Risk Factors Comparison 2024-02-22 to 2023-02-24 Form: 10-K

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This section highlights specific risks that could affect us and our business. Readers should carefully consider each of the following risks and all of the other information set forth in this Annual Report on Form 10- K. Based on the information currently known to us, we believe the following information identifies the most significant risk factors affecting our Company. However, the risks and uncertainties we face are not limited to those described below. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business. If any of the following risks and uncertainties develops into actual events or if the circumstances described in the risks and uncertainties occur or continue to occur, these events or circumstances could have a material adverse effect on our business, prospects, financial condition, results of operations, cash flows or liquidity. These events could also have a negative effect on the trading price of our securities. Summary Risk Factors Risks Related to Our Business and Industry • Economic developments and other factors that are out of our control may adversely affect our business operations. Credit and Other Risks Related to Our Investments • We may change our investment strategy, operating policies and / or asset allocations without stockholder consent. • Our investments in residential mortgage **(including BPLs), residential mortgage securities, commercial mortgage loans** and other assets involve credit risk. • Our investments are subject to changes in credit spreads and other risks. • A significant portion of our residential whole loans and residential mortgage securities are secured by properties in a small number of geographic areas and may be disproportionately affected by adverse climate changes or other adverse events specific to those markets. • We are subject to counterparty risk and may be unable to seek indemnity or require counterparties to repurchase residential whole loans if they breach representations and warranties. • The due diligence we undertake on potential investments may be limited and / or not reveal all of the risks associated with such investments and may not reveal other weaknesses in such assets. • We have experienced and may experience in the future increased volatility in our U. S. generally accepted accounting principles (or GAAP) results of operations. • We have experienced, and may in the future experience, declines in the market value of certain of our investments securities resulting in our recording impairments and other losses. • The use of models in connection with the valuation of our assets subjects us to potential risks in the event that such models are incorrect, misleading or based on incomplete information. • Valuations of some of our assets are subject to inherent uncertainty, may be based on estimates, may fluctuate over short periods of time and may differ from the values that would have been used if a ready market for these assets existed. • Our investments in residential whole loans are difficult to value and are dependent upon the borrower' s ability to service or refinance their debt. • We may be adversely affected by risks affecting borrowers or the asset or property types in which our investments may be concentrated, as well as from unfavorable changes in the related geographic regions. • Our investments in residential whole loans subject us to servicing- related risks, including foreclosure and liquidation. • The expanding body of federal, state and local regulations and investigations of originators and servicers may increase costs of compliance and the risks of noncompliance. • Our ability to sell REO on terms acceptable to us or at all may be limited. • Our investments in MSR- related assets expose us to additional risks. • Our investments in mortgage loan originators expose us to additional risks. Prepayment and Reinvestment Risk • Prepayment rates on the mortgage loans underlying certain of our residential mortgage assets may materially adversely affect our profitability or could require us to sell assets in unfavorable market conditions. Risks Related to Our Use of Leverage • Our business strategy involves the use of leverage, and we may not achieve what we believe to be optimal levels of leverage or we may become overleveraged. • An increase in our borrowing costs relative to the interest we receive on our investments may materially adversely affect our profitability. • The impact of inflation may adversely affect our financial performance. • Our current and future lenders may require that we enter into restrictive covenants relating to our operations. • Reliance on certain types of financing structures expose us to risks. Cybersecurity Risks • Maintaining cybersecurity and data security is important to our business and a breach of our cybersecurity or data security could result in serious harm to our reputation. • We are dependent on information systems and their failure could significantly disrupt our business. Risks Associated with Adverse Developments in the Mortgage Finance and Credit Markets and Financial Markets Generally • Market conditions for mortgages and mortgage- related assets as well as the broader financial markets may materially adversely affect the value of the assets in which we invest. • A lack of liquidity in our investments may materially adversely affect our business. • Actions by the U. S. Government designed to stabilize or reform the financial markets may not achieve their intended effect or otherwise benefit our business. Regulatory Risks and Risks Related to the Investment Company Act of 1940 • Our business is subject to extensive regulation. • Certain jurisdictions require licenses to purchase, hold, enforce or sell residential mortgage loans. • Maintaining our exemption from registration under the Investment Company Act significantly limits our operations. Risks Related to Our Use of Hedging Strategies • Our use of hedging strategies to mitigate our interest rate exposure may not be effective. • We may enter into hedging instruments that could expose us to contingent liabilities in the future. • The characteristics of hedging instruments present various concerns, including illiquidity, enforceability, and counterparty risks. Risks Related to Our Taxation as a REIT and the Taxation of Our Assets • If we fail to remain qualified as a REIT, we will be subject to tax as a regular corporation and could face a substantial tax liability. • If our foreign TRS is subject to U. S. federal income tax at the entity level, it would greatly reduce the amounts those entities would have available to pay its creditors and distribute to us. • Our use of TRSs may cause us to fail to qualify as a REIT. • We have not established a minimum dividend payment level. • Our reported GAAP net income may differ from the amount of REIT taxable income and dividend distribution requirements. • The failure of assets subject to repurchase agreements to qualify as real estate assets could adversely affect our ability to remain qualified as a REIT. • Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities. • We may be required to report taxable income for certain investments in excess of the economic income we ultimately realize from them. • The interest apportionment rules may affect our ability to comply with the REIT asset and gross income tests. • Dividends paid by REITs do not qualify for the reduced tax rates available for " qualified dividend income. " Risks Related to Our Corporate Structure • Provisions of Maryland law and other provisions of our organizational documents may limit the ability of a third- party to acquire control of the Company. • Future offerings of debt securities and equity securities may adversely affect the market price of our common stock. Other Business Risks • ~~The COVID-19 pandemic has adversely affected our business, financial condition, liquidity and results of operations. •~~ We are dependent on our executive officers and other key personnel for our success. • We operate in a highly competitive market for investment opportunities. General economic developments and trends and the performance of the housing, real estate, mortgage finance, broader financial markets and other factors that are out of our control may adversely affect our business operations. The results of our business operations are affected by many factors, a number of which are beyond our control, and primarily depend on, among other things, the level of our net interest income, the market value of our assets and collateral, which is driven by numerous factors, including the supply and demand for residential mortgage assets in the marketplace, our ability to source new investments at appropriate yields, the terms and availability of adequate financing, general economic and real estate conditions (both on a national and local level), the impact of government actions, especially in the real estate and mortgage sector, our competition, and the credit performance of our credit sensitive residential mortgage assets. Our net interest income varies primarily as a result of changes in interest rates, the slope of the yield curve (i. e., the differential between long- term and short- term interest rates), market credit spreads, borrowing costs (i. e., our interest expense), delinquencies, defaults and prepayment speeds on our investments, the behavior of which involves various risks and uncertainties. Interest rates and conditional prepayment rates (or CPRs) (which are a measure the amount of unscheduled principal prepayment on a loan or security) vary according to the type of investment, conditions in the financial markets, fiscal and monetary policies and domestic and international economic and political conditions, competition and other factors, none of which can be predicted with any certainty or is within our control. Therefore, a period of rising interest rates and flattening or inverted yield curves, such as the conditions experienced during 2022 **and 2023** , which ~~have~~ **may** ~~continued -~~ **continue** in ~~2023~~ **2024** , presents ~~particular~~ challenges ~~on our net interest income and our operations more generally. Our operating results also depend~~ on our ability to effectively manage the risks associated with our business operations, including interest rate, prepayment, financing, liquidity and credit risks, while maintaining our qualification as a REIT. We may change our investment strategy, operating policies and / or asset allocations without stockholder consent, which could materially adversely affect our results of operations. We may change our investment strategy, operating policies and / or asset allocation with respect to investments, acquisitions, leverage, growth, operations, indebtedness, capitalization and distributions at any time without the consent of our stockholders, which could result in an investment portfolio with a different risk profile (including an investment portfolio that may be more concentrated in a particular class of asset). ~~For example, related to the impact of the unprecedented conditions created by the COVID- 19 pandemic, during early 2020 we sold substantially all of our MBS and substantially reduced our investments in MSR- related assets and CRT securities, resulting in our residential whole loans becoming by far our largest asset.~~ A change in our investment strategy may increase our exposure to various risks, including but not limited to: interest rate risk, credit risk, default risk, liquidity risk, financing risk, legal or regulatory risk, and / or real estate market fluctuations. Furthermore, a change in our asset allocation could result in our making investments in asset categories different from those in which we have historically invested. These changes could materially adversely affect our financial condition, results of operations, the market price of our common stock or our ability to pay dividends or make distributions. Our investments in residential whole loans **(including BPLs)** , residential mortgage securities ~~and~~ **,** MSR- related assets **and commercial mortgage loans** involve credit risk, which could materially adversely affect our results of operations. Investors in residential **and commercial** mortgage assets assume the risk that the underlying borrowers may default on their obligations to make full and timely payments of principal and interest. Under our investment policy, we may invest in residential whole loans, residential mortgage securities, MSR- related assets **, commercial mortgage bridge loans** and other investment assets that may be considered to be lower credit quality. In general, these investments are more exposed to credit risk than Agency MBS because the former are not guaranteed as to principal or interest by the U. S. Government, any federal agency or any federally chartered corporation. Higher- than- expected rates of default and / or higher- than- expected loss severities on the mortgages underlying these investments could adversely affect the value of these assets. Accordingly, defaults in the payment of principal and / or interest on our residential whole loans, residential mortgage securities, MSR- related assets **, commercial mortgage bridge loans** and other investment assets of less- than- high credit quality could result in our incurring losses of income from, and / or losses in market value relating to, these assets, which could materially adversely affect our results of operations. This risk may be more pronounced during times of market volatility and negative economic conditions ~~, such as those that were experienced in connection with the onset of the COVID- 19 pandemic in early 2020~~ . Our portfolio of residential whole loans **(including BPLs)** is by far our largest asset class and represented approximately ~~83~~ **84** % of our total assets as of December 31, ~~2022~~ **2023** . We expect that our investment portfolio in residential whole loans will continue to increase during ~~2023~~ **2024** . As an investor in residential whole loans, we are subject to the risk that the underlying borrowers may default or have defaulted on their obligations to make full and timely payments of principal and interest. A number of factors impact a borrower' s ability to repay including, among other things, changes in employment status, changes in interest rates or the availability of credit, and changes in real estate values. In addition to the credit risk associated with these assets, residential whole loans are less liquid than certain of our other credit sensitive assets, which may make them more difficult to dispose of if the need or desire arises ~~. For example, upon the onset of the volatility triggered in early 2020 by the COVID- 19 pandemic, we were unable to efficiently and expeditiously liquidate residential whole loans to meet our liquidity needs~~ . In addition, if actual results are different from our assumptions in determining the prices paid to acquire such loans, particularly if the market value of the underlying properties decreases significantly subsequent to purchase, we may incur significant losses, which could materially adversely affect our results of operations. Credit spreads, which at times can be highly volatile and react to various macroeconomic events or conditions, measure the additional yield demanded on securities by the market based on their perceived credit risk / credit quality relative to a specific benchmark. Fixed rate securities are valued based on a market credit spread above the rate payable on fixed rate U. S. Treasuries of like maturity. Floating rate securities are generally valued based on a market credit spread over ~~LIBOR (which is being phased out and will cease on June 30, 2023, as discussed below under the Risk Factor captioned " Risks Related to Our Use of Leverage- The discontinuation of LIBOR may affect our financial results. ") or another benchmark lending rate such as the~~ Secured Overnight Funding Rate (or SOFR) **or another benchmark lending rate** . Excessive supply of these securities combined with reduced demand for them from investors will generally cause the market to require a higher yield on these securities, resulting in the use of a higher, or " wider, " spread over the benchmark rate to value such securities. Under such conditions, the value of our MBS portfolio would tend to decline. Conversely, if the spread used to value such securities were to decrease, or " tighten, " the value of MBS would tend to increase. In addition, MBS valuations are subject to other financial risks, including mortgage basis spread risk. In periods of market volatility, changes in credit spreads and mortgage basis may result in changes in the value of MBS not being equally offset by changes in the value of derivative contracts used to manage portfolio valuation risks arising due to changes in interest rates. Such changes in the market value of our investments may affect our net equity, net income or cash flow directly through their impact on portfolio unrealized gains or losses, and therefore our ability to realize gains on such investments, or indirectly through their impact on our ability to borrow and access capital. This risk may be more pronounced during times of market volatility and negative economic conditions ~~, such as those that were experienced in connection with the onset of the COVID- 19 pandemic in early 2020 or in an economic recession~~ . We may be adversely affected by risks affecting borrowers or the asset or property types in which certain of our investments may be concentrated at any given time, as well as from unfavorable changes in the related geographic regions. We are not required to limit our assets in terms of geographic location, diversification or concentration, except that we concentrate in residential mortgage- related investments. Accordingly, our investment portfolio may be concentrated by geography (see below), asset type (as is the case currently, as residential whole loans are by far our most concentrated asset type), property type and / or borrower, increasing the risk of loss to us if the particular concentration in our portfolio is subject to greater risks or is undergoing adverse developments. In addition, adverse conditions in the areas where the properties securing or otherwise underlying our investments are located (including business layoffs or downsizing, industry slowdowns, changing demographics and other factors) and local real estate conditions (such as oversupply or reduced demand) may have an adverse effect on the value of our investments. A material decline in the demand for real estate in these areas may materially and adversely affect us. Lack of diversification can increase the correlation of non-performance and foreclosure risks to these investments. A significant portion of our residential whole loans and residential mortgage securities are secured by properties in a small number of geographic areas and may be disproportionately affected by economic or housing downturns, our competition, natural disasters, terrorist events, pandemics, regulatory changes, adverse climate changes or other adverse events specific to those markets. A significant number of the mortgages underlying our residential whole loans and residential mortgage securities are concentrated in certain geographic areas. For example, we have significant exposure in California, Florida, Texas, **Georgia and** New York ~~and Georgia~~ . (For a discussion of the percentage of these assets in these states, see " Credit Risk " included under Part II, Item 7A " Quantitative and Qualitative Disclosures About Market Risk " in this Annual Report on Form 10- K.) Certain markets within these states (particularly in California and Florida) have experienced significant decreases in residential home values in the past and may do so from time to time in the future. Any event that adversely affects the economy or real estate market in any of these states could have a disproportionately adverse effect on our residential whole loan and residential mortgage securities. In general, any material decline in the economy or significant problems in a particular real estate market (including from a rise in unemployment) would likely cause a decline in the value of residential properties securing the mortgages in that market, thereby increasing the risk of delinquency, default and foreclosure of residential whole loans and the loans underlying our residential mortgage securities and the risk of loss upon liquidation of these assets. This could, in turn, have a material adverse effect on our credit loss experience on residential mortgage investments in the affected market if higher- than- expected rates of default and / or higher- than- expected loss severities on our investments in residential whole loans and residential mortgage securities were to occur. In addition, the occurrence of a natural disaster (such as an earthquake, tornado, hurricane, flood, mudslide or wildfires), pandemic, terrorist attack or a significant adverse climate change, including potential rises in sea- levels, may cause a sudden decrease in the value of real estate in the area or areas affected and would likely reduce the value of the properties securing the mortgages collateralizing our residential whole loans or residential mortgage securities. Because certain natural disasters are not typically covered by the standard hazard insurance policies maintained by borrowers (such as hurricanes, earthquakes or certain flooding), or the proceeds payable for losses covered by any such policy are not sufficient to make the related repairs, the affected borrowers may be required to pay for any repairs themselves. Under these circumstances, borrowers may decide not to repair the damaged property or may stop paying the mortgage, either of which could cause defaults and credit loss severities to increase. Changes in governmental laws and regulations, enforcement priorities, fiscal policies, property taxes and zoning ordinances can also have a negative impact on property values, which could result in borrowers' deciding to stop paying their mortgages. This circumstance could cause defaults and loss severities to increase, thereby adversely impacting our results of operations. We are subject to counterparty risk and may be unable to seek indemnity or require counterparties to repurchase residential whole loans if they breach representations and warranties, which could cause us to suffer losses. In connection with our residential whole loan investments, we typically enter into a loan purchase agreement with a seller. When we invest in certain mortgage loans, sellers may make representations and warranties about such loans that are very limited both in scope and duration. Residential mortgage loan purchase agreements may entitle the purchaser of the loans to seek indemnity or demand repurchase or substitution of the loans in the event the seller of the loans breaches a representation or warranty given to the purchaser. However, there can be no assurance that a mortgage loan purchase agreement will contain appropriate representations and warranties, that we or the trustee that takes title to the mortgage loans would be able to enforce a contractual right to repurchase or substitution, or that the seller of the loans will remain solvent or otherwise be able to honor its obligations under its mortgage loan purchase agreements. The inability to obtain or enforce an indemnity or require repurchase of a significant number of loans could require us to absorb the associated losses, and adversely affect our results of operations, financial condition and business. The due diligence we undertake on potential investments may be limited and / or not reveal all of the risks associated with such investments and may not reveal other weaknesses in such assets, which could lead to losses. Before making an investment, we typically conduct (either directly or using third- parties) certain due diligence. There can be no assurance that we will conduct any specific level of due diligence, or that, among other things, our due diligence processes will uncover all relevant facts, which could result in losses on these assets to the extent we ultimately invest in them, which, in turn, could adversely affect our results of operations, financial condition and business. We have experienced and may experience in the future increased volatility in our GAAP results of operations due in part to the increasing contribution to financial results of assets and liabilities accounted for under the fair value option. We have elected the fair value option accounting model for certain of our investments and financing agreements. Changes in the fair value of assets, and a portion of the changes in the fair value of liabilities, accounted for using the fair value option are recorded in our consolidated statements of operations each period, which may result in volatility in our financial results. There can be no assurance that such volatility in periodic financial results will not occur in future periods. The use of models in connection with the valuation and credit losses of our assets subjects us to potential risks in the event that such models are incorrect, misleading or based on incomplete information. As part of our risk management process, models may be used to evaluate, depending on the asset class, house price appreciation and depreciation by county or region, prepayment speeds and frequency, cost and timing of foreclosures, as well as other factors. Certain assumptions used as inputs to the models may be 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 model output also to be incorrect. In particular, the economic, financial and related impacts of **certain types of** events ~~like~~ **(e. g.,** the COVID- 19 pandemic **)** have been and will continue to be very difficult to model (including their impact on the housing and mortgage markets), as such events may be unprecedented in modern history and therefore subject to unique variables, assumptions and inputs, making historical data used in models less reliable. 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, we may overestimate or underestimate credit losses, buy certain assets at prices that are too high, sell certain assets at prices that are too low or miss favorable opportunities altogether, which could have a material adverse impact on our financial results, business and growth prospects. While the determination of the fair value of our investment assets generally takes into consideration valuations provided by third- party dealers and pricing services, the final determination of exit price fair values for our investment assets is based on our judgment, and such valuations may differ from those provided by third- party dealers and pricing services. Valuations of certain assets may be difficult to obtain or may not be reliable (particularly as related to residential whole loans, as discussed below). In general, dealers and pricing services heavily disclaim their valuations as such valuations are not intended to be binding bid prices. Additionally, dealers may claim to furnish valuations only as an accommodation and without special compensation, and so they may disclaim any and all liability arising out of any inaccuracy or incompleteness in valuations. Depending on the complexity and ~~illiquidity~~ -- **liquidity** of an asset, valuations of the same asset can vary substantially from one dealer or pricing service to another. Wide disparity in asset valuations may be more pronounced during periods when market participants are engaged in distressed sales. Our results of operations, financial condition and business could be materially adversely affected if our fair value determinations of these assets are materially higher than could actually be realized in the market. Our investments in residential whole loans are difficult to value and are dependent upon the borrower' s ability to service or refinance their debt. The inability of the borrower to do so could materially and adversely affect our liquidity and results of operations. The difficulty in valuation is particularly significant with respect to our less liquid investments such as our re- performing loans (or RPLs) and non- performing loans (or NPLs). RPLs are loans on which a borrower was previously delinquent but has resumed repaying. Our ability to sell RPLs for a profit depends on the borrower continuing to make payments. An RPL could become a NPL, which could reduce our earnings. Our investments in residential whole loans may require us to work with our designated third- party mortgage loan servicers to the extent that they engage in workout negotiations or a restructuring with a borrower and / or the possibility of foreclosure. These processes may be lengthy and expensive. If loans become REO, we, through a designated servicer that we retain, will have to manage these properties and may not be able to sell them. See the Risk Factor captioned " Credit and Other Risks Related to Our Investments- Our ability to sell REO on terms acceptable to us or at all may be limited. " We may work with our third- party servicers and seek to help a borrower to refinance an NPL or RPL to realize greater value from such loan. However, there may be impediments to executing a refinancing strategy for NPLs and RPLs. For example, ~~during 2020,~~ many mortgage lenders **have from time to time** adjusted their loan programs and underwriting standards, which reduced the availability of mortgage credit to certain borrowers. This resulted in reduced availability of financing alternatives for borrowers seeking to refinance their mortgage loans. **Periods of higher** ~~To the extent prevailing~~ mortgage interest rates ~~rise from their current low levels, these risks would be exacerbated~~ - **exacerbate this risk** . The effect of the above would likely serve to make the refinancing of NPLs and RPLs potentially more difficult and less profitable for us. Mortgage loan modification and refinancing programs and future legislative action may materially adversely affect the value of, and the returns on, our MBS and residential whole loan investments. The U. S. Government, through the Federal Reserve, the U. S. Treasury Department, the Federal Housing Administration (**or** FHA), the CFPB, and other agencies have in the past implemented, and may in the future implement, a number of federal programs designed to help homeowners avoid residential mortgage loan foreclosures, reduce or forgive certain mortgage payments, or otherwise mitigate losses for homeowners. In addition, Fannie Mae and Freddie Mac implemented their Flex Modification foreclosure prevention program, developed at the direction of the FHFA. Federal loss mitigation programs, as well as private loss mitigation programs offered by investors and servicers, may involve, among other things, the modification of mortgage loans to reduce the principal amount of the loans (through forbearance and / or forgiveness) and / or the rate of interest payable on the loans, or to extend the payment terms of the loans. Especially with respect to residential whole loan investments, loan modifications with respect to a given underlying loan, including, but not limited to, those related to principal payment deferrals, forbearance agreements, forgiveness and coupon reduction, could negatively impact the realized yields and cash flows on such investments. These loan modification programs, future legislative or regulatory actions, including possible amendments to the bankruptcy laws, that result in the modification of outstanding residential mortgage loans, as well as changes in the requirements necessary to qualify for refinancing mortgage loans with Fannie Mae, Freddie Mac or Ginnie Mae, may materially adversely affect the value of, and the returns on, these assets. See the Risk Factor captioned " Risks Associated with Adverse Developments in the Mortgage Finance and Credit Markets and Financial Markets Generally- Actions by the U. S. Government designed to stabilize or reform the financial markets may not achieve their intended effect or otherwise benefit our business, and could materially adversely affect our business. " The Biden administration and Congress may propose and adopt changes in federal policies that have significant impacts on the legal and regulatory framework affecting the mortgage industry. These changes, including personnel changes at the applicable regulatory agencies, may alter the nature and scope of oversight affecting the mortgage finance industry generally and particularly the future role of Fannie Mae and Freddie Mac. Our investments in residential whole loans subject us to servicing- related risks, including those associated with foreclosure and liquidation. We rely on third- party servicers to service and manage the mortgages underlying our residential whole loans. We do not interface with borrowers under the mortgage loans in which we invest or otherwise service the mortgage loans in which we invest. The ultimate returns generated by these investments may depend on the quality of the servicer. If a third- party servicer is not vigilant in seeing that borrowers make their required monthly payments, borrowers may be less likely to make these payments, resulting in a higher frequency of default. If a servicer takes longer to liquidate non- performing mortgages, our losses related to those loans may be higher than originally anticipated. Any failure by servicers to service these mortgages and / or to competently manage and dispose of REO properties could negatively impact the value of these investments and our financial performance. In addition, while we have contracted with third- party servicers to carry out the actual servicing of the loans (including all direct interface with the borrowers), for loans that we acquire together with the related servicing rights, we are nevertheless ultimately responsible, vis- à- vis the borrowers and state and federal regulators, for ensuring that the loans are serviced in accordance with the terms of the related notes and mortgages and applicable law and regulation. (See the Risk Factor captioned " Regulatory Risk and Risks Related to the Investment Company Act of 1940- Our business is subject to extensive regulation **.** " ~~.~~) In light of the current regulatory environment, such exposure could be significant even though we might have contractual claims against our servicers for any failure to service the loans to the required standard. Weak or deteriorating economic conditions may result in liquidity pressures on servicers and other third-party vendors that we rely upon. For instance, as a result of an increase in mortgagors requesting relief in the form of forbearance plans and / or other loss mitigation, servicers and other parties responsible in capital markets securitization transactions for funding advances with respect to delinquent mortgagor payments of principal and interest may begin to experience financial difficulties if mortgagors do not make monthly payments. The negative impact on the business and operations of such servicers or other parties responsible for funding such advances could be significant. Sources of liquidity typically available to servicers and other relevant parties for the purpose of funding advances of monthly mortgage payments, especially entities that are not depository institutions, may not be sufficient to meet the increased need that could result from significantly higher delinquency and / or forbearance rates. The extent of such liquidity pressures in the future is not known at this time and is subject to continual change. The foreclosure process, especially in judicial foreclosure states such as New York, Florida and New Jersey (in which states we have significant exposure), can be lengthy and expensive, and the delays and costs involved in completing a foreclosure, and then subsequently liquidating the REO property through sale, may materially increase any related loss. In addition, at such time as title is taken to a foreclosed property, it may require more extensive rehabilitation than we estimated at acquisition. Thus, a material amount of foreclosed residential mortgage loans, particularly in the states mentioned above, could result in significant losses in our residential whole loan portfolio and could materially adversely affect our results of operations. ~~Due~~ **In addition, due** to the COVID- 19 pandemic, there were various federal, state, and local laws, regulations, orders, and ordinances limiting foreclosure and eviction remedies. ~~On August 26, 2021, the United States Supreme Court declared unconstitutional an executive order issued by the CDC, which created a moratorium on foreclosure proceedings. As a result of the Supreme Court' s ruling, the federal foreclosure moratorium is no longer in effect. The Supreme Court' s ruling does not affect or preclude state and local jurisdictions from issuing orders stopping or limiting evictions and foreclosures in an effort to lessen the financial burden created by COVID- 19 in their jurisdictions, and moratoriums were imposed in certain jurisdictions.~~ Any ~~such~~ **similar** limitations **enacted in the future in response to a pandemic or other events outside our control** could adversely impact the cash flow on those investments. The expanding body of federal, state and local regulations and investigations of mortgage loan originators and servicers may increase costs of compliance and the risks of noncompliance, and may adversely affect servicers' ability to perform their servicing obligations. We work with and rely on third- party servicers to service the residential mortgage loans that we invest in through consolidated trusts. The mortgages underlying the MBS that we acquire are also serviced by third- party servicers that have been hired by the bond issuers. The mortgage servicing business is subject to extensive regulation by federal, state and local governmental authorities and is subject to various laws and judicial and administrative decisions imposing requirements and restrictions and increased compliance costs on a substantial portion of their operations. The volume of new or modified laws and regulations has increased in recent years and the regulators have identified mortgage loan servicing as an enforcement priority. Some jurisdictions and municipalities have enacted laws that restrict loan servicing activities, including delaying or preventing foreclosures or forcing the modification of certain mortgages. Federal laws and regulations have also been proposed or adopted which, among other things, could hinder the ability of a servicer to foreclose promptly on defaulted residential loans, and which could result in assignees being held responsible for violations in the residential loan origination process. For example, due to regulations arising from the COVID-19 pandemic, the **Centers for Disease Control and Prevention (or** CDC **)** issued a federal moratorium against evictions in September 2020, which limited foreclosure and eviction remedies until it was struck down by the Supreme Court in August 2021. In addition, mortgage lenders and third- party servicers have voluntarily, pursuant to federal, state or local regulation, or as part of settlements with law enforcement authorities, established loan modification programs relating to loans they hold or service. These federal, state and local legislative or regulatory actions that result in modifications of our outstanding mortgages, or interests in mortgages acquired by us either directly through consolidated trusts or through our investments in residential MBS, may adversely affect the value of, and returns on, such investments. Mortgage servicers may be incented by the federal government to pursue such loan modifications, as well as forbearance plans and other actions intended to prevent foreclosure, even if such loan modifications and other actions are not in the best interests of the beneficial owners of the mortgages. As a consequence of the foregoing matters, our business, financial condition, results of operations and ability to pay dividends, if any, to our stockholders may be adversely affected. REO properties are illiquid relative to other assets we own. Furthermore, real estate markets are affected by many factors that are beyond our control, such as general and local economic conditions, availability of financing, interest rates and supply and demand. We cannot predict whether we will be able to sell any REO for the price or on the terms set by us or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of an REO. In certain circumstances, we may be required to expend cash to correct defects, pay expenses or to make improvements before a property can be sold, and we cannot assure that we will have cash available to make these payments. As a result, our ownership of REOs could materially and adversely affect our liquidity and results of operations. We have experienced, and may in the future experience, declines in the market value of certain of our investment securities resulting in our recording impairments, which have had, and may in the future have, an adverse effect on our results of operations and financial condition. A decline in the market value of our residential mortgage securities that are accounted for as available- for- sale (or AFS) may require us to recognize impairment against such assets under GAAP. When the fair value of an AFS security is less than its amortized cost at the balance sheet date, the security is considered impaired. If we intend to sell an impaired security, or it is more likely than not that we will be required to sell the impaired security before any anticipated recovery, then we must recognize charges to earnings equal to the entire difference between the investment' s amortized cost and its fair value at the balance sheet date. If we do not expect to sell an impaired security, only the portion of the impairment related to credit losses is recognized through charges to earnings with the remainder recognized through accumulated other comprehensive income / (loss) (or AOCI) on our consolidated balance sheets. Impairments recognized through other comprehensive income / (loss) (or OCI) do not impact earnings. Following the recognition of an impairment through earnings, a valuation allowance will be established for the security. The determination as to the amount of credit impairment recognized in earnings is subjective, as such determination is based on factual information available at the time of assessment as well as on our estimates of the future performance and cash flow projections. As a result, the timing and amount of impairments recognized in earnings constitute material estimates that are susceptible to significant change. As of December 31, ~~2022~~ **2023** , we had approximately $ ~~97~~ **79** . 9 million of investments in financial instruments whose cash flows are considered to be largely dependent on underlying MSRs that either directly or indirectly act as collateral for the investment. Generally, we have the right to receive certain cash flows from the owner of the MSRs that are generated from the servicing fees and / or excess servicing spread associated with the MSRs. While we do not own MSRs, our investments in MSR- related assets indirectly expose us to risks associated with MSRs, such as the illiquidity of MSRs, the risks associated with servicing MSRs (that include, for example, significant regulatory risks and costs) and the ability of the owner to successfully manage its MSR portfolio. Furthermore, the value of MSRs is highly sensitive to changes in prepayment rates. Decreasing market interest rates are generally associated with increases in prepayment rates as borrowers are able to refinance their loans at lower costs. Prepayments result in the partial or complete loss of the cash flows from the related MSR. If these or other MSR- related risks come to fruition, the value of our MSR- related assets could decline significantly. As of December 31, ~~2022~~ **2023** , we had approximately $ ~~28~~ **19** . ~~3~~ **8** million of non- controlling investments in certain loan originators from whom we acquire mortgage loans for investment on a periodic basis. These investments have taken the form of common equity and preferred equity. Unlike our investments in residential mortgage loans and mortgage- backed securities, our investments in loan originators are unsecured and not collateralized by any property of the originators. In addition, we do not manage any of the loan originators in which we have made investments, and because none of our investments give us a controlling stake in any of the loan originators, our ability to influence the business and operations of the originators is limited, in some instances significantly so. Also, because these loan originators are private closely- held enterprises, there are significant restrictions on our ability to sell or otherwise transfer our investments (which are generally illiquid). In the event one or more of the loan originators in which we have made investments should experience a significant decline in its business and operations or otherwise not be able to respond adequately to managerial, compliance or operational challenges that it may encounter, we may be required to write- down all or a portion of the applicable investment, which could have a material adverse impact on our results of operations. Business purpose loans involve a high degree of business and financial risk. Our operations and activities include business purpose loans originated and serviced by Lima One. These business purpose loans include short- term loans that are collateralized by residential and multi- family properties made to non- occupant borrowers that intend to rehabilitate and **refinance or** sell the property for a profit (Transitional loans), as well as long- term mortgage loans made to investors who intend to rent such properties to generate income. Such a borrower' s ability to repay its loan may be adversely impacted by numerous factors, including negative local or more general economic conditions and, in the case of Transitional loans, the borrower' s ability to complete the rehabilitation successfully, on budget and on time. In addition, in the case of mortgage loans secured by rental properties, if tenants who rent their residence from a business purpose loan borrower are unable to make rental payments, are unwilling to make rental payments, or a waiver of the requirement to make rental payments on a timely basis, or at all, is available under the terms of any applicable forbearance or waiver agreement or program (which rental payment forbearance or waiver program may be available as a result of a government- sponsored or government- imposed program or under any such agreement or program a landlord may otherwise offer to tenants), then the value of business purpose loans we own will likely be impaired, potentially materially. Accordingly, deterioration in a borrower' s financial condition and prospects may be accompanied by deterioration in the collateral for the loan. Additionally, as Transitional loans involve properties in transition, they may involve a greater risk of loss than traditional mortgage loans. This type of loan is typically used for acquiring and rehabilitating or improving the quality of single- family residential investment properties and generally serves as an interim financing solution for borrowers and / or properties prior to the borrower selling the property or stabilizing the property and obtaining long- term permanent financing. The typical borrower of these mortgage loans has often identified an undervalued asset that has been under- managed or is located in a recovering market. If the market in which the asset is located fails to improve according to the borrower' s projections, or if the borrower fails to improve the quality of the asset' s management or the value of the asset, the borrower may not receive a sufficient return on the asset to satisfy the transitional loan, and we bear the risk that we may not recover some or all of our investment. In addition, borrowers may use the proceeds of a conventional mortgage to repay a mortgage loan of this type. These loans therefore are subject to risks of a borrower' s inability to obtain permanent financing to repay the Transitional loan. Similar to other mortgage loans in which we invest, business purpose loans are also subject to risks of borrower defaults, bankruptcies, fraud and other losses. Accordingly, 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 of the loan. To the extent we suffer such losses with respect to these loans, our business, results of operations and financial condition may be materially adversely affected. Moreover, although the loans originated by Lima One are business purpose loans, they are still subject to substantial state and federal regulation including around origination, underwriting, licensure and servicing. Should Lima One experience a significant decline in its business and operations or otherwise not be able to respond adequately to managerial, compliance or operational challenges that could have a material adverse impact on our results of operations. In general, the mortgages collateralizing certain of our residential mortgage assets may be prepaid at any time without penalty. Prepayments result when borrowers satisfy (i. e., pay off) the mortgage upon selling or refinancing their mortgaged property. When we acquire assets collateralized by residential mortgage loans, we anticipate that the underlying mortgage loans will prepay at a projected rate which, together with expected coupon income, provides us with an expected yield on that asset. If we purchase an asset at a premium to par value, and borrowers then prepay the underlying mortgage loans at a faster rate than we expect, the increased prepayments would result in a yield lower than expected on such assets because we would be required to amortize the related premium on an accelerated basis. Conversely, if we purchase residential mortgage assets at a discount to par value, and borrowers then prepay the underlying mortgage loans at a slower rate than we expect, the decreased prepayments would result in a lower yield than expected on the asset and / or may result in a decline in the fair value of the asset, which would result in losses if the asset is accounted for at fair value or impairment for an AFS security if the fair value of the security is less than its amortized cost. Prepayment rates on mortgage loans are influenced by changes in mortgage and market interest rates and a variety of economic, geographic, governmental and other factors beyond our control. Consequently, prepayment rates cannot be predicted with certainty and no strategy can completely insulate us from prepayment risks. In periods of declining interest rates, prepayment rates on mortgage loans generally increase. Because of prepayment risk, the market value of certain of our assets may benefit less than other fixed income securities from a decline in interest rates. If general interest rates decline at the same time, we would likely not be able to reinvest the proceeds of the prepayments that we receive in assets yielding as much as those yields on the assets that were prepaid. Our business strategy involves the use of leverage, and we may not achieve what we believe to be optimal levels of leverage or we may become overleveraged, which may materially adversely affect our liquidity, results of operations or financial condition. Our business strategy involves the use of borrowing or " leverage. " We use the borrowed funds to finance our investment portfolio and the acquisition of additional investment assets. Although we are not required to maintain any particular debt- to- equity ratio, certain of our borrowing agreements contain provisions requiring us not to have a debt- to- equity ratio exceeding specified levels. Future increases in the amount by which the collateral value is required to contractually exceed the repurchase transaction loan amount, decreases in the market value of our residential mortgage investments, increases in interest rate volatility and changes in the availability of acceptable financing could cause us to be unable to achieve the amount of leverage we believe to be optimal. The return on our assets and cash available for distribution to our stockholders may be reduced to the extent that changes in market conditions prevent us from achieving the desired amount of leverage on our investments or cause the cost of our financing to increase relative to the income earned on our leveraged assets. If the interest income on the residential mortgage investments that we have purchased with borrowed funds fails to cover the interest expense of the related borrowings, we will experience net interest losses and may experience net losses from operations. Such losses could be significant as a result of our leveraged structure. The risks associated with leverage are more acute during periods of economic slowdown or recession. The use of leverage to finance our residential mortgage investments involves a number of other risks, including, among other things, the following: • If we are unable to renew our borrowings at acceptable interest rates, it may force us to sell assets under adverse market conditions, which may materially adversely affect our liquidity and profitability. Since a portion of our borrowings to finance longer- term residential mortgage investments are under short- term repurchase agreements, our ability to achieve our investment objectives depends on our ability to borrow funds in sufficient amounts and on acceptable terms, and on our ability to renew or replace maturing borrowings on a continuous basis. Our repurchase agreement credit lines are renewable at the discretion of our lenders and, as such, do not contain guaranteed roll-over terms. Our ability to enter into repurchase transactions in the future will depend on the market value of our residential mortgage investments pledged to secure the specific borrowings, the availability of acceptable financing and market liquidity and other conditions existing in the lending market at that time. If we are not able to renew or replace maturing borrowings, we could be forced to sell assets, including assets in an unrealized loss position, in order to maintain liquidity. Forced sales, particularly under adverse market conditions, ~~as frequently occurred during the onset of the COVID- 19 pandemic,~~ could result in lower sales prices than ordinary market sales made in the normal course of business. If our residential mortgage investments were liquidated at prices below our amortized cost (i. e., the cost basis) of such assets, we would incur losses, which could materially adversely affect our earnings. • A decline in the market value of our assets may result in margin calls that may force us to sell assets under adverse market conditions, which may materially adversely affect our liquidity and profitability. In general, the market value of our residential mortgage investments is impacted by changes in interest rates, prevailing market yields and other market conditions, including general economic conditions, home prices and the real estate market generally. A decline in the market value of our residential mortgage investments may limit our ability to borrow against such assets or result in lenders initiating margin calls, which require a pledge of additional collateral or cash to re- establish the required ratio of borrowing to collateral value, under our repurchase agreements. For example, during **past** ~~the initial stages of the COVID- 19 pandemic and related~~ market dislocations, we experienced significantly higher margin calls and lender demanded higher " haircuts " (i. e., the difference between the value of the collateral and the amount lent to the borrower) with respect to our repurchase agreements. Posting additional collateral or cash to support our credit will reduce our liquidity and limit our ability to leverage our assets, which could materially adversely affect our business. As a result, we could be forced to sell a portion of our assets, including MBS in an unrealized loss position, in order to maintain liquidity. • Adverse developments involving major financial institutions or involving one of our lenders could result in a rapid reduction in our ability to borrow and materially adversely affect our liquidity and profitability. A material adverse development involving one or more major financial institutions or the financial markets in general could result in our lenders reducing our access to funds available under our repurchase agreements or terminating such repurchase agreements altogether. Because all of our repurchase agreements are uncommitted and renewable at the discretion of our lenders, our lenders could determine to reduce or terminate our access to future borrowings at virtually any time, which could materially adversely affect our business and profitability. Furthermore, if a number of our lenders became unwilling or unable to continue to provide us with financing, we could be forced to sell assets, including MBS in an unrealized loss position, in order to maintain liquidity. Forced sales, particularly under adverse market conditions, may result in lower sales prices than ordinary market sales made in the normal course of business. If our residential mortgage investments were liquidated at prices below our amortized cost (i. e., the cost basis) of such assets, we would incur losses, which could adversely affect our earnings. ~~We and many other mortgage REITs experienced these conditions in 2020 in connection with the conditions created by the COVID- 19 pandemic.~~ In addition, any uncertainty in the global finance market or weak economic conditions in Europe could cause the conditions described above to have a more pronounced effect on our European lending counterparties. • Our profitability may be materially adversely affected by a reduction in our leverage. As long as we earn a positive spread between interest and other income we earn on our leveraged assets and our borrowing costs, we believe that we can generally increase our profitability by using greater amounts of leverage. There can be no assurance, however, that repurchase financing will remain an efficient source of long- term financing for our assets. The amount of leverage that we use may be limited because our lenders might not make funding available to us at acceptable rates or they may require that we provide additional collateral to secure our borrowings. If our financing strategy is not viable, we will have to find alternative forms of financing for our assets which may not be available to us on acceptable terms or at acceptable rates. In addition, in response to certain interest rate and investment environments or to changes in market liquidity, we could adopt a strategy of reducing our leverage by selling assets or not reinvesting principal payments as assets amortize and / or prepay, thereby decreasing the outstanding amount of our related borrowings. Such an action could reduce interest income, interest expense and net income, the extent of which would be dependent on the level of reduction in assets and liabilities as well as the sale prices for which the assets were sold. • If a counterparty to our repurchase transactions defaults on its obligation to resell the underlying security back to us at the end of the transaction term or if we default on our obligations under the repurchase agreement, we could incur losses. When we engage in repurchase transactions, we generally transfer securities to lenders (i. e., repurchase agreement counterparties) and receive cash from such lenders. Because the cash we receive from the lender when we initially transfer the securities to the lender is less than the value of those securities (this difference is referred to as the " haircut "), if the lender defaults on its obligation to transfer the same securities back to us, we would incur a loss on the transaction equal to the amount of the haircut (assuming there was no change in the value of the securities). Our exposure to defaults by counterparties may be more pronounced during periods of significant volatility in the market conditions for mortgages and mortgage- related assets as well as the broader financial markets. At December 31, ~~2022~~ **2023** , we had greater than 5 % stockholders' equity at risk to the following financing agreement counterparties: **Wells Fargo (approximately 14. 9 %),** Barclay' s Bank (approximately ~~15~~ **8** . ~~6~~ **9** %) **and Churchill** ~~, Wells Fargo~~ (approximately ~~11.~~ 8 ~~%) and Credit Suisse (approximately 9~~ . ~~7~~ **0** %). In addition, generally, if we default on one of our obligations under a repurchase transaction with a particular lender, that lender can elect to terminate the transaction and cease entering into additional repurchase transactions with us. In addition, some of our repurchase agreements contain cross- default provisions, so that if a default occurs under any one agreement, the lenders under our other repurchase agreements could also declare a default. Any losses we incur on our repurchase transactions could materially adversely affect our earnings and thus our cash available for distribution to our stockholders. • Our use of repurchase agreements to borrow money may give our lenders greater rights in the event of bankruptcy. Borrowings made under repurchase agreements may qualify for special treatment under the U. S. Bankruptcy Code. If a lender under one of our repurchase agreements defaults on its obligations, it may be difficult for us to recover our assets pledged as collateral to such lender. 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 of 1950, 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. In addition, in the event of our insolvency or bankruptcy, certain repurchase agreements may qualify for special treatment under the Bankruptcy Code, the effect of which, among other things, would be to allow the creditor under the agreement to avoid the automatic stay provisions of the Bankruptcy Code and take possession of, and liquidate, our collateral under our repurchase agreements without delay. Our risks associated with the insolvency or bankruptcy of a lender maybe more pronounced during periods of significant volatility in the market conditions for mortgages and mortgage- related assets as well as the broader financial markets. Our earnings are primarily generated from the difference between the interest income we earn on our investment portfolio, less net amortization of purchase premiums and discounts, and the interest expense we pay on our borrowings. We rely primarily on borrowings under repurchase agreements and other financing arrangements to finance the acquisition of residential mortgage investments. Our financing arrangements typically have shorter- term contractual maturities than the maturities of our mortgage investments. Even though the majority of our investments have interest rates that adjust over time based on changes in corresponding interest rate indexes, the interest we pay on our borrowings may increase at a faster pace than the interest we earn on our investments. In general, if the interest expense on our borrowings increases relative to the interest income we earn on our investments, our profitability may be materially adversely affected, including due to the following reasons: • Changes in interest rates, cyclical or otherwise, may materially adversely affect our profitability. Interest rates are highly sensitive to many factors, including fiscal and monetary policies and domestic and international economic and political conditions, as well as other factors beyond our control. In general, we finance the acquisition of our investments through borrowings in the form of repurchase transactions, which exposes us to interest rate risk on the financed assets. The cost of our borrowings is based on prevailing market interest rates. Because the terms of our repurchase transactions typically range from one to six months at inception, the interest rates on our borrowings generally adjust more frequently (as new repurchase transactions are entered into upon the maturity of existing repurchase transactions) than the interest rates on our investments. During a period of rising interest rates, our borrowing costs generally will increase at a faster pace than our interest income on the leveraged portion of our investment portfolio, which could result in a decline in our net interest spread and net interest margin. The severity of any such decline would depend on our asset / liability composition (including the impact of hedging transactions) at the time, as well as the magnitude and period over which interest rates increase. Further, an increase in short- term interest rates could also have a negative impact on the market value of our residential mortgage investments. Interest rates increased significantly in 2022 and **2023 and** may continue ~~increasing~~ **to remain high** in ~~2023~~ **2024** . As such, we could experience a decrease in net income or incur a net loss during these periods, which may negatively impact our distributions to stockholders. Inflation by some measures is at the highest readings since 1982, and inflationary pressures have broadened from goods earlier in the pandemic to include shelter costs and a number of labor- intensive services. The rapid acceleration of inflation led to an abrupt shift in the Federal Reserve' s monetary policy stance as they no longer consider these price pressures to be " transitory **.** " ~~. Coming into 2021, the consensus view, including within the Federal Reserve, was that tapering of its treasuries and agency RMBS bond buying program would not begin until 2022, with rates unlikely to rise until 2024. The Federal Reserve actually began to taper its bond buying program in November and then doubled the pace of cuts in December 2021.~~ In ~~addition~~ **an effort to control inflation** , the Federal Reserve raised the federal funds rate seven times in 2022, **followed by eleven** ~~a significant turnaround in officials' policy outlook of earlier in the year. The Federal Reserve has also raised the federal funds~~ rate **raises** ~~once thus far~~ in 2023 ~~, and~~ **. While** markets expect ~~more~~ rate ~~hikes during the remainder of the year~~ **cuts in 2024, it is unclear whether or when such rate cuts will happen** . As the Federal Reserve lifts its federal funds target rate, the margin between short and long- term rates could further compress. Given our reliance on short- term borrowings to generate interest income and the fact that the yield curve continues to flatten and has even recently inverted, or if the Federal Reserve finds itself continuing to fall behind on inflation and more aggressively tightens its current projections, our results of operations, financial condition and business could be materially adversely impacted. For a detailed discussion of the impact of interest rates, see " Interest Rate Risk " included under Part II, Item 7A " Quantitative and Qualitative Disclosures About Market Risk " in this Annual Report on Form 10- K ~~. The interest rates on our repurchase agreements, as well as adjustable- rate mortgage loans in our securitizations, are generally based on LIBOR. On March 5, 2021, the United Kingdom Financial Conduct Authority (or FCA), which regulates LIBOR, announced that all LIBOR tenors relevant to us will cease to be published or will no longer be representative after June 30, 2023. The FCA' s announcement coincides with the March 5, 2021, announcement of LIBOR' s administrator, the ICE Benchmark Administration Limited (or IBA), indicating that, as a result of not having access to input data necessary to calculate LIBOR tenors relevant to us on a representative basis after June 30, 2023, IBA would have to cease publication of such LIBOR tenors immediately after the last publication on June 30, 2023. These announcements mean that any of our LIBOR- based borrowings that extend beyond June 30, 2023 will need to be converted to a replacement rate. Moreover, any adjustable- rate mortgage loans based upon LIBOR will need to convert by that time too. In the United States, the Alternative Reference Rates Committee (or ARRC), a committee of private sector entities with ex- officio official sector members convened by the Federal Reserve Board and the Federal Reserve Bank of New York, has recommended the Secured Overnight Financing Rate (or SOFR) and in some cases, the forward- looking term rate based on SOFR published by CME Group Benchmark Administration Ltd., (or CME Term SOFR) plus, in each case, a recommended spread adjustment as LIBOR' s replacements. The Board of Governors of the Federal Reserve has also named CME Term SOFR as the Board- selected replacement rate for most cash products under the Adjustable Interest Rate (LIBOR) Act of 2021, which governs instruments for which there is no determining person to choose a LIBOR replacement or which have no fallback provisions specifying an alternate replacement rate. There are significant differences~~

~~between LIBOR and SOFR, such as LIBOR being an unsecured lending rate while SOFR is a secured lending rate, and SOFR is an overnight rate while LIBOR reflects term rates at different maturities. If our LIBOR- based borrowings are converted to SOFR or CME Term SOFR, the differences between LIBOR and SOFR, plus the recommended spread adjustment, could result in interest costs that are higher than if LIBOR remained available, which could have a material adverse effect on our operating results. At December 31, 2022, we had Swaps with an aggregate notional balance of approximately $ 3. 2 billion whose interest rates were based on SOFR. Although SOFR and CME Term SOFR are the AARC' s recommended replacement rates, it is also possible that lenders may instead choose alternative replacement rates that may differ from LIBOR in ways similar to SOFR or in other ways that would result in higher interest costs for us. Furthermore, lenders may select alternative rates sooner than June 30, 2023, either in amendments to existing facilities or as we decide to enter into new facilities. It is possible that not all of our assets and liabilities will transition away from LIBOR at the same time, and it is possible that not all of our assets and liabilities will transition to the same alternative reference rate, in each case increasing the difficulty of hedging. We and other market participants have less experience understanding and modeling SOFR- based assets and liabilities than LIBOR- based assets and liabilities, increasing the difficulty of investing, hedging, and risk management. The process of transition involves operational risks. It is not yet possible to predict the magnitude of LIBOR' s end on our borrowing costs and other operations given the remaining uncertainty about which rates will replace LIBOR and the related timing. For further discussion on the impact of LIBOR discontinuation, see " Interest Rate Risk " included under Part II, Item 7A " Quantitative and Qualitative Disclosures About Market Risk " in this Annual Report on Form 10- K. Holders of our fixed- to- floating preferred shares should refer to the relevant prospectus to understand the USD- LIBOR cessation provisions applicable to that class. We do not currently intend to amend any of our fixed- to- floating preferred shares to change the existing USD- LIBOR cessation fallbacks. Our fixed- to- floating preferred shares become callable at the same time they begin to pay a USD- LIBOR- based rate. Should we choose to call our fixed- to- floating preferred shares in order to avoid a dispute over the results of the USD- LIBOR fallbacks, we may be forced to raise additional funds at an unfavorable time~~. Certain of our current lenders require, and future lenders may require, that we enter into restrictive covenants relating to our operations. The various agreements pursuant to which we borrow money to finance our residential mortgage investments generally include customary representations, warranties and covenants, but may also contain more restrictive supplemental terms and conditions. Although specific to each master repurchase or loan agreement, typical supplemental terms include requirements of minimum equity, leverage ratios and performance triggers relating to a decline in equity or net income over a period of time. If we fail to meet or satisfy any covenants, supplemental terms or representations and warranties, we could be in default under the affected agreements and those lenders could elect to declare all amounts outstanding under the agreements to be immediately due and payable, enforce their respective interests against collateral pledged under such agreements and restrict our ability to make additional borrowings. Certain of our financing agreements contain cross- default or cross- acceleration provisions, so that if a default or acceleration of indebtedness occurs under any one agreement, the lenders under our other agreements could also declare a default. Further, under our repurchase agreements, we are typically required to pledge additional assets to our lenders in the event the estimated fair value of the existing pledged collateral under such agreements declines and such lenders demand additional collateral, which may take the form of additional securities, loans or cash. Future lenders may impose similar or additional restrictions and other covenants on us. If we fail to meet or satisfy any of these covenants, we could be in default under these agreements, and our lenders could elect to declare outstanding amounts due and payable, require the posting of additional collateral and enforce their interests against then- existing collateral. We could also be subject to cross- default and acceleration rights and, with respect to collateralized debt, the posting of additional collateral and foreclosure rights upon default. Further, this could also make it difficult for us to satisfy the qualification requirements necessary to maintain our status as a REIT for U. S. federal income tax purposes. Reliance on certain types of financing structures expose us to risks, which could result in losses to us. We use securitization financing for certain of our residential whole loan investments. In such structures, our financing sources typically have only a claim against the special purpose vehicle which we sponsor rather than a general claim against us. Prior to any such financing, we generally seek to finance our investments with relatively short- term repurchase agreements until a sufficient portfolio of assets is accumulated. As a result, we are subject to the risk that we would not be able to acquire, during the period that any short- term repurchase agreements are available, sufficient eligible assets or securities to maximize the efficiency of a securitization. We also bear the risk that we would not be able to obtain new short- term repurchase agreements or would not be able to renew any short- term repurchase agreements after they expire should we need more time to seek and acquire sufficient eligible assets or securities for a securitization. In addition, conditions in the capital markets may make the issuance of any such securitization less attractive to us even when we do have sufficient eligible assets or securities. While we would generally intend to retain a portion of the interests issued under such securitizations and, therefore, still have exposure to any investments included in such securitizations, our inability to enter into such securitizations may increase our overall exposure to risks associated with direct ownership of such investments, including the risk of default. If we are unable to obtain and renew short- term repurchase agreements or to consummate securitizations to finance the selected investments on a long- term basis, we may be required to seek other forms of potentially less attractive financing or to liquidate assets at an inopportune time or price. These financing arrangements require us to make certain representations and warranties regarding the assets that collateralize the borrowings. Although we perform due diligence on the assets that we acquire, certain representations and warranties that we make in respect of such assets may ultimately be determined to be inaccurate. Such representations and warranties may include, but are not limited to, issues such as the validity of the lien; the absence of delinquent taxes or other liens; the loans' compliance with all local, state and federal laws and the delivery of all documents required to perfect title to the lien. In the event of a breach of a representation or warranty, we may be required to repurchase affected loans, make indemnification payments to certain indemnified parties or address any claims associated with such breach. Further, we may have limited or no recourse against the seller from whom we purchased the loans. Such recourse may be limited due to a variety of factors, including the absence of a representation or warranty from the seller corresponding to the representation provided by us or the contractual expiration thereof. A breach of a representation or warranty could adversely affect our results of operations and liquidity. Certain of our financing arrangements are rated by one or more rating agencies and we may sponsor financing facilities in the future that are rated by credit agencies. The related agency or rating agencies may suspend rating notes at any time. Rating agency delays may result in our inability to obtain timely ratings on new notes, which could adversely impact the availability of borrowings or the interest rates, advance rates or other financing terms and adversely affect our results of operations and liquidity. Further, if we are unable to secure ratings from other agencies, limited investor demand for unrated notes could result in further adverse changes to our liquidity and profitability. Maintaining cybersecurity and data security is important to our business and a ~~breach of our~~ cybersecurity **incident** ~~or data security~~ could result in serious harm to our reputation and have a material adverse impact on our business and financial results. When we acquire or originate real estate mortgage loans, we come into possession of borrower non- public personal information that ~~an identity thief~~ **a threat actor** could utilize in engaging in fraudulent activity or theft. We may share this information with third parties, such as loan sub- servicers, outside vendors, third parties interested in acquiring such loans from us, or lenders extending credit to us collateralized by such loans. We have acquired more than 30, 000 residential mortgage loans since 2014, and our Lima One subsidiary, which we acquired in July 2021, has originated several thousand mortgage loans since its founding in 2011. **The** ~~While we have~~ security measures ~~in place~~ **we have implemented** to protect ~~this~~ **personal** information and prevent ~~security~~ **cybersecurity incidents** ~~breaches, these security measures~~ may be compromised as a result of third- party action, including intentional misconduct by computer hackers, cyber- attacks," phishing" attacks, service provider or vendor error, or malfeasance or other intentional or unintentional acts by third parties and bad actors, including third- party service providers. Furthermore, borrower data, including personally identifiable information, may be lost, exposed, or subject to unauthorized access or use as a result of accidents, errors, or malfeasance by our employees, independent contractors, or others working with us or on our behalf. Our servers and systems, and those of our service providers, may be vulnerable to computer malware, break- ins, denial- of- service attacks, and similar disruptions from unauthorized ~~tampering with~~ **access to** our computer systems, which could result in someone obtaining unauthorized access to borrowers' data or our data, including other confidential business information. In the past, we have experienced unauthorized access to certain data and information. Our ~~response was to take immediate steps to investigate and address the unauthorized access, and past unauthorized access has not had, and is not expected to have, a material adverse effect on our business and financial results. We have further developed and enhanced our~~ cybersecurity systems and processes that are intended to protect this type of data and information; however, they may not be effective in preventing unauthorized access in the future. ~~While past unauthorized access has been immaterial to our business and financial results, there can be no assurance of a similar result in the future.~~ Furthermore, because the techniques used to obtain unauthorized access to, or to ~~sabotage~~ **compromise**, systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or implement adequate preventative measures. We may also experience ~~security~~ **cybersecurity** ~~breaches~~ **incidents** that may remain undetected for an extended period. We may be liable for losses suffered by individuals whose ~~identities are stolen~~ **personal information is compromised** as a result of a breach of the security of the systems that we or third- parties and service providers of ours store this information on, and any such liability could be material. Even if we are not liable for such losses, any breach of these systems could expose us to material costs in notifying affected individuals and providing credit monitoring **or other** services to them, as well as regulatory fines or penalties. In addition, any breach of these systems could disrupt our normal business operations and expose us to reputational damage and lost business, revenues, and profits. Any insurance we maintain against the risk of this type of loss may not be sufficient to cover actual losses, or may not apply to the circumstances relating to any particular breach. ~~Security breaches~~ **We may not be able to secure cybersecurity insurance at prices or on terms acceptable to us. Cybersecurity incidents** could also significantly damage our reputation with existing and prospective loan sellers, borrowers, and third parties with whom we do business. Any publicized security problems affecting our businesses and / or those of such third parties may negatively impact the market perception of our products and discourage market participants from doing business with us. These risks may increase in the future as we continue to increase our reliance on the internet and use of web-based product offerings and on the use of cybersecurity. We are dependent on information systems and their failure (including in connection with **cybersecurity incidents** ~~cyber- attacks~~) could significantly disrupt our business. Our business is highly dependent on our information and communications systems, including systems containing or using open source software. Any failure or interruption of our systems or ~~cyber- attacks or security~~ **cybersecurity incidents** ~~breaches of our networks or systems~~ could cause delays or other problems in our securities trading activities, which could have a material adverse effect on operating results, the market price of our common stock and other securities and our ability to pay dividends to our stockholders. Our use of open source software poses particular risk, including potential security vulnerabilities, licensing compliance issues and quality issues. In addition, we also face the risk of operational failure, termination or capacity constraints of any of the third-parties with which we do business or that facilitate our business activities, including clearing agents or other financial intermediaries we use to facilitate our securities transactions as well as the servicers of our loans. Computer malware, viruses, hacking and phishing and **cybersecurity incidents** ~~cyber- attacks~~ have become more prevalent in our industry and may occur on our systems in the future. Additionally, due to the **overall** transition to remote working environments ~~as a result of the COVID-19 pandemic~~, there is an elevated risk of such events occurring. **We may** ~~Although we have~~ not ~~detected a material cybersecurity breach to date, there can be no assurance that we are or will~~ be fully protected against cyber risks and ~~security~~ **cybersecurity** ~~breaches~~ **incidents,** and ~~not~~ **we may** be vulnerable to new and evolving threats to our information technology systems. We rely heavily on financial, accounting and other data processing systems. It is difficult to determine what, if any, negative impact may directly result from any specific interruption or **cybersecurity incidents** ~~cyber- attacks~~ or security breaches of our networks or systems (or networks or systems of, among other third- parties, our lenders and servicers) or any failure to maintain performance, reliability and security of our technical infrastructure. As a result, any such computer malware, viruses, hacking, phishing and **cybersecurity incidents** ~~cyber- attacks~~ may negatively affect our operations. Our results of operations are materially affected by conditions in the markets for mortgages and mortgage- related assets, including MBS, as well as the broader financial markets and the economy generally. Significant adverse changes in financial market conditions leading to the forced sale of large quantities of mortgage- related and other financial assets would result in significant volatility in the market for mortgages and mortgage- related assets and potentially significant losses for ourselves and certain other market participants. In addition, concerns over actual or anticipated low economic growth rates, higher levels of unemployment or uncertainty regarding future U. S. monetary policy may contribute to increased interest rate volatility. Declines in the value of our investments, or perceived market uncertainty about their value, may make it difficult for us to obtain financing on favorable terms or at all, or maintain our compliance with terms of any financing arrangements already in place. Additionally, increased volatility and / or deterioration in the broader residential mortgage and MBS markets could materially adversely affect the performance and market value of our investments. The assets that comprise our investment portfolio and that we acquire are not traded on an exchange. A portion of our investments are subject to legal and other restrictions on resale and are otherwise generally less liquid than exchange- traded securities. 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 have or could be attributed with material, non- public information regarding such business entity. 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 results of operations and financial condition. Our business is heavily regulated. In July 2010, the U. S. Congress enacted the Dodd- Frank Act, in part to impose significant investment restrictions and capital requirements on banking entities and other organizations that are significant to U. S. financial markets. For instance, the Dodd- Frank Act imposes significant restrictions on the proprietary trading activities of certain banking entities and subjects other systemically significant entities and activities regulated by the Federal Reserve to increased capital requirements and quantitative limits for engaging in such activities. The Dodd- Frank Act also seeks to reform the asset- backed securitization market (including the MBS market) by requiring the retention of a portion of the credit risk inherent in the pool of securitized assets and by imposing additional registration and disclosure requirements. The Dodd- Frank Act also imposes significant regulatory restrictions on the origination and servicing of residential mortgage loans. The Dodd- Frank Act' s extensive requirements, and implementation by regulatory agencies such as the Commodity Futures Trading Commission (or CFTC), CFPB, FDIC, Federal Reserve, and the SEC may have a significant effect on the financial markets, and may affect the availability or terms of financing, derivatives or MBS, each of which could have a material adverse effect on our business. Federal consumer protection laws and regulations regulate residential mortgage loan underwriting and originators' lending processes, standards, and disclosures to borrowers. These laws and regulations include, among others, the CFPB " ability- to- repay " and " qualified mortgage " regulations. In addition, there are various other federal, state, and local laws and regulations that are intended to discourage predatory lending practices by residential mortgage loan originators. For example, the federal Home Ownership and Equity Protection Act of 1994 (or HOEPA), which was expanded under the Dodd Frank Act, prohibits inclusion of certain provisions in residential mortgage loans that have mortgage rates or origination costs in excess of prescribed levels and requires that borrowers be given certain disclosures prior to origination. Business purpose loans secured by 1- 4 family residences are also subject to federal and state regulation. The Dodd- Frank Act grants enforcement authority and broad discretionary regulatory authority to the CFPB to prohibit or condition terms, acts or practices relating to mortgage loans that the CFPB finds abusive, unfair, deceptive or predatory, as well as to take other actions that the CFPB finds are necessary or proper to ensure responsible affordable mortgage credit remains available to consumers. The Dodd- Frank Act also affects the securitization of mortgages (and other assets) with requirements for risk retention by securitizers and requirements for regulating rating agencies. Numerous regulations have been issued pursuant to the Dodd- Frank Act, including regulations regarding mortgage loan servicing, underwriting and loan originator compensation and others could be issued in the future. These requirements can and do change as statutes and regulations are enacted, promulgated, amended, and interpreted, and the recent trends among federal and state lawmakers and regulators have been toward stricter laws, regulations, and investigative procedures concerning the mortgage industry generally. As a result, we are unable to fully predict at this time how the Dodd- Frank Act, as well as other laws or regulations that may be adopted in the future, will affect our business, results of operations and financial condition, or the environment for repurchase financing and other forms of borrowing, the investing environment for Agency MBS, Non- Agency MBS and / or residential mortgage loans, origination of business purpose loans secured by 1- 4 family residential property, and the securitization industry. We believe that the Dodd- Frank Act and the regulations promulgated thereunder are likely to continue to increase the economic and compliance costs for participants in the mortgage origination and securitization industries, including us. Some states have enacted, or may enact, similar laws or regulations, which in some cases may impose restrictions and requirements greater than those in place under federal laws and regulations. In addition, under the anti- predatory lending laws of some states, the origination of certain residential mortgage loans, including loans that are classified as " high cost " loans under applicable law, must satisfy a net tangible benefits test with respect to the borrower. This test, as well as certain standards set forth in the " ability- to- repay " and " qualified mortgage " regulations, may be highly subjective and open to interpretation. As a result, a court may determine that a residential mortgage loan did not meet the applicable standard or test even if the originator reasonably believed such standard or test had been satisfied. Failure of residential mortgage loan originators or servicers to comply with federal consumer protection laws and regulations could subject us, or as an assignee or purchaser of these loans (or as an investor in securities backed by these loans), to monetary penalties and defenses to foreclosure, including by recoupment or setoff of damages and costs, which for some violations includes the sum of all finance charges and fees paid by the consumer, and could result in rescission of the affected residential mortgage loans, which could adversely impact our business and financial results. Similarly, with respect to any mortgage loan that we originate, any failure by us or servicers to comply with federal or state laws and regulations could subject us, or an assignee or purchaser of these loans (to the extent that we sell them to an investor in securities backed by these loans), to monetary penalties and defenses to foreclosure, including by recoupment or setoff of damages and costs, which for some violations includes the sum of all finance charges and fees paid by the borrower, and could result in rescission of the affected residential mortgage loans, which could adversely impact our business and financial results. In addition, the U. S. Government, the Federal Reserve, U. S. Treasury and other governmental and regulatory bodies have increased focus and scrutiny on our industry. New proposals for legislation continue to be introduced in the U. S. Congress that could further substantially increase regulation of our industry, impose restrictions on the operations and general ability of firms within the industry to conduct business consistent with historical practices, including in the areas of compensation, interest rates, financial product offerings and disclosures, and have an effect on bankruptcy proceedings with respect to consumer residential real estate mortgages, among other things. International financial regulators are examining standard setting for systemically significant entities, such as those considered by the Third Basel Accords (Basel III) to be incorporated by domestic entities. We cannot predict whether or when such actions may occur or what effect, if any, such actions could have on our business, results of operations and financial condition. The Federal Reserve announced in November 2008 a program of large- scale purchases of Agency MBS in an attempt to lower longer- term interest rates and contribute to an overall easing of adverse financial conditions. Subject to specified investment guidelines, the portfolios of Agency MBS purchased through the programs established by the U. S. Treasury and the Federal Reserve may be held to maturity and, based on mortgage market conditions, adjustments may be made to these portfolios. This flexibility may adversely affect the pricing and availability of Agency MBS during the remaining term of these portfolios. **In** ~~Various regulatory measures enacted in~~ response to the COVID- 19 pandemic ~~affect mortgage servicing~~ **, wide- ranging legal protections for homeowners, including foreclosure moratoria** and ~~could have a material adverse effect on~~ **forbearance provisions, were enacted including through the Coronavirus Aid, Relief, and Economic Security Act (** ~~our~~ - **or** ~~business and financial results. For example, on March 27, 2020, the~~ CARES Act **), which** was signed into law ~~. Among~~ **on March 27, 2020, and rules and letters issued by** the ~~provisions in this wide- ranging law are~~ **FHA and the CFPB. Availability for foreclosure and forbearance** protections for ~~homeowners experiencing financial difficulties due to COVID- 19, including forbearance provisions and procedures. Borrowers~~ **borrowers** with federally backed mortgage loans, regardless of delinquency status, were ~~permitted to request loan forbearance for a six- month period, with the option to extend forbearance for another six- month period if necessary. The CARES Act also modified the manner in which accounts subject to financial accommodation are reported to consumer reporting agencies. Although the initial deadline to request forbearance on federally backed loans was set to expire under the CARES Act on December 31, 2020, FHFA and CFPB announced extensions of several measures to align COVID- 19 mortgage relief policies across the federal government, including additional three- month extensions of COVID- 19 forbearance or payment deferral options for certain borrowers. Federally backed mortgage loans are loans secured by first- or subordinate- liens on 1- 4 family residential real property, including individual units of condominiums and cooperatives, which are insured or guaranteed pursuant to certain government housing programs, such as by the Federal Housing Administration or U. S. Department of Agriculture, or are purchased or securitized by Fannie Mae or Freddie Mac. The CARES Act also included a temporary 60- day foreclosure moratorium that applied to federally backed mortgage loans, which lasted until July 24, 2020. However, the foreclosure moratorium was~~ extended ~~several~~ **multiple** times ~~to July 31, 2021 and the forbearance enrollment window was extended through September 30, 2021 by the Department of Housing and Urban Development, Department of Veterans Affairs, the Department of Agriculture and FHFA, which includes mortgages backed by Fannie Mae and Freddie Mac~~ . **If** ~~Although the federal foreclosure moratorium expired, various states and local jurisdictions also imposed foreclosure moratoriums, some of which remained in effect after the federal moratorium expired. On July 30, 2021, FHFA announced that Fannie Mae and Freddie Mac were extending the moratorium on single- family real estate owned (REO) evictions until September 30, 2021. Federal or state authorities may still enact additional foreclosure relief measures or foreclosure and eviction moratoriums that may continue to adversely impact the cash flow on mortgage loans. The CFPB has announced that it is carefully monitoring conditions in the mortgage market and taking steps to minimize avoidable foreclosures and address any compliance failures, including by conducting prioritized assessments, or targeted supervisory reviews, designed to obtain real- time information from mortgage services due to the elevated risk of consumer harm because of~~ the COVID- 19 pandemic ~~. On June 28, 2021,~~ **resurges or another public health crisis breaks out in** the **future, similar measures may be reenacted, which could adversely affect our business, results of** ~~CFPB finalized amendments to the federal mortgage servicing regulations designed support the housing market' s transition to post- pandemic operation~~ **operations** ~~. The rules established temporary special safeguards to help ensure that borrowers have time before foreclosure to explore their options, including loan modifications~~ and ~~selling their homes. The rules cover loans on principal residences, generally exclude small servicers, and took effect on August 31, 2021. On November 10, 2021, the Board of Governors of the Federal Reserve, the CFPB, the FDIC, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the state~~ financial **condition** ~~regulators (collectively, agencies) announced that they were discontinuing the more flexible supervisory approach announced in April 2020, concluding that servicers have had sufficient time to adjust their operations by, among other things, taking steps to work with consumers affected by the COVID- 19 pandemic and developing more robust business continuity and remote work capabilities. CFPB' s December 2021 Supervisory Highlights show, among other things, that CFPB is prioritizing compliance with Regulation Z and Regulation X, as well as unfair and deceptive acts or practices prohibited by the CFPB. CFPB' s November 2022 Supervisory Highlights shows, among other things, that CFPB' s examinations continue to focus on credit reporting, mortgage servicing fees charged to consumers, and proper handling of COVID- 19 protections. This enhanced scrutiny is likely to continue to increase the economic and compliance costs for participants in the mortgage and securitization industries, including us~~ . We operate in a highly regulated industry and continually changing U. S. federal, state and local laws and regulation could materially adversely affect our business, financial condition and results of operations and our ability to pay dividends to our stockholders. Our business is subject to extensive regulation by federal and state governmental authorities, self- regulatory organizations and securities exchanges. We are required to comply with numerous federal and state laws. We are required to comply with numerous federal and state laws. Laws, regulations, rules and judicial and administrative decisions relating to mortgage loans include those pertaining to Real Estate Settlement Procedures Act (or RESPA), equal credit opportunity, fair lending, fair credit reporting, truth in lending, fair debt collection practices, service members protections, compliance with net worth and financial statement delivery requirements, compliance with U. S. federal and state disclosure and licensing requirements, the establishment of maximum interest rates, finance charges and other charges, qualified mortgages, secured transactions, payment processing, escrow, loss mitigation, collection, foreclosure, repossession and claims- handling procedures, and other trade practices and privacy regulations providing for the use and safeguarding of non- public personal financial information of borrowers. Our mortgage loan servicers must also comply with many of these legal requirements. The laws, rules and regulations comprising this regulatory framework change frequently, as can the interpretation and enforcement of existing laws, rules and regulations. Some of the laws, rules and regulations to which we are subject are intended primarily to safeguard and protect consumers, rather than stockholders or creditors. From time to time, we may receive requests from federal and state agencies for records, documents and information regarding our policies, procedures and practices regarding our business activities. We incur significant ongoing costs to comply with these government regulations. In particular, the Dodd- Frank Act resulted in a comprehensive overhaul of the financial services industry in the United States and includes, among other things (i) the creation of a Financial Stability Oversight Council to identify emerging systemic risks posed by financial firms, activities and practices, and to improve cooperation among U. S. federal agencies, (ii) the creation of the CFPB, authorized to promulgate and enforce consumer protection regulations relating to financial products and services, including mortgage lending and servicing, and to exercise supervisory authority over participants in mortgage lending and mortgage servicing, (iii) the establishment of strengthened capital and prudential standards for banks and bank holding companies, (iv) enhanced regulation of financial markets, including the derivatives and securitization markets, and (v) amendments to the Truth in Lending Act and RESPA, aimed at improving consumer protections with respect to mortgage originations and mortgage servicing, including disclosures, originator compensation, minimum repayment standards, prepayment considerations, appraisals and loss mitigation and other servicing requirements. Unpredictable events, such as the COVID- 19 pandemic, may create economic shocks, to which federal, state, and local governments respond with new borrower and tenant rights and protections. Certain federal and state regulators continue to consider proposals to apply regulatory prudential standards to nonbank servicers, which may impact how our service providers, including the Servicer, are regulated. In addition, the current presidential administration may focus supervision and enforcement tools more aggressively on residential mortgage lenders and servicers, which could result in increased regulatory scrutiny and potentially increased penalties assessed for determinations of non- compliance with applicable requirements. Although we do not directly service residential mortgage loans (except for business purpose loans originated and serviced by Lima One), we must comply with various federal and state laws, rules and regulations as a result of owning MBS and residential whole loans. These rules generally focus on consumer protection and include, among others, rules promulgated under the Dodd- Frank Act, and the Gramm- Leach- Bliley Financial Modernization Act of 1999 (or Gramm- Leach- Bliley). These requirements can and do change as statutes and regulations are enacted, promulgated, amended and interpreted, and the recent trend among federal and state lawmakers and regulators has been toward increasing laws, regulations and investigative proceedings in relation to the mortgage industry generally. For example, ~~on December 10~~ **effective March 1** , ~~2020~~ **2021** , the ~~CFPB issued a final rule that adopts a set of " bright- line " loan pricing thresholds to replace the previous General Qualified Mortgage 43 % debt- to- income threshold calculated in accordance with " Appendix Q " and removes Appendix Q (or~~ General QM Final Rule **provided certain changes to** ~~). The effective date of~~ the **definition of** ~~General~~ **general qualified mortgage loans and the Seasoned** QM Final Rule ~~was March 1, 2021, and the mandatory compliance date was July 1, 2021. On December 10, 2020, the CFPB also issued a final rule that~~ creates a new category of a qualified mortgage, referred to as a " Seasoned QM " ~~(or Seasoned QM Final Rule). A~~ loan is eligible to become a Seasoned QM if it is a first- lien, fixed rate ~~loans~~ - **loan** that meets certain performance requirements over a seasoning period of 36 months, is held in portfolio until the end of the seasoning period by the originating creditor or first purchaser, complies with general restrictions on product features and points and fees, and meets certain underwriting requirements. ~~The~~ **These** ~~effective date~~ **amendments and changes to the necessary policies and procedures to demonstrate compliance with these requirements** for **loans sold in** ~~the Seasoned QM Final Rule was March 1, 2021. At this time, however, there~~ -- **the secondary market may increase** ~~can be no assurance what impact these~~ -- **the** ~~final rules will have on~~ **economic and compliance costs for participants in** the mortgage ~~market~~ **origination** and **securitization industries** ~~the " ability- to- repay " rules. Furthermore~~ , **including us** ~~the temporary qualified mortgage provision applicable to certain mortgage loans eligible for purchase or guarantee by the GSEs under the ability- to- repay, commonly referred to as the " GSE Patch, " was scheduled to expire on the earlier of (i) the mandatory compliance date of the final rule amending the general qualified mortgage definition described above (July 1, 2021) or (ii) the date that the GSEs exit conservatorship. On April 27, 2021, the CFPB issued a final rule extending the mandatory compliance date of the General Qualified Mortgage Rule to October 1, 2022. It similarly extends expiration of the GSE patch to October 1, 2022 or the date the applicable GSE exits conservatorship, whichever happens first. We cannot predict the impact of its expiration on the mortgage market~~ . In addition, actions taken by or proposed to be taken by, among others, FHFA, the U. S. Treasury, the Federal Reserve Board or other U. S. governmental agencies that are intended to regulate the origination, underwriting guidelines, servicing guidelines, servicing compensation and other aspects of Agency MBS can have indirect and sometimes direct effects on our business and business model, and results of operations and liquidity. For example, loan originators and servicers, investors and other participants in the mortgage securities markets may use regulatory guidelines intended for Agency MBS as guidelines or operating procedures in respect of non- Agency MBS. In addition, changes in underwriting guidelines for Agency MBS generally affect the supply of similar or complementary non- Agency MBS. Although we believe that we have structured our operations and investments to comply with existing legal and regulatory requirements and interpretations, changes in regulatory and legal requirements, including changes in their interpretation and enforcement by lawmakers and regulators, could materially and adversely affect our business and our financial condition, liquidity and results of operations. Certain jurisdictions require licenses to purchase, hold, enforce or sell residential mortgage loans. In the event that any such licensing requirement is applicable and we are not able to obtain such licenses in a timely manner or at all, our ability to implement our business strategy could be adversely affected, which could materially and adversely affect our business. Certain jurisdictions require a license to purchase, hold, enforce or sell residential mortgage loans. We currently do not hold any such licenses, and there is no assurance that we will be able to obtain them in a timely manner or at all or, if obtained, that we will be able to maintain them. In connection with these licenses we would be required to comply with various information reporting and other regulatory requirements to maintain those licenses, and there is no assurance that we will be able to satisfy those requirements on an ongoing basis. Our failure to obtain or maintain such licenses or our inability to enter into another regulatory- compliant structure, such as establishing a trust with a federally chartered bank as trustee to purchase and hold the residential mortgage loans, could restrict our ability to invest in loans in these jurisdictions if such licensing requirements are applicable. In lieu of obtaining such licenses, we contribute our acquired residential mortgage loans to one or more trusts in which we or our subsidiaries hold beneficial interests; title to these residential mortgage loans is held by one or more federally- charted banks as trustee, which may be exempt from state licensing requirements. There can be no assurance that the use of the trusts will satisfy an exemption from licensing requirements because regulatory agencies may adopt different interpretations of applicable laws. We are aware of one state regulatory agency that has inquired about our use of the trust structure. If required, there can be no assurance that we will be able to obtain the requisite licenses in a timely manner or at all, or other necessary jurisdictions, which could limit our ability to invest in residential mortgage loans. Our failure to obtain and maintain required licenses may expose us to penalties or other claims and may affect our ability to acquire an adequate and desirable supply of mortgage loans to conduct our securitization program and, as a result, could harm our business. Maintaining our exemption from registration under the Investment Company Act imposes significant limits on our operations. We conduct our operations so that neither we nor any of our subsidiaries are required to register as an investment company under the Investment Company Act. 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. 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 (i. e., the 40 % Test). Excluded from the term " investment securities, " among other things, are U. S. Government securities and securities issued by majority- owned subsidiaries that are not themselves investment companies and are not relying on the exception from the definition of investment company for private funds set forth in Section 3 (c) (1) or Section 3 (c) (7) of the Investment Company Act. We are a holding company and conduct our real estate business primarily through wholly- owned subsidiaries. We conduct our real estate business so that we do not come within the definition of an investment company because less than 40 % of the value of our adjusted total assets on an unconsolidated basis will consist of " investment securities. " The securities issued by any wholly- owned or majority- owned subsidiaries that we may form in the future that are excepted from the definition of " investment company " based on Section 3 (c) (1) or 3 (c) (7) of the Investment Company Act, together with any other investment securities we may own, may not have a value in excess of 40 % of the value of our adjusted total assets on an unconsolidated basis. We monitor our holdings to ensure continuing and ongoing compliance with the 40 % Test. This requirement limits the types of businesses in which we may engage through our subsidiaries. In addition, the assets we and our subsidiaries may acquire are limited by the provisions of the Investment Company Act, the rules and regulations promulgated under the Investment Company Act and SEC staff interpretative guidance, which may adversely affect our performance. In addition, we believe we will not be considered an investment company under Section 3 (a) (1) (A) of the Investment Company Act because we will not engage primarily or hold ourselves out as being engaged primarily in the business of investing, reinvesting or trading in securities. Rather, through our wholly- owned subsidiaries, we will be primarily engaged in the non- investment company businesses of these subsidiaries. If the value of securities issued by our subsidiaries that are excepted from the definition of " investment company " by Section 3 (c) (1) or 3 (c) (7) of the Investment Company Act, together with any other investment securities we own, exceeds 40 % of our adjusted total assets on an unconsolidated basis, or if one or more of such subsidiaries fail to maintain an exception or exemption from the Investment Company Act, we could, among other things, be required either (a) to substantially change the manner in which we conduct our operations to avoid being required to register as an investment company, (b) to effect sales of our assets in a manner that, or at a time when, we would not otherwise choose to do so or (c) to register as an investment company under the Investment Company Act, any of which could have an adverse effect on us and the market price of our securities. If we were required to register as an investment company under the Investment Company Act, we would become subject to substantial regulation with respect to our capital structure (including our ability to use leverage), management, operations, transactions with affiliated persons (as defined in the Investment Company Act), portfolio composition, including restrictions with respect to diversification and industry concentration, and other matters. We expect that our subsidiaries that invest in residential mortgage loans (whether through a consolidated trust or otherwise) will rely upon the exemption from registration as an investment company under the Investment Company Act pursuant to Section 3 (c) (5) (C) of the Investment Company Act, which is available for entities " primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. " This exemption generally requires that at least 55 % of each of these subsidiaries' assets be comprised of qualifying real estate assets and at least 80 % of each of their portfolios be comprised of qualifying real estate assets and real estate- related assets under the Investment Company Act. Mortgage loans that are fully and exclusively secured by real property are generally qualifying real estate assets for purposes of the exemption. All or substantially all of our residential mortgage loans are fully and exclusively secured by real property with a loan- to- value ratio of less than 100 %. As a result, we believe our residential mortgage loans that are fully and exclusively secured by real property meet the definition of qualifying real estate assets. To the extent we own any residential mortgage loans with a loan- to- value ratio of greater than 100 %, we intend to classify, depending on guidance from the SEC staff, only the portion of the value of such loans that does not exceed the value of the real estate collateral as qualifying real estate assets and the excess as real estate- related assets. If the SEC determines that any of a subsidiary' s securities are not qualifying real estate assets or real estate related assets or otherwise believes such subsidiary does not satisfy the exemption under Section 3 (c) (5) (C), we could be required to restructure our activities or sell certain of our assets. In August 2011, the SEC issued a " concept release " pursuant to which they solicited public comments on a wide range of issues relating to companies engaged in the business of acquiring mortgages and mortgage- related instruments and that rely on Section 3 (c) (5) (C) of the Investment Company Act. The concept release and the public comments thereto have not yet resulted in SEC rulemaking or interpretative guidance and we cannot predict what form any such rulemaking or interpretive guidance may take. There can be no assurance, however, that the laws and regulations governing the Investment Company Act status of REITs, or guidance from the SEC or its staff regarding the exemption from registration as an investment company on which we rely, will not change in a manner that adversely affects our operations. We expect each of our subsidiaries relying on Section 3 (c) (5) (C) to rely on guidance published by the SEC staff or on our analyses of guidance published with respect to other types of assets, if any, to determine which assets are qualifying real estate assets and real estate- related assets. The potential outcomes of the SEC' s actions are unclear as is the SEC' s timetable for its review and actions. To the extent that the SEC staff publishes new or different guidance with respect to these matters, we may be required to adjust our strategy accordingly. In addition, we may be limited in our ability to make certain investments and these limitations could result in us holding assets we might wish to sell or selling assets we might wish to hold. Certain of our subsidiaries that hold residential mortgage loans through majority owned subsidiaries may rely on the exemption provided by Section 3 (c) (6), which excludes from the definition of " investment company " any company primarily engaged, directly or through majority- owned subsidiaries, in a business, among others, described in Section 3 (c) (5) (C) of the Investment Company Act (from which not less than 25 % of such company' s gross income during its last fiscal year was derived) together with an additional business or additional businesses other than investing, reinvesting, owning, holding or trading in securities. The SEC staff has issued little interpretive guidance with respect to Section 3 (c) (6) and any guidance published by the staff could require us to adjust our strategy accordingly. To the extent that the SEC staff provides more specific guidance regarding any of the matters bearing upon the exemptions or exceptions from registration under the Investment Company Act that we and our subsidiaries rely on, we may be required to adjust our strategy accordingly. Any additional guidance from the SEC staff could provide additional flexibility to us, or it could further inhibit our ability to pursue the strategies we have chosen. If we fail to qualify for exemption from registration as an investment company, our ability to use leverage would be substantially reduced, and we would not be able to conduct our business as described. There can be no assurance that the laws and regulations governing the Investment Company Act status of REITs, including guidance regarding these exemptions from the Division of Investment Management of the SEC, will not change in a manner that adversely affects our operations. In accordance with our operating policies, we may pursue various types of hedging strategies, including Swaps, to seek to mitigate or reduce our exposure to losses from adverse changes in interest rates. Our hedging activity will vary in scope based on the level and volatility of interest rates, the type of assets held and financing sources used and other changing market conditions. No hedging strategy, however, can completely insulate us from the interest rate risks to which we are exposed and there is no guarantee that the implementation of any hedging strategy would have the desired impact on our results of operations or financial condition. Certain of the U. S. federal income tax requirements that we must satisfy in order to qualify as a REIT may limit our ability to hedge against such risks. We will not enter into derivative transactions if we believe that they will jeopardize our qualification as a REIT. Interest rate hedging may fail to protect or could adversely affect us because, among other things: • interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates; • available interest rate hedges may not correspond directly with the interest rate risk for which protection is sought; • the duration of the hedge may not match the duration of the related hedged instrument; • the credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; and • the party owing money in the hedging transaction may default on its obligation to pay. We primarily use Swaps to hedge against future increases in interest rates on our financing agreements. Should a Swap counterparty be unable to make required payments pursuant to such Swap, the hedged liability would cease to be hedged for the remaining term of the Swap. In addition, we may be at risk for any collateral held by a hedging counterparty to a Swap, should such counterparty become insolvent or file for bankruptcy. Our hedging transactions, which are intended to limit losses, may actually adversely affect our earnings, which could reduce our cash available for distribution to our stockholders. We may enter into hedging instruments that could expose us to contingent liabilities in the future, which could materially adversely affect our results of operations. Subject to maintaining our qualification as a REIT, part of our financing strategy involves entering into hedging instruments that could require us to fund cash payments in certain circumstances (e. g., the early termination of a hedging instrument caused by an event of default or other voluntary or involuntary termination event or the decision by a hedging counterparty to request the posting of collateral that it is contractually owed under the terms of a hedging instrument). With respect to the termination of an existing Swap, the amount due would generally be equal to the unrealized loss of the open Swap position with the hedging counterparty and could also include other fees and charges. These economic losses will be reflected in our financial results of operations and our ability to fund these obligations will depend on the liquidity of our assets and access to capital at the time. Any losses we incur on our hedging instruments could materially adversely affect our earnings and thus our cash available for distribution to our stockholders. The characteristics of hedging instruments present various concerns, including illiquidity, enforceability, and counterparty risks, which could adversely affect our business and results of operations. As indicated above, from time to time we enter into Swaps. Entities entering into Swaps are exposed to credit losses in the event of non- performance by counterparties to these transactions. Rules issued by the CFTC that became effective in October 2012 require the clearing of all Swap transactions through registered derivatives clearing organizations, or swap execution facilities, through standardized documents under which each Swap counterparty transfers its position to another entity whereby the centralized clearinghouse effectively becomes the counterparty to each side of the Swap. It is the intent of the Dodd- Frank Act that the clearing of Swaps in this manner is designed to avoid concentration of swap risk in any single entity by spreading and centralizing the risk in the clearinghouse and its members. In addition to greater initial and periodic margin (collateral) requirements and additional transaction fees both by the swap execution facility and the clearinghouse, the Swap transactions are now subjected to greater regulation by both the CFTC and the SEC. These additional fees, costs, margin requirements, documentation requirements, and regulations could adversely affect our business and results of operations. Clearing facilities or exchanges upon which our hedging instruments are traded may increase margin requirements on our hedging instruments in the event of adverse economic developments. In response to events having or expected to have adverse economic consequences or which create market uncertainty, clearing facilities or exchanges upon which some of our hedging instruments (i. e., interest rate swaps) are traded may require us to post additional collateral against our hedging instruments. For example, in response to the U. S. approaching its debt ceiling without resolution and the federal government shutdown, in October 2013, the Chicago Mercantile Exchange announced that it would increase margin requirements by 12 % for all over- the- counter interest rate swap portfolios that its clearinghouse guaranteed. This increase was subsequently rolled back shortly thereafter upon the news that Congress passed legislation to temporarily suspend the national debt ceiling and reopen the federal government, and provide a time period for broader negotiations concerning federal budgetary issues. In the event that future adverse economic developments or market uncertainty (including those due to governmental, regulatory, or legislative action or inaction) result in increased margin requirements for our hedging instruments, it could materially adversely affect our liquidity position, business, financial condition and results of operations. If we fail to remain qualified as a REIT, we will be subject to 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 have elected to qualify as a REIT and intend to comply with the provisions of the Internal Revenue Code of 1986, as amended (or the Code), related to REIT qualification. Accordingly, we will not be subject to U. S. federal income tax to the extent we distribute 100 % of our REIT taxable income (which is generally our taxable income, computed without regard to the dividends paid deduction, any net income from prohibited transactions, and any net income from foreclosure property) to stockholders within the timeframe permitted under the Code and provided that we comply with certain income, asset ownership and other tests applicable to REITs. We believe that we currently meet all of the REIT requirements and intend to continue to qualify as a REIT under the provisions of the Code. Many of the REIT requirements, however, are highly technical and complex. The determination of whether we are a REIT requires an analysis of various factual matters and circumstances, some of which may not be totally within our control and some of which involve interpretation. For example, if we are to qualify as a REIT, annually at least 75 % of our gross income must come from, among other sources, interest on obligations secured by mortgages on real property or interests in real property, gain from the disposition of real property, including mortgages or interests in real property (other than sales or dispositions of real property, including mortgages on real property, or securities that are treated as mortgages on real property, that we hold primarily for sale to customers in the ordinary course of a trade or business (i. e., prohibited transactions)), dividends or other distributions on, and gains from the disposition of shares in other REITs, commitment fees received for agreements to make real estate loans and certain temporary investment income. In addition, the composition of our assets must meet certain requirements at the close of each quarter. We are also required to distribute to stockholders at least 90 % of our REIT taxable income (determined without regard to the deduction for dividends paid and by excluding net capital gain). There can be no assurance that we will be able to satisfy these or other requirements or that the Internal Revenue Service (or IRS) or a court would agree with any conclusions or positions we have taken in interpreting the REIT requirements. Even a technical or inadvertent mistake could jeopardize our REIT qualification unless we meet certain statutory relief provisions. If we were to fail to qualify as a REIT in any taxable year for any reason, we would be subject to U. S. federal income tax on our taxable income, 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 common stock. Unless we were entitled to relief under certain Code provisions, we also would be disqualified from taxation as a REIT for the four taxable years following the year in which we failed to qualify as a REIT. Our failure to maintain our qualification as a REIT would cause our stock to be delisted from the New York Stock Exchange (or NYSE). The NYSE requires, as a condition to the listing of our shares, that we maintain our REIT status. Consequently, if we fail to maintain our REIT status, our shares would promptly be delisted from the NYSE, which would decrease the trading activity of such shares. This could make it difficult to sell shares and would likely cause the market volume of the shares trading to decline. If we were delisted as a result of losing our REIT status and desired to relist our shares on the NYSE, we would have to reapply to the NYSE to be listed as a domestic corporation. As the NYSE' s listing standards for REITs are less onerous than its standards for domestic corporations, it would be more difficult for us to become a listed company under these heightened standards. We might not be able to satisfy the NYSE' s listing standards for a domestic corporation. As a result, if we were delisted from the NYSE, we might not be able to relist as a domestic corporation, in which case our shares could not trade on the NYSE. REIT distribution requirements could adversely affect our ability to execute our business plan. To maintain our qualification as a REIT, we must distribute at least 90 % of our REIT taxable income (determined without regard to the dividends paid deduction and excluding any net capital gain) to our stockholders within the timeframe permitted under the Code. We generally must make these distributions in the taxable year to which they relate, or in the following taxable year if declared before we timely (including extensions) file our tax return for the year and if paid with or before the first regular dividend payment after such declaration. To the extent that we satisfy this distribution requirement, but distribute less than 100 % of our taxable income, we will be subject to U. S. federal income tax on our undistributed taxable income at regular corporate income tax rates. In addition, if we should fail to distribute during each calendar year at least the sum of (a) 85 % of our REIT ordinary income for such year, (b) 95 % of our REIT capital gain net income for such year, and (c) any undistributed taxable income from prior periods, we would be subject to a non- deductible 4 % excise tax on the excess of such required distribution over the sum of (x) the amounts actually distributed, plus (y) the amounts of income we retained and on which we have paid corporate income tax. The dividend distribution requirement limits the amount of cash we have available for other business purposes, including amounts to fund our growth. Additionally, our taxable income may substantially exceed our net income as determined by GAAP. As an example, realized capital losses may be included in our GAAP net income, but may not be deductible in computing our taxable income. In addition, we may invest in assets that generate taxable income in excess of economic income or in advance of the corresponding cash flow from the assets. Also, our ability, or the ability of our subsidiaries, to deduct interest may be limited under Section 163 (j) of the Code. To the extent that we generate such non- cash taxable income or have limitations on our deductions in a taxable year, we may have to borrow funds on unfavorable terms, sell investments at disadvantageous prices, distribute amounts that would otherwise be invested in future acquisitions or make a taxable distribution of our stock to make distributions sufficient to maintain our qualification as a REIT or avoid corporate income tax in a particular year. These alternatives could increase our costs or reduce our stockholders' equity. Thus, compliance with the REIT requirements may hinder our ability to grow, which could adversely affect the value of our common stock. Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow. Even if we qualify as a REIT for U. S. federal income tax purposes, we may be required to pay certain U. S. federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, excise taxes, state or local income, property and transfer taxes, such as mortgage recording taxes, and other taxes. In addition, in order to meet the REIT qualification requirements, to prevent the recognition of certain types of non- cash income, or to avert the imposition of a 100 % tax that applies to certain gains derived by a REIT from dealer property or inventory (i. e., prohibited transactions tax) we may hold some of our assets through TRSs or other subsidiary corporations that will be subject to corporate level income tax at regular rates. In addition, if we lend money to a TRS, the TRS may be unable to deduct all or a portion of the interest paid to us, which could result in an even higher corporate level tax liability. Furthermore, the Code imposes a 100 % excise tax on certain transactions between a TRS and a REIT that are not conducted at an arm' s- length basis. We intend to structure any transaction with a TRS on terms that we believe are arm' s- length to avoid incurring this 100 % excise tax. There can be no assurances, however, that we will be able to avoid application of the 100 % excise tax. Any of these taxes would reduce our operating cash flow and thus our cash available for distribution to our stockholders. There is a specific exemption from regular U. S. federal income tax for non- U. S. corporations that restrict their activities in the United States to trading stock and securities (or any activity closely related thereto) for their own account, whether such trading (or such other activity) is conducted by the corporation or its employees through a resident broker, commission agent, custodian or other agent. We intend that our foreign TRS will rely on that exemption or otherwise operate in a manner so that it will not be subject to regular U. S. federal income tax on its net income at the entity level. If the IRS succeeded in challenging that tax treatment, it would greatly reduce the amount that the foreign TRS would have available to pay to its creditors and to distribute to us. In addition, even if our foreign TRS qualifies for that exemption, it may nevertheless be subject to U. S. federal withholding tax on certain types of income. Complying with REIT requirements may cause us to forgo otherwise attractive opportunities. To remain qualified as a REIT for U. S. federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts that we distribute to our stockholders and the ownership of our stock. We may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution, and may be unable to pursue investments that would be otherwise advantageous to us in order to satisfy the source- of- income or asset- diversification requirements for qualifying as a REIT. In addition, in certain cases, the modification of a debt instrument could result in the conversion of the instrument from a qualifying real estate asset to a wholly or partially non- qualifying asset that must be contributed to a TRS or disposed of in order for us to maintain our qualification as a REIT. Thus, compliance with the REIT requirements may hinder our ability to make and, in certain cases, to maintain ownership of, certain attractive investments. The net income of our TRSs is not required to be distributed to us, and such undistributed TRS income is generally not subject to our REIT distribution requirements. However, if the accumulation of cash or reinvestment of significant earnings in our TRSs causes the fair market value of our securities in those entities, taken together with other non- qualifying assets, to exceed 25 % of the fair market value of our assets, in each case as determined for REIT asset testing purposes, we would, absent timely responsive action, fail to maintain our qualification as a REIT. Additionally, if the accumulation of cash or reinvestment of significant earnings in our TRSs causes the fair market value of our securities in those entities to exceed 20 % of the fair market value of our assets, in each case as determined for REIT asset testing purposes, we would, absent timely responsive action, similarly fail to maintain our qualification as a REIT. We may generate taxable income that differs from our GAAP income on our Non- Agency MBS and residential whole loan investments purchased at a discount to par value, which may result in significant timing variances in the recognition of income and losses. We have acquired and intend to continue to acquire Non- Agency MBS and residential whole loans at prices that reflect significant market discounts on their unpaid principal balances. For financial statement reporting purposes, we generally establish a portion of the purchase discount on Non- Agency MBS as a Credit Reserve. This Credit Reserve is generally not accreted into income for financial statement reporting purposes. For tax purposes, however, we are not permitted to anticipate, or establish a reserve for, credit losses prior to their occurrence. As a result, discount on securities acquired in the primary or secondary market is included in the determination of taxable income and is not impacted by losses until such losses are incurred. Such differences in accounting for tax and GAAP can lead to significant timing variances in the recognition of income and losses. Taxable income on Non- Agency MBS purchased at a discount to their par value may be higher than GAAP earnings in early periods (before losses are actually incurred) and lower than GAAP earnings in periods during and subsequent to when realized credit losses are incurred. Dividends will be declared and paid at the discretion of our Board and will depend on REIT taxable earnings, our financial results and overall financial condition, maintenance of our REIT qualification and such other factors as our Board may deem relevant from time to time. The tax on prohibited transactions may limit our ability to engage in transactions, including certain methods of securitizing mortgage loans, that would be treated as sales for U. S. federal income tax purposes. A REIT' s net income from prohibited transactions is subject to a 100 % tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, but including mortgage loans, held primarily for sale to customers in the ordinary course of business. We might be subject to this tax if we were to dispose of or securitize loans or MBS securities in a manner that was treated as a sale of the loans or MBS for U. S. federal income tax purposes. Therefore, to avoid the prohibited transactions tax, we may choose to engage in certain sales of loans through a TRS and not at the REIT level, and we may be limited as to the structures we are able to utilize for our securitization transactions, even though the sales or structures might otherwise be beneficial to us. We do not believe that our securitizations to date have been subject to this tax, but there can be no assurances that the IRS would agree with such treatment. If the IRS successfully challenged such treatment, our results of operations could be materially adversely affected. 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. The real estate mortgage investment conduit (or REMIC) provisions of the Code generally provide that REMICs are the only form of pass- through entity permitted to issue debt obligations with two or more maturities if the payments on those obligations bear a relationship to the mortgage obligations held by such entity. If we engage in a non- REMIC securitization transaction, directly or indirectly through a QRS, in which the assets held by the securitization vehicle consist largely of mortgage loans or MBS, in which the securitization vehicle issues to investors two or more classes of debt instruments that have different maturities, and in which the timing and amount of payments on the debt instruments is determined in large part by the amounts received on the mortgage loans or MBS held by the securitization vehicle, the securitization vehicle will be a taxable mortgage pool. As long as we or another REIT holds a 100 % interest in the equity interests in a taxable mortgage pool, either directly or through a QRS, the taxable mortgage pool will not be subject to tax. A portion of the income that we realize with respect to the equity interest we hold in a taxable mortgage pool will, however, be considered to be excess inclusion income and, as a result, a portion of the dividends that we pay to our stockholders will be considered to consist of excess inclusion income. Such excess inclusion income is treated as unrelated business taxable income (or UBTI) for tax- exempt stockholders, is subject to withholding for foreign stockholders (without the benefit of any treaty reduction), and is not subject to reduction by net operating loss carryovers. In addition to the extent that our stock is owned by tax- exempt " disqualified organizations, " such as certain government- related entities and charitable remainder trusts that are not subject to tax on unrelated business income, we may incur a corporate level tax on a portion of our income from the taxable mortgage pool. In that case, we may reduce the amount of our distributions to any disqualified organization whose stock ownership gave rise to the tax. Historically, we have not generated excess inclusion income; however, despite our efforts, we may not be able to avoid creating or distributing excess inclusion income to our stockholders in the future. In addition, we could face limitations in selling equity interests to outside investors in securitization transactions that are taxable mortgage pools or selling any debt securities issued in connection with these securitizations that might be considered to be equity interests for tax purposes. These limitations may prevent us from using certain techniques to maximize our returns from securitization transactions. We have not established a minimum dividend payment level, and there is no guarantee that we will maintain current dividend payment levels or pay dividends in the future. In order to maintain our qualification as a REIT, we must comply with a number of requirements under U. S. federal tax law, including that we distribute at least 90 % of our REIT taxable income within the timeframe permitted under the Code, which is calculated generally before the dividends paid deduction and excluding net capital gain. Dividends will be declared and paid at the discretion of our Board and will depend on our REIT taxable earnings, our financial results and overall condition, maintenance of our REIT qualification and such other factors as our Board may deem relevant from time to time. We have not established a minimum dividend payment level for our common stock and our ability to pay dividends may be negatively impacted by adverse changes in our operating results. Therefore, our dividend payment level may fluctuate significantly, and, under some circumstances, we may not pay dividends at all. Our reported GAAP net income may differ from the amount of REIT taxable income and dividend distribution requirements and, therefore, our GAAP results may not be an accurate indicator of future taxable income and dividend distributions. Generally, the cumulative net income we report over the life of an asset will be the same for GAAP and tax purposes, although the timing of this income recognition over the life of the asset could be materially different. Differences exist in the accounting for GAAP net income and REIT taxable income which can lead to significant variances in the amount and timing of when income and losses are recognized under these two measures. Due to these differences, our reported GAAP financial results could materially differ from our determination of REIT taxable income and our dividend distribution requirements, and, therefore, our GAAP results may not be an accurate indicator of future taxable income and dividend distributions. Over time, accounting principles, conventions, rules, and interpretations may change, which could affect our reported GAAP and taxable earnings, and stockholders' equity. Accounting rules for the various aspects of our business change from time to time. Changes in GAAP, or the accepted interpretation of these accounting principles, can affect our reported income, earnings, and stockholders' equity. In addition, changes in tax accounting rules or the interpretations thereof could affect our REIT taxable income and our dividend distribution requirements. These changes may materially adversely affect our results of operations. We enter into certain financing arrangements that are structured as sale and repurchase agreements pursuant to which we nominally sell certain of our assets to a counterparty and simultaneously enter into an agreement to repurchase these assets at a later date in exchange for a purchase price. Economically, these agreements are financings that are secured by the assets sold pursuant thereto. We generally believe that we would be treated for REIT asset and income test purposes as the owner of the assets that are the subject of any such sale and repurchase agreement notwithstanding that such agreement may transfer record ownership of the assets to the counterparty during the term of the agreement. It is possible, however, that the IRS could assert that we did not own the assets during the term of the sale and repurchase agreement, in which case we could fail to remain qualified as a REIT. The REIT provisions of the Code could substantially limit our ability to hedge our business. Any income from a properly designated hedging transaction we enter into to manage the risk of interest rate changes with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, to acquire or carry real estate assets, or from certain other limited types of hedging transactions, generally does not constitute " gross income " for purposes of the 75 % or 95 % gross income tests. 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 gross income tests. As a result of these rules, we may have to limit our use of advantageous hedging techniques or implement those hedges through a TRS. This could increase the cost of our hedging activities because a TRS would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in a TRS will generally not provide any tax benefit, except for being carried forward against future taxable income in the TRS. We may acquire debt instruments in the secondary market for less than their face amount. The discount at which such 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, which we are required to include in our taxable income either over time or as principal payments are received, as applicable. If we collect less on the 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. Some of the debt instruments 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 debt instruments will be made. If such debt instruments turn out not to be fully collectible, an offsetting loss deduction will become available only in the later year that uncollectability is provable. In addition, we may acquire debt instruments that are subsequently modified by agreement with the borrower. If the amendments to the outstanding instrument are " significant modifications " under the applicable U. S. Treasury regulations, the modified instrument will be considered to have been reissued to us 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 instrument exceeds our adjusted tax basis in the unmodified instrument, even if the value of the instrument or the payment expectations have not changed. Following such a taxable modification, we would hold the modified loan with a cost basis equal to its principal amount for U. S. federal income tax purposes. Finally, in the event that any debt instruments acquired by us are delinquent as to mandatory principal and interest payments, or in the event payments with respect to a particular instrument are not made when 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 debt instruments at its 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 uncollectible, the utility of that deduction could depend on our having taxable income in that later year or thereafter. For these and other reasons, we may have difficulty making distributions sufficient to maintain our qualification as a REIT or avoid corporate income tax and the 4 % excise tax in a particular year. Most of the Purchased Credit Deteriorated and Non- performing loans that we have acquired were acquired by us at a discount from their outstanding principal amount, because our pricing was generally based on the value of the underlying real estate that secures those mortgage loans. Treasury Regulation Section 1. 856- 5 (c) (the " interest apportionment regulation ") provides that if a mortgage is secured by both real property and other property, a REIT is required to apportion its annual interest income to the real property security based on a fraction, the numerator of which is the value of the real property securing the loan, determined when the REIT commits to acquire the loan, and the denominator of which is the highest " principal amount " of the loan during the year. If a mortgage is secured by both real property and personal property and the value of the personal property does not exceed 15 % of the aggregate value of the property securing the mortgage, the mortgage is treated as secured solely by real property for this purpose. Revenue Procedure 2014- 51 interprets the " principal amount " of the loan to be the face amount of the loan, despite the Code requiring taxpayers to treat any market discount, that is the difference between the purchase price of the loan and its face amount, for all purposes (other than certain withholding and information reporting purposes) as interest rather than principal. The interest apportionment regulation applies only if the debt in question is secured both by real property and personal property. We believe that all of the mortgage loans that we acquire at a discount under the circumstances contemplated by Revenue Procedure 2014- 51 are secured only by real property, and no other property value is taken into account in our underwriting and pricing. Accordingly, we believe that the interest apportionment regulation does not apply to our portfolio. Nevertheless, if the IRS were to assert successfully that our mortgage loans were secured by property other than real estate, that the interest apportionment regulation applied for purposes of our REIT testing, and that the position taken in Revenue Procedure 2014- 51 should be applied to our portfolio, then depending upon the value of the real property securing our loans and their face amount, and the sources of our gross income generally, we might not be able to meet the REIT 75 % gross income test, and possibly the asset tests applicable to REITs. If we did not meet these tests, we could potentially either lose our REIT status or be required to pay a tax penalty to the IRS. With respect to the REIT 75 % asset test, Revenue Procedure 2014- 51 provides a safe harbor under which the IRS will not challenge a REIT' s treatment of a loan as being a real estate asset in an amount equal to the lesser of (1) the greater of (a) the current value of the real property securing the loan or (b) the fair market value of the real property securing the loan determined as of the date the REIT committed to acquire the loan or (2) the fair market value of the loan on the date of the relevant quarterly REIT asset testing date. This safe harbor, if it applied to us, would help us comply with the REIT asset tests following the acquisition of distressed debt if the value of the real property securing the loan were to subsequently decline. If we did not meet one or more of the REIT asset tests, then we could potentially either lose our REIT status or be required to pay a tax penalty to the IRS. Qualified dividend income payable to U. S. investors that are individuals, trusts, and estates is subject to the reduced maximum tax rate applicable to long-term capital gains. Dividends paid by REITs, however, are generally not eligible for the reduced qualified dividend rates. For taxable years beginning before January 1, 2026, non- corporate taxpayers may deduct up to 20 % of certain pass- through business income, including " qualified REIT dividends " (generally, dividends received by a REIT stockholder that are not designated as capital gain dividends or qualified dividend income), subject to certain limitations. Although the reduced U. S. federal income tax rate applicable to qualified dividend income does not adversely affect the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends and the reduced corporate tax rate could cause certain non- corporate investors to perceive investments in REITs to be relatively less attractive than investments in the stocks of non- REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our common stock. We may in the future choose to make distributions in our own stock, in which case you could be required to pay income taxes in excess of any cash distributions you receive. We may in the future make taxable distributions that are payable in cash and shares of our common stock at the election of each stockholder. Taxable stockholders receiving such distributions will be required to include the full amount of the distribution as ordinary income to the extent of our current and accumulated earnings and profits for federal income tax purposes. As a result, stockholders may be required to pay income taxes with respect to such distributions in excess of the cash distributions received. If a U. S. stockholder sells the stock that it receives as a distribution in order to pay this tax, the sale proceeds may be less than the amount included in income with respect to the distribution, depending on the market price of our stock at the time of the sale. Furthermore, with respect to certain non- U. S. stockholders, we may be required to withhold U. S. tax with respect to such distributions, including in respect of all or a portion of such distribution that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our common stock in order to pay taxes owed on distributions, it may put downward pressure on the market price of our common stock. The IRS has issued guidance authorizing elective cash / stock dividends to be made by public REITs where there is a minimum amount of cash that must be paid as part of the dividend, provided that certain requirements are met. It is unclear whether and to what extent we would be able to or choose to pay taxable distributions in cash and stock. In addition, no assurance can be given that the IRS will not impose additional requirements in the future with respect to taxable cash / stock distributions, including on a retroactive basis, or assert that the requirements for such taxable cash / stock distributions have not been met. New legislation or administrative or judicial action, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to remain qualified as a REIT. The present U. S. federal income tax treatment of REITs and their shareholders 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. Revisions in U. S. federal income tax laws and interpretations thereof, including those dealing with REITs, are constantly under review by persons involved in the legislative process, the IRS and the U. S. Treasury Department, which results in statutory changes as well as frequent revisions to regulations. Such changes could affect or cause us to change our investments and commitments and affect the tax considerations of an investment in us. We cannot predict the long- term effect of any future law changes on REITs and their stockholders. Any such changes could have an adverse effect on an investment in our stock or on the market value or the resale potential of our assets. Our ownership limitations may restrict business combination opportunities. To qualify as a REIT under the Code, no more than 50 % of the value of our outstanding shares of capital stock may be owned, directly or under applicable attribution rules, by five or fewer individuals (as defined by the Code to include certain entities) during the last half of each taxable year. To preserve our REIT qualification, among other things, our charter generally prohibits direct or indirect ownership by any person of more than 9. 8 % of the number or value of the outstanding shares of our capital stock. Generally, shares owned by affiliated owners will be aggregated for purposes of the ownership limit. Any transfer of shares of our capital stock or other event that, if effective, would (a) violate the ownership limit, (b) cause us to become " closely held " under Section 856 (h) of the Code or (c) would cause our equity stock to be owned by fewer than 100 persons, will be void as to that number of shares of capital stock in excess of the ownership limit, causing us to be " closely held " or which would otherwise be owned by the transferee, respectively, and the intended transferee will acquire no rights in such shares. Shares issued or transferred that would cause any stockholder to own more than the ownership limit or cause us to become " closely held " under Section 856 (h) of the Code will automatically be converted into an equal number of shares of excess stock. All excess stock will be automatically transferred, without action by the prohibited owner, to a trust for the exclusive benefit of one or more charitable beneficiaries that we select, and the prohibited owner will not acquire any rights in the shares of excess stock. The restrictions on ownership and transfer contained in our charter could have the effect of delaying, deferring or preventing a change in control or other transaction in which holders of shares of common stock might receive a premium for their shares of common stock over the then current market price or that such holders might believe to be otherwise in their best interests. The ownership limit provisions also may make our shares of common stock an unsuitable investment vehicle for any person seeking to obtain, either alone or with others as a group, ownership of more than 9. 8 % of the number or value of our outstanding shares of capital stock. Provisions of Maryland law and other provisions of our organizational documents may limit the ability of a third- party to acquire us. Certain provisions of the Maryland General Corporation Law (or MGCL) may have the effect of delaying, deferring or preventing a transaction or a change in control of our company that might involve a premium price for holders of our common stock or otherwise be in their best interests, including: • " business combination " provisions that, subject to limitations, 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, at any time within the two- year period immediately prior to the date in question, was the beneficial owner of 10 % or more of the voting power of our then outstanding stock) or an affiliate of an interested stockholder for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter impose two supermajority stockholder voting requirements to approve these combinations (unless our common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares); and • " control share " provisions that provide that holders of " control shares " of our company (defined as voting shares of stock which, when aggregated with all other shares controlled by the acquiring stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a " control share acquisition " (defined as the direct or indirect acquisition of ownership or control of " control shares ") have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two- thirds of all the votes entitled to be cast on the matter, excluding all interested shares. Our bylaws provide that we are not subject to the " control share " provisions of the MGCL. However, our Board may elect to make the " control share " statute applicable to us at any time, and may do so without stockholder approval. Title 3, Subtitle 8 of the MGCL permits our Board, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to elect on behalf of our company to be subject to statutory provisions that may have the effect of delaying, deferring or preventing a transaction or a change in control of our company that might involve a premium price for holders of our common stock or otherwise be in their best interest. Our Board may elect to opt in to any or all of the provisions of Title 3, Subtitle 8 of the MGCL without stockholder approval at any time. In addition, without our having elected to be subject to Subtitle 8, our charter and bylaws already (1) provide for a classified board, (2) require the affirmative vote of the holders of at least 80 % of the votes entitled to be cast in the election of directors for the removal of any director from our Board, which removal will be allowed only for cause and (3) vest in our Board the exclusive power to fix the number of directorships. These provisions may delay or prevent a change of control of our company. Future offerings of debt securities, which would rank senior to our common stock upon liquidation, and future offerings of equity securities, which would dilute our existing stockholders and may be senior to our common stock for the purposes of dividend and liquidating distributions, may adversely affect the market price of our common stock. In the future, we may attempt to increase our capital resources by making offerings of debt or additional offerings of equity securities, including commercial paper, senior or subordinated notes and series or classes of preferred stock or common stock. Upon liquidation, holders of our debt securities and shares of preferred stock, if any, and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our common stock, or both. Preferred stock could have a preference on liquidating distributions or a preference on dividend payments or both that could limit our ability to make a dividend distribution to the holders of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, holders of our common stock bear the risk of our future offerings reducing the market price of our common stock and diluting their stock holdings in us. Our Board may approve the issuance of capital stock with terms that may discourage a third- party from acquiring us. Our charter permits our Board to issue shares of preferred stock, issuable in one or more classes or series. We may issue a class of preferred stock to individual investors in order to comply with the various REIT requirements or to finance our operations. Our charter further permits our Board to classify or reclassify any unissued shares of preferred or common stock and establish the preferences and rights (including, among others, voting, dividend and conversion rights) of any such shares of stock, which rights may be superior to those of shares of our common stock. Thus, our Board could authorize the issuance of shares of preferred or common stock with terms and conditions that could have the effect of discouraging a takeover or other transaction in which holders of the outstanding shares of our common stock might receive a premium for their shares over the then current market price of our common stock. Future issuances or sales of shares could cause our share price to decline. Sales of substantial numbers of shares of our common stock in the public market, or the perception that such sales might occur, could adversely affect the market price of our common stock. In addition, the sale of these shares could impair our ability to raise capital through a sale of additional equity securities. Other issuances of our common stock, such as through equity awards to our employees, could have an adverse effect on the market price of our common stock. In addition, future issuances of our common stock may be dilutive to existing stockholders. The declaration, amount and payment of future cash dividends on shares of our common stock are subject to uncertainty due to disruption in the mortgage, housing or related sectors. The declaration, amount and payment of any future dividends on shares of our common stock will be at the sole discretion of our Board. From time to time, our Board may adjust our quarterly cash dividend on our shares of our common stock from prior quarters. The payment of dividends may be more uncertain during severe market disruption in the mortgage, housing or related sectors. ~~The COVID- 19 pandemic has adversely affected our business, financial condition, liquidity and results of operations, and may continue to do so. The COVID- 19 pandemic has negatively affected our business, and it may continue to do so. The early 2020 outbreak caused significant volatility and disruption in the financial markets both in the United States and globally, and periods of market volatility and disruption have continued to occur at various times since the initial outbreak, in particular when new variants of the virus that causes COVID- 19 appear and result in an increase in the number of new cases, hospitalizations or deaths. If COVID- 19, or another highly infectious or contagious disease, continues to spread or otherwise remain at high levels, or the response (including vaccines) to contain it is unsuccessful, we could continue to, or once again begin to, experience material adverse effects on our business, financial condition, liquidity, and results of operations. The extent of such effects will depend on future developments which are highly uncertain and cannot be predicted, including the geographic spread of COVID- 19, or another highly infectious or contagious disease, the overall severity of the disease, the development and characteristics of variants (including variants not yet identified) of the disease, the duration of the outbreak, the effectiveness and acceptance of vaccines, the measures taken by various governmental authorities in response to the outbreak (such as quarantines and travel restrictions) and the possible impacts on the global economy. The continued spread of COVID- 19 and health related concerns could also negatively impact the availability of key personnel who are necessary to conduct our business. In addition,~~

~~governments have adopted policies, laws and plans intended to address the COVID- 19 pandemic and adverse developments in the credit, financial and mortgage markets. We cannot predict the ultimate effect that any policies, laws and plans adopted in response to the COVID- 19 pandemic will have on us.~~ We are dependent on our executive officers and other key personnel for our success, the loss of any of whom may materially adversely affect our business. Our success is dependent upon the efforts, experience, diligence, skill and network of business contacts of our executive officers and other key personnel. The departure of any of our executive officers and / or key personnel could have a material adverse effect on our operations and performance. We operate in a highly competitive market for investment opportunities and competition may limit our ability to acquire desirable investments, which could materially adversely affect our results of operations. We operate in a highly competitive market for investment opportunities. Our profitability depends, in large part, on our ability to acquire residential mortgage assets or other investments at favorable prices. In acquiring our investments, we compete with a variety of institutional investors, including other REITs, public and private funds, commercial and investment banks, commercial finance and insurance companies and other financial institutions. Many of our competitors are substantially larger and have considerably greater financial, technical, marketing and other resources than we do. Some competitors may have a lower cost of funds and access to funding sources 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 exemption from the Investment Company Act similar to ours. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments, establish business relationships that we would not be willing to enter into, or compete aggressively against us to acquire residential mortgage assets from our existing asset sellers or financing counterparties. Furthermore, government or regulatory action and competition for investment securities of the types and classes which we acquire may lead to the price of such assets increasing, which may further limit our ability to generate desired returns. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, desirable investments 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.