of the real estate assets securing our investments. Changing market dynamics, global policy developments and the increasing frequency and impact of extreme weather events on critical infrastructure could have the potential to disrupt our business and the business of our third- party providers. Climate change and regulations intended to control its impact may affect the value of our investments and result in higher compliance and energy costs which would impact the broader economy. There can be no assurance that climate change will not have a material adverse effect on our assets, operations or business.**