Risk Factors Comparison 2024-03-15 to 2023-03-23 Form: 10-K

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

Set forth below are the risks that we believe are material to stockholders. You should carefully consider the following risk factors identified in or incorporated by reference into any other documents filed by us with the SEC in evaluating our company and our business. If any of the following risks occur, our business, financial condition, results of operations and our ability to make distributions to our stockholders could be adversely affected. In that case, the trading price of our stock could decline. The risk factors described below are not the only risks that may affect us. Additional risks and uncertainties not presently known to us also may adversely affect our business, financial condition, results of operations and our ability to make distributions to our stockholders. Summary Risk Factors Our business is subject to a number of risks, including risks that may prevent us from achieving our business objectives or may adversely affect our business, financial condition, results of operations, cash flows, and prospects. These risks are discussed more fully below and include, but are not limited to, risks related to: Risks Related to Our Investment Strategy and Our Businesses • We may be unable to operate our business successfully or generate sufficient revenue to make or sustain distributions to our stockholders. • If we fail to develop, enhance and implement strategies to adapt to changing conditions in the mortgage industry and capital markets, our business, financial condition, results of operations and our ability to make distributions to our stockholder may be adversely affected. • We may change our target assets, investment or financing strategies and other operational policies without stockholder consent, which may adversely affect our business, financial condition, results of operations and our ability to make distributions to our stockholders. • ~~The ongoing outbreak of COVID- 19 could have an adverse impact on our financial performance and results of operations. •~~ Our floating- rate commercial mortgage loans are subject to various risks, such as interest rate risk, prepayment risk, real estate risk and credit risk **. • Difficulty in redeploying the proceeds from repayments of our existing loans and investments may cause our financial performance and returns to investors to suffer** . • Transitional mortgage loans involve greater risk than conventional mortgage loans. • An increase in interest rates may cause a decrease in the volume of certain of our target assets, which could adversely affect our ability to acquire assets that satisfy our investment objectives and to generate income and make distributions to our stockholders. • Increases in interest rates typically adversely affect the value of certain of our investments and cause our interest expense to increase, which could result in reduced earnings or losses and negatively affect our profitability as well as the cash available for distribution to our stockholders. • ~~The planned discontinuation of LIBOR may affect the value of the financial obligations to be held or issued by us that are linked to LIBOR and could affect our results of operations and financial results. •~~ Our real estate investments are subject to risks particular to real property. These risks may result in a reduction or elimination of, or return from, a loan secured by a particular property ~~. • We may invest or spend the net proceeds for our equity or debt offerings in ways with which our investors may not agree and in ways that may not earn a profit~~ . • Changes in laws and regulations governing our operations, changes in the interpretation thereof or newly enacted laws or regulations and any failure by us to comply with these laws or regulations, could require changes in certain of business practices, negatively impact our operations, cash flow or financial condition, impose additional costs on us, subject us to increased competition or otherwise adversely affect our business. Risks Related to Financing and Hedging • Our strategy involves leverage, which may amplify losses and there is no specific limit on the amount of leverage we may use. • We may incur significant additional debt in the future, which will subject us to increased risk of loss and may reduce cash available for distributions to our stockholders. • There can be no assurance that our Manager will be able to prevent mismatches in the maturities of our assets and liabilities. • Lenders generally require us to enter into restrictive covenants relating to our operations. • An increase in our borrowing costs relative to the interest that we receive on investments in our mortgage related investments may adversely affect our profitability and cash available for distributions to our stockholders. • We have utilized and may utilize in the future non- recourse securitizations to finance our loans and investments, which may expose us to risks that could result in losses. • Our loans and investments may be subject to fluctuations in interest rates that may not be adequately protected, or protected at all, by our hedging strategies. Risks Associated with Our Relationship with Our Manager • Our board of directors has approved very broad investment guidelines for our Manager and will not approve each investment and financing decision made by our Manager. • We are dependent on our Manager and its key personnel for our success. • There are conflicts of interest in our relationship with ORIX, including with our Manager and in the allocation of investment opportunities ~~to~~ **between** ORIX affiliates and us, which could result in decisions that are not in the best interests of our stockholders. Risks Related to Our Securities • An increase in interest rates may have an adverse effect on the market price of our stock and our abilities to make distributions to stockholders. • We have not established a minimum distribution payment level on our common stock and we cannot assure you of our ability to make distributions in the future, or that our board of directors will not reduce distributions in the future regardless of such ability. • Future offerings of debt or equity securities that rank senior to our common stock may adversely the market price of our common stock. Risks Related to Our Organization and Structure • Because of their significant ownership of our common stock, Lument Investment Holdings, LLC, an affiliate of our Manager, and Hunt Investors (as described herein) have the ability to influence the outcome of matters that require a vote of stockholders, including change of control. • Stockholders have limited control over changes in our policies and procedures. • Maintenance of our exclusion from the Investment Company Act will impose limits on our business. • Ownership limitations may restrict change of control or business combination opportunities in which our stockholders might receive a premium for their shares. Tax Risks • If we failed to qualify as a REIT, we would be taxed at corporate rates and would not be able to take certain deductions when computing our taxable income. • If we failed to qualify as a REIT, we may default on our current financing facilities and be required to liquidate our assets, and we may face delays or inabilities to procure future financing. • Complying with REIT requirements may cause us to forgo otherwise attractive opportunities and may require us to dispose of our target assets sooner than originally anticipated. • Qualifying as a REIT involves highly technical and complex provisions of the Code. Risks Related to Our Investment Strategies and Our Businesses We may not be able to operate our businesses successfully or generate sufficient revenue to make or sustain distributions to our stockholders. We cannot assure you that we will be able to operate our businesses successfully or implement our operating policies and strategies. Our Manager may not be able to successfully execute our investment and financing strategies as described in this Annual Report on Form 10- K, which could result in a loss of some or all of your investment. Our results of operations depend on several factors, including our Manager' s ability to execute on our investment and financing strategies, the availability of opportunities for the acquisition of target assets, the level and volatility of interest rates, the availability of adequate short and long- term financing, conditions in the financial markets and economic conditions. Our revenues will depend, in large part, on our Manager' s ability to execute on our investment and financing strategies, and our ability to acquire assets at favorable spreads over our borrowing costs. If our Manager is unable to execute on our investment and financing strategies, or we are unable to acquire assets that generate favorable spreads, our results of operations may be adversely affected, which could adversely affect our ability to make or sustain distributions to our stockholders. We seek to generate current income and attractive risk- adjusted returns for our ~~stockholder~~ **stockholders** . However, the assets that we acquire may not appreciate in value and, in fact, may decline in value, and the assets that we acquire may experience defaults of interest and / or principal payments. Accordingly, we may not be able to realize gains or income from our assets. Any income that we do realize may not be sufficient to offset other losses that we experience. If we fail to develop, enhance and implement strategies to adapt to changing conditions in the mortgage industry and capital markets, our business, financial condition, results of operations and our ability to make distributions to our stockholders may be adversely affected. The manner in which we compete and the products for which we compete are affected by changing conditions, which can take the form of trends or sudden changes in our industry, regulatory environment, changes in the role of GSEs, changes in the role of credit rating agencies or their rating criteria or process, or the U. S. economy more generally. If we do not effectively respond to these changes, or if our strategies to respond to these changes are not successful, our business, financial condition, results of operations and our ability to make distributions to our stockholders may be adversely affected. We may change any of our strategies, policies or procedures with respect to investments, acquisitions, growth, operations, indebtedness, capitalization, distributions, financing strategy and leverage at any time without the consent of our stockholders, which could result in an investment portfolio with a different, and possibly greater, risk profile. A change in our target assets, investment strategy or guidelines, financing strategy or other operational policies may increase our exposure to interest rate risk, 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 Annual Report on Form 10- K. In addition, our charter provides that our board of directors may revoke or otherwise terminate our REIT election, without approval of our stockholders, if it determines that it is no longer in our best interests to maintain our REIT qualification. These changes could adversely affect our business, financial condition, results of operations and our ability to make distributions to our stockholders. Our portfolio of assets may be concentrated in terms of credit risk. Although as a general policy we seek to acquire and hold a diverse portfolio of assets, we are not required to observe specific diversification criteria, except as may be set forth in the investment guidelines adopted by our board of directors. Therefore, our asset portfolio may at times be concentrated in certain property types that are subject to higher risk of foreclosure or secured by properties concentrated in a limited number of geographic locations. To the extent that our portfolio is concentrated in any one region or type of security, downturns relating generally to such region or type of security may result in defaults on a number of our assets within a short time period, which could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders. Our portfolio may contain other concentrations of risk, and we may fail to identify, detect or hedge against those risks, resulting in large or unexpected losses. Lack of diversification can increase the correlation of non- performance and foreclosure risks among our investments ~~. The impact of the COVID- 19 pandemic has rapidly evolved around the globe, with countries, at various times, taking meaningful measures to limit the spread of the virus by instituting quarantines or lockdowns, imposing travel restrictions and vaccination mandates for certain workers or activities and limiting operations of certain non- essential businesses. While restrictions have eased and the global economy has largely re- opened, many medical and public health experts believe that COVID- 19 could perpetually reoccur for years, such as seasonally in winter, and even if generally ceasing to be fatal for most people, such reoccurrence could increase the possibility of periods of increased restrictions on business operations. The COVID- 19 pandemic has disrupted global supply chains, contributed to increased inflation, increased rates of unemployment and adversely impacted many industries, including industries related to the collateral underlying certain of our loans. In 2021 and 2022, the global economy has, with certain setbacks, begun reopening, and wider distribution of vaccines will likely encourage greater economic activity. While vaccine availability, and uptake has increased, the longer term macro- economic effects of the pandemic continue to impact many industries, including those of certain of LFT' s borrowers, and the market turmoil and other changes associated with the pandemic may have lasting effects on our business and operations. In particular, the increase in remote working arrangements in response to the pandemic has contributed, and may further contribute, to a decline in commercial real estate values and reduced demand for commercial real estate compared to pre- pandemic levels, which may adversely impact certain of LFT' s borrowers and may persist even as the pandemic continues to subside. Although it is impossible to predict with certainty the potential full magnitude of the business and economic ramification of the pandemic, COVID- 19 has impacted, and may further impact our business in various ways, including but not limited to: • the inability of our borrowers' tenants to pay rent on their leases, which inability, if extreme, could cause our borrowers to default on their loans and could cause us to: (i) no longer be able to pay dividends at our current rates or at all in order to preserve liquidity and (ii) be unable to meet our debt obligations to lenders to satisfy our debt covenants, which could cause us to have to sell our investments or refinance our debt on unattractive terms; • a severe disruption and instability in~~

~~the global financial markets or deterioration in credit and financing conditions may affect our ability to access capital necessary to fund our investments at attractive interest rates, or at all, and may adversely affect the valuation of financial assets and liabilities, any of which could have a material adverse effect on our business, financial condition, results of operations and cash flows; • uncertainties created by the COVID- 19 pandemic may make it difficult to estimate provisions for loan losses; • deterioration in the performance of the properties securing our investments that may, cause deterioration in the performance of our investments and, potentially, principal losses to us; • difficulty or delays in redeploying the proceeds from repayments of our existing investments; • provisions in our current and future financing agreements may require us to provide additional collateral or pay down debt; • economic and market conditions affecting the value of our financial instruments and the value of particular assets and liabilities; and • fluctuations in equity, market prices, interest rates and credit spreads limiting our ability to raise or deploy capital on a timely basis and affecting our overall liquidity. We maintain a robust asset management relationship with our borrowers and have utilized these relationships to proactively address the impacts of the COVID- 19 pandemic on our loans secured by properties experiencing cash flow or other negative business pressures. The pandemic may result in more frequent modifications of our loans in the future and instances of default or foreclosure on assets underlying our loans. Given the ongoing nature of the COVID- 19 pandemic, at the this time we cannot reasonably estimate the magnitude of the ultimate impact that COVID- 19 will have on our business, financial performance and operating results. We believe any future impact of COVID- 19 on our business, financial performance and operating results will in part be significantly driven by a number of factors that we are unable to predict or control, including, for example; the severity and duration of the pandemic; the distribution and acceptance of vaccines and their impact on the timing and speed of economic recovery; the spread of new variants of the virus; the pandemic's impact on the U. S. and global economies, including concerns regarding additional surges of the pandemic or the expansion of the economic impact thereof as a result of certain jurisdictions" re- opening" or otherwise lifting certain restrictions prematurely; the availability of U. S. federal, state, local or non- U. S. funding programs aimed at supporting the economy during the COVID- 19 pandemic, including uncertainties regarding the potential implementation of new or extended programs; the timing, scope and effectiveness of additional governmental responses to the pandemic, including the potential re-imposition of quarantines, states of emergencies, restrictions on travel, stay at- home orders, and other measures taken to curb the spread of COVID- 19, and the negative impact on our financing sources, vendors and other business partners that may indirectly adversely affect us. The prolonged durations and impact of the COVID- 19 pandemic could materially disrupt our business operations and negatively impact our business, financial performance and operating results~~ . Generally, our business model is such that rising interest rates will generally increase our net interest income, while declining rates will generally decrease our net interest income. As of December 31, ~~2022~~ **2023** , ~~77~~ **100** . ~~4~~ **0** % of our loans by principal balance earned a floating rate of interest indexed to ~~one- month USD LIBOR and 22. 6 % of our loan by principal balance earned a floating rate of interest indexed to~~ 30- day term SOFR, and all of our collateralized loan obligations were indexed to ~~one~~ **30** - ~~month USD LIBOR~~ **day term SOFR** . Accordingly, our interest expense will generally increase as interest rates increase and decrease as interest rates decline. In recent years, interest rates had remained at relatively low levels on a historical basis. However, in 2022 **and 2023** , in light of increasing inflation, the U. S. Federal Reserve increased **benchmark** interest rates ~~seven~~ **eleven** times ~~. The U. S. Federal Reserve~~ **and may further increase rates in 2024, which** has **increased, and could** ~~also indicated that it expects continued~~ - **continue to** ~~increases in 2023 and 2024. Any such increases would~~ increase **,** our borrowers **'** interest payments **. Interest** ~~and could result in higher borrower default rates~~ - **rate** ~~. Such~~ increases could also adversely affect commercial real estate property values **, and,** ~~. As discussed below under" The planned discontinuation of LIBOR or the selection of a replacement~~ for **certain** ~~LIBOR may affect the value~~ of ~~the financial obligations to be held or~~ **our** ~~issued by~~ **borrowers have contributed, and may continue to contribute, to loan non- performance, modification, defaults, foreclosures, and / or property sales, which could result in** us **realizing losses** ~~that are linked to LIBOR and could affect our results operations and financial results," one~~ - **on** ~~- month USD LIBOR will cease to be published after June 30, 2023. Loans originated by the Manager or~~ **our investments** ~~its affiliates as of January 1, 2022 or that have been acquired or may be acquired by us have been indexed to the 30- day tenor CME Term SOFR. With respect to loans originated prior to such date, all loans have index fallback language that, when USD LIBOR ceases to be published (a) follows the Alternative Reference Rate Committee (" ARRC") recommendation for replacement floating rate index (noting the ARRC already identifies SOFR as the recommended replacement index), or (b) allows Lender discretion to identify the appropriate replacement index, to the extent reasonably possible, calculated in substantially the same manner and upon the same economic basis as one- month USD LIBOR. We expect to complete the process of converting our LIBOR- based loans and CLO liabilities to term SOFR during the second quarter of 2023 in advance of the June 30, 2023 phase- out date for LIBOR~~ . We are subject to prepayment risk associated with the terms of our CLOs. Due to the generally short- term nature of transitional floating rate- commercial mortgage loans, our CLOs include a reinvestment period during which principal repayments and prepayments on our commercial mortgage loans may be reinvested in similar assets, subject to meeting certain eligibility criteria. While the interest- rate spreads of our collateralized loan obligations are fixed until they are repaid, the terms, including spreads, of newly originated loans are subject to uncertainty based on a variety of factors, including market and competitive conditions. To the extent that such conditions result in lower spreads on the assets in which we reinvest, we may be subject to a reduction in interest income in the future ~~. It is expected that in 2023 the U. S. Federal Reserve will continue raise benchmark overnight interest rates. Any such increases would increase our borrowers interest payments and for certain borrowers may lead to defaults and losses to us. Such increases could also adversely affect CRE property values~~ . The market values of commercial mortgage assets are subject to volatility and may be adversely affected by real estate risks, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions; changes or continued weakness in specific industry segments; construction quality, age and design; demographic factors; and retroactive changes to building or similar codes. In addition, decreases in property values reduce the value of the collateral and potential proceeds available to a borrower to repay the underlying loans, which could also cause us to suffer losses. Our commercial mortgage loans and other investments are also subject to credit risk. The performance and value of our loans and other investments depend upon the sponsor' s ability to operate properties that serve as our collateral so that they produce cash flows adequate to pay interest and principal to us. To monitor this risk, the Manager' s asset management team reviews our portfolio and maintains regular contact with borrowers, co- lenders and local market experts to monitor the performance of the underlying collateral, anticipate borrower, property and market issues and, to the extent necessary or appropriate, enforce our rights as lender. The typical borrower in a transitional mortgage loan has usually identified an asset which the borrower believes is undervalued or that has been under- managed, or is undergoing a repositioning plan including a potential capital improvement. If the market in which the asset is located fails to perform according to the borrower' s projections, or if the borrower fails to improve the quality of the asset' s management and / or value of the asset, the borrower may not receive a sufficient return on the asset to satisfy the transitional mortgage loan, and we bear the risk that we may not recover some or all of our investment. In addition, borrowers typically use the proceeds of a conventional mortgage to repay a transitional mortgage loan. Transitional mortgage loans therefore are subject to the risk of a borrower' s inability to obtain permanent financing to repay the transitional mortgage loan. Risks of cost overruns and renovations of properties in transition may result in significant losses. The renovation, refurbishment or expansion of a property by a borrower involves risks of cost overruns and non- completion. Estimates of the costs of improvements to bring an acquired property up to the standards established for the market position intended for the property may prove inaccurate. Other risks may include rehabilitation costs exceeding original estimates, possibly making a project uneconomical, environmental risks, delays in legal and other approvals (e. g., for condominiums) and rehabilitation and subsequent leasing of the property not being completed on schedule. If such renovation is not completed in a timely manner, or if it costs more than expected, the borrower may experience a prolonged impairment of net operating income and may not be able to make payments on our investment on a timely basis or at all. In the event of any default under transitional mortgage loans that may be held by us, we bear the risk of loss of principal and non- payment of interest and fees to the extent of any deficiency between the value of the mortgage collateral and the principal amount and unpaid interest on the transitional loan. To the extent we suffer such losses with respect to these transitional mortgage loans, it could adversely affect our results of operations and financial condition **. In recent years, interest rates had remained at relatively low levels on a historical basis. However, in 2022 and 2023, in light of increasing inflation, the U. S. Federal Reserve increased interest rates eleven times and may further increase rates in 2024, which has increased, and could contiune to increase, our borrowers' interest payments. Interest rate increases could also adversely affect commercial real estate property values, and, for certain of our borrowers have contributed, and may continue to contribute, to loan non- performance, modification, defaults, foreclosures, and / or property sales, which could result in us realizing losses on our investments** . Rising interest rates generally reduce the demand for mortgage loans due to the higher cost of borrowing. A reduction in the volume of mortgage loans originated may affect the volume of transitional floating- rate multifamily and CRE loans and other mortgage related investments available to us, which could adversely affect our ability to acquire assets that satisfy our investment objectives. Rising interest rates may also cause our assets that were issued prior to an interest rate increase to provide yields that are below prevailing market interest rates. If rising interest rates cause us to be unable to acquire a sufficient volume of transitional floating- rate multifamily and CRE loans and other mortgage related investments with a yield that is above our borrowing cost, our ability to satisfy our investment objectives and to generate income and make distributions to our stockholders may be adversely affected. The relationship between short- term and longer- term interest rates is often referred to as the" yield curve." Ordinarily, short- term interest rates are lower than longer- term interest rates. If short- term interest rates rise disproportionately relative to longer- term interest rates (a flattening of the yield curve), our borrowing costs may increase more rapidly than the interest income earned on our assets. Because some of our future investments may bear interest based on longer- term rates than our borrowings, a flattening of the yield curve would tend to decrease our net income and the market value of our net assets. 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. It is also possible that short- term interest rates may exceed longer- term interest rates (a yield curve inversion), in which event our borrowing costs may exceed our interest income and we could incur operating losses. Given the current state of the U. S. economy due **inflationary pressures** ~~to the ongoing COVID- 19 pandemic~~ , there can be no guarantee that the yield curve will not become and / or remain inverted **. As our loans and investments are repaid, we will have to redeploy the proceeds we receive into new loans and investments (which can include future fundings associated with our existing loans), repay borrowings under our credit facilities, pay dividends to our stockholders or repurchase outstanding shares of our class A common stock. It is possible that we will fail to identify reinvestment options that would provide returns or a risk profile that is comparable to the asset that was repaid. If we fail to redeploy the proceeds we receive from repayment of a loan in equivalent or better alternatives, our financial performance and returns to investors could suffer** . We invest in transitional multifamily and other CRE loans, as well as other mortgage related investments. In a normal yield curve environment, an investment in the fixed- rate component of such assets will generally decline in value if future 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. A significant risk associated with our target assets is the risk that both long- term and short- term interest rates will increase significantly. If long- term rates increased significantly, the market value of these investments would decline, and the duration and weighted average life of the investments would increase. We could realize a loss if the securities were sold. At the same time, an increase in short- term interest rates would increase the amount of interest owed on any repurchase agreements we may enter into. Our business model is such that rising interest rates will generally increase our net interest income, while declining rates will generally decrease our net interest income. As of December 31, ~~2022~~ **2023** , 100 % of our loans by unpaid principal balance earned a floating rate of interest and were financed with liabilities that require interest payments based on floating rates, which resulted in an amount of net equity that is positively correlated to rising interest rates. Market values of our investments may decline without any general increase in interest rates for a number of reasons, such as increases or expected increases in defaults, or increases or expected increases in voluntary prepayments for those investments that are subject to prepayment risk or widening of credit spreads. In addition, in a period of rising interest rates, our operating results will depend in large part on the difference between the income from our assets and our financing costs. We anticipate that, in most cases, the income from such assets will respond more slowly to interest rate fluctuations than the cost of our borrowings. Consequently, changes in interest rates, particularly short- term interest rates, may significantly influence our net income. Increases in these rates will tend to decrease our net income and market value of our assets. ~~On July 27, 2017,~~ **The transition away from reference rates** and ~~in a subsequent speech by its chief executive on July 12~~ **the use of alternative replacement reference rates may adversely affect net income related to our loans and investments or otherwise affect our results of operations** , ~~2018,~~ **cash flows and the market value of our investments. LIBOR and certain** ~~the~~ **other floating rate benchmark indices have been the subject of national, international and regulatory guidance and proposals for reform or replacement. The** U. ~~K. Financial Conduct Authority (the " FCA "), which regulates LIBOR, confirmed that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021. On March 5, 2021, ICE Benchmark Administration Limited (" IBA"), the LIBOR administrator, and the FCA issued an announcement on the future cessation and loss of representativeness of the LIBOR benchmarks. For one- month USD LIBOR, this will occur immediately after June 30, 2023; however, in November 2022 the FCA announced a public consultation regarding whether it should compel the IBA to continue publishing" synthetic" USD LIBOR settings from June 2023 to the end of September 2024. Further, on March 15, 2022, the Consolidated Appropriations Act of 2022, which includes the Adjustable Interest Rate (LIBOR) Act, was signed into law in the U.~~ S. ~~This legislation establishes a uniform benchmark replacement process for financial contracts maturing after June 30, 2023 that do not contain clearly defined or practicable fallback provision. The legislation also creates a safe harbor that shields lenders from litigation if they choose a replacement rate recommended by the~~ Federal Reserve ~~. In addition~~ , **in conjunction with the** ~~U. S. banking regulators have made clear that USD LIBOR originations are not permitted after December 31, 2021. The~~ Alternative Reference Rates Committee, a steering committee ~~comprised~~ **composed** of large U. S. financial institutions ~~convened~~ **, identified SOFR, an index calculated using short- term repurchase agreements backed** by ~~the Federal Reserve~~ **U. S. Treasury securities** , ~~has recommended SOFR~~ as **its preferred alternative** ~~a more robust reference~~ rate ~~alternative to USD LIBOR. The International Swaps and Derivatives Association, Inc. adopted fallback language~~ for USD LIBOR ~~- referencing derivatives contracts that provides for SOFR as the primary replacement rate in the event of a LIBOR cessation. SOFR is calculated based on overnight transactions under repurchase agreements, backed by Treasury securities. SOFR is observed on a daily basis and backward looking, which stands in contrast with LIBOR under the current methodology, which is an estimated forward- looking rate for specified tenors. Due to SOFR being a secured rate backed by government securities, it does not take into account bank credit risk (as is the case with LIBOR). SOFR is therefore likely to be lower than LIBOR and is less likely to correlate with the funding costs of financial institutions. As a result, parties may seek to adjust spreads relative to such reference rate in underlying contractual arrangements~~ . As of December 31, ~~2022~~ **2023** , **all** ~~22. 6 % and 77. 4 %~~ of our ~~loans by principal amount were indexed to SOFR and USD LIBOR, respectively; and 100 % of our outstanding~~ floating rate ~~arrangements bear interest~~ **loans and related financings have transitioned to the applicable replacement benchmark rate, or reference a benchmark rate that is not expected to be replaced. Our loan agreements generally allow us to choose a new** ~~indexed~~ - **index** ~~to USD LIBOR. All of our USD LIBOR-~~ based **upon comparable information if** ~~arrangements provide procedures for determining an alternative base rate in~~ the **current index** ~~event that LIBOR~~ is ~~discontinued~~ **no longer available** . ~~Regardless,~~ **While recently** there ~~can be no assurances as~~ **has been a significant clarification** ~~to what additional alternative base rates may be and whether such base rate will be more or less favorable than USD LIBOR and any other unforeseen impacts~~ of **guidance across products** ~~the potential discontinuation of USD LIBOR. Any changes, reforms or replacements relating to USD LIBOR could increase our interest expense and could have an adverse impact~~ on the ~~market~~ **recommended timing and** ~~for~~ **form** ~~or value~~ of ~~any USD LIBOR- linked securities~~ **certain transition milestones from industry working groups** , ~~loans, derivatives and other financial obligations or extensions of credit held by or due to us on our~~ overall ~~financial condition or results of operations. In addition,~~ there ~~could be~~ **is still** a **substantial amount** ~~mismatch between the timing~~ of ~~adjusting floating base rate~~ **uncertainty in the marketplace regarding the transition away** from USD LIBOR ~~to an alternative base rate upon~~ **benchmarks. While we have completed** the ~~discontinuation~~ **transition** of **our loan portfolio to the extent it was tied to** USD LIBOR, ~~between~~ **continuing market developments and uncertainty can materially impact our cost of capital and net investment income and any changes to benchmark interest rates could increase** our financing **costs** ~~arrangements and our loan investments~~ , which **could** ~~may have an immediate and significant adverse~~ impact ~~on~~ our results of operations ~~and~~ **,** cash flows and the market value of our investments. **The elimination** ~~We are monitoring the developments with respect to the planned discontinuation~~ of ~~LIBOR and are working with our borrowers to minimize the impact of the~~ USD LIBOR ~~transition on~~ **benchmarks and /** ~~our~~ - **or** ~~financial condition and~~ **changes to another index could** ~~results~~ - **result in mismatches with** ~~of operations, but can provide no assurances regarding~~ the ~~impact~~ **interest rate** of ~~the discontinuation of USD LIBOR~~ **investments that we are financing** . Our real estate investments are subject to risks particular to real property. These risks may result in a reduction or elimination of, our return from, a loan secured by a particular property. Real estate investments are subject to various risks, including: • adverse changes in national and local economic and market conditions; • changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances; • costs of remediation and liabilities associated with environmental conditions such as indoor mold; • the potential for uninsured or under- insured property losses • acts of GOD, including earthquakes, floods and other natural disasters, which may result in uninsured losses; • acts of war or terrorism, including the consequences of terrorist attacks; and • social unrest and civil disturbances In the event any of these or similar events occurs, we may not realize our anticipated return on our investments and we may incur a loss on these investments. The ability of a borrower to repay these loans or other financial assets is dependent upon the income or assets of these borrowers. The impact of any future terrorist attacks, the occurrence of a natural disaster, a significant climate change, health concerns regarding pandemic diseases or changes in laws and regulations expose us to certain risks. Terrorist attacks, the anticipation of any such attacks, and the consequences of any military or other response by the United States and its allies may have an adverse impact on the U. S. financial markets and the economy in general. We cannot predict the severity of the effect that any such future events would have on the U. S. financial markets, the economy or our business. Any future terrorist attacks could adversely affect the credit quality of some of our loans and investments. Some of our loans and investments will be more susceptible to such adverse effects than others, particularly those secured by properties in major cities or properties that are prominent landmarks or public attractions. We may suffer losses as a result of the adverse impact of any future terrorist attacks and these losses may adversely impact our results of operations. Moreover, the enactment of the Terrorism Risk Insurance Act of 2002, or TRIA, requires insurers to make terrorism insurance available under their property and casualty insurance policies and provides federal compensation to insurers for insured losses. TRIA was scheduled to expire at the end of 2020 but was reauthorized, with some adjustments to its provisions, in December 2019 for seven years through December 31, 2027. However, this legislation does not regulate the pricing of such insurance and there is no assurance that this legislation will be extended beyond 2027. The absence of affordable insurance coverage may adversely affect the general real estate lending market, lending volume and the market' s overall liquidity and may reduce the number of suitable investment opportunities available to us and the pace at which we are able to make investments. If the properties that we invest in are unable to obtain affordable insurance coverage, the value of those investments could decline and in the event of an uninsured loss, we could lose all or a portion of our investment. In addition, the occurrence of a natural disaster (such as an earthquake, tornado, hurricane, or a flood) or a significant adverse climate change 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 debt instruments that we purchase. Because certain natural disasters are not typically covered by the standard hazard insurance policies maintained by borrowers, the affected borrowers may have to pay for any repairs themselves. Borrowers may decide not to repair their property or may stop paying their mortgages under those circumstances. This would likely cause defaults and credit loss severities to increase. The occurrence of unforeseen or catastrophic events, including the emergence of a pandemic, such as coronavirus, or other widespread health emergency (or concerns over the possibility of such emergency) could create economic and financial disruptions, and could lead to operational difficulties that could impair our ability to manage our business. Lack of diversification in the number of assets we acquire would increase our dependence on relatively few individual assets. Our management objectives and policies do not place a limit on the size of the amount of capital used to support, or the exposure to (by any other measure), any individual asset or any group of assets with similar characteristics or risks. In addition, because we are a small company, we may be unable to sufficiently deploy capital into a number of assets or asset groups. As a result, our portfolio may be concentrated in a small number of assets or may be otherwise undiversified, increasing the risk of loss and the magnitude of potential losses to us and our stockholders if one or more of these assets perform poorly. Investments in non- conforming and non- investment grade rated CRE loans or securities involve increased risk of loss. Certain CRE debt investments may not conform to conventional loan standards applied by traditional lenders and either will not be rated (as is typically the case for private loans) or will be rated as non- investment grade by the rating agencies. Private loans often are not rated by credit rating agencies. Non- investment grade ratings typically result from the overall leverage of the loans, the lack of a strong operating history for the properties underlying the loans, the borrowers' credit history, the underlying properties' cash flow or other factors. As a result, these investments should be expected to have a higher risk of default and loss than investment- grade rated assets. Any loss we incur may be significant and may adversely affect our results of operations and financial condition. There are no limits on the percentage of unrated or non- investment grade rated assets we may hold in our investment portfolio. We may invest in transitional multifamily loans, CRE loans, CRE debt securities and other similar structured finance investments, which are secured by income producing properties. Such loans are typically made to single- asset entities, and the repayment of the loan is dependent principally on the net operating income from the performance and value of the underlying property. The volatility of income performance results and property values may adversely affect our transitional multifamily loans, CRE loans and CRE debt securities and similar structured finance investments. Our transitional multifamily and CRE loans are secured by the underlying commercial property and, in each case are subject to risks of delinquency, foreclosure and loss. Transitional multifamily loans, CRE loans, CRE debt securities and other similar structured finance investments generally have a higher principal balance and the ability of a borrower to repay a loan secured by an income- producing property typically is dependent upon the successful operation of the property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower' s ability to repay the loan may be impaired. Net operating income of an income- producing property can be affected by, among other things: tenant mix, success of tenant businesses, property management decisions, property location and condition, competition from comparable types of properties, changes in laws that increase operating expenses or limit rents that may be charged, any need to address environmental contamination at the property, changes in national, regional or local economic conditions and / or specific industry segments, declines in regional or local real estate values and declines in regional or local rental or occupancy rates, increases in interest rates, real estate tax rates and other operating expenses, changes in governmental rules, regulations and fiscal policies, including environmental and / or tax legislation, and acts of God, terrorism, social unrest and civil disturbances. Multifamily and CRE property values and net operating income derived therefrom are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions; changes in tax laws; local real estate conditions; changes or continued weakness in specific industry segments; perceptions by prospective tenants, retailers and shoppers of the safety, convenience, services and attractiveness of the property; the willingness and ability of the property' s owner to provide capable management and adequate maintenance; construction quality, age and design; demographic factors; retroactive changes to building or similar codes; and increases in operating expenses (such as energy costs). Declines in the borrowers' net operating income and / or declines in property values of collateral securing transitional multifamily loans, CRE loans or CRE debt securities and other similar structured finance investments could result in defaults on such loans, declines in our book value from reduced earnings and / or reductions to the market value of the investment. Our target assets may include CRE loans which are funded with interest reserves and borrowers may be unable to replenish such interest reserves once they run out. We invest in transitional CRE and we expect that borrowers may be required to post reserves to cover interest and operating expenses until the property cash flows are projected to increase sufficiently to cover debt service costs. We may also require the borrower to replenish reserves if they become depleted due to underperformance or if the borrower wishes to exercise extension options under the loan. Revenues on the properties underlying any CRE loan investments may decrease in an economic downturn which would make it more difficult for borrowers to meet their payment obligations to us. Some borrowers may have difficulty servicing our debt and may not have sufficient capital to replenish reserves, which could have a significant impact on our operating results and cash flows. We may not have control over certain of our loans and investments. Our ability to manage our portfolio of loans and investments may be limited by the form in which they are made. In certain situations, we may: • acquire investments subject to rights of senior classes, special servicers or collateral managers under intercreditor, servicing agreements or securitization documents; • pledge our investments as collateral for financing arrangements; • acquire only a minority and / or non- controlling participation in an underlying investment; • co- invest with others through partnership, joint ventures or other entities, thereby acquiring non- controlling interests; or • rely on independent third party management or servicing with respect to the management of an asset. Therefore, we may not be able to exercise control over all aspects of our loans or investments. Such financial assets may involve risks not present in investments where senior creditors, junior creditors, servicers or third- party controlling investors are not involved. Our rights to control the process following a borrower default may be subject to the rights of senior or junior creditors or servicers whose interests may not be aligned with ours. A partner or co- venturer may have financial difficulties resulting in a negative impact on such asset, may have economic or business interests or goals that are inconsistent with ours, or may be in a position to take action contrary to our investment objectives. Changes in laws or regulations governing our operations, changes in the interpretation thereof or newly enacted laws or regulations and any failure by us to comply with these laws or regulations, could require changes to certain of our business practices, negatively impact our operations, cash flow or financial condition, impose additional costs on us, subject us to increased competition or otherwise adversely affect our business. The laws and regulations governing our operations, as well as their interpretation, may change from time to time, and new laws and regulations may be enacted. Accordingly, any change in these laws or regulations, changes in their interpretation, or newly enacted laws or regulations and any failure by us to comply with these laws or regulations, could require changes to certain of our business practices, negatively impact our operations, cash flow or financial condition, impose additional costs on us or otherwise adversely affect our business. For example, from time to time the market for real estate debt transactions has been adversely affected by a decrease in the availability of senior and subordinated financing for transactions, in part in response to regulatory pressures on providers of financing to reduce or eliminate their exposure to such transactions. Furthermore, if regulatory capital requirements, whether under the Dodd- Frank Act, Basel III (i. e., the framework for a comprehensive set of capital and liquidity standards for internationally active banking organizations, which was adopted in June 2011 by the Basel Committee on Banking Supervision, an international body comprised of senior representatives of bank supervisory authorities and central banks from 27 countries, including the United States) or other regulatory action, are imposed on private lenders that provide us with funds, or were to be imposed on us, they or we may be required to limit, or increase the cost of, financing they provide to us or that we provide to others. Among other things, this could potentially increase our financing costs, reduce our ability to originate or acquire loans and reduce our liquidity or require us to sell assets at an inopportune time or price. Various laws and regulations currently exist that restrict the investment activities of banks and certain other financial institutions but do not apply to us, which we believe creates opportunities for us to participate in certain investments that are not available to these more regulated institutions. Any deregulation of the financial industry, including by amending the Dodd- Frank Act, may decrease the restrictions on banks and other financial institutions and would create more competition for investment opportunities that were previously not available to the financial industry. For example, in 2018, a bill was signed into law that eased the regulation and oversight of certain banks under the Dodd- Frank Act. There has been increasing commentary amongst regulators and intergovernmental institutions on the role of nonbank institutions in providing credit and, particularly, so- called " shadow banking, " a term generally taken to refer to credit intermediation involving entities and activities outside the regulated banking system. For example, in August 2013, the Financial Stability Board issued a policy framework for strengthening oversight and regulation of " shadow banking " entities. The report outlined initial steps to define the scope of the shadow banking system and proposed general governing principles for a monitoring and regulatory framework. A number of other regulators, such as the Federal Reserve, and international organizations, such as the International Organization of Securities Commissions, are studying the shadow banking system. At this time, it is too early to assess whether any rules or regulations will be proposed or to what extent any finalized rules or regulations will have on the nonbank lending market. If rules or regulations were to extend to us or our affiliates the regulatory and supervisory requirements, such as capital and liquidity standards, currently applicable to banks, then the regulatory and operating costs associated therewith could adversely impact the implementation of our investment strategy and our returns. In an extreme eventuality, it is possible that such regulations could render the continued operation of our company unviable. In the United States, the process established by the Dodd- Frank Act for designation of systemically important nonbank firms has provided a means for ensuring that the perimeter of prudential regulation can be extended as appropriate to cover large shadow banking institutions. The Dodd- Frank Act established the Financial Stability Oversight Council (the " FSOC "), which is comprised of representatives of all the major U. S. financial regulators, to act as the financial system' s systemic risk regulator. The FSOC has the authority to review the activities of nonbank financial companies predominantly engaged in financial activities and designate those companies as " systematically important financial institutions " (" SIFIs ") for supervision by the Federal Reserve. Such designation is applicable to companies where material distress or failure could pose risk to the financial stability of the United States. On December 18, 2014, the FSOC released a notice seeking public comment on the potential risks posed by aspects of the asset management industry, including whether asset management products and activities may pose potential risks to the U. S. financial system in the areas of liquidity and redemptions, leverage, operational functions, and resolution, or in other areas. On April 18, 2016, the FSOC released an update on its multi- year review of asset management products and activities and created an interagency working group to assess potential risks associated with certain leveraged funds. On December 4, 2019, the FSOC issued final guidance regarding the FSOC' s procedures for designating nonbank financial companies as SIFIs. This guidance implemented a number of reforms to the FSOC' s prior SIFI designation approach by shifting from an " entity- based " approach to an " activities- based " approach whereby the FSOC will primarily focus on regulating activities that pose systematic risk to the financial stability of the United States, rather than designations of individual firms. Under the guidance, designation of a nonbank financial company as a SIFI would only occur if the FSOC determined that the expected benefits justify the expected costs of the designation. While the impact of this guidance cannot be known at this time, increased regulation of nonbank credit extension could negatively impact our operations, cash flows or financial condition, impose additional costs on us, intensify the regulatory supervision of us or otherwise adversely affect our business. The U. K.' s exit from the E. U. could adversely affect us. The United Kingdom left the E. U. on January 31, 2020. On May 1, 2021, the E. U.- U. K. Trade and Cooperation Agreement (the " TCA ") became effective. The TCA provides the United Kingdom and E. U. members with preferential access to each other' s markets, without tariffs or quotas on imported products between the jurisdictions, provided that certain rules of origin requirements are complied with. However, economic relations between the United Kingdom and the E. U. will now be on more restricted terms than existed prior to Brexit. The long- term effects of Brexit are expected to depend on, among other things, any agreements the U. K. has made, or makes to retain access to E. U. markets. Brexit could adversely affect European or worldwide economic or market conditions and could contribute to instability in global financial and real estate markets. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the U. K. determines which E. U. laws to replace or replicate. Any of these effects of Brexit, and others we cannot anticipate, could adversely affect our business, business opportunities, results of operations, financial condition and cash flows. Likewise, similar actions taken by other European and other countries in which we operate could have a similar or even more profound impact. Changes in laws or regulations governing the operations of borrowers could affect our returns with respect to those borrowers. Government counterparties or agencies may have the discretion to change or increase regulation of a borrower' s operations, or implement laws or regulations affecting a borrower' s operations, separate from any contractual rights it may have. A borrower could also be materially and adversely affected as a result of statutory or regulatory changes or judicial or administrative interpretations of existing laws and regulations that impose more comprehensive or stringent requirements on such company. Governments have considerable discretion in implementing regulations, for example, the possible imposition or increase of taxes on income earned by a borrower or gains recognized by us on our investment in such borrower, that could impact a borrower' s business as well as our return on our investment with respect to such borrower. Changes in government rules, regulations and fiscal policies, including increases in property taxes, changes in zoning laws and increasing costs to comply with environmental law could increase operating expenses for our borrowers. Likewise, changes in rent control or rent stabilization laws or other residential landlord / tenant laws could result in lower revenue growth or significant unanticipated expenditures for our borrowers. These initiatives and any other future enactments of rent control or rent stabilization laws or other laws regulating multifamily housing may reduce our borrowers' rental revenues or increase their operating costs. Such laws and regulations may limit our borrowers' ability to charge market rents, increase rents, evict tenants or recover increases in their operating costs, which may, in turn, impact our return on our investment with respect to such borrowers. Climate change, climate change- related initiative and regulation and the increased focus on environmental, social and governance issues, may adversely affect our business and financial results and damage our reputation. Recently, there has been growing concern from advocacy groups, governments agencies and the general public over the effects of climate change on the environment. Transition risks, such as government restrictions, standards or regulations intended to reduce greenhouse gas emissions and potential climate change impacts, are emerging and may increase in the future in the form of restrictions or additional requirements on the development of commercial real estate. Such restrictions and requirements could increase our costs or require additional technology and capital investments by our borrowers, which could adversely affect our results of operations. This is a particular concern in the western and northeastern United States, where some of the most extensive and stringent environmental laws and building construction standards in the U. S. have been enacted and where we have properties securing our investment portfolio. Additionally, ESG and other sustainability matters and our response to these matters could harm our business, including in areas such as diversity, equity and inclusion, human rights, climate change and environmental stewardship, support for local communities, corporate governance and transparency and considering ESG factors in our investment processes. Increasing governmental, investor and societal attention to ESG matters, including expanding mandatory and voluntary reporting, diligence, and disclosure on topics such as climate change, human capital, labor and risk oversight, could expand the nature, scope and complexity of matters that we are required to control, assess and report. These factors may alter the environment in which we do business and may increase the ongoing costs of compliance and adversely impact our results of operations and cash flows. If we are unable to adequately address such ESG matters or we or our borrowers fail or are perceived to fail to comply with all laws, regulations, policies and related interpretation, it could negatively impact our reputation and our business results. Further, significant physical effects of climate change including extreme weather events such as hurricanes or floods, can also have an adverse impact on certain of our borrowers' properties. As the effects of climate change increase, we expect the frequency and impact of weather and climate related events and conditions to increase as well. While the geographic distribution of our portfolio somewhat limits our physical climate risk, some physical risk is inherent in the properties of our borrowers, particularly in certain borrowers' locations and in the unknown potential for extreme weather or other events that could occur related to climate change. We may be subject to lender liability claims, and if we are held liable under such claims, we could be subject to losses. In recent years, a number of judicial decisions have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories, collectively termed" lender liability." Generally, lender liability is founded on the premise that a lender has either violated a duty, whether implied or contractual, of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or stockholders. We cannot assure prospective investors that such claims will not arise or that we will not be subject to significant liability if a claim of this type did arise. Our investments in commercial mortgage backed securities, CLOs and other similar structured finance investments, as well as those we structure, sponsor or arrange, pose additional risks, including the risks of the securitization process and the risk that the special servicer, Lument Real Estate Capital, LLC (" LREC"), an affiliate of our Manager, may take actions that could adversely affect our interests. We have invested in, and may from time to time invest in, commercial mortgage- backed securities, including in the most subordinated classes of such commercial mortgage- backed securities, CLOs and other similar securities, which may be subordinated classes of securities in a structure of securities secured by a pool of mortgages or loans. Accordingly, such securities may be the first or among the first to bear the loss upon a restructuring or liquidation of the underlying collateral and the last to receive payment of interest and principal, with only a nominal amount of equity or other debt securities junior to such positions. The estimated fair values of such subordinated interests tend to be much more sensitive to adverse economic downturns and underlying borrower developments than more senior securities. A projection of an economic downturn, for example, could cause a decline in the price of lower credit quality commercial mortgage- backed securities or CLOs because the ability of borrowers to make principal and interest payments on the mortgages or loans underlying such securities may be impaired. Interests such as commercial mortgage- backed securities, CLOs and similar structured finance investments generally are not actively traded and are relatively illiquid investments. Volatility in commercial mortgage- backed securities and CLO trading markets may cause the value of these investments to decline. In addition, if the underlying mortgage portfolio has been overvalued by the originator, or if the values subsequently decline and, as a result, less collateral value is available to satisfy interest and principal payments and any other fees in connection with the trust or other conduit arrangement for such securities, we may incur significant losses. With respect to the commercial mortgage- backed securities and CLOs in which we have invested and may invest in the future, overall control over the special servicing of the related underlying mortgage loans will be exercised by LREC or another special servicer or collateral manager designated by a" directing certificate holder" or a" controlling class representative," which is appointed by the holders of the most subordinated class of commercial mortgage- backed securities in such series. Unless we acquire the subordinate classes of existing series of commercial mortgage- backed securities and CLOs, we will not have the right to appoint the directing certificate holder. In connection with the servicing of the specially serviced mortgage loans, the related special servicer may, at the direction of the directing certificate holder, take actions with respect to the specially serviced mortgage loans that could adversely affect our interests. If the loans that we originate or acquire do not comply with applicable laws, we may be subject to penalties, which could materially and adversely affect us. Loans that we may originate or acquire may be directly or indirectly subject to U. S. federal, state or local governmental laws. Real estate lenders and borrowers may be responsible for compliance with a wide range of laws intended to protect the public interest, including, without limitation, the Truth in Lending, Equal Credit Opportunity, Fair Housing and American with Disabilities Acts and local zoning laws (including, but not limited to, zoning laws that allow permitted non- conforming uses). If we or any other person fails to comply with such laws in relation to a loan that we have originated or acquired, legal penalties may be imposed, which could materially and adversely affect us. Additionally, jurisdictions with" one action,"" security first" and / or" antideficiency rules" may limit our ability to foreclose on a real property or to realize on obligations secured by a real property. In the future, new laws may be enacted or imposed by U. S. federal, state or local governmental entities, and such laws could have a material adverse effect on us. If we are unable to implement and maintain effective internal controls over financial reporting in the future, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock may be negatively affected. As a public company, we are required to maintain internal controls over financial reporting and to report any material weaknesses in such internal controls. In addition, we are required to furnish a report by management on the effectiveness of our internal controls over financial reporting, pursuant to Section 404 of the Sarbanes- Oxley Act. ~~Once~~ **If** we are no longer **considered** a smaller reporting company, our independent registered public accounting firm will be required to formally attest to the effectiveness of our internal controls over financial reporting on an annual basis. The process of designing, implementing and testing the internal controls over financial reporting required to comply with this obligation is time consuming, costly and complicated. If we identify a material weakness in our internal controls over financial reporting, if we are unable to comply with the requirements of Section 404 of the Sarbanes- Oxley Act in a timely manner or to assert that our internal controls over financial reporting is effective or if, once we are no longer a smaller reporting company, our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal controls over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected. We could also become subject to investigations by the stock exchange on which our securities are listed, the SEC or other regulatory authorities, which could require additional financial and management resources. We depend on our accounting services provider for assistance with the preparation of our financial statements, access to appropriate accounting technology and assistance with portfolio valuation. Pursuant to our agreement with SS & C Technologies (" SS & C"), SS & C currently maintains our general ledger and all related accounting records, reconciles all broker and custodial statements we routinely receive, provides us with monthly portfolio, cash and position reports, assists us with portfolio valuations, prepares draft quarterly financial statements for our review and provides us with access to data and technology services to facilitate the preparation of our annual financial statements. If our agreement with SS & C were to be terminated and no suitable replacement can be timely engaged, we may not be able to timely and accurately prepare our financial statements. We may be required to make servicing advances and may be exposed to a risk of loss if such advances become non- recoverable and such advances and risk could adversely affect our liquidity or cash flow. In connection with securitization transactions wherein Five Oaks Acquisition Corp. (" FOAC") sold mortgage loans to the securitization trust and holds the MSRs with respect to those mortgage loans, FOAC entered into sub- servicing agreements with two sub- servicers. Pursuant to the terms of the sub- servicing agreements, FOAC is required to refund or to fund any servicing advances that are obligated to be made by the sub- servicers. FOAC is therefore exposed to the potential loss of any servicing advance that becomes non- recoverable. Such advances and exposure going forward could adversely affect our liquidity or cash flow during a financial period. We operate in a highly competitive market for investment opportunities and competition may limit our ability to acquire desirable investments in assets we target and could also affect the pricing of these securities. We are engaged in a competitive business. In our investing activities, we compete for opportunities with a variety of institutional investors, including other REITs, specialty finance companies, public and private funds (including other funds managed by Lument IM and its affiliates), commercial and investment banks, commercial finance and insurance companies and other financial institutions. Several other REITs and other investment vehicles have raised significant amounts of capital, and may have investment objectives that overlap with ours, which may create additional competition for investment opportunities. Some competitors may have a lower cost of funds and broader access to funding sources, such as the U. S. Government, that are not available to us. Many of our competitors are not subject to the operating constraints associated with REIT compliance or maintenance of an exclusion from regulation under the Investment Company Act. We could face increased competition from banks due to future legislative developments, such as amendments to key provisions of the Dodd- Frank Act, including, provisions setting forth capital and risk retention requirements. 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 loans and investments and offer more attractive pricing or other terms than we would. Furthermore, competition for investments we target may lead to decreasing yields, which may further limit our ability to generate targeted returns. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders. Also, as a result of this competition, desirable investments in these 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. A prolonged economic recession and declining real estate values could impair our assets and harm our operations. The risks associated with our business are more severe during economic recessions and are compounded by declining real estate values. The transitional multifamily and other CRE loans in which we may invest will be particularly sensitive to these risks. Declining real estate values will likely reduce the level of new mortgage loan originations since borrowers often use appreciation in the value of their existing properties to support the purchase of additional properties. Borrowers will also be less able to pay principal and interest on loans underlying the securities in which we invest if the value of residential real estate weakens further. Further, declining real estate values significantly increase the likelihood that we will incur losses on the transitional multifamily and other CRE loans in the event of default because the value of collateral on the mortgages underlying such securities may be insufficient to cover the outstanding principal amount of the loan. Any sustained period of increased payment delinquencies, foreclosures or losses could have an adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders. The lack of liquidity in our investments may adversely affect our business. We acquire assets that are not liquid or publicly traded. A lack of liquidity may result from the absence of a willing buyer or an established market for these assets, as well as legal or contractual restrictions on resale or the unavailability of financing for these assets. In addition, mortgage- related assets generally experience periods of illiquidity. Further, validating third- party pricing for illiquid assets may be more subjective than for liquid assets. Any illiquidity of our investments may make it difficult for us to sell such investments if the need or desire arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our investments. Further, we may face other restrictions on our ability to liquidate an investment in a business entity to the extent that we or our Manager has or could be attributed with material, non- public information regarding such business entity. If we are unable to sell our assets at favorable prices or at all, it could adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders. Assets that are illiquid are more difficult to finance, and to the extent that we use leverage to finance assets that become illiquid, we may lose that leverage or have it reduced. Assets tend to become less liquid during times of financial stress, which is often the time that liquidity is most needed. As a result, our ability to vary our portfolio in response to changes in economic and other conditions may be relatively limited, which could adversely affect our business, financial condition, results of operations and our ability to make distributions to our stockholders. Our investment in CRE debt securities and other similar structured finance investments may be subject to losses. We may acquire CRE debt securities and other similar structured finance investments. In general, losses on a mortgaged property securing a mortgage loan included in a securitization will be borne first by the equity holder of the property, then by a cash reserve fund or letter of credit, if any, then by the holder of a mezzanine loan or B- Note, if any, then by the" first loss" subordinated security holder and then by the holder of a higher- rated security. In the event of default and the exhaustion of any equity support, reserve fund, letter of credit, mezzanine loans or B- Notes, and any classes of securities junior to those in which we invest, we will not be able to recover all of our investment in the securities we purchase. In addition, if the underlying mortgage portfolio has been overvalued by the originator, or if the values subsequently decline, less collateral is available to satisfy interest and principal payments due on the related CRE debt securities and other similar structured finance investments. The prices of lower credit quality securities are generally less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic downturns or individual issuer developments. Provisions for ~~loan~~ **credit** losses are difficult to estimate **.** Our provision for ~~loan~~ **credit** losses is evaluated on a quarterly basis. The determination of our provision for ~~loan~~ **credit** losses requires us to make certain estimates and judgments, which may be difficult to determine. Our estimates and judgments are based on a number of factors, including assumptions regarding projected cash flow from the collateral securing our loans, capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, likelihood of repayment in full at the maturity of a loan, availability of financing, exit plan, actions of other lenders and other factors deemed necessary by Management, all of which remain uncertain and are subjective. Our estimates and judgments may not be correct and, therefore, our results of operations and financial condition could be severely impacted. ~~A new accounting~~ **Accounting** ~~standard~~ **standards have** ~~will likely require~~ **required** us to increase our allowance for ~~loan~~ **credit** losses **which has had** ~~and~~ - **an adverse effect on our business and results of operation and** may **in the future** have a material adverse effect on our business, financial condition and results of operations **.** In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016- 13, or ASU 2016- 13. ASU 2016- 13 significantly ~~changes~~ **changed** how entities ~~will measure~~ **measured** credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. ASU 2016- 13 ~~will replace~~ **replaced** the incurred loss model under ~~existing~~ **previous** guidance with a current expected credit loss, or CECL, model for instruments measure at amortized cost, and ~~require~~ **required** entities to record allowances for available- for- sale debt securities rather than reduce the carrying amount, as they ~~do~~ **previously did** under the other- than- temporary impairment model. **The allowance** ~~ASU 2016- 13 also simplifies the accounting model~~ for ~~purchased~~ credit **losses** ~~- impaired debt securities and loan. ASU 2016- 13 is effective for fiscal years beginning after December 15, 2022. The CECL reserve~~ required under ASU 2016- 13 is a valuation account that is deducted from the related loans' and debt securities' amortized cost basis on our consolidated balance sheets, and which will reduce our total stockholders' equity. ~~The~~ **Our** initial ~~CECL reserve~~ **change to the allowance for credit losses, due to adoption of ASU 2016- 13, was $ 3. 5 million and** recorded on January 1, 2023 ~~will be reflected~~ as a direct charge to retained earnings ~~;~~ **on our consolidated statements of changes in equity,** however ~~future~~ **subsequent** changes to ~~CECL reserve~~ **the allowance for credit losses have been, and** will **continue to** be **,** recognized through **our** net income on our consolidated statements of operations **. See Notes 2 and 3 to our consolidated financial statements for further discussion of our allowance for credit losses** . While ASU 2016- 13 does not require any particular method for determining the ~~CECL~~ allowance **for credit losses** , it does specify the allowance should be based on relevant information about past events, including historical loss experience, current portfolio and market conditions, and reasonable and supportable forecasts for the ~~duration~~ **expected contractual term adjusted for prepayment and extensions, where applicable,** of each ~~respective~~ loan. Because our methodology for determining ~~CECL~~ **the allowance for credit losses** may differ from the methodologies employed by other companies, our ~~CECL allowances~~ - **allowance for credit losses** may not be comparable with the ~~CECL allowances~~ - **allowance for credit losses** reported by other companies. In addition, other than a few narrow exceptions, ASU 2016- 13 requires that all financial instruments subject to the CECL model have some amount of reserve to reflect the GAAP principal underlying the CECL model that all loans, debt securities, and similar assets have some inherent risk of loss, regardless of credit quality, subordinate capital, or other mitigating factors. Accordingly, ~~we expect that~~ the adoption of the CECL model **has materially affected, and** will **continue to** materially affect **,** how we determine our allowance for ~~loan~~ **credit** losses and could require us to **significantly** increase our allowance and recognize provisions for ~~loan~~ **credit** losses earlier in the lending cycle. Moreover, the CECL model may create more volatility in the level of our allowance for ~~loan~~ **credit** losses. If we are required to materially increase our level of allowance for ~~loan~~ **credit** losses for any reason, such increase could adversely affect our business, financial condition and results of operations. Our Manager' s due diligence may not reveal all of the risks associated with such assets and may not reveal other weaknesses in such assets, which could lead to losses. Before acquiring certain assets, such as transitional multifamily and other CRE loans or other mortgage- related assets, our Manager conducts (either directly or using third parties) due diligence. Such due diligence may include (1) an assessment of the strengths and weaknesses of the asset' s credit profile, (2) a review of all or merely a subset of the documentation related to the asset, or (3) other reviews that we or our Manager may deem appropriate to conduct. There can be no assurance that we or our Manager will conduct any specific level of due diligence, or that, among other things, the due diligence process will uncover all relevant facts and potential liabilities or that any purchase will be successful, which could result in losses on these assets, which, in turn, could adversely affect our financial condition and results of operations. Our Manager utilizes analytical models and data in connection with the valuation of certain of our assets, and any incorrect, misleading or incomplete information used in connection therewith would subject us to potential risks. Given the complexity of certain of our target assets, our Manager may rely heavily on analytical models and information and data supplied by third parties. Models and data are used to value potential target assets, potential credit risks and reserves and also in connection with hedging our acquisitions. Many of the models are based on historical trends. These trends may not be indicative of future results. Furthermore, the assumptions underlying the models may prove to be inaccurate, causing the models to also be incorrect. In the event models and data prove to be incorrect, misleading or incomplete, any decisions made in reliance thereon expose us to potential risks. For example, by relying on incorrect models and data, especially valuation models, our Manager may be induced to buy for us certain target assets at prices that are too high, to sell certain other assets at prices that are too low or to miss favorable opportunities altogether. Similarly, any hedging based on faulty models and data may prove to be unsuccessful. Any credit ratings assigned to our investments will be subject to ongoing evaluations and revisions and we cannot assure you that those ratings will not be downgraded. Some of our investments may be rated by Moody' s Investors Service, Fitch Ratings, Standard & Poor' s, Kroll Bond Rating Agency, DBRS, Inc., Egan Jones, or other rating agencies. Any credit ratings on our investments are subject to ongoing evaluation by credit rating agencies, and we cannot assure you that any such ratings will not be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. If rating agencies assign a lower- than- expected rating or reduce or withdraw, or indicate that they may reduce or withdraw, their ratings of our investments in the future, the value of these investments could significantly decline, which would adversely affect the value of our investment portfolio and could result in losses upon disposition or the failure of borrowers to satisfy their debt service obligations to us. We may be exposed to environmental liabilities with respect to properties to which we take title. In the course of our business, we may take title to real estate, and, if we do take title, we could be subject to environmental liabilities with respect to these properties. In such a circumstance, we may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean- up costs incurred by these parties in connection with environmental contamination, or we may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. If we ever become subject to significant environmental liabilities, our business, financial condition, results of operations and our ability to make distributions to our stockholders could be adversely affected. The properties underlying our CRE loans may be subject to other unknown liabilities that could adversely affect the value of these properties, and as a result, our investments. Properties underlying our commercial real estate loans may be subject to other unknown or unquantifiable liabilities that may adversely affect the value of our investments. Such defects or deficiencies may include title defects, title disputes, liens or other encumbrances on the mortgaged properties. The discovery of such unknown defects, deficiencies and liabilities could affect the ability of our borrowers to make payments to us or could affect our ability to foreclose and sell the underlying properties, which could adversely affect our results of operations and financial condition. We may be affected by deficiencies in foreclosure practices of third parties, as well as related delays in the foreclosure process. There continues to be uncertainty around the timing and ability of servicers to remove delinquent borrowers from their homes, so that they can liquidate the underlying properties and ultimately pass the liquidation proceeds through to owners of the mortgage loans. Given the magnitude of the housing crisis, and in response to the well-publicized failures of many servicers to follow proper foreclosure procedures (such as" robo- signing"), mortgage servicers are being held to much higher foreclosure- related documentation standards than they previously were. However, because many mortgages have been transferred and assigned multiple times (and by means of varying assignment procedures) throughout the origination, warehouse and securitization processes, mortgage servicers may have difficulty furnishing the requisite documentation to initiate or complete foreclosures. This leads to stalled or suspended foreclosure proceedings, and ultimately additional foreclosure- related costs. Foreclosure- related delays also tend to increase ultimate loan loss severities as a result of property deterioration, amplified legal and other costs, and other factors. Many factors delaying foreclosure, such as borrower lawsuits and judicial backlog and scrutiny, are outside of servicers' control and have delayed, and will likely continue to delay, foreclosure processing in both judicial states (where foreclosures require court involvement) and non- judicial states. We may find it necessary or desirable to foreclose on certain of the loans we acquire. Whether or not we have participated in the negotiation of the terms of any such loans, we cannot assure you as to the adequacy of the protection of the terms of the applicable loan, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, claims may be asserted by lenders or borrowers that might interfere with enforcement of our rights. Borrowers may resist foreclosure actions by asserting numerous claims, counterclaims and defenses against us, including, without limitation, lender liability claims and defenses, even when the assertions may have no basis in fact, in an effort to prolong the foreclosure action and seek to force the lender into a modification of the loan or a favorable buy- out of the borrower' s position in the loan. In some states, foreclosure actions can take several years or more to litigate. A servicer' s failure to remove delinquent borrowers from their homes in a timely manner could increase our costs, adversely affect the value of the property and mortgage loans and have an adverse effect on our results of operations and business. In addition, foreclosure may create a negative public perception of the collateral property, resulting in a diminution of its value. Even if we are successful in foreclosing on a mortgage loan, the liquidation proceeds upon sale of the underlying real estate may not be sufficient to recover our investment. Any costs or delays involved in the foreclosure of the loan or a liquidation of the underlying property will reduce the net proceeds realized and, thus, increase the potential for loss. Insurance on mortgage loans and real estate securities collateral may not cover all losses. There are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, hurricanes, terrorism or acts of war, which may be uninsurable or not economically insurable. Inflation, changes in building codes and ordinances, environmental considerations and other factors, including terrorism or acts of war, also might result in insurance proceeds insufficient to repair or replace a property if it is damaged or destroyed. Under these circumstances, the insurance proceeds received with respect to a property relating to one of our investments might not be adequate to restore our economic position with respect to our investment. Any uninsured loss could result in the loss of cash flow from, and the asset value of, the affected property and the value of our investment related to such property. The allocation of the net proceeds of any equity offering among our target assets, and the timing of the deployment of these proceeds is subject to, among other things, then prevailing market conditions and the availability of target assets. Our allocation of the net proceeds from any equity offering among our target assets is subject to our investment guidelines and maintenance of our REIT qualification. Our Manager will make determinations as to the percentage of our equity that will be invested in each of our target assets and the timing of the deployment of the net proceeds of our equity offerings. These determinations will depend on then prevailing market conditions and may change over time in response to opportunities available in different interest rate, economic and credit environments. Until appropriate assets can be identified, our Manager may decide to use the net proceeds of our offerings to pay down our short- term debt or to invest the net proceeds in interest-bearing short- term investments, including funds, which are consistent with maintenance of our REIT qualification. These investments are expected to provide a lower net return than we seek to achieve from our target assets. Prior to the time we have fully used the net proceeds of our offerings to acquire our target assets, we may fund our monthly and / or quarterly distributions out of such net proceeds. Real estate valuation is inherently subjective and uncertain. The valuation of real estate and therefore the valuation of any collateral underlying our loans is inherently subjective due to, among other factors, the individual nature of each property, its location, the expected future rental revenues from that particular property and the valuation methodology adopted. As a result, the valuations of the real estate assets against which we will make or acquire loans are subject to a large degree of uncertainty and are made on the basis of assumptions and methodologies that may not prove to be accurate, particularly in periods of volatility, low transaction flow or restricted debt availability in the commercial or residential real estate markets. We may invest in CMBS which are subordinate in right of payment to more senior securities. Our investments may include subordinated tranches of CMBS, which are a subordinated class of security in a structure of securities collateralized by a pool of mortgage loans and, accordingly, is the first or among the first to bear the loss upon a restructuring or liquidation of the underlying collateral and the last to receive payment of interest and principal. Additionally, estimated fair value of these subordinated interests tend to be more sensitive to changes in economic conditions than more senior securities. As a result, such subordinated interests generally are not actively traded and may not provide holders thereof with liquid investments. Changes in prepayment rates may adversely affect our profitability. Our business is primarily focused on originating, investing in, financing and managing floating- rate mortgage loans secured by multifamily properties and other CRE assets. Generally, our mortgage loan borrowers may repay their loans prior to their stated maturities. Changes in prepayment rates are difficult to predict. In periods of declining interest rates and / or credit spreads, prepayment rates on loans generally increase. If general interest rates and credit spreads decline at the same time, the proceeds of such prepayments received during such periods are likely to be reinvested in assets yielding less than than the yields on the asset that were prepaid. We may not be able to reinvest the principal repaid at the same or higher yield of the original investments. Conversely, in periods of rising interest rates, prepayments are likely to decrease and the number of our borrowers who exercise extension options, which could extend beyond the term of certain secured financing agreements we use to finance our loan investments, is likely to increase. This could have a negative impact on our results of operations, and in some situations, we may be forced to sell assets to maintain adequate liquidity, which could cause us to incur losses. Prepayments can also occur when borrowers default on their mortgages and the mortgages are prepaid from the proceeds of a foreclosure sale of the property, or when borrowers sell the property and use the sale proceeds to prepay the mortgage. Prepayment rates may also be affected by conditions in the financial markets, general economic conditions and the relative interest rates on commercial mortgages, which could lead to an acceleration of the payment of the related principal. While we will seek to manage prepayment risk, in selecting our real estate investments we must balance prepayment risk against other risks, the potential returns of each investment and the cost of hedging our risks. Additionally, we are subject to prepayment risk associated with the terms of our CLOs. Due to the generally short- term nature of transitional floating- rate commercial mortgage loans, our CLOs include a reinvestment period during which principal repayments and prepayments on our commercial mortgage loans may be reinvested in similar assets, subject to meeting certain eligibility criteria. While the interest- rate spreads of our CLOs are fixed until they are repaid, the terms, including spreads, of newly originated loans are subject to uncertainty based on a variety of factors, including market and competitive conditions. To the extent that such conditions result in lower spreads on the assets in which we reinvest, we may be subject to a reduction in interest income in the future. No strategy can completely insulate us from prepayment or other such risks, and we may deliberately retain exposure to prepayment or other risks. We are highly dependent on communications and information systems. Systems failures could significantly disrupt our operations, which may, in turn, negatively affect the market price of our equity securities and our ability to make distributions. Our business is highly dependent on the communications and information systems of our Manager. Any failure or interruption of our Manager' s systems could have a material adverse effect on our operating results and negatively affect the market price of our equity securities and our ability to make distributions. The occurrence of cyber- incidents, or a deficiency in our Manager' s ~~cybersecurity~~ **Cybersecurity** or ~~in~~ those of any of our third party service providers, could negatively ~~impact~~ **affect** our business by causing a disruption to our operations, a compromise of our confidential information or damage to our business relationships or reputation, all of which could negatively impact our business and results of operations. A cyber- incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of our or our Manager' s information resources or those of our third party service providers. A cyber- incident can be an intentional attack or an unintentional event and can include gaining unauthorized access to a system to disrupt operations, corrupt data or steal confidential information. The primary risks that could directly result from a cyber- incident include operational interruption and private data exposure. Our Manager has implemented processes, procedures and controls to help mitigate these risks, but these measures, as well as our increased awareness of the risk of a cyber- incident, do not guarantee that our business and results of operations will not be negatively impacted by such an incident. Any downgrades, or perceived potential of downgrades, of the credit ratings of the U. S. Government, GSEs or certain European countries may adversely affect our business, financial condition, results of operations and our ability to make distributions to our stockholders. On August 5, 2011, Standard & Poor' s downgraded the U. S. Government' s credit rating for the first time in history, and on October 15, 2013, Fitch Ratings placed the ratings of all outstanding U. S. sovereign debt securities on Rating Watch Negative. Downgrades of the credit ratings of the U. S. Government, GSEs and certain European countries could create broader financial turmoil and uncertainty, which could weigh heavily on the global banking system. Therefore, any downgrades of the credit ratings of the U. S. Government, GSEs or certain European countries may adversely affect the value of our target assets and our business, financial condition, results of operations and our ability to make distributions to our stockholders. Social, political, and economic instability, unrest, and other circumstances beyond our control could adversely affect our business operations. Our business may be adversely affected by social, political, and economic instability, unrest, or disruption, including protests, demonstrations, strikes, riots, civil disturbance, disobedience, insurrection and looting in geographic regions where the properties securing our investments are located. Such events may result in property damage and destruction and in restrictions, curfews, or other governmental actions that could give rise to significant changes in regional and global economic conditions and cycles, which may adversely affect our financial condition and operations. ~~There have been demonstrations and protests, some of which involved violence, looting, arson and property destruction, in cities throughout the U. S., including Atlanta, Seattle, Los Angeles, Washington D. C., New York City, Minneapolis and Portland, as well as globally, including in Hong Kong. While protests have been peaceful in many locations, looting vandalism and fires have taken place in cities, which led to the imposition of mandatory curfews, and, in some~~

~~locations, deployment of the U. S. National Guard. Governmental actions taken place to protect people and property, including curfews and restrictions on business operations, may disrupt operations, harm perceptions of personal well- being and increase the need for additional expenditures on security resources. The effect and duration of demonstrations, protests or other factors is uncertain, and we cannot assure there will not be further political or social unrest in the future or that there will not be other events that could lead to further social, political and economic instability. If such events or disruptions persist for a prolonged period of time, our overall business and results of operations may be adversely affected.~~ Any or all of the foregoing could have material adverse effect on our financial condition, results of operations and cash flows, or the market price of our common stock. Additional risks and uncertainties not currently known to us, or that we presently deem to be immaterial, may also have potential to materially adversely affect our business, financial condition and results of operations **. The long- term macroeconomic effects of the COVID- 19 pandemic and any future pandemic or epidemic could have an adverse impact on our financial performance and results of operations. Outbreaks of contagious disease, including COVID- 19, or other adverse public health developments in the U. S. or worldwide could have a material adverse effect on our business, financial condition and results of operations. While many of the direct impacts of the COVID- 19 pandemic have eased, the longer- term macroeconomic effects on global supply chains, inflation, labor shortages and wage increases continue to impact many industries. Moreover, with the potential for new strains of existing viruses to emerge, or other pandemics or epidemics, governments and businesses may re- impose aggressive measures to help slow its spread in the future. The full extent of the impact and effects of COVID- 19, and any future pandemics or epidemics, will depend on future developments, including, among other factors, how rapidly variants develop, availability, acceptance and effectiveness of vaccines along with related travel advisories, quarantines and restrictions, the recovery time of the disrupted supply chains and industries, the impact of labor market interruptions, the impact of government interventions, and uncertainty with respect to the duration of the global economic slowdown. COVID- 19, or any future pandemics or epidemics, and resulting impacts on the financial, economic and capital markets environment, and future developments in these and other areas present uncertainty and risk with respect to our performance, results of operations and ability to pay dividends** . Our strategy involves leverage, which may amplify losses and there is no specific limit on the amount of leverage that we may use. We leverage our portfolio investments in our target assets principally through borrowings under collateralized loan obligations. Our leverage (on both a GAAP and non- GAAP basis) currently ranges, and we expect that it will continue to range, between three and six times the amount of our stockholders' equity. We will incur this leverage by borrowing against a substantial portion of the market or face value of our assets. Our leverage, which is fundamental to our investment strategy, creates significant risks. To the extent that we incur leverage, we may incur substantial losses if our borrowing costs increase. Our borrowing costs may increase for any of the following, or other, reasons: • short- term interest rates increase; • the market value of our securities decreases; • interest rate volatility increases; • the availability of financing in the market decreases; or • changes in advance rates. Our return on our investments and cash available for distributions may be reduced if market conditions cause the cost of our financing to increase relative to the income that can be derived from the assets acquired, which could adversely affect the price of our equity securities. In addition, our debt service payments will reduce cash flow available for distributions to stockholders. In addition, if the cost of our financing increases, we may not be able to meet our debt service obligations. To the extent that we cannot meet our debt service obligations, we risk the loss of some or all of our assets to satisfy our debt obligations. To the extent we are compelled to liquidate qualified REIT assets to repay debts, our compliance with the REIT rules regarding our assets and our sources of income could be negatively affected, which would jeopardize our qualification as a REIT. Losing our REIT status would cause us to lose tax advantages applicable to REITs and would decrease our overall profitability and distributions to our stockholders. Subject to market conditions and availability, we may incur significant additional debt in the future. Although we are not required by our board of directors to maintain any particular assets- to- equity leverage ratio, the amount of leverage we may deploy for particular assets will depend upon our Manager' s assessment of the credit and other risks of those assets. Our board of directors may establish and change our leverage policy at any time without stockholder approval. Incurring debt could subject us to many risks that, if realized, would adversely affect us, including the risk that: • our cash flow from operations may be insufficient to make required payments of principal and interest on the debt or we may fail to comply with all of the other covenants contained in the debt, which is likely to result in (1) acceleration of such debt (and any other debt containing a cross- default or cross- acceleration provision) that we may be unable to repay from internal funds or to refinance on favorable terms, or at all, (2) our inability to borrow unused amounts under our financing arrangements, even if we are current in payments on borrowings under those arrangements, and / or (3) the loss of some or all of our assets to foreclosure or sale; • our debt may increase our vulnerability to adverse economic and industry conditions with no assurance that investment yields will increase with higher financing costs; • we may be required to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby reducing funds available for operations, investments, stockholder distributions or other purposes; and • we may not be able to refinance debt that matures prior to the investment it was used to finance on favorable terms or at all. Because we employ financial leverage in funding our portfolio, mismatches in the maturities of our assets and liabilities can create risk in the need to continually renew or otherwise refinance our liabilities. Our net interest margins will be dependent upon a positive spread between the returns on our asset portfolio and our overall cost of funding. Our Manager' s risk management tools include software and services licensed or purchased from third parties, in addition to proprietary systems and analytical methods developed internally. There can be no assurance that these tools and the other risk management techniques described above will protect us from asset / liability risks. When we obtain financing, lenders typically impose restrictions on us that would affect our ability to incur additional debt, our capability to make distributions to stockholders and our flexibility to determine our operating policies. Loan documents we execute may contain negative covenants that limit, among other things, our ability to repurchase stock, distribute more than a certain amount of our funds from operations and employ leverage beyond certain amounts. Our inability to meet certain financial covenants related to our credit agreements could adversely affect our business, financial condition and results. In connection with our credit and guaranty agreement, we are required to maintain certain financial covenants with respect to our net worth, asset values, loan portfolio composition, leverage ratios and debt service coverage levels. Compliance with these financial covenants will depend on market factors and the strength of our business and operating results. Various risks, uncertainties and events beyond our control could affect our ability to comply with our financial covenants. Failure to comply with our financial covenants could result in an event of default, termination of the credit facility and acceleration of all amounts owing under our credit facility and gives the counterparty the right to exercise certain other remedies under the credit agreement, unless we were able to negotiate a waiver. Any such waiver could be conditioned on an amendment to our credit facility 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 credit facility on favorable terms or at all, our financial condition, results of operations and cash flows could be adversely affected. We may enter into repurchase agreements, and our rights under such repurchase agreements may be subject to the effects of the bankruptcy laws in the event of the bankruptcy or insolvency of us or our counterparties under the repurchase agreements. In the event of our insolvency or bankruptcy, certain repurchase agreements may qualify for special treatment under Title 11 of the United States Code, as amended, or the U. S. Bankruptcy Code, the effect of which, among other things, would be to allow the lender under the applicable repurchase agreement to avoid the automatic stay provisions of the U. S. Bankruptcy Code and to take possession of and liquidate the assets that we have pledged under their repurchase agreements. In the event of the insolvency or bankruptcy of a lender during the term of a repurchase agreement, the lender may be permitted, under applicable insolvency laws, to repudiate the contract, and our claim against the lender for damages may be treated simply as an unsecured creditor. In addition, if the lender is a broker or dealer subject to the Securities Investor Protection Act of 1970, or an insured depository institution subject to the Federal Deposit Insurance Act, our ability to exercise our rights to recover our securities under a repurchase agreement or to be compensated for any damages resulting from the lender' s insolvency may be further limited by those statutes. These claims would be subject to significant delay and, if and when received, may be substantially less than the damages we actually incur. An increase in our borrowing costs relative to the interest that we receive on investments in our mortgage related investments may adversely affect our profitability and cash available for distribution to our stockholders. As our financings mature, we will be required either to enter into new borrowings or to sell certain of our investments. In recent years, interest rates had remained at relatively low levels on a historical basis. However, in 2022 **and 2023** , in light of increasing inflation, the U. S. Federal Reserve increased interest rates ~~seven~~ **eleven** times ~~. The U. S. Federal Reserve~~ **and may further increase rates in 2024, which** has **increased, and could** ~~also indicated that it expects continued~~ - **continue to** ~~increases in interest rates in 2023 and 2024. Any such increases would~~ increase **,** our borrowers **'** interest payments **. Interest** ~~and could result in higher borrower default rates~~ - **rate** ~~. Such~~ increases could also adversely affect commercial real estate property ~~value~~ **values** ~~. An increase in short~~ **, and, for certain of our borrowers have contributed, and may continue to contribute, to loan non** - **performance, modification, defaults, foreclosures, and /** ~~term interest rates at the time that we seek to enter into new borrowings would reduce the spread between our~~ - **or** ~~returns~~ **property sales, which could result in us realizing losses** on our **investments** ~~assets and the cost of our borrowings. This would adversely affect our returns on our assets, which might reduce earnings and, in turn, cash available for distribution to our stockholders~~ . We have utilized and may utilize in the future, non- recourse securitizations of our portfolio investment to generate cash for funding new loans and investments and other purposes. These transactions generally involve creating a special- purpose entity, contributing a pool of our assets to the entity, and selling interest in the entity on a non- recourse basis to purchasers (whom we would expect to be willing to accept a lower interest to invest in investment- grade loan pools). We would expect to retain all or a portion of the equity and potentially other tranches in the securitized pool of loans or investments. In addition, we have retained in the past and may in the future retain a pari passu participation in the securitized pool of loans. Prior to any such financing, we may use short- term facilities to finance the acquisition of assets until a sufficient quantity of investments had been accumulated, at which time we would refinance these facilities through a securitization, such as a CMBS, or issuance of CLOs, or the private placement of loan participations or other long- term financing. As a result, we would be subject to the risk that we would not be able to acquire, during the period that our short- term facilities are available, a sufficient amount of eligible investment to maximize the efficiency of a CMBS, CLO or other private placement issuance. We also would be subject to the risk that we would not be able to obtain short- term credit facilities or would not be able to renew any short- term credit facilities after they expire should we find it necessary to extend our short- term credit facilities to allow more time to seek and acquire the necessary eligible investment for a long- term financing. The inability to consummate securitizations of our portfolio to finance our loans and investments on a long- term basis could require us to seek other forms of potentially less attractive financing or to liquidate assets at an inopportune time or price, which could adversely affect or performance and our ability to grow our business. Moreover, conditions in the capital markets, including volatility and disruption in the capital and credit markets, may not permit a non- recourse securitization at any particular time or may make the issuance of any such securitization less attractive to us even when we do have sufficient eligible assets. We may also suffer losses if the value of the mortgage loans we acquire declines prior to securitization. Declines in the value of a mortgage loan can be due to, among other things, changes in interest rates and changes in the credit quality of the loan. In addition, we may suffer a loss due to the incurrence of transaction costs related to executing these transactions. To the extent that we incur a loss executing or participating in future securitizations for the reasons described above or for other reasons, it could materially and adversely impact our business and financial condition. In addition, the inability to securitize our portfolio may hurt our performance and our ability to grow our business. In addition, the securitization of our portfolio might magnify our exposure to losses because any equity interest or other subordinate interest we retain in the issuing entity would be subordinate to the notes issued to investors and we would, therefore, absorb all of the losses sustained with respect to a securitized pool of assets before the owners of the notes experience any losses. Moreover, the Dodd- Frank Wall Street Reform and Consumer Protection Act of 2010, or Dodd- Frank Act, contains a risk retention requirement for all asset- backed securities, which requires both public and private securitizers to retain not less than 5 % of the credit risk of the assets collateralizing any asset- backed issuance. Significant restrictions exist, and additional restrictions may be added in the future, regarding who may hold risk retention interest, the structure of the entities that hold risk retention interest and when and how such risk retention interests may be transferred. Therefore such risk retention interests will generally be illiquid. As result of the risk retention requirements, we have and may in the future be required to purchase and retain certain interests in a securitization into which we sell mortgage loans and / or when we act as an issuer, may be required to sell certain interests in a securitization at prices below levels that such interests have historically yielded and / or may be required to enter into certain arrangements related to risk retention that we have not historically been required to enter into. Accordingly, the risk retention rules may increase our potential liabilities and / or reduce our potential profits in connections with securitization of mortgage loans. It is likely, therefore, that these risk retentions rules will increase the administrative and operational cost of asset securitizations. We may enter into hedging transactions that expose us to contingent liabilities in the future, which may adversely affect our financial results or cash available for distribution to stockholders. We may engage in hedging transactions intended to hedge various risks to our portfolio, including the exposure to adverse changes in interest rates. Our hedging activity varies in scope based on, among other things, the level and volatility of interest rates, the type of assets held and other changing market conditions. Although these transactions are intended to reduce our exposure to various risks, hedging may fail to protect or could adversely affect us because, among other things: • hedging can be expensive, particularly during periods of volatile or rapidly changing interest rates; • available hedges may not correspond directly with the risks 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 certain hedging transactions is limited by U. S. federal income tax provisions governing REITs; • the credit quality of a hedging counterparty may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; and • the hedging counterparty may default on its obligation to pay. Subject to maintaining our qualification as a REIT, there are no current limitations on the hedging transactions that we may undertake. However, our Manager' s reliance on the CFTC' s December 7, 2012 no action letter relieving CPOs of mortgage REITs from the obligation to register with the CFTC as CPOs depends on the satisfaction of several conditions, including that we comply with additional limitations on our hedging activity. The letter limits the initial margin and premiums required to establish our Manager' s commodity interest positions to no more than 5 % of the fair market value of our total assets and limits the net income derived annually from our commodity interest positions that are not qualifying hedging transactions to less than 5 % of our gross income. Therefore, our and our Manager' s reliance on this no action letter places additional restrictions on our hedging activity. Our hedging transactions could require us to fund large cash payments in certain circumstances (e. g., the early termination of the hedging instrument caused by an event of default or other early termination event or a demand by a counterparty that we make increased margin payments). Our ability to fund these obligations will depend on the liquidity of our assets and access to capital at the time. The need to fund these obligations could adversely affect our financial condition. Further, hedging transactions, which are intended to limit losses, may actually result in losses, which would adversely affect our earnings and could in turn reduce cash available for distribution to stockholders. Hedging instruments involve various kinds of risk because they are not always traded on regulated exchanges, guaranteed by an exchange or its clearinghouse or regulated by any U. S. or foreign governmental authorities. The CFTC is still in the process of proposing rules under the Dodd- Frank Act that may make our hedging more difficult or increase our costs. Furthermore, the enforceability of agreements underlying hedging transactions may depend on compliance with applicable statutory and commodity and other regulatory requirements and, depending on the identity of the counterparty, applicable international requirements. The business failure of a hedging counterparty will most likely result in its default. Default by a hedging counterparty may result in the loss of unrealized profits and force us to cover our commitments, if any, at the then current market price. Although we generally seek to reserve the right to terminate our hedging positions, it may not always be possible to dispose of or close out a hedging position without the consent of the hedging counterparty, and we may not be able to enter into an offsetting contract in order to cover our risk. We cannot assure you that a liquid secondary market will exist for hedging instruments purchased or sold, and we may be required to maintain a position until exercise or expiration, which could result in losses. Hedging against interest rate exposure may adversely affect our earnings, which could reduce our cash available for distribution to our stockholders, and such transactions may fail to protect us from the losses that they were designed to offset. Subject to maintaining our qualification as a REIT and exemption from registration under the Investment Company Act, we may employ techniques that limit the adverse effects of rising interest rates on a portion of our short- term repurchase agreements and on a portion of the value of our assets. In general, our interest rate risk mitigation strategy depends on our view of our entire portfolio, consisting of assets, liabilities and derivative instruments, in light of prevailing market conditions. We could misjudge the condition of our portfolio or the market. Our interest rate risk mitigation activity varies in scope based on the level and volatility of interest rates and principal repayments, the type of securities held and other changing market conditions. Our actual interest rate risk mitigation decisions are determined in light of the facts and circumstances existing at the time and may differ from our currently anticipated strategy. These techniques may include purchasing or selling futures contracts, entering into interest rate swap, interest rate cap or interest rate floor agreements, swaptions, purchasing put and call options on securities or securities underlying futures contracts, or entering into forward rate agreements. Because a mortgage borrower typically has no restrictions on when a loan may be paid off either partially or in full, there are no perfect interest rate risk mitigation strategies, and interest rate risk mitigation may fail to protect us from loss. Alternatively, we may fail to properly assess a risk to our portfolio or may fail to recognize a risk entirely leaving us exposed to losses without the benefit of any offsetting interest rate mitigation activities. The derivative instruments we select may not have the effect of reducing our interest rate risk. The nature and timing of interest rate risk mitigation transactions may influence the effectiveness of these strategies. Poorly designed strategies or improperly executed transactions could actually increase our risk and losses. In addition, interest rate risk mitigation activities could result in losses if the event against which we mitigate does not occur. Our assets include loans with either floating interest rates or fixed interest rates. Floating rate loans earn interest at rates that adjust from time to time based upon an index (typically ~~LIBOR or~~ Term SOFR). These floating rate loans are insulated from changes in value specifically due to changes in interest rates; however, the coupons they earn fluctuate based upon interest rates and, in a declining and / or low interest rate environment, these loans will earn lower rates of interest and this will impact our operating performance. For more information about our risks related to the planned discontinuation of LIBOR, see" Risks Related to Our Investment Strategies and Our Businesses — The ~~planned discontinuation~~ **transition away from reference rates and the use** of ~~LIBOR~~ **alternative replacement reference rates** may **adversely** affect **net interest income related to our loans and investments or otherwise adversely affect our results of operations, cash flows and** the **market** value of ~~the financial obligations to be held or~~ **our investments** ~~issued by us that are linked to LIBOR and could affect our results of operations or financial condition~~." Fixed interest rate loans, however, do not have adjusting interest rates and the relative value of the fixed cash flows from these loans will decrease as prevailing interest rates rise or increase as prevailing interest rates fall, causing potentially significant changes in value. We may employ various hedging strategies to limit the effects of changes in interest rates (and in some cases credit spreads), including engaging in interest rate swaps, caps, floors and other interest rate derivative products. We believe that no strategy can completely insulate us from the risks associated with interest rate changes and there is a risk that such strategies may provide no protection at all and potentially compound the impact of changes in interest rates. Hedging transactions involve certain additional risks such as counterparty risk, leverage risk, the legal enforceability of hedging contracts, the early repayment of hedged transactions and the risk that unanticipated and significant changes in interest rates may cause a significant loss of basis in the contract and a change in current period expense. We cannot make assurances that we will be able to enter into hedging transactions or that such hedging transactions will adequately protect us against the foregoing risks. Accounting for derivatives under GAAP may be complicated. Any failure by us to meet the requirements for applying hedge accounting in accordance with GAAP could adversely affect our earnings. In particular, derivatives are required to be highly effective in offsetting changes in the value or cash flows of the hedged items (and appropriately designated and / or documented as such). If it is determined that a derivative is not highly effective at hedging the designated exposure, hedge accounting is discontinued and the changes in fair value of the instrument are included in our reported net income. Our Manager is authorized to follow very broad investment guidelines. Our board of directors periodically reviews and updates our investment guidelines and also reviews our investment portfolio but does not generally review or approve specific investments. In addition, in conducting periodic reviews, our board of directors may rely primarily on information provided to them by our Manager. Furthermore, our Manager may use complex strategies, and transactions entered into by our Manager may be costly, difficult or impossible to unwind by the time they are reviewed by our board of directors. Our Manager will have great latitude within the broad parameters of our investment guidelines in determining the types and amounts of mortgage related investments it may decide are attractive investments for us, which could result in investment returns that are substantially below expectations or that result in losses, which would adversely affect our business operations and results. In addition, our Manager may invest up to $ 75 million in any investment on our behalf without restriction and generally without prior approval of our board of directors. Our Manager is generally permitted to invest our assets in its discretion, provided that such investments comply with our investment guidelines. Our Manager' s failure to generate attractive risk- adjusted returns on an investment which represents a significant dollar amount would adversely affect us. Further, decisions made and investments and financing arrangements entered into by our Manager may not fully reflect the best interests of our stockholders. We have no separate facilities and are completely reliant on our Manager. All of our officers are employees of an affiliate of our Manager. Our Manager has significant discretion as to the implementation of our investment and operating policies and strategies. Accordingly, we believe that our success will depend to a significant extent upon the efforts, experience, diligence, skill and network of business contacts of the officers and key personnel of our Manager. The officers and key personnel of our Manager evaluate, negotiate, close and monitor our investments; therefore, our success will depend on their continued service. The departure of any of the officers or key personnel of our Manager could have a material adverse effect on our performance. In addition, there can be no assurance that our Manager will remain our investment manager or that we will continue to have access to our Manager' s officers and professionals. The initial term of our management agreement with our Manager **matured on** ~~only extends until~~ January 3, 2023, ~~with~~ **and** ~~automatic~~ **automatically renewed for a** one- year renewals **term on such date and will automatically renew every year** thereafter **unless it is terminated in accordance with its terms**. If the management agreement is terminated and no suitable replacement is found to manage us, we may not be able to execute our business plan. We are subject to conflicts of interests arising out of our relationship with ORIX, including our Manager and its affiliates. In addition, we are managed by our Manager, an ORIX affiliate, and our executive officers are employees of an affiliate of our Manager or one or more of its affiliates. There is no guarantee that the policies and procedures adopted by us, the terms and conditions of the Management Agreement or the policies and procedures adopted by our Manager, ORIX and their respective affiliates, will enable us to identify, adequately address or mitigate all potential conflicts of interest. Some examples of conflicts of interest that may arise by virtue of our relationship with our Manager and ORIX includes: • Allocation of Investment Opportunities. Certain conflicts of interest may arise from the fact that ORIX, its affiliates, and our Manager may provide investment management and other services both to us and to other persons or entities, whether or not the investment objectives or policies of such other person or entity are similar to those of ours, including without limitation, the sponsoring, closing and / or managing of any Lument IM fund. • ORIX' s Investment Advisory and Proprietary Activities. ORIX makes investments pursuant to an investment strategy that is similar to the investment strategy implemented by Lument IM with respect to LFT, on behalf of itself and its own investment vehicles. Further, certain affiliates of ORIX originate investment opportunities that may be suitable for LFT but which are allocated to other investment funds managed by an affiliate of ORIX. Therefore ORIX or an affiliate may originate opportunities that are suitable for LFT but are allocated to entities primarily owned by ORIX or its affiliates. ~~•~~ In addition, we are expected, from time to time, to make an investment in, or a loan to, a company in which ORIX and its affiliates (each, an "

Investing Party ") are also expected to invest, or already have invested, in a different part of the capital structure, which may mean that one investor' s interest in that company may have different rights, preferences and privileges than the company interests held by us. There may be instances where such a company may become insolvent or bankrupt and where an Investing Party' s interests in such company may otherwise conflict with the interests of other Investing Parties. To the extent that we hold securities or other financial interests (e. g., bank debt) in a company with rights, preferences and privileges that are different than interests held by an Investing Party in the same company, the Manager and its affiliates may be presented with decisions when and / or where our interests and the interests of the Investing Parties are in conflict. It is possible that our interest may be subordinated or otherwise adversely affected by virtue of other Investing Parties' involvement and actions relating to such investment, in a bankruptcy proceeding or otherwise. In addition, we can be expected, from time to time, to hold an interest in the more senior portion of an issuer' s capital structure while another Investing Party holds a more junior security of that issuer. Because ORIX is the owner of the Manager, the Manager would experience a conflict of interest in making determinations regarding the senior securities we held, as decisions on behalf of such entity to enforce remedies or take other actions against the obligors under such senior securities or the related collateral could adversely impact the value of the more junior securities held by another Investing Party. In such situation, the Manager is incentivized to decline to enforce such remedies or take such actions on behalf of the senior securities we held in order to protect the value of the junior securities held by the other Investing Party, which could adversely affect ~~the~~ our returns. To address such conflicts, an Investing Party would generally not take a control position in one part of an issuer' s capital structure while another affiliated entity takes a control position in another part of the same issuer' s capital structure. The incentive fee payable to our Manager under the management agreement is payable quarterly and is based on our core earnings and, therefore, may cause our Manager to select investments in more risky assets to increase its incentive compensation. Our Manager is entitled to receive incentive compensation based upon our achievement of targeted levels of core earnings. In evaluating investments and other management strategies, the opportunity to earn incentive compensation based on core earnings may lead our Manager to place undue emphasis on the maximization of core earnings at the expense of other criteria, such as preservation of capital, in order to achieve higher incentive compensation. Investments with higher yield potential are generally riskier or more speculative. This could result in increased risk to the value of our investment portfolio. Core earnings is not a measure calculated in accordance with accounting principles generally accepted in the United States of America (" GAAP") and is defined in our management agreement in this Annual Report on Form 10- K. The management agreement with our Manager may be costly and difficult to terminate, including for our Manager' s poor performance. The Management Agreement automatically renews for successive one year terms beginning January 3, 2023 and each January 3 thereafter, unless it is sooner terminated upon written notice delivered to the Company or Manager, as applicable, no later than 180 days prior to a renewal date either (i) by the Company upon the affirmative vote of at least two- thirds (2 / 3) of the independent directors of the Board or by a vote of at least two- thirds of the Company' s outstanding shares of common stock, based upon a determination that (a) the Manager' s performance is unsatisfactory and materially detrimental to the Company or (b) the compensation payable to the Manager under the Management Agreement is not fair to the Company (provided that in the instance of (b), we shall not have the right to terminate the Management Agreement if the Manager agrees to continue to provide services under the Management Agreement at fees that at least two- thirds of the independent directors of the Board determine to be fair, provided further that in the instance of (b), the Manager will be afforded the opportunity to renegotiate its compensation prior to termination) or (ii) by the Manager. We may also terminate the Management Agreement at any time, including during the initial term, without the payment of any termination fee, with at least 30 days' prior written notice from us" for cause" as described in the Management Agreement. In the event of a termination of the Manager other than a termination for cause, we are required to pay a termination fee to the Manager. The termination fee is equal to three times the sum of (a) the average annual Base Management Fee and (b) the average annual Incentive Compensation, in each case, earned by the Manager during the twenty- four month period immediately preceding the effective date of termination, calculated as of the end of the most recently completed fiscal quarter before the effective date of termination. Our Manager may terminate the Management Agreement upon written notice delivered no later than 180 days prior to a renewal date. Our Manager' s liability is limited under the management agreement and we have agreed to indemnify our Manager and its affiliates against certain liabilities. As a result, we could experience poor performance or losses for which our Manager would not be liable. Pursuant to the management agreement, our Manager does not assume any responsibility other than to render the services called for thereunder and will not be responsible for any action of our board of directors in following or declining to follow its advice or recommendations. Our Manager maintains a contractual as opposed to a fiduciary relationship with us, although our officers who are also employees of an affiliate of our Manager will have a fiduciary duty to us under Maryland Law, as our officers. Under the terms of the management agreement, our Manager, its officers, members, managers, directors, personnel, trustees, partners, stockholders, equity holders, any person controlling or controlled by our Manager and any person providing sub- advisory services to our Manager will not be liable to us, our directors, our stockholders or any partners for acts or omissions performed in accordance with and pursuant to the management agreement, except because of acts or omissions constituting bad faith, willful misconduct, gross negligence or reckless disregard of their duties under the management agreement, as determined by a final non- appealable order of a court of competent jurisdiction. In addition, we have agreed to indemnify our Manager, its officers, stockholders, members, managers, directors, personnel, trustees, partners, stockholders, equity holders, any person controlling or controlled by our Manager and any person providing sub- advisory services to our Manager with respect to all expenses, losses, damages, liabilities, demands, charges and claims arising from acts or omissions of our Manager not constituting bad faith, willful misconduct, gross negligence or reckless disregard of duties, performed in good faith in accordance with and pursuant to the management agreement. As a result, we could experience poor performance or losses for which our Manager would not be liable. Our Manager is subject to extensive regulation as an investment adviser, which could adversely affect its ability to manage our business. Our Manager is an investment adviser registered with the SEC and is subject to regulation by various regulatory authorities that are charged with protecting the interests of its clients, including us. Our Manager could be subject to civil liability, criminal liability or sanction, including revocation or denial of its registration as an investment adviser, revocation of the licenses of its employees, censures, fines or temporary suspension or permanent bar from conducting business, if it is found to have violated any of laws or regulations applicable to it. Any such liability or sanction could adversely affect its ability to manage our business. Employee litigation and unfavorable publicity could negatively affect our future business. Employees may, from time to time, bring lawsuits against us or our Manager regarding injury, creation of a hostile work place, discrimination, wage and hour, sexual harassment and other employment issues. In recent years there has been an increase in the number of discrimination and harassment claims generally. Coupled with the expansion of social media platforms and similar devices that allow individuals access to a broad audience, these claims have had a significant negative impact on some businesses. Companies that have faced employment or harassment related lawsuits have had to terminate management or other key personnel and have suffered reputational harm that has negatively impacted their sales. If we were to face any employment related claims, our business could be negatively affected. The market price and trading volume of our securities may vary substantially. Our common stock is listed on the NYSE under the symbol" LFT." Stock markets, including the NYSE, have experienced significant price and volume fluctuations over the past several years. As a result, the market price of our securities has been and is likely to continue to be similarly volatile, and investors in our securities have experienced since the initial offering of our securities and may continue to experience a decrease in the value of their securities. Accordingly, no assurance can be given as to the ability of our stockholders to sell their securities or the price that our stockholders may obtain for their securities. Some of the factors that negatively affect the market price of our securities include: • changes in our dividend rates or frequency of payments thereof; • actual or anticipated variations in our quarterly operating results; • changes in our earnings estimates or publication of research reports about us or the real estate industry; • changes in market valuations of similar companies; • adverse market reaction to any increased indebtedness we incur in the future; • additions to or departures of our Manager' s key personnel; • actions by our stockholders; • speculation in the press or investment community; • trading prices of common and preferred equity securities issued by REITs and other similar companies; • failure to satisfy REIT requirements; • general economic and financial conditions; • government action or regulation; and • our issuance of additional preferred equity or debt securities. Market factors unrelated to our performance could negatively impact the market price of our securities, and broad market fluctuations could also negatively impact the market price of our securities. Market factors unrelated to our performance could negatively impact the market price of our securities. One of the factors that investors may consider in deciding whether to buy or sell our securities is our distribution rate as a percentage of our stock price relative to market interest rates. If market interest rates increase, prospective investors may demand a higher distribution rate or seek alternative investments paying higher distributions or interest. As a result, interest rate fluctuations and conditions in the capital markets can affect the market value of our securities. In addition, the stock market has experienced extreme price and volume fluctuations that have affected the market price of many companies in industries similar or related to ours and that have been unrelated to these companies' operating performances. These broad market fluctuations could reduce the market price of our securities. Furthermore, our operating results and prospects may be below the expectations of public market analysts and investors or may be lower than those of companies with comparable market capitalizations, which could lead to a material decline in the market price of our securities. The performance of our securities may be affected by the performance of our investments, which may be speculative and aggressive compared to other types of investments. The investments we make in accordance with our investment objectives may result in a greater amount of risk as compared to alternative investment options, including relatively higher risk of volatility or loss of principal. Our investments may be speculative and aggressive, and therefore an investment in our securities may not be suitable for someone with lower risk tolerance. One of the factors that investors may consider in deciding whether to buy or sell shares of our securities is our distribution rate as a percentage of the trading price of our securities relative to market interest rates and distribution rates of our competitors. If the market price of our securities is based primarily on the earnings and return that we derive from our investments and income with respect to our investments and our related distributions to stockholders, and not from the market value of the investments themselves, then interest rate fluctuations and capital market conditions are likely to adversely affect the market price of our securities. For instance, if market rates rise without an increase in our distribution rate, the market price of our securities could decrease as potential investors may require a higher distribution yield on our securities or seek other securities paying higher distributions or interest. In addition, rising interest rates would result in increased interest expense on our variable rate debt, thereby reducing cash flow and our ability to service our indebtedness and make distributions to our stockholders. An increase in interest rates may have an adverse effect on the market price of our stock and our ability to make distributions to our stockholders. One of the factors that investors may consider in deciding whether to buy or sell shares of our stock is our dividend rate, or our future expected dividend rate, as a percentage of our common stock price, relative to market interest rates. If market interest rates increase, prospective investors may demand a higher dividend rate on our shares or seek alternative investments paying higher dividends or interest. As a result, interest rate fluctuations and capital market conditions can affect the market price of our stock independent of the effects such conditions may have on our portfolio. We intend to announce quarterly dividends in arrears on a quarterly basis to holders of our common stock. If substantially all of our taxable income has not been paid by the close of any calendar year, we intend to declare a special dividend to holders of our common stock prior to December 31st of the current year, to achieve this result. We have not established a minimum distribution payment level on our common stock and our ability to make distributions may be adversely affected by the risk factors described in this Annual Report on Form 10- K. All distributions to our common stockholders will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our REIT status and such other factors as our board of directors may deem relevant from time to time. There can be no assurance of our ability to make distributions to our common stockholders, or that our board of directors will not determine to reduce such distributions, in the future. In addition, some of our distributions to our common stockholders may continue to include a return of capital. Future offerings of debt or equity securities that rank senior to our common stock may adversely affect the market price of our common stock. If we decide to issue additional equity securities or to issue debt in the future that rank senior to our common stock, it is likely that they will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock and may result in dilution to owners of our common stock. We and, indirectly, our stockholders, will bear the cost of issuing and servicing such securities. Because our decision to issue debt or equity 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 common stock will bear the risk of our future offerings reducing the market price of our common stock and diluting the value of their stock holdings in us. Furthermore, the compensation payable to our Manager will increase as a result of future issuances of our equity securities even if the issuances are dilutive to existing stockholders. Because of their significant ownership of our common stock, Lument Investment Holdings, an affiliate of our Manager, and the Hunt Investors have the ability to influence the outcome of matters that require a vote of our stockholders, including a change of control. Lument Investment Holdings and the Hunt Investors hold a significant interest in our outstanding common stock. As of March 1, ~~2023~~ **2024** , Lument Investment Holdings owned 27. 4 % of our outstanding common stock and the Hunt Investors owned 12. 2 % of our outstanding common stock. In addition, James C. Hunt, one of the Hunt Investors, is a member of our board of directors. As a result, each of Lument Investment Holdings and the Hunt Investors has the ability to influence the outcome of matters that require a vote of our stockholders, including election of our board of directors and other corporate transactions, regardless of whether others believe that the transaction is in our best interests. Maintenance of our exclusion from the Investment Company Act will impose limits on our business; we have not sought formal guidance from the staff of the SEC as to our treatment of loans in securitization trusts and there can be no assurance that the staff will not adopt a contrary interpretation which could cause us to sell material amounts of our assets and to change our investment strategy. We intend to conduct our operations so that neither we nor our subsidiaries are required to register as investment companies under the Investment Company Act. Section 3 (a) (1) (A) of the Investment Company 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. We believe that we do not meet the definition of investment company under Section 3 (a) (1) (A) of the Investment Company Act because we do not engage primarily, or hold ourselves out as being engaged primarily, in the business of investing, reinvesting or trading in securities. Rather, we are primarily engaged in a non- investment company businesses related to real estate. Section 3 (a) (1) (C) of the Investment Company 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. 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 exception from the definition of investment company set forth in Section 3 (c) (1) or Section 3 (c) (7) of the Investment Company Act. We intend to conduct our operations so that we do not come within the definition of an investment company under Section 3 (a) (1) (C) of the Investment Company Act, or we otherwise qualify for an exclusion from the definition. We generally rely on guidance published by the SEC or its staff or on our own analyses to determine whether we fall outside of this definition, including, for example, whether a particular subsidiary is a " majority- owned subsidiary " or " wholly- owned subsidiary " (as those terms are defined in and interpreted under the Investment Company Act) for this purpose. We hold our assets primarily through our direct or indirect subsidiaries, certain of which we believe are excluded from the definitions of investment company pursuant to Section 3 (c) (5) (C) of the Investment Company Act. As interpreted by the SEC staff, this exception generally requires that at least 55 % of the subsidiary' s total assets be comprised of certain qualifying real estate interests, and at least 80 % of the subsidiary' s total assets be comprised of qualifying real estate interests and, as needed, certain real estate- related assets. We generally rely on guidance published by the SEC or its staff, or on our own analyses, to determine which assets are qualifying real estate assets and real estate- related assets. Certain of our subsidiaries ~~[~~may ~~]~~seek to rely on Rule 3a- 7 under the Investment Company Act. Rule 3a- 7 under the Investment Company Act is available to certain structured financing vehicles that are engaged in the business of holding financial assets that, by their terms, convert into cash within a finite time period and that issue fixed income securities entitling holders to receive payments that depend primarily on the cash flows from these assets, provided that, among other things, the structured finance vehicle does not engage in certain portfolio management practices resembling those employed by management investment companies (e. g., mutual funds). Accordingly, each such subsidiary' s ability to acquire and dispose of assets is limited. As a result of this limitation as well as others imposed by the rule, these subsidiaries may suffer losses on their assets and we may in turn suffer losses. We and / or certain of our subsidiaries may seek to rely on the exclusion from the definition of investment company provided by Section 3 (c) (6). As a general matter, this section excepts any company primarily engaged, directly or through majority- owned subsidiaries, in one or more other business excepted under the Investment Company Act (including Section 3 (c) (5) (C)) or in one or more of such businesses together with an additional business or businesses other than investing, reinvesting, owning, holding, or trading in securities. Little interpretive guidance has been issued by the SEC or its staff with respect to Section 3 (c) (6). SEC and staff no- action and other guidance under the Investment Company Act is based in large part on specific factual situations, some of which differ from the factual situations we and our subsidiaries face from time to time. As a result, we apply SEC or staff guidance that relates to other factual situations by analogy. A number of the staff no- action positions were issued more than twenty years ago. There may be no guidance from the SEC staff that applies directly to our factual situations. No assurance can be given that the SEC or its staff will concur with our analysis, conclusions or approach. In addition, the SEC or its staff may, in the future, issue further guidance that may require us and / or our subsidiaries to re- classify our assets; modify our organizational structure; acquire or sell assets; or make other changes for purposes of the Investment Company Act, any or all of which could materially and adversely affect us. For example, on August 31, 2011, the SEC issued a concept release and request for comments regarding the Section 3 (c) (5) (C) exclusion (Release No. IC- 29778) in which it solicited public comment on a wide range of issues relating to Section 3 (c) (5) (C), including the nature of the assets that qualify for purposes of the exclusion and whether mortgage REITs should be regulated in a manner similar to registered investment companies. Conducting our business so that we are not required to register under the Investment Company Act limits, among other things: the types of businesses in which we may engage through our subsidiaries; our organizational structure and business strategy; and the types of assets we and our subsidiaries originate, acquire or sell; and the timing of such originations, acquisitions and dispositions (including doing so when we would not otherwise choose to do so). We cannot assure you that we would be able to complete any such originations, acquisitions or on favorable terms, or at all. Any or all of the above could materially and adversely affect us. Although we monitor our holdings and organizational structure for ongoing compliance with the above, there can be no assurance that we will be able to continue to avoid registration as an investment company, or that the laws and regulations governing, or regulatory guidance pertaining to, investment company status will not change in a manner that materially and adversely affects us. If the fair market value or income potential of our assets changes, we may need to increase or decrease our holdings of certain of our assets to maintain our exclusion from the Investment Company Act. If it were established that we were an unregistered investment company, there would be a risk that we would be subject to monetary penalties and injunctive relief in an action brought by the SEC, that we would be unable to enforce contracts with third parties, that third parties could seek to obtain rescission of transactions undertaken during the period for which it was established that we were an unregistered investment company. In addition, in this case, we would need to register as an investment company under the Investment Company Act, modify our operations, perhaps significantly, to seek to continue to avoid being require to register under the Investment Company Act, or seek some form of exemptive or other relief from the SEC or its staff. If we were required to register as an investment company under the Investment Company Act, we would become subject to substantial regulation with respect to our capital structure (including our ability to use borrowings), management, operations, transactions with affiliated persons (as defined in the Investment Company Act) and portfolio composition, including disclosure requirements and restrictions with respect to diversification and industry concentration and other matters. Compliance with the Investment Company Act would, accordingly, limit our ability to make certain investments and require us to significantly restructure our business strategy. Any of the foregoing results would have a material adverse effect on us. Since we are not expected to be subject to the Investment Company Act and the rules and regulations promulgated thereunder, we will not be subject to its substantive provisions, and thus investors will not receive the protections that the Investment Company Act provides to investors in registered investment companies. Our authorized but unissued shares of common and preferred stock may prevent a change in our control. Our charter authorizes us to issue additional authorized but unissued shares of common or preferred stock. In addition, our board of directors may, without stockholder approval, amend our charter to increase the aggregate number of our shares of stock or the number of shares of stock of any class or series that we have authority to issue and classify or reclassify any unissued shares of common or preferred stock and set the preferences, rights and other terms of the classified or reclassified shares. As a result, our board of directors may establish a series of common or preferred stock that could delay or prevent a transaction or a change in control that might involve a premium price for our share class or of common stock or otherwise be in the best interest of our stockholders. In order for us to maintain our REIT qualification for each taxable year after December 31, 2012, during the last half of any taxable year no more than 50 % in value of our outstanding capital stock may be owned, directly or indirectly, by five or fewer individuals." Individuals" for this purpose include natural persons, private foundations, some employee benefit plans and trusts, and some charitable trusts. To assist us in maintaining our qualification as a REIT among other purposes and subject to certain exceptions, our charter generally prohibits any person from directly or indirectly owning more than 9. 8 % in value or in number of shares, whichever is more restrictive, of the outstanding shares of our common stock or more than 9. 8 % in value or in number of shares, whichever is more restrictive, of the outstanding shares of our capital stock. On February 17, 2022, in connection with the closing of our rights offering, in which we issued and sold an aggregate of 27, 277, 269 shares of our common stock, our board of directors adopted resolutions decreasing the common stock ownership limit and the aggregate stock ownership limit from 9. 8 % to 8. 75 % for all stockholders who are not excepted holders. The ownership limitations in our charter could have the effect of discouraging a takeover or other transaction in which holders of our equity securities might receive a premium for their shares over the then prevailing market price or which holders might believe to be otherwise in their best interests. Our board of directors has granted exemptions to the aggregate stock ownership limit and the common stock ownership limit in our charter to (i) XL Bermuda Ltd, (ii) Lument Investment Holdings, LLC, an affiliate of our Manager, and (iii) James C. Hunt, a member of our board of directors and Hunt Company Equity Holdings, LLC. Certain provisions of Maryland law may limit the ability of a third- party to acquire control of our company. Certain provisions of the Maryland General Corporation Law (" MGCL") may have the effect of delaying, deferring or preventing a transaction or a change of control of our company that might involve a premium price for holders of our equity securities or otherwise be in their best interests. Subject to certain limitations, provisions of the MGCL prohibit certain business combinations between us and an" interested stockholder" (defined generally as any person who beneficially owns 10 % or more of the voting power of our outstanding voting stock or an affiliate or associate of ours who beneficially owned 10 % or more of the voting power of our then outstanding stock during the two- year period immediately prior to the date in question) or an affiliate of the interested stockholder for five years after the most recent date on which the stockholder became an interested stockholder. After the five- year period, business combinations between us and an interested stockholder or an affiliate of the interested stockholder must generally either provide a minimum price to our stockholders (as defined in the MGCL) in the form of cash or other consideration in the same form as previously paid by the interested stockholder or be recommended by our board of directors and approved by the affirmative vote of at least 80 % of the votes entitled to be cast by holders of our outstanding shares of voting stock and at least two- thirds of the votes entitled to be cast by stockholders other than the interested stockholder and its affiliates and associates. These provisions of the MGCL relating to business combinations do not apply, however, to business combinations that are approved or exempted by our board of directors prior to 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 the XL Companies and certain affiliates thereof, the parent of which is AXA SA, between us and Hunt Investors and affiliates thereof and between us and Lument Investment Holdings and affiliates thereof. Consequently, the five- year prohibition and the supermajority vote requirements will not apply to business combinations between us and the exempted parties. As a result, the exempted companies may be able to enter into business combinations with us that may not be in the best interest of our stockholders without compliance by us with the supermajority vote requirements and other provisions of the statute. However, our board of directors may repeal or modify these exemptions at any time in the future, in which case the applicable provisions of this statute will become applicable to business combinations between us and the previously exempted parties. The" control share" provisions of the MGCL provide that holders of" control shares" of a Maryland corporation (defined as shares which, when aggregated with other shares controlled by the stockholder (except solely by virtue of a revocable proxy), 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 with respect to such shares 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 votes entitled to be cast by the acquirer of control shares, our officers and our employees who are also our directors. Our bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions by any person of shares of our stock. There can be no assurance that this provision will not be amended or eliminated at any time in the future. Additionally, Title 3, Subtitle 8 of the MGCL permits 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 certain provisions relating to corporate governance that may have the effect of delaying, deferring or preventing a transaction or a change of control of our company that might involve a premium to the market price of our equity securities or otherwise be in our stockholders' best interests. Those provisions are (i) a classified board; (ii) a two-thirds vote requirement for removing a director; (iii) a requirement that the number of directors be fixed only by vote of the directors; (iv) a requirement that a vacancy on the board be filled only by affirmative vote of a majority of the remaining directors in office and for the remainder of the full term of the class of directors in which the vacancy occurred; (v) and a majority requirement for the calling of a special meeting of stockholders. We are subject to all of those provisions except for a classified board, either by provisions of our charter and bylaws unrelated to Subtitle 8 or by reason of an election in our charter to be subject to certain provisions of Subtitle 8. Stockholders have limited control over changes in our policies and operations. Our board of directors determines our major policies, including with regard to financing, growth, debt capitalization, REIT qualification and distributions. Our board of directors may amend or revise these and other policies without a vote of the stockholders. Under our charter and the MGCL, our common stockholders generally have a right to vote only on the following matters: • the election or removal of directors; • the amendment of our charter, except that our board of directors may amend our charter without stockholder approval to: ◦ change our name; ◦ change the name or other designation or the par value of any class or series of stock and the aggregate par value of our stock; ◦ increase or decrease the aggregate number of shares of stock that we have the authority to issue; and ◦ increase or decrease the number of our shares of any class or series of stock that we have the authority to issue; • our liquidation and dissolution; and • our being a party to a merger, consolidation, sale or other disposition of all or substantially all of our assets or statutory share exchange. All other matters are subject to the discretion of our board of directors. Our charter contains provisions that make removal of our directors difficult, which could make it difficult for stockholders to effect changes in management. Our charter provides that, subject to the rights of any class or series of preferred stock, a director may be removed only by the affirmative vote of at least two- thirds of all the votes entitled to be cast generally in the election of directors. Our charter and bylaws provide that vacancies generally may be filled only by a majority of the remaining directors in office, even if less than a quorum. These requirements make it more difficult to change management by removing and replacing directors and may prevent a change in control that is in the best interests of stockholders. Our rights and stockholders' rights to take action against directors and officers are limited, which could limit recourse in the event of actions not in the best interests of stockholders. As permitted by Maryland law, our charter eliminates 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. In addition, our charter requires us, to the maximum extent permitted by Maryland law, to indemnify and, without requiring a preliminary determination of the ultimate entitlement to indemnification, pay or reimburse reasonable expenses in advance of final disposition of a proceeding to any individual who is a present or former director or officer and who is made or threatened to be made a party to the proceeding by reason of his or her service in that capacity or any individual who, while a director or officer and at our request, serves or has served as a director, officer, partner, trustee of another corporation, REIT, partnership, joint venture, trust, employee benefit plan or any other enterprise and who is made or threatened to be made a party to the proceeding by reason of his or her service in that capacity. Maryland law permits indemnification of our directors and officers in connection with a proceeding, unless it is established that (i) the act or omission of the individual was material to the proceeding and was committed in bad faith or was the result of active and deliberate dishonesty, or the individual actually received an improper personal benefit in money, property or services, or (ii) in the case of a criminal proceeding, the individual had reasonable cause to believe that the act or omission was unlawful. As part of these indemnification obligations, we may be obligated to fund the defense costs incurred by our directors and officers. We also are permitted to purchase and maintain insurance or provide similar protection on behalf of any directors, officers, employees and agents, including our Manager and its affiliates, against any liability asserted which was incurred in any such capacity with us or arising out of such status. This may result in us having to expend significant funds, which will reduce the available cash for distribution to our stockholders. We have made, and in the future may make, distributions of offering proceeds, borrowings or the sale of assets to the extent that distributions exceed earnings or cash flow from our operations. We have made, and in the future may make, distributions of offering proceeds, borrowings or the sale of assets to the extent that distributions exceed earnings or cash flow from our operations. Such distributions reduce the amount of cash we have available for investing and other purposes and could be dilutive to our financial results. In addition, funding our distributions from our net proceeds may constitute a return of capital to our investors, which would have the effect of reducing each stockholder' s basis in its shares of equity securities. We are a" smaller reporting company " and we may avail ourselves of the reduced disclosure requirements, which may make the Company' s securities less attractive to investors. As a" smaller reporting company," the Company has relied on exemptions from certain disclosure requirements that are applicable to other public companies. The Company may continue to rely on such exemptions for so long as the Company remains a" smaller reporting company." These exemptions include reduced financial disclosure and reduced disclosure obligations regarding executive compensation. We may continue to rely on such exemptions for so long as we remain a smaller reporting company under applicable SEC rules and regulations. The Company' s reliance on these exemptions may result in the public finding the Company' s securities to be less attractive and adversely impact the market price of the Company' s securities or the trading market thereof. We are subject to financial reporting and other requirements for which our accounting, internal audit and other management systems and resources may not be adequately prepared. We are subject to reporting and other obligations under the Exchange Act, including the requirements of Section 404 of the Sarbanes- Oxley Act. These reporting and other obligations may place significant demands on our management, administrative, operational, internal audit and accounting resources and cause us to incur significant expenses. We may need to upgrade our systems or create new systems, implement additional financial and management controls, reporting systems and procedures, expand or outsource our internal audit function and hire additional accounting, internal audit and finance staff. If we are unable to accomplish these objectives in a timely and effective fashion, our ability to comply with the financial reporting requirements and other rules that apply to reporting companies could be impaired. Any failure to maintain effective internal controls could have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our stockholders. We are required to make critical accounting estimates and judgments, and our financial statements may be materially affected if our estimates or judgments prove to be inaccurate. Financial statements prepared in accordance with GAAP require the use of estimates, judgments and assumptions that affect the reported amounts. Different estimates, judgments and assumptions reasonably could be used that would have a material effect on our financial statements, and changes in these estimates, judgments and assumptions are likely to occur from period to period in the future. Significant areas of accounting requiring the application of management' s judgment include, but are not limited to (1) determining the fair value of our investments, (2) assessing the adequacy of the allowance for ~~loan~~ **credit** losses or credit reserves and (3) appropriately consolidating VIEs for which we have determined we are the primary beneficiary. These estimates, judgments and assumptions are inherently uncertain, and, if they prove to be inaccurate, then we face the risk that charges to income will be required. In addition, because we have limited operating history in some of these areas and limited experience in making these estimates, judgments and assumptions, the risk of future charges to income may be greater than if we had more experience in these areas. Any such charges could significantly harm our business, financial condition, results of operations and our ability to make distributions to our stockholders. See" Management' s Discussion and Analysis of Financial Condition and Results of Operations- Critical Accounting Policies" for a discussion of the accounting estimates, judgments and assumptions that we believe are the most critical to an understanding of our business, financial condition and results of operations. If we fail to remain qualified as a REIT, we will be subject to U. S. federal income tax as a regular corporation and could face a substantial tax liability, which would reduce the amount of cash available for distribution to our stockholders. We elected to be taxed as a REIT commencing with our short taxable year ended December 31, 2012, and our subsidiary, Lument Commercial Mortgage Trust, Inc. elected to be taxed as a REIT commencing with its short taxable year ended December 31, 2018 and in each case to comply with the provisions of the Internal Revenue Code with respect thereto. Our and its continued qualification as a REIT will depend on our and its satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. Our and its 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. Further, there can be no assurance that the U. S. Internal Revenue Service, or the IRS, will not contend that our interests in subsidiaries or in securities of other issuers will not cause a violation of the REIT requirements. If we were to fail to maintain our REIT qualification in any taxable year and were not able to qualify for, or fail to satisfy the requirements of certain statutory relief provisions, we would be subject to U. S. federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates, and dividends paid to our stockholders would not be deductible by us in computing our taxable income. Any resulting corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our stockholders, which in turn could have an adverse impact on the value of our equity securities. Unless we were entitled to relief under certain Internal Revenue Code provisions, we also would be disqualified from re- electing to be taxed as a REIT for the four taxable years following the year in which we failed to qualify as a REIT. Furthermore, any REIT in which we invest directly or indirectly, including Lument Commercial Mortgage Trust, Inc., the REIT through which we own our interests in our CLOs, is independently subject to, and must comply with, the same REIT requirements that we must satisfy in order to qualify as a REIT. If the subsidiary fails to qualify as a REIT and certain statutory relief provisions do not apply, then (a) the subsidiary REIT would become subject to U. S. federal income tax, (b) the subsidiary REIT will be disqualified from treatment as a REIT for the four taxable years following the year during which qualification was lost, (c) our investment in the subsidiary REIT could cease to be a qualifying asset for purposes of the asset tests applicable to REITs and any dividend income or gains derived by us from such subsidiary REIT may cease to be treated as income that qualifies for purposes of the 75 % gross income test, and (d) we may fail certain of the asset or income tests applicable to REITs, in which event we will fail to qualify as REIT unless we are able to avail ourselves of certain statutory relief provisions. If we fail to remain qualified as REIT, we may default on our current financing facilities and be required to liquidate our assets, and we may face delays or inabilities to procure future financing. Failure to maintain qualified as a REIT could result in an event of default under our credit facility and CLOs, and we may be required to liquidate all or substantially all of our assets, unless we were able to negotiate a waiver. Any such waiver could be conditioned on an amendment to our CLOs or credit facility and any related guaranty agreements on terms that may be unfavorable to us. If we are unable to negotiate a waiver or replace or refinance our assets under a new credit facility or CLO on favorable terms or at all, our financial conditions, results of operations and cash flows could be adversely affected. Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends. The maximum tax rate applicable to income from" qualified dividends" payable to U. S. stockholders that are individuals, trusts and estates is 20 %, exclusive of a 3. 8 % investment tax surcharge. Dividends payable by REITs, however, generally are not eligible for the reduced rates. Thus, the more favorable rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts and estates 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 stock of REITs, including our equity securities. However, REIT dividends (other than capital gain dividends) received by non- corporate taxpayers may be eligible for a 20 % deduction. This deduction is only applicable to investors of LFT that receive dividends and does not have any impact on us. Without further legislation, the deduction would sunset after 2025. Investors should consult their own tax advisors regarding the effect of this change on their effective tax rate with respect to REIT dividends. REIT distribution requirements could adversely affect our ability to execute our business plan. We generally must distribute annually at least 90 % of our REIT taxable income determined without regard to the deduction for dividends paid and excluding net capital gain and 90 % of our net income, if any, (after tax) from foreclosure property, in order for us to maintain our REIT qualification. To the extent that we satisfy such distribution requirements but distribute less than 100 % of our REIT taxable income we will be subject to U. S. federal income tax on our undistributed taxable income. In addition, we will be subject to a 4 % nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under U. S. federal income tax laws. We intend to make distributions to our stockholders to comply with the REIT requirements of the Internal Revenue Code. From time to time, differences in timing between our recognition of taxable income and our actual receipt of cash may occur. If we do not have other funds available in these situations we could be required to borrow funds on unfavorable terms, sell investments at disadvantageous prices or distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt, make a taxable distribution of our shares as part of a distribution in which stockholders may elect to receive shares or (subject to certain limits) cash or use cash reserves, in order to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the REIT distribution requirement and to avoid the U. S. federal income tax and the 4 % excise tax in a particular year. These alternatives could increase our costs or reduce our equity. Thus, compliance with the REIT requirements may hinder our ability to grow, which could adversely affect the value of our equity securities. 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 certain types of income including as a result of a foreclosure, and state or local income, property and transfer taxes, such as mortgage recording taxes. Any of these taxes would decrease cash available for distribution to our stockholders. To maintain our qualification as a REIT, we must satisfy five tests relating to the nature of our assets at the end of each calendar quarter. First, at least 75 % of the value of our total assets must consist of cash, cash items, government securities and real estate assets, including certain mortgage loans and securities and debt instruments issued by publicly offered REITs. Second, we may not own more than 10 % of any one issuer' s outstanding securities, as measured by either value or voting power. Third, no more than 5 % of the value of our total assets can consist of the securities of any one issuer. Fourth, no more than 20 % of our total assets can be represented by securities of one or more TRSs. Fifth, not more than 25 % of our assets may consist of debt instruments issued by publicly offered REITs to the extent that such debt instruments constitute" real estate assets" for purposes of the 75 % asset test described above only because of the express inclusion of" debt instruments issued by publicly offered REITs" in the definition. If we fail to comply with these requirements at the end of any calendar quarter, we will lose our REIT qualification unless we are able to qualify for certain statutory relief provisions, which may involve paying taxes and penalties. In order to comply with the asset tests, we may be required to liquidate from our investment portfolio otherwise attractive investments. These actions could have the effect of reducing our income and the amount available for distribution to our stockholders. In addition to the asset tests set forth above, to maintain our REIT qualification, we must continually satisfy tests concerning, among other things, the sources of our income, the amounts we distribute to our stockholders and the ownership of our stock. We may be unable to pursue investments that would be otherwise advantageous to us in order to satisfy the income test, the asset tests, and the other REIT requirements. Thus, compliance with the REIT requirements may hinder our ability to make certain attractive investments. If we fail to comply with any of these other REIT requirements at the end of any fiscal year, we will lose our REIT qualification unless we are able to satisfy or qualify for certain statutory relief provisions which may involve paying taxes and penalties. We may be required to report taxable income for certain investments in excess of the economic income we ultimately realize from them. We may continue to acquire mortgage- backed securities in the secondary market for less than their face amount. In addition, as a result of our ownership of certain mortgage- backed securities, we may be treated for tax purposes as holding certain debt instruments acquired in the secondary market for less than their face amount. The discount at which such securities or debt instruments are acquired may reflect doubts about their ultimate collectability rather than current market interest rates. The amount of such discount will nevertheless generally be treated as" market discount" for U. S. federal income tax purposes. Accrued market discount is generally reported as income when, and to the extent that, any payment of principal of the mortgage- backed security or debt instrument is made. If we collect less on the mortgage- backed security or debt instrument than our purchase price plus the market discount we had previously reported as income, we may not be able to benefit from any offsetting loss deductions. In addition, as a result of our ownership of certain mortgage- backed securities, we may be treated for tax purposes as holding distressed debt investments that are subsequently modified by agreement with the borrower. If the amendments to the outstanding debt are" significant modifications" under applicable U. S. Treasury Department regulations, the modified debt may be considered to have been reissued to us at a gain in a debt- for- debt exchange with the borrower. In that event, we may be required to recognize taxable gain to the extent the principal amount of the modified debt exceeds our adjusted tax basis in the unmodified debt, even if the value of the debt or the payment expectations have not changed. Moreover, some of the mortgage- backed securities that we acquire may have been issued with original issue discount. We will be required to report such original issue discount based on a constant yield method and will be taxed based on the assumption that all future projected payments due on such mortgage- backed securities will be made. If such mortgage- backed securities turn out not to be fully collectible, an offsetting loss deduction will become available only in the later year that lack of collectability is provable. Finally, in the event that any debt instruments or mortgage- backed securities acquired by us are delinquent as to mandatory principal and interest payments, or in the event a borrower with respect to a particular debt instrument acquired by us encounters financial difficulty rendering it unable to pay stated interest as due, we may nonetheless be required to continue to recognize the unpaid interest as taxable income as it accrues, despite doubt as to its ultimate collectability. Similarly, we may be required to accrue interest income with respect to subordinate mortgage- backed securities at the stated rate regardless of whether corresponding cash payments are received or are ultimately collectible. In each case, while we would in general ultimately have an offsetting loss deduction available to us when such interest was determined to be uncollectable, the utility of that deduction could depend on our having taxable income in that later year or thereafter. The" taxable mortgage pool" rules may increase the taxes that we or our stockholders may incur, and may limit the manner in which we effect future securitizations. Securitizations by us or our subsidiaries could result in the creation of taxable mortgage pools for U. S. federal income tax purposes, resulting in" excess inclusion income." As a REIT, so long as we own 100 % of the equity interests in a taxable mortgage pool, we generally would not be adversely affected by the characterization of the securitization as a taxable mortgage pool. Certain categories of stockholders, however, such as non- U. S. stockholders eligible for treaty or other benefits, stockholders with net operating losses, and certain tax- exempt U. S. stockholders 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 the excess inclusion income. In the case of a stockholder that is a REIT, a regulated investment company, or RIC, common trust fund or other pass- through entity, our allocable share of our excess inclusion income could be considered excess inclusion income of such entity. 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 any excess inclusion income. Because this tax generally would be imposed on us, all of our stockholders, including stockholders that are not disqualified organizations, generally would bear a portion of the tax cost associated with the classification of us or a portion of our assets as a taxable mortgage pool. A RIC, or other pass- through entity owning our stock in record name will be subject to tax at the highest U. S. federal corporate tax rate on any excess inclusion income allocated to their owners that are disqualified organizations. Moreover, we could face limitations in selling equity interests in these securitizations to outside investors, or selling any debt securities issued in connection with these securitizations that might be considered to be equity interests for tax purposes. Finally, if we were to fail to maintain our REIT qualification, any taxable mortgage pool securitizations would be treated as separate taxable corporations for U. S. federal income tax purposes that could not be included in any consolidated U. S. federal income tax return. These limitations may prevent us from using certain techniques to maximize our returns from securitization transactions. Liquidation of our assets may jeopardize our REIT qualification. To maintain our qualification as a REIT, we must comply with requirements regarding our assets and our sources of income. If we liquidate our investments including to repay obligations to our lenders, we may be unable to comply with these requirements, ultimately jeopardizing our qualification as a REIT, or we may be subject to a 100 % tax on any resultant gain if we sell assets that are treated as dealer property or inventory. Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities. The REIT provisions of the Internal Revenue Code substantially limit our ability to hedge our assets and liabilities. Under these provisions, any income from a hedging transaction we enter into to manage risk of interest rate changes with respect to borrowings made or to be made to acquire or carry real estate assets does not constitute" gross income" for purposes of the 75 % or 95 % gross income tests, if certain requirements are met. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non- qualifying income for purposes of both of the REIT gross income tests. Qualifying as a REIT involves highly technical and complex provisions of the Internal Revenue Code. Qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions 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, stockholder ownership and other requirements on a continuing basis. In addition, our ability to satisfy the requirements to maintain our REIT qualification 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. Thus, while we intend to continue to operate so that we will qualify as a REIT, given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, and the possibility of future changes in our circumstances, no assurance can be given that we will maintain our qualification for any particular year. We may incur a significant tax liability as a result of selling assets that might be subject to the prohibited transactions tax if sold directly by us. A REIT' s net income from" prohibited transactions" is subject to a 100 % tax. In general," prohibited transactions" are sales or other dispositions of assets held primarily for sale to customers in the ordinary course of business. There is a risk that certain loans that we are treating as owning for U. S. federal income tax purposes and certain property received upon foreclosure of these loans will be treated as held primarily for sale to customers in the ordinary course of business. Although we expect to avoid the prohibited transactions tax by contributing those assets to one of our TRSs and conducting the marketing and sale of those assets through that TRS, no assurance can be given that the IRS will respect the transaction by which those assets are contributed to our TRS. Even if those contribution transactions are respected, our TRS will be subject to U. S. federal, state and local corporate income tax and may incur a significant tax liability as a result of those sales. We may be subject to adverse legislative or regulatory tax changes that could increase our tax liability, reduce our operating flexibility and reduce the market price of shares of our equity securities. The present U. S, federal income tax treatments of REITs may be modified, possibly with retroactive effect, by legislative, judicial, or administrative action at any time, which could affect the U. S. federal income tax treatment of an investment in us. The U. S. federal income tax rules dealing with REITs constantly are under review by persons involved in the legislative process, the IRS, and the U. S. Treasury, which results in statutory changes as well as frequent revisions to regulations and interpretations. 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 tax law, regulations or administrative interpretations, will be adopted, promulgated of become effective and any such law, regulation or interpretation may take effect retroactively. Future revisions in the U. S. federal tax laws and interpretations thereof could affect or cause us to change our investments and commitments and affect the tax considerations of an investments in us. Any such revisions could have an adverse effect on an investment in our shares or on the market value or the resale potential of our assets. You are urged to consult with your tax advisor with respect to the impact of such revisions on your investment in our shares and the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in our shares. On August 14, 2022, President Biden signed into law the Inflation Reduction Act of 2022, or the IRA. The IRA includes numerous tax provisions that impact corporations, including the implementation of a corporate alternative minimum tax as well as a 1 % excise tax on certain stock repurchases and economically similar transactions. However, REITs are excluded from the definition of an" applicable corporation" and therefore are not subject to the corporate alternative minimum tax. Additionally, the 1 % excise tax specifically does not apply to stock repurchases by REITs. Any taxable REIT subsidiaries of ours operate as standalone corporations and therefore could be adversely affected by the IRA. We will continue to analyze and monitor the application of the IRA to our business, however, the effect of these changes on the value of our assets, shares of our common stock or market conditions generally, is uncertain. Although REITs generally receive certain tax advantage compared to entities taxed as regular corporations, it is possible that future legislation would result in a REIT having fewer tax advantages, and it could become more advantageous for a company that invests in real estate to elect to be treated for U. S. federal income tax purpose as a corporation. Our charter provides our board of directors with the power, under certain circumstances, to revoke or otherwise terminate our REIT election and cause us to be taxed as a regular corporation, without the vote of our stockholders. Our board of directors has duties to us and could only cause such changes in our tax treatment if it determines in good faith that such changes are in our best interest. Distributions to tax- exempt investors may be classified as unrelated business taxable income, or UBTI, as defined under Section 512 (a) of the Internal Revenue Code. Neither ordinary nor capital gain distributions with respect to our stock nor gain from the sale of stock should generally constitute UBTI to a tax- exempt investor. However, there are certain exceptions to this rule, including: (1) part of the income and gain recognized by certain qualified employee pension trusts with respect to our stock may be treated as UBTI if shares of our stock are predominantly held by qualified employee pension trusts, and we are required to rely on a special look- through rule for purposes of meeting one of the REIT ownership tests, and we are not operated in a manner to avoid treatment of such income or gain as UBTI; (2) part of the income and gain recognized by a tax- exempt investor with respect to our stock would constitute UBTI if the investor incurs debt in order to acquire the stock; (3) part or all of the income or gain recognized with respect to our stock by social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans which are exempt from U. S. federal income taxation under the Internal Revenue Code may be treated as UBTI; and (4) to the extent that we are (or a part of us, or a disregarded subsidiary of ours, is) a" taxable mortgage pool," or if we hold residual interests in a REMIC, a portion of the distributions paid to a tax- exempt stockholder that is allocable to excess inclusion income may be treated as UBTI. The value of our assets represented by our TRS is required to be limited and a failure to comply with this and certain other rules governing transactions between a REIT and its TRSs would jeopardize our REIT qualification and may result in the application of a 100 % excise tax. A REIT may own up to 100 % of the stock of one or more TRSs. Other than certain activities relating to lodging and healthcare facilities, a TRS generally may engage in any business and may hold assets and earn income that would not be qualifying assets or income if held or earned directly by a REIT. No more than 20 % of the value of a REIT' s assets may consist of stock or securities of one or more TRSs. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100 % excise tax on certain transactions between a TRS and its parent REIT, or by a TRS on behalf of its parent REIT, that are not conducted on an arm' s- length basis. Our current TRS, and any future TRSs, will pay U. S. federal, state and local income tax on their respective taxable incomes, if any. We anticipate that the aggregate value of the securities of our TRS will be less than 20 % of the value of our total assets (including our TRS securities). Furthermore, we intend to monitor the value of our investments in our TRS for the purpose of ensuring compliance with TRS- ownership limitations. In addition, we will review all our transactions with our TRS to ensure that they are entered into 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 continue to comply with the TRS- ownership limitation or to avoid application of the 100 % excise tax discussed above. Your investment has various U. S. federal income tax risks. We urge you to consult your tax advisor concerning the effects of U. S. federal, state, local and foreign tax laws to you with regard to an investment in shares of our stock.