Risk Factors Comparison 2024-02-28 to 2023-02-28 Form: 10-K

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

Our business and operations are subject to a number of risks and uncertainties, the occurrence of which could adversely affect our business, financial condition, consolidated results of operations and ability to make distributions to stockholders and could cause the value of our capital stock to decline. The risks and uncertainties described below are not the only ones we face but do represent those risks and uncertainties that we believe are material to our business, operating results, prospects and financial condition. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also harm our business. Risks Related to Our Business Difficult conditions in the mortgage, residential and commercial real estate markets, or in the financial markets and the economy generally, including market volatility, inflation, the ~~outbreak~~ **effects** of COVID- 19 and **geopolitical tensions** ~~the emergence and severity of variants~~ , may cause us to experience market losses related to our holdings, and there is no assurance that these conditions will improve in the near future. Our results of operations are materially affected by conditions in the mortgage market, the residential and commercial real estate markets, the financial markets and the economy generally. Difficult market conditions, as well as inflation, energy costs, geopolitical issues, health epidemics and outbreaks of contagious diseases, such as the outbreak of COVID- 19, unemployment and the availability and cost of credit, can contribute to increased volatility and diminished expectations for the economy and markets. **The** ~~Since the onset of the global financial crisis, the~~ U. S. mortgage market has been severely affected by changes in the lending landscape and has experienced defaults, credit losses and significant liquidity concerns, and there is no assurance that these conditions have fully stabilized or that existing conditions will not worsen. Disruptions in mortgage markets negatively impact new demand for real estate. Further, disruptions in the broader financial markets, including the occurrence of unforeseen or catastrophic events such as the ~~outbreak~~ **effects** of COVID- 19 or other widespread health emergencies **, geopolitical tensions** or terrorist attacks, could adversely affect our business and operations. Any such disruption could adversely impact our ability to raise capital, cause increases in borrower defaults and decreases in the value of our assets, cause continued interest rate volatility and movements that could make obtaining financing or refinancing our debt obligations more challenging or more expensive, and could lead to operational difficulties that could impair our ability to manage our business. A deterioration of the ~~SBC~~ **LMM** or ~~SBC~~ **LMM** ABS markets or the broader financial markets may cause us to experience losses related to our assets and to sell assets at a loss. Our profitability may be materially adversely affected if we are unable to obtain cost effective financing. A continuation or increase in the volatility and deterioration in the ~~SBC~~ **LMM** and ~~SBC~~ **LMM** ABS markets as well as the broader financial markets may adversely affect the performance and fair market values of our ~~SBC~~ **LMM** loan and ~~SBC~~ **LMM** ABS assets and may adversely affect our results of operations and credit availability, which may reduce earnings and, in turn, cash available for distribution to our stockholders. Inflation in the U. S. ~~has accelerated recently and~~ is ~~currently~~ expected to continue at an elevated level in the near- to medium- term, which may have an adverse impact on the valuation of our investments. Heightened competition for workers, supply chain issues, the relocation of foreign production and manufacturing businesses to the U. S., and rising energy and commodity prices have contributed to increasing wages and other economic inputs. Inflation can negatively impact the profitability of real estate assets with long- term leases that do not provide for short- term rent increases or that provide for rent increases with a lower annual percentage increase than inflation. Continued inflation, particularly at higher levels, may have an adverse impact on the valuation of our investments. We anticipate a significant portion of our investments will be in the form of ~~SBC~~ **LMM** loans that are subject to risks, such as credit risk. A loan is considered to be performing if the borrower is current on all contractual payments due for principal and interest during the most recent 90 days. We consider a loan to be non- performing if the borrower does not meet the criteria of a performing loan. Non- performing ~~SBC~~ **LMM** loans are subject to increased risks of credit loss for a variety of reasons, including, the underlying property is too highly- leveraged or the borrower has experienced financial distress. Non- performing ~~SBC~~ **LMM** loans may require a substantial amount of workout negotiations and / or restructuring, which may divert our attention from other activities and entail, among other things, a substantial reduction in the interest rate or capitalization of past due interest. However, even if restructurings are successfully accomplished, risks still exist that borrowers will not be able or willing to maintain the restructured payments or refinance the restructured mortgage upon maturity. Additional risks inherent in the acquisition of non- performing ~~SBC~~ **LMM** loans include undisclosed claims, undisclosed tax liens that may have priority, higher legal costs and greater difficulties in determining the value of the underlying property. As of December 31, ~~2022~~ **2023** , the average loan- to- value (" LTV ") on the originated portfolio was ~~67~~ **66** . ~~6~~ **4** %. The weighted average LTV of our acquired loans was ~~58~~ **56** . ~~0~~ **1** % as of December 31, ~~2022~~ **2023 . LTV is calculated by dividing the current UPB by the most recent collateral value received. The most recent value for performing loans is often the third- party as- is valuation utilized during the original underwriting process** . If such ~~SBC~~ **LMM** loans with higher LTV ratios become delinquent, we may experience greater credit losses compared to lower- leveraged properties. Additional risks inherent in the acquisition of delinquent ~~SBC~~ **LMM** loans include undisclosed claims, undisclosed tax liens that may have priority, higher legal costs and greater difficulties in determining the value of the underlying property. **Disruptions in the financial and banking sectors may adversely impact our access to capital and our cost of borrowing, which could adversely affect us, our business or our results of operations. We finance the acquisition of a significant portion of our commercial and residential mortgage loans, MBS and other assets with our repurchase agreements, credit facilities, and other financing agreements. Disruptions and uncertainty in the financial and banking sectors, including due to recent regional bank failures and decreased consumer confidence in the banking system, may hinder our ability to access capital on reasonable terms or at all. The U. S. and global financial and banking sectors have experienced periods**

of increased turmoil and volatility in the recent past and may experience similar periods of disruption in the future due to factors beyond our control. Such periods of increased turmoil and volatility may adversely impact liquidity in the financial markets and make financings less attractive or, in some cases, unavailable. If our financing counterparties become capital constrained, tighten their lending standards or become insolvent, they may be unable or unwilling to fulfill their commitments to us. Although our financing counterparties are primarily large national banks, a material disruption to the banking system and financial markets could result in liquidity issues across the sector, which could adversely impact our access to capital and our cost of borrowing and adversely affect us, our business or our results of operations. The lack of liquidity of our assets may adversely affect our business, including our ability to value and sell our assets. A portion of the ~~SBC~~ **LMM** loans and ABS assets we own may be subject to legal and other restrictions on resale or will otherwise be less liquid than publicly traded securities. Our real estate investments, including any properties acquired by us through foreclosure, are relatively illiquid and difficult to buy and sell quickly. The illiquidity of our assets may make it difficult for us to sell such assets 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 value than the value at which we have previously recorded our assets. 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 and Waterfall' s due diligence of potential ~~SBC~~ **LMM** loans and ABS assets may not reveal all of the liabilities associated with and other combined weaknesses in such ~~SBC~~ **LMM** loans and ABS assets, which could lead to investment losses. Before making an investment, we and Waterfall calculate the level of risk associated with the ~~SBC~~ **LMM** loan to be acquired or originated based on several factors which include the following: (i) a complete review of the seller' s data files, including data integrity, compliance review and custodial file review; (ii) rent rolls and other property operating data; (iii) personal credit reports of the borrower and owner and / or operator; (iv) property valuation review; (v) environmental review; and (vi) tax and title search. In making the assessment and otherwise conducting customary due diligence, we will employ standard documentation requirements and require appraisals prepared by local independent third- party appraisers. Additionally, we will seek to have sellers provide representations and warranties on ~~SBC~~ **LMM** loans we acquire, and if we are unable to obtain representations and warranties, we will factor the increased risk into the price we pay for such loans. Despite our review process, there can be no assurance that our due diligence process will uncover all relevant facts or that any investment will be successful. Our financial condition and results of operations could be negatively impacted to the extent we rely on information that is misleading, inaccurate or incomplete. The use of underwriting guideline exceptions in the ~~SBC~~ **LMM** loan origination process may result in increased delinquencies and defaults. Although ~~SBC~~ **LMM** loan originators generally underwrite mortgage loans in accordance with their pre- determined loan underwriting guidelines, from time to time and in the ordinary course of business, originators, including the Company, will make exceptions to these guidelines. On a case- by- case basis, our underwriters may determine that a prospective borrower that does not strictly qualify under our underwriting guidelines warrants an underwriting exception, based upon compensating factors. Compensating factors may include, without limitations, a lower LTV ratio, a higher debt coverage ratio, experience as a real estate owner or investor, borrower net worth or liquidity, stable employment, longer length of ~~time~~ **20time** in business and length of time owning the property. Loans originated with exceptions may result in a higher number of delinquencies and defaults, which could have a material and adverse effect on our business, results of operations and financial condition. ~~19Deficiencies~~ -- **Deficiencies** in appraisal quality in the mortgage loan origination and acquisition process may result in increased principal loss severity. During the mortgage loan underwriting process, appraisals are generally obtained on the collateral underlying each prospective mortgage. The quality of these appraisals may vary widely in accuracy and consistency. The appraiser may feel pressure from the broker or lender to provide an appraisal in the amount necessary to enable the originator to make the loan, whether or not the value of the property justifies such an appraised value. Inaccurate or inflated appraisals may result in an increase in the severity of losses on the mortgage loans, which could have a material and adverse effect on our business, results of operations and financial condition. Recent market conditions may make it more difficult to analyze potential investment opportunities for our portfolio of assets. Our success will depend, in part, on our ability to effectively analyze potential acquisition and origination opportunities in order to assess the level of risk- adjusted returns that we should expect from any particular investment. To estimate the value of a particular asset, we may use historical assumptions that may or may not be appropriate during the recent downturn in the real estate market and general economy. To the extent that we use historical assumptions that are inappropriate under current market conditions, we may overpay for an asset or acquire an asset that it otherwise might not acquire, which could have a material and adverse effect on our results of operations and our ability to make distributions to our stockholders. In addition, as part of our overall portfolio risk management, we will analyze interest rate changes and prepayment trends separately and collectively to assess their effects on our portfolio of assets. In conducting our analysis, we will depend on certain assumptions based upon historical trends with respect to the relationship between interest rates and prepayments under normal market conditions. Recent dislocations in the mortgage market or other developments may change the way that prepayment trends respond to interest rate changes, which may adversely affect our ability to assess the market value of our portfolio of assets, implement our hedging strategies or implement techniques to reduce our prepayment rate volatility. If our estimates prove to be incorrect or our hedges do not adequately mitigate the impact of changes in interest rates or prepayments, we may incur losses that could materially and adversely affect our financial condition, results of operations and our ability to make distributions to our stockholders. Any costs or delays involved in the completion of a foreclosure or liquidation of the underlying property may further reduce proceeds from the property and may increase the loss. **It** ~~In the future, it~~ is possible that we may find it necessary or desirable to foreclose on certain ~~SBC~~ loans we acquire or originate, and the foreclosure process may be lengthy and expensive. Borrowers may resist mortgage foreclosure actions by asserting numerous claims, counterclaims and defenses against us including, without limitation, numerous lender liability claims and defenses, even when such assertions may have no basis in fact, in an effort to prolong the foreclosure action and force us into a modification of the ~~SBC~~ loan or a favorable buy- out of the borrower' s position. In some states, foreclosure actions can sometimes take several years or more to litigate. At any time prior to or during the foreclosure proceedings, the borrower may file for bankruptcy, which would have the effect of staying the foreclosure actions and further delaying the foreclosure process. Foreclosure may create a negative public perception of the related mortgaged property, resulting in a decrease in its value. Even if we are successful in foreclosing on an ~~SBC~~ loan, the liquidation proceeds upon sale of the underlying real estate may not be sufficient to recover our cost basis in the ~~SBC~~ loan, resulting in a loss to us. Furthermore, any costs or delays involved in the completion of a foreclosure of the ~~SBC~~ loan or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss. Any such reductions could materially and adversely affect the value of the commercial ~~SBC~~ loans in which we invest and, therefore, could have a material and adverse effect on our business, results of operations and financial condition. ~~Real~~ **21Real** estate properties acquired through foreclosure subject us to additional risks associated with owning real estate. We have acquired real estate properties through foreclosure, which exposes us to additional risks, including, but not limited to, the following: ● facing difficulties in integrating these properties with our existing business operations; ● incurring costs to carry, and in some cases make repairs or improvements, which results in additional expenses and requires additional liquidity that could exceed our original estimates and impact our operating results; ~~20~~ ● being unable to realize sufficient amounts from sales of the properties to avoid losses; ● being unable to sell properties, which are not liquid assets, in a timely manner, or at all, when we need to increase liquidity; ● properties being acquired with one or more co- owners (called tenants- in- common) where development or sale requires written agreement or consent by all; without timely agreement or consent, we could suffer a loss from being unable to develop or sell the property; ● maintaining occupancy of the properties; ● controlling operating expenses; ● coping with general and local market conditions; ● complying with changes in laws and regulations pertaining to taxes, use, zoning and environmental protection; ● possible liability for injury to persons and property; ● possible uninsured losses related to environmental events such as earthquakes, floods or mudslides; and ● possible liability for environmental remediation. If any of our properties incurs a vacancy, it could be difficult to sell or re- lease. One or more of our properties may incur a vacancy by either the continued default of a tenant under its lease or the expiration of one of our leases. Certain of our properties may be specifically suited to the particular needs of a tenant (e. g., a retail bank branch or distribution warehouse), and major renovations and expenditures may be required in order for us to re- lease vacant space for other uses. We may have difficulty obtaining a new tenant for any vacant space we have in our properties. If the vacancy continues for a long period of time, we may suffer reduced revenues, impacting our ability to make distributions to our stockholders. In addition, the resale value of a property could be diminished because the market value of a particular property will depend principally upon the value of the leases of such property. Our properties may be subject to impairment charges. We will periodically evaluate our real estate investments for impairment indicators. The judgment regarding the existence of impairment indicators is based on factors such as market conditions, tenant performance and legal structure. For example, the early termination of, or default under, a lease by a tenant may lead to an impairment charge. If we determine that an impairment has occurred, we would be required to make an adjustment to the net carrying value of the property, which could have a material adverse effect on our results of operations in the period in which the impairment charge is recorded. We could face potential adverse effects from tenant defaults, bankruptcies or insolvencies. The bankruptcy of our tenants may adversely affect the income generated by our properties. If **one of** our ~~tenant~~ **tenants** files for bankruptcy, we generally cannot evict the tenant solely because of such bankruptcy. In addition, a bankruptcy court could authorize a bankrupt tenant to reject and terminate its lease with us. In such a case, our claim against the tenant for unpaid and future rent would be subject to a statutory cap that might be substantially less than the remaining rent actually owed under the lease, and it is unlikely that a bankrupt tenant would pay full amounts owed under the lease. Any shortfall resulting from the bankruptcy of one or more of our tenants could adversely affect our cash flow and results of operations. ~~Any~~ **22Any** mezzanine loan assets we may purchase or originate may involve greater risks of loss than senior loans secured by income- producing properties. We may originate or acquire mezzanine loans, which take the form of subordinated loans secured by second mortgages on the underlying property or loans secured by a pledge of the ownership interests of either the entity owning the property or a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. These types of assets involve a higher degree of risk than long- term senior mortgage lending secured by income producing real property because the loan may become unsecured as a result of foreclosure by the senior lender. In the event of a bankruptcy of the ~~21entity~~ -- **entity** providing the pledge of its ownership interests as security, we may not have full recourse to the assets of such entity or the assets of the entity may not be sufficient to satisfy its mezzanine loan. If a borrower defaults on any mezzanine loan we may purchase or originate, or debt senior to any such loan, or in the event of a borrower bankruptcy, such mezzanine loan will be satisfied only after the senior debt. As a result, we may not recover some or all of our initial expenditure. In addition, mezzanine loans may have higher ~~LTVs~~ - **LTV ratios** than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal. Significant losses related to any mezzanine loans we may purchase or originate would result in operating losses for us and may limit our ability to make distributions to our stockholders. We may be exposed to environmental liabilities with respect to properties to which we take title, which may in turn decrease the value of the underlying properties. In the ordinary course of our business, we could be subject to environmental liabilities with respect to properties to which we take title. In such a circumstance, we may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean- up costs incurred by these parties in connection with environmental contamination, or we may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. If we ever become subject to significant environmental liabilities, our business, financial condition, liquidity, and results of operations could be materially and adversely affected. In addition, an owner or operator of real property may become liable under various federal, state and local laws, for the costs of removal of certain hazardous substances released on its property. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release of such hazardous substances. The presence of hazardous substances may adversely affect an owner' s ability to sell real estate or borrow using real estate as collateral. To the extent that an owner of an underlying property becomes liable for removal costs, the ability of the owner to make debt payments may be reduced, which in turn may adversely affect the value of the relevant mortgage- related assets held by us. Investments outside the United States that are denominated in foreign currencies subject us to foreign currency risks and to the uncertainty of foreign laws and markets, which may adversely affect our distributions and our REIT status. Our investments outside the United States denominated in foreign currencies subject us to foreign currency risk due to potential fluctuations in exchange rates between foreign currencies and the U. S. dollar. As a result, changes in exchange rates of any such foreign currency to U. S. dollars may affect our income and distributions and may also affect the book value of our assets and the amount of stockholders' equity. In addition, these investments subject us to risks of multiple and conflicting tax laws and regulations, other laws and regulations that may make foreclosure and the exercise of other remedies in the case of default more difficult or costly compared to U. S. assets, and political and economic instability abroad. Any such factors could adversely affect our receipt of returns on and distributions from these investments. Changes in foreign currency exchange rates used to value a REIT' s foreign assets may be considered changes in the value of the REIT' s assets. These changes may adversely affect our status as a REIT. Further, bank accounts in foreign currency which are not considered cash or cash equivalents may adversely affect our status as a REIT. Significant movements in foreign currency exchange rates or change in monetary policy could affect our investments and may harm our financial results. We are exposed to fluctuations in foreign currency exchange rates, particularly with respect to the Euro and the Pound Sterling (" GBP "). Any significant change in the value of the currencies of the countries in which we do business could have a material adverse effect on our business, financial condition and results of operations. For example, uncertainty surrounding the impact of the conflict between Russia and Ukraine, **escalation of the conflict in the Middle East, elevated tension with China and** changes in monetary policies ~~and the effects of the departure of the United Kingdom from the European Union (" Brexit ")~~ have caused increased volatility in global currency exchange rates that have resulted in the strengthening of the U. S. dollar against the foreign currencies in which we conduct business. We currently hold, and may acquire in the future, investments that are denominated in GBP and EURs (including loans secured ~~by~~ **23by** assets located in the United Kingdom or Europe), as well as equity interests in real estate properties located in Europe. Our assets and liabilities denominated in GBP may be subject to increased risks related to these currency rate fluctuations and our net assets in U. S. dollar terms may decline. Currency volatility may mean that our assets and liabilities are adversely affected by market movements and may make it more difficult, or more expensive, for us to execute appropriate currency hedging policies. ~~22The~~ - - **The** ~~ongoing~~ COVID- 19 pandemic ~~has~~ caused severe disruptions in the U. S. and global economy and ~~to~~ **a resurgence of COVID- 19,** ~~our~~ - **or** ~~business and~~ **outbreaks of other highly infectious diseases,** may have an adverse impact on our performance, financial condition and results of operations. In March 2020, the World Health Organization publicly characterized the outbreak of COVID- 19 as a global pandemic. The COVID- 19 pandemic has caused, and may continue to cause, significant disruptions to the U. S. and global economy and cause significant volatility and negative pressure in the financial markets. During the early part of the pandemic, the U. S. and global economy came under severe pressure due to numerous factors, including measures taken by governing authorities to prevent the spread of COVID- 19, such as instituting quarantines, restrictions on travel, school closures, bans on public events and on public gatherings, " shelter in place " or " stay at home " rules, restrictions on types of business that may continue to operate, and / or restrictions on types of construction projects that may continue. ~~Many of such~~ **Such** restrictions have since been lifted, and the unprecedented global impact of the COVID- 19 pandemic appears to have largely subsided. However, the negative impacts of COVID- 19 on the U. S. and global economy were quite severe and ~~recovery is still in progress. The COVID- 19 pandemic~~ caused, and may continue to cause, disruption in real estate financing transactions and the commercial real estate market. A resurgence of the COVID- 19 pandemic or outbreaks of other highly infectious diseases could materially and adversely impact the value of our assets, our business, financial condition and results of operations and cash flows, and both our and Waterfall' s ability to operate successfully, particularly if business conditions, the regulatory environment or the public health situation returns to that experienced during the early part of the COVID- 19 pandemic. Some of the factors that have either impacted us to date or may continue to affect us in the future include the following: ● to the extent the value of commercial real estate declines, which would also likely negatively impact the value of the loans we own, we could become subject to additional margin calls under our repurchase agreements; ● our ability to continue to satisfy any additional margin calls from our lenders and to the extent we are unable to satisfy any such margin calls, any acceleration of our indebtedness, increase in the interest rate on advanced funds, termination of our ability to borrow funds from them, or foreclosure by our lenders on our assets; ● difficulty accessing debt and equity capital on attractive terms, or at all; ● a severe disruption and instability in the financial markets or deteriorations in credit and financing conditions may jeopardize the solvency and financial wherewithal of counterparties with whom we do business, including our borrowers and could affect our or our counterparties' ability to make regular payments of principal and interest and our ability to recover the full value of our loan, thus reducing our earnings and liquidity; ● unavailability of information, resulting in restricted access to key inputs used to derive estimates and assumptions made in connection with evaluating our loans for impairments and establishing allowances for loan losses; ● our ability to remain in compliance with the financial covenants under our borrowings, including in the event of impairments in the value of the loans we own; ● disruptions to the efficient function of our operations because of, among other factors, any inability to access short- term or long- term financing for the loans we make; ● to the extent we elect or are forced to reduce our loan origination activities; and ● effects of legal and regulatory responses to concerns about the COVID- 19 pandemic and related public health issues, which could result in additional regulation or restrictions affecting the conduct of our business. Our loans are dependent on the ability of the commercial property owner to generate net income from operating the property, which may result in the inability of such property owner to repay a loan, as well as the risk of foreclosure. Our loans are generally secured by multifamily, office, retail, mixed use, commercial or warehouse properties and are subject to risks of delinquency, foreclosure and loss that may be greater than similar risks associated with loans made on the security of single- family residential property. The ability of a borrower to repay a loan secured by an income- producing ~~property~~ **24property** typically is primarily dependent upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower' s ability ~~23to~~ **to** repay the loan may be impaired. Net operating income of an income- producing property can be adversely affected by, but not limited to, the following: ● tenant mix; ● success of tenant businesses; ● property management decisions; ● property location, condition and design; ● competition from comparable types of properties; ● changes in national, regional or local economic conditions and / or specific industry segments; ● declines in regional or local real estate values; ● declines in regional or local rental or occupancy rates; ● increases in interest rates, real estate tax rates and other operating expenses; ● costs of remediation and liabilities associated with environmental conditions; ● the potential for uninsured or underinsured property losses; ● changes in governmental laws and regulations, including fiscal policies, zoning ordinances and environmental legislation and the related costs of compliance; and ● acts of God, terrorism, social unrest and civil disturbances. In the event of any default under a mortgage loan held directly by us, we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the mortgage loan, which could have a material adverse effect on our cash flow from operations and limits the amount available for distribution to our stockholders. In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor- in- possession to the extent the lien is unenforceable under state law. Foreclosure can be an expensive and lengthy process and foreclosing on certain properties where we directly hold the mortgage loan, and the borrower continues to default, could result in actions that could be costly to our operations, in addition to having a substantial negative effect on our anticipated return on the foreclosed mortgage loan. Our portfolio of assets may at times be concentrated in certain property types or secured by properties concentrated in a limited number of geographic areas, which increases our exposure to economic downturn with respect to those property types or geographic locations. While we seek to diversify our portfolio of assets, we are not required to observe specific diversification criteria. Therefore, our portfolio of assets may, at times, be concentrated in certain property types that are subject to higher risk of foreclosure or secured by properties concentrated in a limited number of geographic locations. Continued deterioration of economic conditions in states for which we have a significant concentration of borrowers could have a material and adverse effect on our business by reducing demand for new financings, limiting the ability of customers to repay existing loans and impairing the value of our real estate collateral and real estate owned properties. To the extent that our portfolio is concentrated in any region, or by type of property, downturns relating generally to such region, type of borrower or security may result in defaults on a number of our assets within a short time period, which may reduce our net income and the value of our common stock and accordingly reduce our ability to pay dividends to our stockholders. The increasing number of proposed United States federal, state and local laws may affect certain mortgage- related assets in which we intend to invest and could materially increase our cost of doing business. Various bankruptcy legislation has been proposed that, among other provisions, could allow judges to modify the terms of residential mortgages in bankruptcy proceedings, could hinder the ability of the servicer to foreclose promptly on defaulted ~~mortgage~~ **25mortgage** loans or permit limited assignee liability for certain violations in the mortgage loan origination process, any or all of which could adversely affect our business or result in us being held responsible for violations in the mortgage loan ~~24origination~~ -- **origination** process even where we were not the originators of the loan. We do not know what impact this type of legislation, which has been primarily, if not entirely, focused on residential mortgage originations, would have on the ~~SBC~~ **LMM** loan market. We are unable to predict whether United States federal, state or local authorities, or other pertinent bodies, will enact legislation, laws, rules, regulations, handbooks, guidelines or similar provisions that will affect our business or require changes in our practices in the future, and any such changes could materially and adversely affect our cost of doing business and profitability. Failure to obtain or maintain required approvals and / or state licenses necessary to operate our mortgage- related activities may adversely impact our investment strategy. We may be required to obtain and maintain various approvals and / or licenses from federal or state governmental authorities, government sponsored entities or similar bodies in connection with some or all of our activities. There is no assurance that we can obtain and maintain any or all of the approvals and licenses that we desire or that we will avoid experiencing significant delays in seeking such approvals and licenses. Furthermore, we will be subject to various disclosure and other requirements to obtain and maintain these approvals and licenses, and there is no assurance that we will satisfy those requirements. Our failure to obtain or maintain licenses will restrict our options and ability to engage in desired activities, and could subject us to fines, suspensions, terminations and various other adverse actions if it is determined that we have engaged without the requisite approvals or licenses in activities that required an approval or license, which could have a material and adverse effect on our business, results of ~~operation~~ **operations** and financial condition. Loans to small businesses involve a high degree of business and financial risk, which can result in substantial losses that would adversely affect our business, results of ~~operation~~ **operations** and financial condition. Our operations and activities include loans to small, privately owned businesses to purchase real estate used in their operations or by investors seeking to acquire small multi- family, office, retail, mixed use or warehouse properties. Additionally, ~~SBC~~ **LMM** loans are also often accompanied by personal guarantees. Often, there is little or no publicly available information about these businesses. Accordingly, we must rely on our own due diligence to obtain information in connection with our investment decisions. Our borrowers may not meet net income, cash flow and other coverage tests typically imposed by banks. A borrower' s ability to repay its loan may be adversely impacted by numerous factors, including a downturn in its industry or other negative local or more general economic conditions. Deterioration in a borrower' s financial condition and prospects may be accompanied by deterioration in the collateral for the loan. In addition, small businesses typically depend on the management talents and efforts of one person or a small group of people for their success. The loss of services of one or more of these persons could have a material and adverse impact on the operations of the small business. Small companies are typically more vulnerable to customer preferences, market conditions and economic downturns and often need additional capital to expand or compete. These factors may have an impact on loans involving such businesses. Loans to small businesses, therefore, involve a high degree of business and financial risk, which can result in substantial losses. Some of the mortgage loans we will originate or acquire are loans made to self- employed borrowers who have a higher risk of delinquency and default, which could have a material and adverse effect on our business, results of operations and financial condition. Many of our borrowers are self- employed and may be more likely to default on their mortgage loans than salaried or commissioned borrowers as they generally have less predictable income. Many self- employed borrowers are small business owners who may be personally liable for their business debt. Consequently, a higher number of self- employed borrowers may result in increased defaults on the mortgage loans we originate or acquire and, therefore, could have a material and adverse effect on our business, results of operations and financial condition. Some of the mortgage loans we will originate or acquire are secured by non- owner / user properties that may experience increased frequency of default and, when in default, the owners are more likely to abandon their properties, which could have a material and adverse effect on our business, results of operations and financial condition. Some of the loans we will originate or acquire have been, and in the future could be, made to borrowers who do not live in or operate a business on the mortgaged properties. These mortgage loans are secured by properties acquired by investors for rental income and capital appreciation and tend to default more than properties regularly occupied or used by the related ~~borrowers~~ **26borrowers** . In a default, real property investors not occupying the mortgaged property may be more likely to abandon the ~~25related~~ -- **related** mortgaged property, increasing defaults and, therefore, could have a material and adverse effect on our business, results of operations and financial condition. We are a seller / servicer approved to sell mortgage loans to Freddie Mac and failure to maintain our status as an approved seller / servicer could harm our business. We are an approved Freddie Mac seller / servicer. As an approved seller / servicer, we are required to conduct certain aspects of our operations in accordance with applicable policies and guidelines published by Freddie Mac and we are required to pledge a certain amount of cash to Freddie Mac to collateralize potential obligations to it. Freddie Mac performed an audit during ~~2022~~ **2023** and as a result of that audit, ReadyCap Commercial and Red Stone received an overall assessment of Satisfactory. Failure to maintain our status as an approved seller / servicer would mean we would not be able to sell mortgage loans to Freddie Mac, could result in us being required to re- purchase loans previously sold to Freddie Mac, or could otherwise restrict our business and investment options and could harm our business and expose us to losses or other claims. Freddie Mac may, in the future, require us to hold additional capital or pledge additional cash or assets in order to maintain approved seller / servicer status, which, if required, would adversely impact our financial results. Loans sold to Freddie Mac that may be required to be re- purchased as of December 31, ~~2022~~ **2023** included ~~65~~ **69** loans with a combined unpaid principal balance of $ ~~181~~ **226** . ~~4~~ **3** million. Our acquisitions and the integration of acquired businesses subject us to various risks and may not result in all of the cost savings and benefits anticipated, which could adversely affect our financial condition or results of operations. We have in the past and may in the future, seek to grow our business by acquiring other businesses that we believe will complement or augment our existing businesses. We cannot predict with certainty the benefits of such acquisitions, which often constitute multi- year endeavors. There is risk that our acquisitions may not have the anticipated positive results, including results relating to: correctly assessing the asset quality of the assets being acquired; the total cost and time required to complete the integration successfully; being able to profitably deploy funds acquired in an acquisition; or the overall performance of the combined entity. If we are unable to successfully integrate our acquisitions into our business, we may never realize their expected benefits. With each acquisition, we may discover unexpected costs, liabilities for which we are not indemnified, delays, lower than expected cost savings or synergies, or incurrence of other significant charges such as impairment of goodwill or other intangible assets and asset devaluation. We also may be unable to successfully integrate the diverse company cultures, retain key personnel, apply our expertise to new competencies, or react to adverse changes in industry conditions. Acquisitions may also result in business disruptions that could cause customers to move their business to our competitors. It is possible that the integration process related to acquisitions could result in the disruption of our ongoing businesses or inconsistencies in standards, controls, procedures and policies that could adversely affect our ability to maintain relationships with clients, customers, and employees. The loss of key employees in connection with an acquisition could adversely affect our ability to successfully conduct our business. Acquisition and integration efforts could divert management attention and resources, which could have an adverse effect on our financial condition and results of operations. Additionally, the operation of the acquired businesses may adversely affect our existing profitability, and we may not be able to achieve results in the future similar to those achieved by our existing business or manage growth resulting from the acquisition effectively. We are subject to the unique risks related to integrating a constructing lending platform into our existing operations and the origination and ownership of construction loans. The assets acquired from the Mosaic Funds **and Broadmark** in the Mosaic Mergers **and the Broadmark Merger, respectively,** consisted in large part of construction loans. Construction loans are subject to additional risks as compared to loans secured by existing structures or land **. Of the loans we held as of December 31, 2023, 8. 9 % were more than 60 days delinquent and 38. 8 % of those loans were acquired as a result of the Mosaic Mergers and the Broadmark Merger** . Construction budgets may be unrealistic or unforeseen variables may arise, prolonging the development and increasing the costs of the construction project, which may delay the borrower' s ability to sell or rent the finished property, which would be the source of funds for repayment of the loan. While we expect to have reasonable procedures in place to manage construction funding loans, there can be no certainty that we will not suffer losses on construction loans. In addition, if a builder fails to complete a project, we may be required to complete the project. Any such default could result in a substantial increase in costs in excess of the original budget and delays in completion of the project. ~~26If~~ **27If** Waterfall underestimates the credit analysis and the expected risk- adjusted return relative to other comparable investment opportunities, we may experience losses. Waterfall values our ~~SBC~~ **LMM** loan and ~~SBC~~ **LMM** ABS investments based on an initial credit analysis and the investment' s expected risk- adjusted return relative to other comparable investment opportunities available to us, taking into account estimated future losses on the mortgage loans, and the estimated impact of these losses on expected future cash flows. Waterfall' s loss estimates may not prove accurate, as actual results may vary from estimates. In the event that Waterfall underestimates the losses relative to the price we pay for a particular ~~SBC~~ **LMM** or ~~SBC~~ **LMM** ABS investment, we may experience losses with respect to such investment. Waterfall utilizes analytical models and data in connection with the valuation of our ~~SBC~~ **LMM** loans and ~~SBC~~ **LMM** ABS, and any incorrect, misleading or incomplete information used in connection therewith would subject us to potential risks. As part of the risk management process, Waterfall uses detailed proprietary models, including loan- level non- performing loan models, to evaluate collateral liquidation timelines and price changes by region, along with the impact of different loss mitigation plans. Additionally, Waterfall uses information, models and data supplied by third parties. Models and data are used to value potential target assets. In the event models and data prove to be incorrect, misleading or incomplete, any decisions made in reliance thereon expose us to potential risks. For example, by relying on incorrect models and data, especially valuation models, Waterfall may be induced to buy certain target assets at prices that are too high, to sell certain other assets at prices that are too low, or to miss favorable opportunities altogether. Similarly, any hedging based on faulty models and data may prove to be unsuccessful. The failure of a third- party servicer or the failure of our own internal servicing system to effectively service our portfolio of mortgage loans would materially and adversely affect us. Most mortgage loans and securitizations of mortgage loans require a servicer to manage collections for each of the underlying loans. Performing ~~SBC~~ **LMM** loans (either loans purchased with historical activity, i. e., not originated, purchased in the secondary market or ReadyCap Commercial originations) will be securitized with us retaining the subordinate tranches. Non- performing ~~SBC~~ **LMM** loans are serviced either through an approved ~~SBC~~ **LMM** primary servicer providing both primary and special servicing or providing only primary servicing with special servicing contracted to smaller regionally- focused ~~SBC~~ **LMM** operators and servicers. Servicers' responsibilities include providing collection activities, loan workouts, modifications and refinancings, foreclosures, short sales, sales of foreclosed real estate and financings to facilitate such sales. Both default frequency and default severity of loans may depend upon the quality of the servicer. If a servicer is not vigilant in encouraging the borrowers to make their monthly payments, the borrowers may be far less likely to make these payments, which could result in a higher frequency of default. If a servicer takes longer to liquidate non- performing assets, loss severities may be higher than originally anticipated. Higher loss severity may also be caused by less competent dispositions of real estate owned properties. We will seek to increase the value of non- performing loans through special servicing activities that will be performed by our participating special servicers. Servicer quality is of prime importance in the default performance of ~~SBC~~ **LMM** loans and ~~SBC~~ **LMM** ABS assets. Should we have to transfer loan servicing to another servicer, the transfer of loans to a new servicer could result in more loans becoming delinquent because of confusion or lack of attention. Servicing transfers involve notifying borrowers to remit payments to the new servicer, and these transfers could result in misdirected notices, misapplied payments, data input errors and other problems. Industry experience indicates that mortgage loan delinquencies and defaults are likely to temporarily increase during the transition to a new servicer and immediately following the servicing transfer. Further, when loan servicing is transferred, loan servicing fees may increase, which may have an adverse effect on the credit support of assets held by us. Effectively servicing our portfolio of ~~SBC~~ **LMM** loans is critical to our success, particularly given our strategy of maximizing the value of our portfolio with our loan modifications, loss mitigation, restructuring and other special servicing activities, and therefore, if one of our servicers fails to effectively service the portfolio of mortgage loans, it could have a material and adverse effect on our business, results of operations and financial condition. The bankruptcy of a third- party servicer would adversely affect our business, results of ~~operation~~ **operations** and financial condition. Depending on the provisions of the agreement with the servicer of any of our ~~SBC~~ **LMM** loans, the servicer may be allowed to commingle collections on the mortgage loans owned by us with its own funds for certain periods of time (usually a few business days) after the servicer receives them. In the event of a bankruptcy of a servicer, we may not have a perfected ~~27interest~~ **28interest** in any collections on the mortgage loans owned by us that are in that servicer' s possession at the time of the commencement of the bankruptcy case. The servicer may not be required to turn over to us any collections on mortgage loans that are in its possession at the time it goes into bankruptcy. To the extent that a servicer has commingled collections on mortgage loans with its own funds, we may be required to return to that servicer as preferential transfers all payments received on the mortgage loans during a period of up to one year prior to that servicer' s bankruptcy. If a servicer were to go into bankruptcy, it may stop performing its servicing functions (including any obligations to advance moneys in respect of a mortgage loan) and it may be difficult to find a third party to act as that servicer' s successor. Alternatively, the servicer may take the position that unless the amount of its compensation is increased, or the terms of its servicing obligations are otherwise altered, it will stop performing its obligations as servicer. If it were to be difficult to find a third party to succeed the servicer, we may have no choice but to agree to a servicer' s demands. The servicer may also have the power, with the approval of the bankruptcy court, to assign its rights and obligations to a third party without our consent, and even over our objections, and without complying with the terms of the applicable servicing agreement. The automatic stay provisions of Title 11 of the United States Code (the " Bankruptcy Code ") would prevent (unless the permission of the bankruptcy court were obtained) any action by us to enforce the servicer' s obligations under its servicing agreement or to collect any amount owed to us by the servicer. The Bankruptcy Code also prevents the removal of the servicer as servicer and the appointment of a successor without the permission of the bankruptcy court or the consent of the servicer. New entrants in the market for ~~SBC~~ **LMM** loan acquisitions and originations could adversely impact our ability to acquire ~~SBC~~ **LMM** loans at attractive prices and originate ~~SBC~~ **LMM** loans at attractive risk- adjusted returns. Although we believe that we are currently one of only a handful of active market participants in the secondary ~~SBC~~ **LMM** loan market, new entrants in this market could adversely impact our ability to acquire and originate ~~SBC~~ **LMM** loans at attractive prices. In acquiring and originating our target assets, we may compete with numerous regional and community banks, specialty finance companies, savings and loan associations, mortgage bankers, insurance companies, mutual funds, institutional investors, investment banking firms, other lenders and other entities, and we expect that others may be organized in the future. The effect of the existence of additional

REITs and other institutions may be increased competition for the available supply of ~~SBC~~ **LMM** assets suitable for purchase, which may cause the price for such assets to rise, which may limit our ability to generate desired returns. Additionally, origination of ~~SBC~~ **LMM** loans by our competitors may increase the availability of ~~SBC~~ **LMM** loans which may result in a reduction of interest rates on ~~SBC~~ **LMM** loans. Some competitors may have a lower cost of funds and access to funding sources that may not be available to us. Many of our competitors are not subject to the operating constraints associated with REIT tax compliance or maintenance of an exemption from the 1940 Act. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of ~~SBC~~ **LMM** loans and ABS assets and establish more relationships than us. We cannot assure you that the competitive pressures we may face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, desirable investments in our target assets may be limited in the future and we may not be able to take advantage of attractive investment opportunities from time to time, as we can provide no assurance that it will be able to identify and make investments that are consistent with our investment objectives. We cannot predict the unintended consequences and market distortions that may stem from far- ranging interventions in the financial system and oversight of financial markets. U. S. Federal government agencies, including the Federal Reserve, the Treasury Department and the SEC, as well as other governmental and regulatory bodies, have taken, are taking or may in the future take, various actions to address financial crises or other areas of national regulatory concern. Such actions could materially and adversely impact our business, results of operations and financial condition, and dramatically increase the cost of complying with any additional laws and regulations. The elimination or reduction in scope of various existing laws and regulations could similarly materially and adversely impact our business, results of operations and financial condition. Any far- ranging government intervention in the U. S. economic and financial systems may carry unintended consequences and cause market distortions. We are unable to predict at this time the extent and nature of such unintended consequences and market distortions, if any. The inability to evaluate such potential impacts could have a material adverse effect on our business. ~~28Joint~~ **29Joint** venture investments could be adversely affected by our lack of sole decision- making authority, our reliance on joint venture partners' financial condition and liquidity and disputes between us and our joint venture partners. We may make investments through joint ventures and such joint venture investments may involve risks not otherwise present when we make investments without partners, including the following: ● we may not have exclusive control over the investment or the joint venture, which may prevent us from taking actions that are in our best interest and could create the potential risk of creating impasses on decisions, such as with respect to acquisitions or dispositions; ● joint venture agreements often restrict the transfer of a partner' s interest or may otherwise restrict our ability to sell the interest when we desire and / or on advantageous terms; ● joint venture agreements may contain buy- sell provisions pursuant to which one partner may initiate procedures requiring the other partner to choose between buying the other partner' s interest or selling its interest to that partner; ● a partner may, at any time, have economic or business interests or goals that are, or that may become, inconsistent with our business interests or goals; ● a partner may be in a position to take action contrary to our instructions, requests, policies or objectives, including our policy with respect to maintaining our qualification as a REIT and our exemption from registration under the 1940 Act; ● a partner may fail to fund its share of required capital contributions or may become bankrupt, which may mean that we and any other remaining partners generally would remain liable for the joint venture' s liabilities; ● our relationships with our partners are contractual in nature and may be terminated or dissolved under the terms of the applicable joint venture agreements and, in such event, we may not continue to own or operate the interests or investments underlying such relationship or may need to purchase such interests or investments at a premium to the market price to continue ownership; ● disputes between us and a partner may result in litigation or arbitration that could increase our expenses and prevent Waterfall and our officers and directors from focusing their time and efforts on our business and could result in subjecting the investments owned by the joint venture to additional risk; or ● we may, in certain circumstances, be liable for the actions of a partner, and the activities of a partner could adversely affect our ability to qualify as a REIT or maintain our exclusion from registration under the 1940 Act, even though we do not control the joint venture. Any of the above may subject us to liabilities in excess of those contemplated and adversely affect the value of our joint venture investments. Our inability to manage future growth could have an adverse impact on our financial condition and results of operations. Our ability to achieve our investment objectives will depend on our ability to grow, which will depend, in turn, on Waterfall' s ability to identify, acquire, originate and invest in ~~SBC~~ **LMM** loans and ABS assets that meet our investment criteria. Our ability to grow our business will depend in large part on our ability to expand our ~~SBC~~ **LMM** loan origination activities. Any failure to effectively manage our future growth, including a failure to successfully expand our ~~SBC~~ **LMM** loan origination activities could have a material and adverse effect on our business, financial condition and results of operations. Declines in the fair market values of our assets may adversely affect periodic reported results and credit availability, which may reduce earnings and, in turn, cash available for distribution to our stockholders. Our ~~SBC~~ **LMM** loans held- for- sale and ~~SBC~~ **LMM** ABS are carried at fair value and future mortgage related assets may also be carried at fair value. Accordingly, changes in the fair value of these assets may impact the results of our operations for the period in which such change in value occurs. The expectation of changes in real estate prices, which ~~is~~ **are** beyond our control, is a major determinant of the value of ~~SBC~~ **LMM** loans and ~~SBC~~ **LMM** ABS. Many of the assets in our portfolio are and will likely be ~~SBC~~ **LMM** loans and ~~SBC~~ **LMM** ABS that are not publicly traded. The fair value of assets that are not publicly traded may not be readily determinable. We value these assets quarterly at fair value, ~~as~~ **30as** determined in accordance with applicable accounting standards, which may include unobservable inputs. Because such ~~29valuations~~ -- **valuations** are subjective, the fair value of certain of our assets may fluctuate over short periods of time and our determinations of fair value may differ materially from the values that would have been used if a ready market for these assets existed. A decline in the fair market value of our assets may adversely affect us, particularly in instances where we have borrowed money based on the fair market value of those assets. If the fair market value of those assets decline, the lender may require us to post additional collateral to support the loan. If we are unable to post the additional collateral, we would have to sell the assets at a time when we might not otherwise choose to do so. A reduction in credit available may reduce our earnings and, in turn, cash available for distribution to stockholders. Our investments may include subordinated tranches of ABS which are subordinate in right of payment to more senior securities. Our investments may include subordinated tranches of ABS which are subordinated classes of securities in a structure of securities collateralized by a pool of assets consisting primarily of ~~SBC~~ **LMM** loans and, accordingly, are the first or among the first to bear the loss upon a restructuring or liquidation of the underlying collateral and the last to receive payment of interest and principal. Additionally, estimated fair values of these subordinated interests tend to be more sensitive to changes in economic conditions than more senior securities. As a result, such subordinated interests generally are not actively traded and may not provide holders thereof with liquid investments. In certain cases we may not control the special servicing of the mortgage loans included in the securities in which we may invest in, and in such cases, the special servicer may take actions that could adversely affect our interests. With respect to the ~~SBC~~ **LMM** ABS in which we expect to invest, overall control over the special servicing of the related underlying mortgage loans will be held by a directing certificate holder, which is appointed by the holders of the most subordinate class of securities in such series. When we acquire investment- grade classes of existing series of securities originally rated AAA, we will not have the right to appoint the directing certificate holder. In these cases, in connection with the servicing of the specially serviced mortgage loans, the related special servicer may, at the direction of the directing certificate holder, take actions with respect to the specially serviced mortgage loans that could adversely affect our interests. Any credit ratings assigned to our ~~SBC~~ **LMM** loans and ABS assets will be subject to ongoing evaluations and revisions and we cannot assure you that those ratings will not be downgraded. Some of our ~~SBC~~ **LMM** loan and ABS assets may be rated by Moody' s Investors Service, Standard & Poor' s, or ~~S & P, or~~ Fitch Ratings **(" Fitch ")** . Any credit ratings on our ~~SBC~~ **LMM** loans and ABS assets are subject to ongoing evaluation by credit rating agencies, and we cannot assure you that any such ratings will not be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. Rating agencies may assign a lower than expected rating or reduce or withdraw, or indicate that they may reduce or withdraw, their ratings of our ~~SBC~~ **LMM** loans and ABS assets in the future. In addition, we may acquire assets with no rating or with below investment grade ratings. If the rating agencies take adverse action with respect to the rating of our ~~SBC~~ **LMM** loans and ABS assets or if our unrated assets are illiquid, the value of these ~~SBC~~ **LMM** loans and ABS assets could significantly decline, which would adversely affect the value of our investment portfolio and could result in losses upon disposition or the failure of borrowers to satisfy their debt service obligations to us. The receivables underlying the ABS we may acquire are subject to credit risks, liquidity risks, interest rate risks, market risks, operations risks, structural risks and legal risks, which could result in losses to us. We may acquire ABS securities, where the underlying pool of assets consists primarily of ~~SBC~~ **LMM** loans. The structure of an ABS, and the terms of the investors' interest in the underlying collateral, can vary widely depending on the type of collateral, the desires of investors and the use of credit enhancements. Individual transactions can differ markedly in both structure and execution. Important determinants of the risk associated with issuing or holding ABS include: (i) the relative seniority or subordination of the class of ABS held by an investor, (ii) the relative allocation of principal, and interest payments in the priorities by which such payments are made under the governing documents, (iii) the effect of credit losses on both the issuing vehicle and investors' returns, (iv) whether the underlying collateral represents a fixed set of specific assets or accounts, (v) whether the underlying collateral assets are revolving or closed- end, (vi) the terms (including maturity of the ABS) under which any remaining balance in the accounts may revert to the issuing vehicle and (vii) the extent to which the entity that sold the underlying collateral to the issuing vehicle is obligated to provide support to the ~~issuing~~ **31issuing** vehicle or to investors. With respect to some types of ABS, the foregoing risks are more closely correlated with ~~30similar~~ -- **similar** risks on corporate bonds of similar terms and maturities than with the performance of a pool of similar assets. In addition, certain ABS (particularly subordinated ABS) provide that the non- payment of interest thereon in cash will not constitute an event of default in certain circumstances, and the holders of such ABS will not have available to them any associated default remedies. Interest not paid in cash will generally be capitalized and added to the outstanding principal balance of the related security. Deferral of interest through such capitalization will reduce the yield on such ABS. Holders of ABS bear various risks, including credit risks, liquidity risks, interest rate risks, market risks, operations risks, structural risks and legal risks. Credit risk arises from (i) losses due to defaults by obligors under the underlying collateral and (ii) the issuing vehicle' s or servicer' s failure to perform their respective obligations under the transaction documents governing the ABS. These two risks may be related, as, for example, in the case of a servicer that does not provide adequate credit- review scrutiny to the underlying collateral, leading to a higher incidence of defaults. Market risk arises from the cash flow characteristics of the ABS, which for most ABS tend to be predictable. The greatest variability in cash flows come from credit performance, including the presence of wind- down or acceleration features designed to protect the investor in the event that credit losses in the portfolio rise well above expected levels. Interest rate risk arises for the issuer from (i) the pricing terms on the underlying collateral, (ii) the terms of the interest rate paid to holders of the ABS and (iii) the need to mark to market the excess servicing or spread account proceeds carried on the issuing vehicle' s balance sheet. For the holder of the security, interest rate risk depends on the expected life of the ABS, which may depend on prepayments on the underlying assets or the occurrence of wind- down or termination events. If the servicer becomes subject to financial difficulty or otherwise ceases to be able to carry out its functions, it may be difficult to find other acceptable substitute servicers and cash flow disruptions or losses may occur, particularly with underlying collateral comprised of non- standard receivables or receivables originated by private retailers who collect many of the payments at their stores. Structural and legal risks include the possibility that, in a bankruptcy or similar proceeding involving the originator or the servicer (often the same entity or affiliates), a court having jurisdiction over the proceeding could determine that, because of the degree to which cash flows on the assets of the issuing vehicle may have been commingled with cash flows on the originator' s other assets (or similar reasons), (i) the assets of the issuing vehicle could be treated as never having been truly sold by the originator to the issuing vehicle and could be substantively consolidated with those of the originator, or (ii) the transfer of such assets to the issuer could be voided as a fraudulent transfer. The time and expense related to a challenge of such a determination also could result in losses and / or delayed cash flows. **Downgrades of the U. S. government' s sovereign credit rating and uncertain political and financial market conditions may affect the terms or stability of securities issued or guaranteed by the U. S. federal government, which may increase our future borrowing costs and adversely affect our portfolio. On August 1, 2023, Fitch downgraded the U. S. government' s sovereign credit rating to AA , down one notch from its highest rating of AAA, citing the country' s growing debt obligations, deterioration in governance and political polarization. Concerns related to political turmoil, federal borrowing and the federal budget deficit have increased the possibility of future credit rating downgrades and economic slowdowns in the U. S. The recent downgrade by Fitch, and any future downgrades by Fitch or other ratings agencies, could affect the terms or stability of securities issued or guaranteed by the federal government and the valuation or liquidity of our portfolio, and could result in our counterparties requiring additional collateral for our borrowings. Further, increased instability in political and financial market conditions could result in higher interest rates and a reduction in the availability of credit, increasing our borrowing costs. If we cannot acquire, make or sell government-guaranteed or other loans, we may generate less interest income and fewer origination fees, our ability to generate gains on sales of loans may decrease and our loan acquisitions, originations and results of operations may be adversely affected.** Increases in interest rates could adversely affect the demand for new ~~SBC~~ **LMM** loans, the value of our ~~SBC~~ **LMM** loans and ABS assets and the availability of our target assets, and they could cause our interest expense to increase, which could result in reduced earnings or losses and negatively affect our profitability as well as the cash available for distribution to our stockholders. We may invest in ~~SBC~~ **LMM** loans, ~~SBC~~ **LMM** ABS and other real estate- related investments. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political ~~considerations~~ **32considerations** , and other factors beyond our control. Rising interest rates generally reduce the demand for mortgage loans due to the higher cost of borrowing. A reduction in the volume of mortgage loans originated may affect the volume of our target assets available to us, which could adversely affect our ability to acquire assets that satisfy our investment objectives. Rising interest rates may also cause our target assets that were issued prior to an interest rate increase to provide yields that are below prevailing market interest rates. If rising interest rates cause us to be unable to acquire a sufficient volume of our target assets with a yield that is above our borrowing cost, our ability to satisfy our investment objectives and to generate income and make distributions may be materially and adversely affected. The relationship between short- term and longer- term interest rates is often referred to as the " yield curve. " Ordinarily, short- term interest rates are lower than longer-term interest rates. If short- term interest rates rise disproportionately relative to longer- term interest rates (a flattening of the yield curve), our borrowing costs may increase more rapidly than the interest income earned on our assets. Because we expect that our ~~SBC~~ **LMM** loans and ABS assets generally will bear, on average, interest based on longer- term rates than our borrowings, a flattening of the yield curve would tend to decrease our net income and the fair market value of our net assets. Additionally, to the extent cash flows from ~~SBC~~ **LMM** loans and ABS assets that return scheduled and unscheduled principal are reinvested, the spread between the yields on the new ~~SBC~~ **LMM** loans and ABS assets and available borrowing rates may decline, which would likely decrease our net income. It is also possible that short- term interest rates may exceed longer- term interest rates (a yield curve inversion), in which event our borrowing ~~31costs --~~ -- **costs** may exceed our interest income and we could incur operating losses. Fair market values of our ~~SBC~~ **LMM** loans and ABS assets may decline without any general increase in interest rates for a number of reasons, such as increases or expected increases in defaults, or increases or expected increases in voluntary prepayments for those ~~SBC~~ **LMM** loans and ABS assets that are subject to prepayment risk or widening of credit spreads. In addition, in a period of rising interest rates, our operating results will depend in large part on the difference between the income from our assets and our financing costs. We anticipate that, in most cases, the income from such assets will respond more slowly to interest rate fluctuations than the cost of our borrowings. Consequently, changes in interest rates, particularly short- term interest rates, may significantly influence our net income. Increases in these rates will tend to decrease our net income and fair market value of our assets. Some of our ~~SBC~~ **LMM** loans will have interest rate features that adjust over time, and any interest rate caps on these loans may reduce our income or cause it to suffer a loss during periods of rising interest rates. Our ~~ARMs~~ **floating rate mortgages** are subject to periodic and lifetime interest rate caps. Periodic interest rate caps limit the amount an interest rate can increase during any given period. Lifetime interest rate caps limit the amount an interest rate can increase through maturity of a loan. Our borrowings, including our repurchase agreement and securitizations, are not subject to similar restrictions. Accordingly, in a period of rapidly increasing interest rates, the interest rates paid on our borrowings could increase without limitation while interest rate caps would limit the interest rates on our ~~ARMs~~ **floating rate mortgage loans** . This problem is magnified with respect to our ~~ARMs~~ **floating rate mortgage loans** that are not fully indexed. Further, some ~~ARMs~~ **floating rate mortgage loans** may be subject to periodic payment caps that result in a portion of the interest being deferred and added to the principal outstanding. As a result, we could receive less cash income on ~~ARMs~~ **floating rate mortgage loans** than we need to pay interest on our related borrowings. These factors could lower our net interest income or cause us to suffer a loss during periods of rising interest rates. Because we hold and may originate additional fixed- rate assets, an increase in interest rates on our borrowings may adversely affect our book value. Increases in interest rates may negatively affect the fair market value of our assets. Any fixed- rate assets we hold or originate generally will be more negatively affected by these increases than adjustable- rate assets. In accordance with accounting rules, we will be required to reduce our earnings for any decrease in the fair market value of our assets that are accounted for under the fair value option. We will be required to evaluate our assets on a quarterly basis to determine their fair value by using third- party bid price indications provided by dealers who make markets in these assets or by third- party pricing services. If the fair value of an asset is not available from a dealer or third- party pricing service, we will estimate the fair value of the asset using a variety of methods, including discounted cash flow analysis, matrix pricing, option- adjusted spread models and fundamental analysis. Aggregate characteristics taken into consideration include type of collateral, index, margin, periodic cap, lifetime cap, underwriting standards, age and delinquency experience. However, the fair value reflects estimates and may not be indicative of the amounts we would receive in a current market exchange. If we determine that a security is other- than- temporarily impaired, we would be required to reduce the value of such security on our balance sheet by recording an impairment charge in our income statement and our stockholders' equity ~~would~~ **33would** be correspondingly reduced. Reductions in stockholders' equity decrease the amounts we may borrow to originate or purchase additional target assets, which could restrict our ability to increase our net income. Because the assets we will hold and expect to acquire may experience periods of illiquidity, we may lose profits or be prevented from earning capital gains if we cannot sell ~~SBC~~ **LMM** loans and ABS assets at an opportune time. We bear the risk of being unable to dispose of our assets at advantageous times or in a timely manner because ~~SBC~~ **LMM** loans and ABS assets generally experience periods of illiquidity, including the recent period of delinquencies and defaults with respect to residential mortgage loans. **We** ~~Additionally, we~~ believe that we are currently one of only a handful of active market participants in the secondary ~~SBC~~ **LMM** loan market and the lack of liquidity may result from the absence of a willing buyer or an established market for these assets, as well as legal or contractual restrictions on resale or the unavailability of financing for these assets. As a result, our ability to vary our portfolio in response to changes in economic and other conditions may be relatively limited, which may cause us to incur losses. ~~32Our~~ -- **Our** non- U. S. assets may subject us to the uncertainty of foreign laws and markets and currency rate exposure. We have ~~recently~~ invested in, and in the future may originate, invest in or acquire non- U. S. assets. Investments in countries outside of the United States may subject us to risks of multiple and conflicting tax laws and regulations, and other laws and regulations that may make foreclosure and the exercise of other remedies in the case of default more difficult or costly compared to U. S. assets as well as political and economic instability abroad, any of which factors could adversely affect our receipt of returns on and distributions from these assets. In addition, such assets may be denominated in currencies other than U. S. dollars which would expose us to foreign currency risk. Maintenance of our 1940 Act exception imposes limits on our operations. We intend to conduct our operations so that neither we nor our subsidiaries are required to register as an investment company under the 1940 Act. Section 3 (a) (1) (A) of the 1940 Act defines an investment company as any issuer that is or holds itself out as being engaged primarily in the business of investing, reinvesting or trading in securities. Section 3 (a) (1) (C) of the 1940 Act defines an investment company as any issuer that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire investment securities having a value exceeding 40 % of the value of the issuer' s total assets (exclusive of U. S. Government securities and cash items) on an unconsolidated basis. Excluded from the term " investment securities, " among other things, are U. S. Government securities and securities issued by majority- owned subsidiaries that are not themselves investment companies and are not relying on the exception from the definition of investment company set forth in Section 3 (c) (1) or Section 3 (c) (7) of the 1940 Act. We intend to conduct our operations so that we do not come within the definition of an investment company under Section 3 (a) (1) (C) of the 1940 Act because fewer than 40 % of our total assets on an unconsolidated basis will consist of " investment securities. " The securities issued to us by any wholly- owned or majority- owned subsidiary that we currently own or may form in the future that is excluded from the definition of " investment company " by Section 3 (c) (1) or 3 (c) (7) of the 1940 Act, together with any other investment securities we may own, may not have a value in excess of 40 % of the value of our total assets on an unconsolidated basis. We will monitor our holdings to ensure continuing and ongoing compliance with this test. However, qualification for exclusion from registration under the 1940 Act will limit our ability to make certain investments. In addition, we believe that we will not be considered an investment company under Section 3 (a) (1) (A) of the 1940 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, we will be primarily engaged in the non- investment company businesses of our subsidiaries, and thus the type of businesses in which we may engage through our subsidiaries is limited. In connection with the Section 3 (a) (1) (c) analysis, the determination of whether an entity is a majority- owned subsidiary of our Company is made by us. The 1940 Act defines a majority- owned subsidiary of a person as a company 50 % or more of the outstanding voting securities of which are owned by such person, or by another company which is a majority- owned subsidiary of such person. The 1940 Act further defines voting securities as any security presently entitling the owner or holder thereof to vote for the election of directors of a company. We will treat companies in which we own at least a majority of the outstanding voting securities as majority- owned subsidiaries for purposes of the 40 % test. We will also treat securitization trusts as majority- owned subsidiaries for purposes of this analysis even where the securities issued by such trusts do not meet the definition of voting securities under the 1940 Act only in cases where this conclusion is supported by an opinion of counsel that the trust certificates or other interests issued by such securitization trusts are the ~~functional~~ **34functional** equivalent of voting securities and that, in any event, such securitization trusts should be considered to be majority- owned subsidiaries for purposes of this analysis. We have not requested the SEC, or its staff, to concur or approve our treatment of any securitization trust or other company as a majority- owned subsidiary and neither the SEC nor its staff has done so. If the SEC, or its staff, were to disagree with our treatment of one of more companies as majority- owned subsidiaries, we would need to adjust our strategy and our assets in order to continue to pass the 40 % test. Any such adjustment in our strategy could have a material adverse effect on us. We believe that certain of our subsidiaries qualify to be excluded from the definition of investment company under the 1940 Act pursuant to Section 3 (c) (5) (C) of the 1940 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 exception generally requires that at least 55 % of such subsidiaries' assets must be comprised of qualifying assets and at least 80 % of their total assets must be comprised of qualifying assets and real estate- related assets under the 1940 Act. We will treat as qualifying assets for this purpose ~~SBC~~ **LMM** loans and other mortgages, in each case meeting certain other qualifications based upon SEC staff no- action letters. Although SEC staff no- action letters have not specifically addressed the categorization of these ~~33types~~ -- **types** of assets, we will also treat as qualifying assets for this purpose bridge loans wholly- secured by first priority liens on real estate that provide interim financing to borrowers seeking short- term capital (with terms of generally up to three years), MBS representing ownership of an entire pool of mortgage loans, and real estate- owned properties that may be acquired in connection with mortgage loan foreclosures. We expect each of our subsidiaries relying on Section 3 (c) (5) (C) may invest an additional 25 % of its assets in either qualifying assets or in other types of mortgages, interests in MBS or other securitizations, securities of REITs, and other real estate- related assets. We expect each of our subsidiaries relying on Section 3 (c) (5) (C) to rely on guidance published by the SEC, or its staff, or if such guidance has not been published, on our own analyses to determine which assets are qualifying real estate assets and real estate- related assets. To the extent that the SEC, or its staff, publishes new or different guidance with respect to these matters, we may be required to adjust our strategy accordingly. Although we intend to monitor our portfolio periodically and prior to each investment acquisition, there can be no assurance that we will be able to maintain an exclusion for these subsidiaries. In addition, we may be limited in our ability to make certain investments and these limitations could result in the subsidiary holding assets we might wish to sell or selling assets we might wish to hold. In 2011, the SEC solicited public comment on a wide range of issues relating to Section 3 (c) (5) (C) of the 1940 Act, including the nature of the assets that qualify for purposes of the exclusion and whether mortgage REITs should be regulated in a manner similar to registered investment companies. There can be no assurance that the laws and regulations governing the 1940 Act status of REITs, including the SEC, or its staff, providing more specific or different guidance regarding this exclusion, will not change in a manner that adversely affects our operations. If our Company or our subsidiaries fail to maintain an exception or exemption from the 1940 Act, we could, among other things, be required either to (i) change the manner in which we conduct our operations to avoid being required to register as an investment company, (ii) effect sales of our assets in a manner that, or at a time when, we would not otherwise choose to do so, or (iii) register as an investment company, any of which would negatively affect the value of our shares of common stock, the sustainability of our business model, and our ability to make distributions which would have an adverse effect on our business and the value of our shares of common stock. Certain of our subsidiaries may rely on the exclusion from the definition of investment company provided by Section 3 (c) (6) to the extent that they hold mortgage assets through majority- owned subsidiaries that rely on Section 3 (c) (5) (C). Little interpretive guidance has been issued by the SEC, or its staff, with respect to Section 3 (c) (6) and any guidance published by the SEC, or its staff, could require us to adjust our strategy accordingly. Although little interpretive guidance has been issued with respect to Section 3 (c) (6), we believe that certain of our subsidiaries may rely on Section 3 (c) (6) if, among other things, 55 % of the assets of such subsidiaries consist of, and at least 55 % of the income of such subsidiaries are derived from, qualifying real estate investment assets owned by wholly- owned or majority- owned subsidiaries of such subsidiaries. Qualification for exemption from registration under the 1940 Act will limit our ability to make certain investments. For example, these restrictions will limit the ability of our subsidiaries to invest directly in MBS that represent less than the entire ownership in a pool of mortgage loans, debt and equity tranches of securitizations and MBS, and real estate companies or in assets not related to real estate. No assurance can be given that the SEC, or its staff, will concur with our classification of our Company or our subsidiaries' assets or that the SEC, or its staff, will not, in the future, issue further guidance that may require us to reclassify those assets for purposes of qualifying for an exclusion from regulation under the 1940 Act. To the extent that the SEC staff ~~provides~~ **35provides** more specific guidance regarding any of the matters bearing upon the definition of investment company and the exceptions to that definition, we may be required to adjust our investment strategy accordingly. Additional guidance from the SEC, or its staff, could provide additional flexibility to us, or it could further inhibit our ability to pursue the investment strategy we have chosen. If the SEC, or its staff takes a position contrary to our analysis with respect to the characterization of any of the assets or securities we invest in, we may be deemed an unregistered investment company. Therefore, in order not to be required to register as an investment company, we may need to dispose of a significant portion of our assets or securities or acquire significant other additional assets which may have lower returns than our expected portfolio, or we may need to modify our business plan to register as an investment company, which would result in significantly increased operating expenses and would likely entail significantly reducing our indebtedness, which could also require us to sell a significant portion of our assets. We cannot assure you that we would be able to complete these dispositions or acquisitions of assets, or deleveraging, on favorable terms, or at all. Consequently, any modification of our business plan could have a material adverse effect on us. ~~34Further~~ -- **Further** , if the SEC determined that we were an unregistered investment company, we would be subject to monetary penalties and injunctive relief in an action brought by the SEC, we would potentially be unable to enforce contracts with third parties and third parties could seek to obtain rescission of transactions undertaken during the period for which it was established that we were an unregistered investment company. Any of these results would have a material adverse effect on us. Since we are not expected to be subject to the 1940 Act and the rules and regulations promulgated thereunder, we will not be subject to its substantive provisions, including provisions requiring diversification of investments, limiting leverage and restricting investments in illiquid assets. Rapid changes in the values of our target assets may make it more difficult for us to maintain our qualification as a REIT or our exclusion from the 1940 Act. If the fair market value or income potential of our target assets declines as a result of increased interest rates, prepayment rates, general market conditions, government actions or other factors, we may need to increase our real estate assets and income or liquidate our non- qualifying assets to maintain our REIT qualification or our exclusion from the 1940 Act. If the decline in real estate asset values or income occurs quickly, this may be especially difficult to accomplish. We may have to make decisions that we otherwise would not make absent the REIT and 1940 Act considerations. The working capital advances we provide to small businesses may become uncollectible, and large amounts of uncollectible advances may adversely affect our performance. We provide working capital advances to small businesses through the purchase of their future revenues. We enter into a contract with the business whereby we pay the business an upfront amount in return for a specific amount of the business' s future revenue receivables. Our working capital advance activity presents risks, including the illiquidity of the cash advances; our critical reliance on certain individuals to operate the business; collection issues and challenges given that working capital advances are generally unsecured; limited availability of financing sources, such as securitizations, to fund such advances; and sensitivity to general economic and regulatory conditions. We face the risk that merchants will fail to repay advances made by us in these transactions. Rates at which merchants do not repay amounts owed under these transactions may be significantly affected by economic downturns or general economic conditions beyond our control or beyond the control of the small businesses who repay the amounts advanced based on the volume of their revenue streams. While we have established an allowance for doubtful purchased future receivables based on historical and other objective information, it is also dependent on our subjective assessment based upon our experience and judgment. Actual losses are difficult to forecast and, as a result, there can be no assurance that our allowance for losses will be sufficient to absorb any actual losses. If we are unable to collect the full amount of the working capital advance receivable we acquire through the advance, we may be required to expend monies in connection with remedial actions, which expenditures could be material. In addition, the working capital advances that we make are relatively illiquid with no established market for their purchase and sale, and there can be no assurance that we would be able to liquidate those investments in a timely manner, or at all. Providing working capital advances to small businesses through the purchase of its future revenue depends on our ability to fund our working capital advances and collect payment on and service the working capital advances. We rely on unaffiliated banks for the Automated Clearing House (" ACH ") transaction process used to disburse the proceeds of working capital advances to our customers and to automatically collect scheduled payments on such working capital advances. As we are not a bank, we do not have the ability to directly access the ACH payment network and must therefore rely on an FDIC- insured depository institution to process our transactions. If we cannot continue to obtain such services from our current institutions or elsewhere, or if we cannot transition to another processor quickly, our ability to ~~fund~~ **36fund** working capital advances and process payments will suffer. If we fail to fund working capital advances promptly as expected, we risk loss of customers and damage to our reputation which could materially harm our business. If we fail to adequately collect amounts owing in respect of the working capital advances, as a result of the loss of direct debiting or otherwise, then payments to us may be delayed or reduced and our revenue and operating results may be harmed. Risks Related to Our CompanyAny disruption in the availability and / or functionality of our technology infrastructure and systems could adversely impact our business. Our ability to acquire and originate ~~SBC~~ **LMM** loans and manage any related interest rate risks and credit risks is critical to our success and is highly dependent upon the efficient and uninterrupted operation of our computer and communications hardware and software systems. For example, we will rely on our proprietary database to track and maintain all loan ~~35performance~~ -- **performance** and servicing activity data for loans in our portfolio. This data is used to manage the portfolio, track loan performance, develop and execute asset disposition strategies. In addition, this data is used to evaluate and price new investment opportunities. Some of these systems will be located at our facility and some will be maintained by third- party vendors. Any significant interruption in the availability and functionality of these systems could harm our business. In the event of a systems failure or interruption by our third- party vendors, we will have limited ability to affect the timing and success of systems restoration. If such interruptions continue for a prolonged period of time, it could have a material and adverse impact on our business, results of operations and financial condition. Cybersecurity risk and cyber incidents may adversely affect our business by causing a disruption to our operations, a compromise or corruption of **the security, confidentiality,** ~~our~~ **or integrity of our Company, employee, customer, or third- party** confidential information and / or damage to our **reputation or** business relationships, ~~all~~ **any** of which could negatively impact our financial results. ~~A~~ **Our risk of a** cyber incident ~~is considered to be any adverse event that threatens the confidentiality, integrity or availability of our information resources. These incidents may be an intentional attack or an unintentional event and could involve gaining unauthorized access to our information systems for purposes of misappropriating assets, stealing confidential information, corrupting data or causing operational disruption. The risk of a security breach~~ or disruption, particularly through cyber- attacks or cyber intrusions, including by computer hackers, nation-state affiliated actors, and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. The result of these incidents may include disrupted operations, misstated or unreliable financial data, disrupted market price of our common stock, misappropriation of assets, liability for stolen assets or information, increased cybersecurity protection and insurance cost, regulatory enforcement, litigation and damage to our relationships. These risks require continuous and likely increasing attention and other resources from us to, among other actions, identify and quantify these risks, upgrade and expand our ~~technologies~~ **technological capabilities** , systems and processes to adequately address them and provide periodic training for our employees to assist them in detecting phishing, malware and other schemes. Such attention diverts time and other resources from other activities and there is no assurance that our efforts will be effective. Potential sources for disruption, damage or failure of our information technology systems include, without limitation, computer viruses, ~~security breaches~~ **cyber incidents** , human error, ~~cyber- attacks,~~ natural disasters and defects in design **. In addition, we cannot be certain that our existing cyber insurance coverage will continue to be available on acceptable terms or that our insurers will not deny coverage as to all or part of any future claim or loss** . Additionally, due to the size and nature of our Company, we rely on third- party service providers for many aspects of our business. ~~We~~ **Notwithstanding our efforts to oversee and mitigate risks associated with our use of third- party service providers, we** can provide no assurance that the networks and systems that our third- party vendors have established or use will be effective. As our reliance on technology has increased, so have the risks posed to both our information systems and those provided by third- party service providers. We have implemented processes, procedures and internal controls to help mitigate cybersecurity risks and cyber intrusions, but these measures, as well as our increased awareness of the nature and extent of a risk of a cyber incident, do not guarantee that our financial results, operations or confidential information will not be negatively impacted by such an incident. ~~We~~ **Further, the SEC has recently adopted rules requiring public companies to disclose any material cybersecurity incident affecting them on a Current Report on Form 8- K within four business days of determining that such a material cybersecurity incident has occurred, and to disclose on an annual basis any material information regarding their cybersecurity risk management, strategy and governance. These new reporting requirements became effective on December 18, 2023. If we fail to comply with these new requirements, we could incur**

regulatory fines and our reputation, business, financial condition and results of operations could be harmed. 37We are highly dependent on information systems and communication systems; systems failures and other operational disruptions could significantly affect our business, which may, in turn, negatively affect our operating results and our ability to pay dividends to our stockholders. Our business is highly dependent on our communications and our information systems, which may interface with or depend on systems operated by third parties, including market counterparties, loan originators and other service providers. Any failure or interruption of these systems could cause delays or other problems in our activities, including in our target asset origination or acquisition activities, which could have a material adverse effect on our operating results and negatively affect the value of our common stock and our ability to pay dividends to our stockholders. Additionally, we rely heavily on financial, accounting and other data processing systems and operational risks arising from mistakes made in the confirmation or settlement of transactions, from transactions not being properly booked, evaluated or accounted for or other similar disruption in our operations may cause us to suffer financial loss, the disruption of our business, liability to third parties, regulatory intervention or reputational damage. Accounting rules for certain of our transactions are highly complex and involve significant judgment and assumptions. Changes in such rules, accounting interpretations or our assumptions could adversely impact our ability to timely and accurately prepare our consolidated financial statements. We are subject to Financial Accounting Standards Board (" FASB ") standards and interpretations that can result in significant accounting changes that could have a material and adverse impact on our results of operations and financial ~~36condition~~ -- **condition** . Accounting rules for financial instruments, including the acquisition and sales or securitization of mortgage loans, investments in ABS, derivatives, investment consolidations and other aspects of our anticipated operations are highly complex and involve significant judgment and assumptions. For example, our estimates and judgments are based on a number of factors, including projected cash flows from the collateral securing our ~~SBC~~ **LMM** loans, the likelihood of repayment in full at the maturity of a loan, potential for an ~~SBC~~ **LMM** loan refinancing opportunity in the future and expected market discount rates for varying property types. These complexities could lead to a delay in the preparation of financial information and the delivery of this information to our stockholders. Changes in accounting rules, interpretations or our assumptions could also undermine our ability to prepare timely and accurate financial statements, which could result in a lack of investor confidence in our financial information and could materially and adversely affect the market price of our common stock. Provisions for credit losses are difficult to estimate. Our provision for loan losses is evaluated on a quarterly basis. The determination of our provision for loan losses requires us to make certain estimates and judgments, which may be difficult to determine. Our estimates and judgments are based on a number of factors, including (1) whether cash from operations is sufficient to cover the debt service requirements currently and into the future, (2) the ability of the borrower to refinance the loan and (3) the property' s liquidation value, all of which remain uncertain and are subjective. Our estimates and judgments may not be correct and, therefore, our results of operations and financial condition could be severely impacted. ASC 326, Financial Instruments- Credit Losses, became effective for us on January 1, 2020 and replaced the " incurred loss " methodology previously required by accounting principles generally accepted in the United States of America (" GAAP ") with ~~an expected loss model known as~~ the ~~Current Expected Credit Loss ("~~ CECL ~~")~~ model. Under the CECL model, we are required to present certain financial assets carried at amortized cost, such as loans held for investment, at the net amount expected to be collected. The measurement of expected credit losses is to be based on past events including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement will take place at the time the financial asset is first added to the balance sheet and updated quarterly thereafter. **The Company may be unable to integrate Broadmark' s business successfully and realize the anticipated synergies and other expected benefits of the Broadmark Merger on the anticipated timeframe or at all. The Broadmark Merger involved the combination of two companies that previously operated as two independent public companies. The combined company has been required to devote significant management attention and resources to the integration of Broadmark' s business. The difficulties the Company may have encountered in the integration process, and may continue to encounter, include, but are not limited to, the following: ● the complexities of combining two companies with different histories and portfolio assets; 38 ● the difficulties or delays in redeploying the capital acquired in connection with the Broadmark Merger into the target assets of the combined company; ● potential unknown liabilities and unforeseen increased expenses, delays or conditions associated with the Broadmark Merger; and ● performance shortfalls as a result of the diversion of management' s attention caused by completing the Broadmark Merger and integrating the companies' operations. For all these reasons, you should be aware that it is possible that the integration process could result in the disruption of the Company' s ongoing business or inconsistencies in its operations, services, standards, controls, policies and procedures, any of which could adversely affect the Company' s ability to deliver investment returns to stockholders, to maintain relationships with its key stakeholders and employees, to achieve the anticipated benefits of the Broadmark Merger, or otherwise materially and adversely affect its business and financial results. We may seek to sell one of our business segments in an effort to maximize shareholder value, which may adversely affect our Company, our reputation, our results of operations and financial position or our stock price. We continue to evaluate opportunities to restructure our business in an effort to maximize shareholder value, which could include the divestiture of certain of our business segments. Divestitures are subject to numerous risks and uncertainties, including, among others: ● the risk that a divestiture may not be completed in the expected time frame or at all; ● disruption of our management' s attention from ongoing business operations due to a proposed or pending divestiture; ● the acceptance of a less than favorable sales price or other terms of sale; ● the potential loss of key personnel or operations; ● adverse reactions from our borrowers, lenders or other counterparties, or those of the divested business segment; ● the risk of litigation or other judicial or administrative proceedings arising from the divestiture; and ● negative reactions from market analysts and adverse impacts on our stock price. A divestiture could result in significant costs to us and is subject to numerous risks, including**

those listed above. We cannot provide any assurance that a sale of a business segment will be successful or will not harm our business, our reputation our results of operations and financial position or our stock price. Risks Related to Our Relationship with WaterfallWe depend on Waterfall and its key personnel for our success. We may not find a suitable replacement for Waterfall if the management agreement is terminated, or if key personnel leave the employment of Waterfall or otherwise become unavailable to us. We are dependent on Waterfall for our day- to- day management. Our Chief Financial Officer, Chief Operating Officer and Chief Credit Officer, who are employed by Waterfall, are dedicated exclusively to our business, along with several of Waterfall' s accounting professionals ~~who are also dedicated exclusively to our business~~. In addition, Waterfall or our Company may in the future hire additional personnel that may be dedicated to our business. ~~However, other than our Chief Financial Officer, Chief Operating Officer and Chief Credit Officer,~~ Waterfall is not obligated under the management agreement to dedicate any of its personnel exclusively to our business, **other than our Chief Financial Officer and an accounting professional,** nor is it or its personnel obligated to dedicate any specific portion of its or their time to our business. We will also be responsible for the costs of our own employees. However, with the exception of our subsidiaries, which ~~will~~ employ their own personnel, we **do not have and** do not expect to have our own employees. Accordingly, we believe that our success will depend to a significant extent upon the efforts, experience, diligence, skill and network of business contacts of the executive officers and key personnel of Waterfall. The executive officers and key personnel of Waterfall will evaluate, negotiate, structure, close and monitor our acquisitions of assets, and our success will depend on its continued service. The departure of any of the executive officers or key personnel of Waterfall could have a material adverse effect on our performance. In addition, we offer no assurance that Waterfall will remain our manager or that we will continue to have access to Waterfall' s principals and professionals. The current term of our management agreement runs through October 31, ~~2023~~ **2024** and, unless ~~terminated~~ **39terminated** in accordance with its terms, our management agreement will automatically renew for a successive one- year term on each anniversary thereafter. If the management agreement is terminated and no suitable replacement is found to manage the Company, we may not be able to execute our business plan. ~~37Should~~ -- **Should** one or more of Waterfall' s key personnel leave the employment of Waterfall or otherwise become unavailable to us, Waterfall may not be able to find a suitable replacement and we may not be able to execute certain aspects of our business plan. There are various conflicts of interest in our relationship with Waterfall which could result in decisions that are not in the best interests of our stockholders. We are subject to conflicts of interest arising out of our relationship with Waterfall and its affiliates. Our Chief Financial Officer, Chief Operating Officer and Chief Credit Officer are dedicated exclusively to us, along with several of Waterfall' s accounting professionals and an information technology professional ~~who are also dedicated primarily to us~~. With the exception of our subsidiaries, which ~~will~~ employ their own personnel, we do not **have and do not** expect to have our own employees. In addition, we expect that ~~the~~ **our** Chief Executive **Officer and Chief Investment** Officer, President, portfolio managers and any other appropriate personnel of Waterfall will devote such portion of their time to our affairs as is necessary to enable us to effectively operate ~~its~~ **our** business. Waterfall and our **non- dedicated** officers may have conflicts between their duties to us and their duties to, and interests in, Waterfall and its affiliates. Waterfall is not required to devote a specific amount of time or the services of any particular individual to our operations. Waterfall manages or provides services to other clients, and we ~~will~~ **may** compete with these other clients for Waterfall' s resources and support. The ability of Waterfall and its officers and personnel to engage in other business activities may reduce the time they spend advising us. There may also be conflicts in allocating assets that are suitable for us and other clients of Waterfall and its affiliates. Waterfall manages a series of funds and a limited number of separate accounts, which focus on a range of ABS and other credit strategies. None of these other funds or separate accounts focus on ~~SBC~~ **LMM** loans as their primary business strategy. To address certain potential conflicts arising from our relationship with Waterfall or its affiliates, Waterfall has agreed in a side letter agreement with us that, for so long as the management agreement is in effect, neither it nor any of its affiliates will (i) sponsor or manage any additional investment vehicle where we do not participate as an investor whose primary investment strategy will involve ~~SBC~~ **LMM** mortgage loans, unless Waterfall obtains the prior approval of a majority of our ~~board~~ **Board** ~~of directors~~ (including a majority of our independent directors), or (ii) acquire a portfolio of assets, a majority of which (by value or UPB) are ~~SBC~~ **LMM** mortgage loans on behalf of another investment vehicle (other than acquisitions of ~~SBC~~ **LMM** ABS), unless we are first offered the investment opportunity and a majority of our ~~board~~ **Board** ~~of directors~~ (including a majority of our independent directors) decide not to acquire such assets. The side letter agreement does not cover ~~SBC~~ **LMM** ABS acquired in the market and non- real estate secured loans and we may compete with other existing clients of Waterfall and its affiliates, other funds managed by Waterfall that focus on a range of ABS and other credit strategies and separately managed accounts, and future clients of Waterfall and its affiliates in acquiring ~~SBC~~ **LMM** ABS, non- real estate secured loans and portfolios of assets less than a majority of which (by value or UPB) are ~~SBC~~ **LMM** loans, and in acquiring other target assets that do not involve ~~SBC~~ **LMM** loans. We will pay Waterfall substantial management fees regardless of the performance of our portfolio. Waterfall' s entitlement to a base management fee, which is not based upon performance metrics or goals, might reduce its incentive to devote its time and effort to seeking assets that provide attractive risk- adjusted returns for our portfolio. This in turn could hurt both our ability to make distributions to our stockholders and the market price of our common stock. The management agreement was negotiated between related parties and their terms, including fees payable, may not be as favorable to us as if they had been negotiated with unaffiliated third parties. The termination of the management agreement may be difficult and require payment of a substantial termination fee or other amounts, including in the case of termination for unsatisfactory performance, which may adversely affect our inclination to end our relationship with Waterfall. Termination of the management agreement without cause is difficult and costly. Our independent directors will review Waterfall' s performance and the management fees annually and, following the initial term, the management agreement may be terminated annually upon the affirmative vote of at least two- thirds of our independent directors, or by a vote of the holders of at least a majority of the outstanding shares of our common stock (other than shares held by members of our ~~senior~~ **40senior** management team and affiliates of Waterfall), based upon: (i) Waterfall' s unsatisfactory performance that is materially detrimental to our Company, or (ii) a determination that the management fees or incentive distribution payable to Waterfall are not fair, subject to Waterfall' s right to prevent termination based on unfair fees by accepting a reduction of management fees or incentive distribution agreed to by at least two- thirds of our independent directors. We must provide ~~38Waterfall~~ -- **Waterfall** with 180 days prior notice of any such termination. Additionally, upon such a termination by us without cause (or upon termination by Waterfall due to our material breach), the management agreement provides that we will pay Waterfall a termination fee equal to three times the average annual base management fee earned by Waterfall during the prior 24- month period immediately preceding the date of termination, calculated as of the end of the most recently completed fiscal quarter prior to the date of termination, except upon an internalization. Additionally, if the management agreement is terminated under circumstances in which we are obligated to make a termination payment to Waterfall, our operating partnership shall repurchase, concurrently with such termination, the Class A special unit in our operating partnership held by Waterfall entitling Waterfall to an incentive distribution from our operating partnership for an amount equal to three times the average annual amount of the incentive distribution paid or payable in respect of the Class A special unit during the 24- month period immediately preceding such termination, calculated as of the end of the most recently completed fiscal quarter before the date of termination. These provisions may increase the cost to our Company of terminating the management agreement and adversely affect our ability to terminate Waterfall without cause. If we internalize our management functions or if Waterfall is internalized by another sponsored program, we may be unable to obtain key personnel, and the consideration we pay for any such internalization could exceed the amount of any termination fee, either of which could have a material and adverse effect on our business, financial condition and results of operations. We may engage in an internalization transaction, become self- managed and, if this were to occur, certain key employees may not become our employees but may instead remain employees of Waterfall or its affiliates. An inability to manage an internalization transaction effectively could thus result in us incurring excess costs and suffering deficiencies in our disclosure controls and procedures or our internal control over financial reporting. Such deficiencies could cause us to incur additional costs, and our management' s attention could be diverted from most effectively managing our investments. Additionally, if another program sponsored by Waterfall internalizes Waterfall, key personnel of Waterfall, who also are key personnel of the other sponsored program, would become employees of the other program and would no longer be available to us. Any such loss of key personnel could adversely impact our ability to execute certain aspects of our business plan. Furthermore, in the case of any internalization transaction, we expect that we would be required to pay consideration to compensate Waterfall for the internalization in an amount that we will negotiate with Waterfall in good faith and which will require approval of at least a majority of our independent directors. It is possible that such consideration could exceed the amount of the termination fee that would be due to Waterfall if the conditions for terminating the management agreement without cause are satisfied and we elected to terminate the management agreement and payment of such consideration could have a material and adverse effect on our business, financial condition and results of operations. The Class A special unit entitling Waterfall to an incentive distribution may induce Waterfall to make certain investments that may not be favorable to us, including speculative investments. Under the partnership agreement of our operating partnership, Waterfall, the holder of the Class A special unit in our operating partnership is entitled to receive an incentive distribution that may cause Waterfall to place undue emphasis on the maximization of our " distributable earnings ", which is referred to as core earnings under the partnership agreement, at the expense of other criteria, such as preservation of capital, to achieve a higher incentive distribution. Investments with higher yield potential are generally riskier or more speculative. This could result in increased risk to the value of our portfolio. For a discussion of the calculation of distributable earnings under the partnership agreement, see " Item 7. Management' s Discussion and Analysis of Financial Condition and Results of Operations — Incentive Distribution Payable to Waterfall " included in this annual report on Form 10- K. Our ~~board~~ **Board** ~~of directors~~ will not approve each investment and financing decision made by Waterfall unless required by our investment guidelines. We have authorized Waterfall to follow broad investment guidelines established by our ~~board~~ **Board** ~~of directors~~ . Our ~~board~~ **Board** ~~of directors~~ periodically reviews our investment guidelines and investment portfolio but does not, and is not required to, review all of our proposed investments. These investment guidelines may be changed from time to time by our ~~board~~ **Board** ~~of directors~~ without the approval of our stockholders. To the extent that our ~~board~~ **Board** ~~of directors~~ approves material changes to the investment guidelines, we will inform our stockholders of such changes through disclosure in our periodic reports and other filings required under the Exchange Act. ~~In~~ **41In** addition, in conducting its periodic reviews, our ~~board~~ **Board** ~~of directors~~ may rely primarily on information provided to them by Waterfall. Furthermore, Waterfall may use complex strategies, and transactions entered into may be costly, difficult or impossible to unwind by the time they are reviewed by our ~~board~~ **Board** ~~of directors~~ . Accordingly, Waterfall will have great latitude in determining the types and amounts of target assets it may ~~39decide~~ -- **decide** are attractive investments for us, which could result in investment returns that are substantially below expectations or that result in losses, which would materially and adversely affect our business operations and results. Risks Related to Our Residential Mortgage Lending BusinessInterest rate mismatches between our ~~ARMs~~ **floating rate mortgages** and our borrowings used to fund our purchases of these assets may cause us to suffer losses. We will likely fund our residential mortgage loans with borrowings that have interest rates that adjust more frequently than the interest rate indices and repricing terms of ~~ARMs~~ **floating rate mortgage loans** . Accordingly, if short- term interest rates increase, our borrowing costs may increase faster than the interest rates on our ~~ARMs~~ **floating rate mortgage loans** adjust. As a result, in a period of rising interest rates, we could experience a decrease in net income or a net loss. In most cases, the interest rate indices and repricing terms of ~~ARMs~~ **floating rate mortgage loans** and our borrowings are not identical, thereby potentially creating an interest rate mismatch between our investments and our borrowings. While the historical spread between relevant short- term interest rate indices has been relatively stable, there have been periods when the spread between these indices was volatile. During periods of changing interest rates, these interest rate index mismatches could reduce our net income or produce a net loss, and adversely affect the level of our dividends and the market price of our common stock. In addition, ~~ARMs~~ **floating rate mortgage loans** are typically subject to lifetime interest rate caps that limit the amount an interest rate can increase through the maturity of the ~~ARMs~~ **floating rate mortgage loans** . However, our borrowings under repurchase agreements typically are not subject to similar restrictions. Accordingly, in a period of rapidly increasing interest rates, the interest rates paid on our borrowings could increase without limitation while caps could limit the interest rates on these types of assets. This problem is magnified for ~~ARMs~~ **floating rate mortgage loans** that are not fully indexed. Further, some ~~ARMs~~ **floating rate mortgage loans** may be subject to periodic payment caps that result in a portion of the interest being deferred and added to the principal outstanding. As a result, we may receive less income on these types of assets than we need to pay interest on our related borrowings. These factors could reduce our net interest income and cause us to suffer a loss during periods of rising interest rates. We may be subject to liability in connection with our residential mortgage loans for potential violations of consumer protection laws and regulations. Federal consumer protection laws and regulations have been enacted and promulgated that are designed to regulate residential mortgage loan underwriting and originators' lending processes, standards, and disclosures to borrowers. These laws and regulations include the ~~CFPB' s~~ Ability to Repay / Qualified Mortgage Rule (" ATR / QM Rule") **of the Consumer Financial Protection Bureau (" CFPB ")** under Regulation Z and Mortgage Servicing Rules under Regulation X and Regulation Z. 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 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. 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 not 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 ATR / QM Rule, may be highly subjective and open to interpretation. As a result, a court may determine that a residential mortgage loan did not meet the standard or test even if the originator reasonably believed such standard or test had been satisfied. ~~Mortgage~~ **42Mortgage** loans also are subject to various other federal laws, including, among others: ● the Equal Credit Opportunity Act of 1974, as amended, and Regulation B promulgated thereunder, which prohibit discrimination on the basis of age, race, color, sex, religion, marital status, national origin, receipt of public assistance or the exercise of any right under the Consumer Credit Protection Act of 1968, as amended, in the extension of credit; ● the Truth in Lending Act, as amended (" TILA ") and Regulation Z promulgated thereunder, which both require certain disclosures to the mortgagors regarding the terms of residential loans; ~~40~~ ● the Real Estate Settlement Procedures Act, as amended (" RESPA ") and Regulation X promulgated thereunder, which (among other things) prohibit the payment of referral fees for real estate settlement services (including mortgage lending and brokerage services) and regulate escrow accounts for taxes and insurance and billing inquiries made by mortgagors; ● the Americans with Disabilities Act of 1990, as amended, which, among other things, prohibits discrimination on the basis of disability in the full and equal enjoyment of the goods, services, facilities, privileges, advantages or accommodations of any place of public accommodation; ● the Fair Credit Reporting Act of 1970, as amended, and Regulation V promulgated thereunder, which regulates the use and reporting of information related to the borrower' s credit history; ● the Consumer Financial Protection Act, enacted as part of the Dodd- Frank Act, which (among other things) created the CFPB and gave it broad rulemaking, supervisory and enforcement jurisdiction over mortgage lenders and servicers, and proscribes any unfair, deceptive or abusive acts or practices in connection with any consumer financial product or service; ● the Fair Debt Collection Practices Act, which prohibits a debt collector from using abusive, unfair or deceptive practices to collect debts; ● the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 ~~(" S. A. F. E. Act")~~ , under which residential mortgage loan originators employed by financial institutions, must register with the Nationwide Mortgage Licensing System and Registry, obtain a unique identifier from the registry, and maintain their registration in order to originate residential mortgage loans; ● the Home Equity Loan Consumer Protection Act of 1988, which requires additional disclosures and limits changes that may be made to the loan documents without the mortgagor' s consent, and restricts a mortgagee' s ability to declare a default or to suspend or reduce a mortgagor' s credit limit to certain enumerated events; ● the Depository Institutions Deregulation and Monetary Control Act of 1980, which pre- empts certain state usury laws; ● the Dodd- Frank Act, including as described above; ● the Service Members Civil Relief Act, as amended, which provides relief to borrowers who enter into active military service or who were on reserve status but are called to active duty after the origination of their mortgage loans; ● the Right to Financial Privacy Act, which, among other requirements, imposes a duty to maintain confidentiality of consumer financial records; ● the Fair Housing Act of 1968, which, among other things, prohibits discrimination on the basis of race, religion, sex, disability, family status, and national origin; ● the Home Mortgage Disclosure Act, which requires certain financial institutions to publicly disclose information about home mortgages; and ● the Alternative Mortgage Transaction Parity Act of 1982, which pre- empts certain state lending laws which regulate alternative mortgage transactions. ~~Failure~~ **43Failure** of us, residential mortgage loan originators, mortgage brokers or servicers to comply with these laws and regulations, could subject us to monetary penalties and defenses to foreclosure, including by recoupment or setoff of finance charges and fees collected, and could result in rescission of the affected residential mortgage loans, which could adversely impact our business and financial results. ~~41GMFS~~ -- **GMFS** is a seller / servicer approved to sell residential mortgage loans to Freddie Mac, Fannie Mae, the Housing and Urban Development (" HUD ") / FHA, the USDA, and the VA and failure to maintain its status as an approved seller / servicer could harm our business. GMFS is an approved Fannie Mae ~~Seller~~ **seller** ~~-~~**/** ~~Servicer~~ **servicer** , Freddie Mac ~~Seller~~ **seller** ~~-~~**/** ~~Servicer~~ **servicer** , Ginnie Mae issuer, HUD / FHA mortgage, USDA approved originator, and VA lender. As an approved seller / servicer, GMFS is required to conduct certain aspects of its operations in accordance with applicable policies and guidelines published by these entities. Failure to maintain GMFS' s status as an approved seller / servicer would mean it would not be able to sell mortgage loans to these entities, could result in it being required to re- purchase loans previously sold to these entities, or could otherwise restrict our business and investment options and could harm our business and expose us to losses or other claims. Fannie Mae, Freddie Mac or these other entities may, in the future, require GMFS to hold additional capital or pledge additional cash or assets in order to maintain approved seller / servicer status, which, if required, would adversely impact our financial results. GMFS operates within a highly regulated industry on a federal, state and local level and the business results of GMFS are significantly impacted by the laws and regulations to which GMFS is subject. As a mortgage loan originator, GMFS is subject to extensive and comprehensive regulation under federal, state and local laws and regulations in the United States. These laws and regulations significantly affect the way that GMFS conducts its business and restrict the scope of the existing business of GMFS and may limit the ability of GMFS to expand its product offerings or can make the cost to originate and service mortgage loans higher, which could impact our financial results. The CFPB adopted changes to its Mortgage Servicing Rules in August 2016. These may increase the costs of loss mitigation and increase foreclosure timelines. Other new regulatory requirements or changes to existing requirements that the CFPB may promulgate could require changes in the business of GMFS, result in increased compliance costs and impair the profitability of such business. In addition, as a result of the Dodd- Frank Act' s expansion of the authority of state attorneys general to bring actions to enforce federal consumer protection legislation, GMFS could be subject to state lawsuits and enforcement actions, thereby further increasing the legal and compliance costs relating to GMFS. Amendments to the Mortgage Servicing Rules have increased the complexity of the loss mitigation and foreclosure processes and an inadvertent failure to comply with these rules could lead to losses in the value of the mortgage loans, be an event of default under various servicing agreements or subject GMFS to fines and penalties. The cumulative effect of these changes could result in a material impact on our earnings. Additionally, the Dodd- Frank Act directed the CFPB to integrate certain mortgage loan disclosures under the TILA and RESPA, and in October 2015, these disclosure rules went into effect for newly originated residential mortgage loans. These rules include consumer disclosure document forms, processes for determining when disclosures must be updated and timelines for providing disclosure documents to borrowers. These rules have created the need for substantial system and process changes at GMFS and training for its employees. CFPB further amended disclosure requirements under Regulation Z in 2017 and 2018. Failure to comply with these requirements may result in penalties for disclosure violations under the TILA and RESPA. GMFS could be subject to additional regulatory requirements or changes under the Dodd- Frank Act beyond those currently proposed, adopted or contemplated, particularly given the ongoing heightened regulatory environment in which financial institutions operate. The ongoing implementation of the Dodd- Frank Act, including the implementation of the Mortgage Servicing Rules and the rules related to mortgage loan disclosures by the CFPB, could affect the marketability or liquidity of asset- backed securities and increase the regulatory compliance burden, associated costs and place restrictions on the operations of GMFS, which could in turn adversely affect the servicing of loans and related receivables, operating results and regulation and supervision of GMFS. Other regulations resulting from the Dodd- Frank Act may also have a material impact on the business of GMFS. Section 1033 of the Dodd Frank Act instructed the CFPB to implement rules that ensure certain providers of financial services will make available to a consumer in an electronic form, upon request, information in the control or possession of such providers concerning the consumer financial product or service that the consumer obtained from such provider, including ~~information~~ **44information** relating to any transaction, series of transaction, or to the account including costs, charges and usage data. Section 1033 could impose additional privacy and security requirements, operational burdens and increased risk of liability for access to confidential information on providers of financial services. ~~42Mortgage~~ -- **Mortgage** loan modification and refinance programs as well as future legislative action may adversely affect the value of, and the returns on, the target assets in which we invest. The U. S. Government, through the Federal Reserve, the FHA and the FDIC, commenced implementation of programs designed to provide homeowners with assistance in avoiding residential or commercial mortgage loan foreclosures, including the Home Affordable Modification Program, which provides homeowners with assistance in avoiding residential mortgage loan foreclosures, and the Home Affordable Refinance Program, which we refer to as HARP, which allows borrowers who are current on their mortgage payments to refinance and reduce their monthly mortgage payments at LTV ratios without new mortgage insurance. The programs may involve, among other things, the modification of mortgage loans to reduce the principal amount of the loans or the rate of interest payable on the loans, or to extend the payment terms of the loans. Loan modification and refinance programs may adversely affect the performance of residential mortgage loans. These loan modification programs, future legislative or regulatory actions, including possible amendments to the bankruptcy laws, which 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 adversely affect the value of, and the returns on residential mortgage loans and our other target assets that we may purchase. We may be affected by alleged or actual deficiencies in servicing and foreclosure practices of third parties, as well as related delays in the foreclosure process. Allegations of deficiencies in servicing and foreclosure practices among several large sellers and servicers of residential mortgage loans that surfaced in 2010 raised various concerns relating to such practices, including the improper execution of the documents used in foreclosure proceedings, inadequate documentation of transfers and registrations of mortgages and assignments of loans, improper modifications of loans, violations of representations and warranties at the date of securitization, and failure to enforce put- backs. As a result of alleged deficiencies in foreclosure practices, a number of servicers temporarily suspended foreclosure proceedings beginning in the second half of 2010 while they evaluated their foreclosure practices. In late 2010, a group of state attorneys general and state bank and mortgage regulators representing nearly all 50 states and the District of Columbia, along with the U. S. Department of Justice and HUD, began an investigation into foreclosure practices of banks and servicers. The investigations and lawsuits by several state attorneys general led to a settlement agreement in March 2012 with five of the nation' s largest banks, pursuant to which the banks agreed to pay more than $ 25 billion to settle claims relating to improper foreclosure practices. The settlement does not prohibit the states, the federal government, individuals or investors in **residential** ~~RMBS~~ - **MBS** from pursuing additional actions against the banks and servicers in the future. The integrity of the servicing and foreclosure processes are critical to the value of the residential mortgage loans and the **residential** ~~RMBS~~ - **MBS** collateralized by residential mortgage loans in which we will invest, and our financial results could be adversely affected by deficiencies in the conduct of those processes. For example, delays in the foreclosure process that have resulted from investigations into improper servicing practices may adversely affect the values of, and our losses on, the residential mortgage loans we own or may originate or acquire. Foreclosure delays may also increase the administrative expenses of any securitization trusts that we may sponsor, thereby reducing the amount of funds available for distribution to our stockholders. In addition, the subordinate classes of securities issued by any such securitization trusts may continue to receive interest payments while the defaulted loans remain in the trusts, rather than absorbing the default losses. This may reduce the amount of credit support available for the senior classes we may own, thus possibly adversely affecting these securities. In addition, in these circumstances, we may be obligated to fund any obligation of the servicer to make advances on behalf of a delinquent loan obligor. To the extent that there are significant amounts of advances that need to be funded in respect of loans where we own the servicing right, it could have a material adverse effect on our business and financial results. While we believe that the sellers and servicers would be in violation of their servicing contracts to the extent that they have improperly serviced mortgage loans or improperly executed documents in foreclosure or bankruptcy proceedings, or ~~do~~ **45do** not comply with the terms of servicing contracts when deciding whether to apply principal reductions, it may be difficult, expensive and time consuming for us to enforce our contractual rights. We will continue to monitor and review the issues raised by the alleged improper foreclosure practices. While we cannot predict exactly how the servicing and foreclosure matters or the resulting litigation or settlement agreements will affect ~~43our~~ -- **our** business, there can be no assurance that these matters will not have an adverse impact on our consolidated results of operations and financial condition. Our MSRs will expose us to significant risks. Fannie Mae, Freddie Mac and Ginnie Mae generally require mortgage servicers to be paid a minimum servicing fee that significantly exceeds the amount a servicer would charge in an arm' s- length transaction. Our residential MSRs are recorded at fair value on our balance sheet based upon significant estimates and assumptions, with changes in fair value included in our consolidated results of operations. Such estimates and assumptions would include, without limitation, estimates of future cash flows associated with our residential MSRs based upon assumptions involving interest rates as well as the prepayment rates, delinquencies and foreclosure rates of the underlying serviced mortgage loans. The ultimate realization of the value of MSRs may be materially different than the fair values of such MSRs as reflected in our financial statements as of any particular date. The use of different estimates or assumptions in connection with the valuation of these assets could produce materially different fair values for such assets, which could have a material adverse effect on our consolidated financial position, results of operations and cash flows. Accordingly, there may be material uncertainty about the value of our MSRs. Changes in interest rates are a key driver of the performance of MSRs. Historically, the value of MSRs has increased when interest rates rise and decreased when interest rates decline due to the effect those changes in interest rates have on prepayment estimates. We may pursue various hedging strategies to seek to reduce our exposure to 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 other changing market conditions. Interest rate hedging may fail to protect or could adversely affect us. To the extent we do not utilize derivatives to hedge against changes in the fair value of MSRs, our balance sheet, consolidated results of operations and cash flows would be susceptible to significant volatility due to changes in the fair value of, or cash flows from, MSRs as interest rates change. Prepayment speeds significantly affect excess mortgage servicing fees. Prepayment speed is the measurement of how quickly borrowers pay down the unpaid principal balance of their loans or how quickly loans are otherwise brought current, modified, liquidated or charged off. We will base the price we pay for MSRs and the rate of amortization of those assets on factors such as our projection of the cash flows from the related pool of mortgage loans. Our expectation of prepayment speeds will be a significant assumption underlying those cash flow projections. If prepayment speeds are significantly greater than expected, the carrying value of MSRs could exceed their estimated fair value. If the fair value of MSRs decreases, we would be required to record a non- cash charge, which would have a negative impact on our financial results. Furthermore, a significant increase in prepayment speeds could materially reduce the ultimate cash flows we receive from MSRs, and we could ultimately receive substantially less than what we paid for such assets. Delinquency rates have a significant impact on the valuation of any excess mortgage servicing fees. An increase in delinquencies will generally result in lower revenue because typically we will only collect servicing fees from agencies or mortgage owners for performing loans. If delinquencies are significantly greater than we expect, the estimated fair value of the MSRs could be diminished. When the estimated fair value of MSRs is reduced, we could suffer a loss, which could have a negative impact on our financial results. MSRs are subject to numerous U. S. federal, state and local laws and regulations and may be subject to various judicial and administrative decisions imposing various requirements and restrictions on our business. Our failure to comply, or the failure of the servicer to comply, with the laws, rules or regulations to which we or the servicer are subject by virtue of ownership of MSRs, whether actual or alleged, could expose us to fines, penalties or potential litigation liabilities, including costs, settlements and judgments, any of which could have a material adverse effect on our business, financial condition, consolidated results of operations or cash flows. ~~GMFS~~ **46GMFS** originates residential mortgage loans which have risks of losses due to mortgage loan defaults or fraud. GMFS currently originates loans that are eligible to be purchased, guaranteed or insured by Fannie Mae, Freddie Mac, FHA, VA and USDA through retail, correspondent and broker channels. GMFS may originate loans that are not guaranteed or insured by such agencies or channels, and the origination of these residential mortgage loans have risks of losses due to mortgage loan defaults or fraud. The ability of borrowers to make timely principal and interest payments could be adversely affected by changes in their personal circumstances, a rise in interest rates, a recession, declining real estate property values ~~44or~~ **or** other economic events, resulting in losses. Moreover, if a borrower defaults on a mortgage loan that GMFS or we own and if the liquidation proceeds from the sale of the property do not cover the loan amount and the legal, broker and selling costs, GMFS or we would experience a loss. We could experience losses if we fail to detect fraud, where a borrower or lending partner has misrepresented its financial situation or purpose for obtaining the loan, or an appraisal misrepresented the value of the property collateralizing its loan. Some of the loans we originate may be insured in part by mortgage insurers or financial guarantors. Mortgage insurance protects the lender or other holder of a loan up to a specified amount, in the event the borrower defaults on the loan. Mortgage insurance is generally obtained only when the principal amount of the loan at the time of origination is greater than 80 % of the value of the property (LTV), although it may not always be obtained in these circumstances. Any inability of the mortgage insurers to pay in full the insured portion of the loans that we hold would adversely affect the value of our loans, which could increase our credit risk, reduce our cash flows, or otherwise adversely affect our business. We will hold and may originate or acquire additional residential mortgage loans collateralized by subprime mortgage loans, which are subject to increased risks. We will hold and may originate or acquire additional subprime residential mortgage loans backed by collateral pools of subprime mortgage loans that have been originated using underwriting standards that are less restrictive than those used in underwriting other higher quality mortgage loans. These lower standards include mortgage loans made to borrowers having imperfect or impaired credit histories, mortgage loans where the amount of the loan at origination is 80 % or more of the value of the mortgage property, mortgage loans made to borrowers with low credit scores, mortgage loans made to borrowers who have other debt that represents a large portion of their income and mortgage loans made to borrowers whose income is not required to be disclosed or verified. Due to economic conditions, including lower home prices, as well as aggressive lending practices, subprime mortgage loans have in recent years experienced increased rates of delinquency, foreclosure, bankruptcy and loss, and they are likely to continue to experience delinquency, foreclosure, bankruptcy and loss rates that are higher, and that may be substantially higher, than those experienced by mortgage loans underwritten in a more traditional manner. Thus, because of the higher delinquency rates and losses associated with subprime mortgage loans, the performance of subprime mortgage loans that we hold and may originate or acquire could be correspondingly adversely affected, which could adversely impact our consolidated results of operations, financial condition and business. Deficiencies in the underwriting of newly originated residential mortgage loans may result in an increase in the severity of losses on our residential mortgage loans. The underwriting of newly originated residential mortgage loans is different than the underwriting and investment process related to seasoned mortgage loans, which focuses, in part, on performance history. Prior to originating or acquiring residential mortgage loans or other assets, GMFS or other subsidiaries may undertake underwriting and due diligence efforts with respect to various aspects of the loan or asset. When underwriting or conducting due diligence, GMFS, or other subsidiaries, rely on available resources, data and investigations by third parties, which may be limited. The mortgage loan originator may also only conduct due diligence on a sample of a pool of loans or assets it is acquiring and assume that the sample is representative of the entire pool. These underwriting and due diligence efforts may not reveal matters that could lead to losses. If the underwriting process is not robust enough or if we do not conduct adequate due diligence, or the scope of the underwriting or due diligence is limited, we may incur losses. During the mortgage loan underwriting process, appraisals are generally obtained on the collateral underlying each prospective mortgage. The quality of these appraisals may vary widely in accuracy and consistency. The appraiser may feel pressure from the broker or lender to provide an appraisal in the amount necessary to enable the originator to make the loan, whether or not the value of the property justifies such an appraised value. Inaccurate or inflated appraisals may result in an increase in the severity of losses on the residential mortgage loans. Although mortgage originators generally underwrite mortgage loans in accordance with their pre-determined loan underwriting guidelines, from time to time and in the ordinary course of business, originators may make exceptions to these guidelines. On a case- by- case basis, ~~underwriters~~ **47underwriters** may determine that a prospective borrower that does not strictly qualify under the underwriting guidelines warrants an underwriting exception, based upon compensating factors. Compensating factors may include a lower LTV, a higher debt coverage ratio, experience as an owner or investor, higher borrower net worth or liquidity, stable employment, longer length of time in business and length of time owning the property. Loans originated with exceptions may result in a higher number of delinquencies and defaults. ~~45Losses~~ -- **Losses** could occur due to a counterparty that sold loans to GMFS or our other subsidiaries refusing to or being unable to repurchase that loan or pay damages related to breaches of representations made by the seller. Losses could occur due to a counterparty that sold loans or other assets to GMFS or our other subsidiaries refusing to or being unable to (e. g., due to its financial condition) repurchase loans or pay damages if it is determined subsequent to purchase that one or more of the representations or warranties made to GMFS or our other subsidiaries in connection with the sale was inaccurate. Even if GMFS or another of our subsidiaries obtains representations and warranties from the loan seller counterparties they may not parallel the representations and warranties GMFS or our other subsidiaries make to subsequent purchasers of the loans or may otherwise not protect the seller from losses, including, for example, due to the counterparty being insolvent or otherwise unable to make payments arising out of damages for a breach of representation or warranty. Furthermore, to the extent the counterparties from which loans were acquired have breached their representations and warranties, such breaches may adversely impact our business relationship with those counterparties, including by reducing the volume of business our subsidiaries conduct with those counterparties, which could negatively impact their ability to acquire loans and the larger mortgage origination business. To the extent our subsidiaries have significant exposure to representations and warranties made to them by one or more counterparties, we may determine, as a matter of risk management, to reduce or discontinue loan acquisitions from those counterparties, which could reduce the volume of mortgage loans available for acquisition and negatively impact our business and financial results. The diminished level of Freddie Mac participation in, and other changes in the role of Freddie Mac in, the mortgage market may adversely affect our business. In September 2008, **the Federal Housing Finance Agency ("** FHFA **")** placed Fannie Mae and Freddie Mac in conservatorship and undertook the extraordinary dual role of supervisor and conservator. FHFA' s conservatorships are of unprecedented scope, scale, and complexity. While in conservatorship, Fannie Mae and Freddie Mac have required $ 187. 5 billion in financial investment from the Treasury to avert insolvency, and, through the start of 2017, have paid to Treasury over $ 255 billion in dividends. Despite their high leverage, lack of capital, conservatorship status, and uncertain future, the combined Fannie Mae and Freddie Mac have grown in size during conservatorship and, according to FHFA, their combined market share of newly issued MBS is more than 65 %. In mid- 2017, their combined total assets were approximately $ 5. 3 trillion and their combined debt exceeded $ 5 trillion. Although market conditions have improved and Fannie Mae and Freddie Mac have returned to profitability, their ability to sustain profitability in the future cannot be assured for a number of reasons: the winding down of their investment portfolios and reduction in net interest income; the level of guarantee fees they will be able to charge and keep; the future performance of their business segments; and the significant uncertainties involving key market drivers such as mortgage rates, homes prices, and credit standards. Fannie Mae and Freddie Mac were also required to eliminate their capital cushion by the end of 2018 and in any quarter in which they suffer a loss, will have to once again draw funds from Treasury to cover such losses. To address these challenges, a number of reform proposals have been introduced and suggested, but none have passed a congressional vote. If Freddie Mac participation in the mortgage market were reduced or eliminated, or its structures were to change, our ability to originate and service loans under the Freddie Mac program could be adversely affected. These developments could also materially and adversely impact the pricing of our potential future Freddie Mac loan and ABS portfolio. Additionally, the current support provided by the Treasury to Freddie Mac, and any additional support it may provide in the future, could have the effect of lowering the interest rates we expect to receive from such assets, thereby tightening the spread between the interest we earn on these assets and the cost of financing these assets. Future legislation affecting Freddie Mac may create market uncertainty and have the effect of reducing the actual or perceived credit quality of Freddie Mac and the securities issued or guaranteed by it. As a result, such laws could increase the risk of loss on our investments related to the Freddie Mac program. It also is possible that such laws could adversely impact the market for such assets and the spreads at which they trade. ~~Risks~~ **48Risks** Related to Our SBA BusinessWe may encounter risks associated with originating or acquiring SBA loans. We will originate SBA loans and sell the guaranteed portion of such SBA loans into the secondary market. These sales may result in collecting cash premiums, creating a stream of future servicing spread or both. There can be no assurance that we will originate these loans, that a secondary market will exist or that we will realize premiums upon the sale of the guaranteed portion of these loans. ~~46We~~ **We** may acquire SBA loans or originate SBA loans and sell the guaranteed portion of such SBA loans and retain the credit risk on the non- guaranteed portion of such loans. We would then expect to share pro- rata with the SBA in any recoveries. In the event of default on an SBA loan, our pursuit of remedies against a borrower would be subject to SBA rules and in some instances SBA approval. If the SBA establishes that a loss on an SBA guaranteed loan is attributable to significant technical deficiencies in the manner in which the loan was originated, funded or serviced by us, the SBA may seek recovery of the principal loss related to the deficiency from us. With respect to the guaranteed portion of SBA loans that may be sold by us, the SBA would first honor its guarantee and then may seek compensation from us in the event that a loss is deemed to be attributable to technical deficiencies. There can be no assurance that we will not experience a loss due to significant deficiencies with our underwriting or servicing of SBA loans. In certain instances, including liquidation or charge- off of an SBA guaranteed loan, we may have a receivable for the SBA' s guaranteed portion of legal fees, operating expenses, property taxes paid etc. related to the loan or the collateral (upon foreclosure). While we may believe expenses incurred were justified and necessary for the care and preservation of the collateral and within the established rules of the SBA, there can be no assurance that the SBA will reimburse us. In addition, obtaining reimbursement from the SBA may be a time consuming and lengthy process and the SBA may seek compensation from us related to reimbursement of expenses that it does not believe were necessary for the care and preservation of a loan or its collateral and no assurance can be given that the SBA will not decline to reimburse us for our portion of material expenses. A government shutdown or curtailment of the government- guaranteed loan programs could cut off an important segment of our business, and may adversely affect our SBA loan program acquisitions, originations and results of operations. Although the program has been in existence since 1953, there can be no assurance that the federal government will maintain the SBA program, or that it will continue to guarantee loans at current levels. If we cannot acquire, make or sell government- guaranteed loans, we may generate less interest income, fewer origination fees, and our ability to generate gains on sale of loans may decrease. From time- to- time, the government agencies that guarantee these loans reach their internally budgeted limits and cease to guarantee loans for a stated time period. In addition, these agencies may change their rules for loans. Also, Congress may adopt legislation that could have the effect of discontinuing or changing the programs. Non- governmental programs could replace government programs for some borrowers, but the terms might not be equally acceptable. If these changes occur, the volume of loans to small business and industrial borrowers of the types that now qualify for government- guaranteed loans could decline, as could the profitability of these loans. Our lending business could be materially and adversely affected by circumstances or events limiting the availability of funds for SBA loan programs. A government shutdown occurred in October 2013 and December 2018, which affected the ability of entities to originate SBA loans because Congress failed to approve a budget which in turn eliminated the availability of funds for these programs. A similar government shutdown could occur in the future, which may affect our ability to originate government guaranteed loans and to sell the government guaranteed portions of those loans in the secondary market. A government shutdown may adversely affect our SBA loan program acquisitions and originations and our results of operations. ~~47Risks~~ **49Risks** Related to Financing and HedgingWe use leverage as part of our investment strategy, but we do not have a formal policy limiting the amount of debt we may incur. Our ~~board~~ **Board** ~~of directors~~ may change our leverage policy without stockholder consent. We will use prudent leverage to increase potential returns to our stockholders. For information on our committed and outstanding financing arrangements see " Item 7. Management' s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources " included in this annual report on Form 10- K. Over time, as market conditions change, we plan to use these and other borrowings. The return on our assets and cash available for distribution to our stockholders may be reduced to the extent that market conditions prevent us from leveraging our assets or cause the cost of our financing to increase relative to the income that can be derived from the assets acquired. Our financing costs will reduce cash available for distribution to stockholders. We may not be able to meet our financing obligations and, to the extent that we cannot, we risk the loss of some or all of our assets to liquidation or sale to satisfy the obligations. A decrease in the value of our assets that are subject to repurchase agreement financing may lead to margin calls that we will have to satisfy. We may not have the funds available to satisfy any such margin calls and may be forced to sell assets at significantly depressed prices due to market conditions or otherwise, which may result in losses. The satisfaction of any such margin calls may reduce cash flow available for distribution to our stockholders. Any reduction in distributions to our stockholders may cause the value of our common stock to decline. We may not be able to successfully complete additional securitization transactions, which could limit potential future sources of financing and could inhibit the growth of our business. We may use our existing credit facilities or repurchase agreements or, if we are successful in entering into definitive documentation in respect of our other potential financing facilities, other borrowings to finance the origination and / or acquisition of ~~SBC~~ **LMM** loans until a sufficient quantity of eligible assets has been accumulated, at which time we would refinance these short- term facilities or repurchase agreements through the securitization market, which could include the creation of CMBS, collateralized debt obligations (" CDOs "), or the private placement of loan participations or other long- term financing. When we employ this strategy, we are subject to the risk that we would not be able to obtain, during the period that our short- term financing arrangements are available, a sufficient amount of eligible assets to maximize the efficiency of a CMBS, CDO or private placement issuance. We are also subject to the risk that we will not be able to obtain short- term financing arrangements or will not be able to renew any short- term financing arrangements after they expire should we find it necessary to extend such short- term financing arrangements to allow more time to obtain the necessary eligible assets for a long- term financing. The inability to consummate securitizations of our portfolio to finance our ~~SBC~~ **LMM** loan and ABS assets on a long- term basis could require us to seek other forms of potentially less attractive financing or to liquidate assets at an inopportune time or price, which could have a material and adverse effect on our business, financial condition and results of operations. Uncertainty regarding the expected discontinuance of the London interbank offered rate (" LIBOR ") and transition to alternative reference rates may adversely impact our borrowings and assets. ~~The~~ **Per the** United Kingdom Financial Conduct Authority (" FCA "), which regulates LIBOR, ~~has announced that~~ the most commonly used tenors (overnight and one, three, six and 12 months) ~~will cease~~ **ceased** to be published ~~or will~~ **and were** no longer ~~be~~ representative after June 30, 2023. ~~The FCA' s announcement coincided with the March 5, 2021, announcement of~~ LIBOR' s administrator, the ICE Benchmark Administration Limited (" IBA "), ~~indicating~~ **indicated** 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. **As such, all** ~~These announcements mean that any~~ of our **outstanding** LIBOR- based borrowings and assets **were** ~~that mature beyond June 30, 2023 need to be~~ converted to alternative interest rates. Many of our counterparties are now subject to regulatory guidance not to enter new LIBOR contracts except in limited circumstances. The Alternative Reference Rates Committee (" ARRC "), a group of private- market participants convened by the U. S. Federal Reserve Board and the New York Federal Reserve, has recommended the Secured Overnight Financing Rate (" SOFR "), a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities, as a more robust reference rate alternative to U. S. dollar LIBOR. The use of SOFR as a substitute for U. S. dollar LIBOR is voluntary and may not be suitable for all market participants. To approximate economic equivalence to LIBOR, SOFR can be compounded over a relevant term and a spread adjustment may be added. There are significant differences between ~~48LIBOR~~ -- **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. **The** ~~If our LIBOR- based borrowings are converted to 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~~ **50could** have a material adverse effect on our results. Although SOFR is the ARRC' s recommended replacement rate, 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 borrowing costs for us. ~~It is not yet possible to predict the magnitude of LIBOR' s end on our borrowing costs given the uncertainty about which rates will replace LIBOR and the timing of actual replacement.~~ Market practices related to SOFR calculation conventions continue to develop and may vary, and inconsistent calculation conventions may develop among financial products. Many of our debt and interest rate hedge agreements ~~are~~ **were previously** linked to U. S. dollar LIBOR. **Some** ~~We expect that a significant portion~~ of **our debt** ~~these financing arrangements~~ and loan assets **did** ~~will not have matured, been prepaid or otherwise terminated prior to the time at which the IBA ceases to publish LIBOR. It is not possible to predict all consequences of the IBA' s proposals to cease publishing LIBOR, any related regulatory actions and the expected discontinuance of the use of LIBOR as a reference rate for financial contracts. Some of our debt and loan assets may~~ not include robust fallback language that would facilitate replacing LIBOR with a clearly defined alternative reference rate after LIBOR' s discontinuation ~~, and we may need to amend these before the IBA ceases to publish LIBOR~~ . **Our** ~~If such debt or loan assets mature after LIBOR ceases to be published, our~~ counterparties may disagree with us about how to calculate or replace LIBOR. Even when robust fallback language is included, there can be no assurance that the replacement rate plus any spread adjustment will be economically equivalent to LIBOR, which could result in a lower interest rate being paid to us on such assets. Modifications to any debt, loan assets, interest rate hedging transactions or other contracts to replace LIBOR with an alternative reference rate could result in adverse tax consequences. 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. Because the impact of LIBOR cessation is dependent on unknown future facts, the language of individual contracts, and the outcome of potential future legislation or litigation, it is not currently practical for our valuation models to account for the cessation of LIBOR. The process of transition involves operational risks. References to LIBOR may be embedded in computer code or models, and we may not identify and correct all of those references. Because compounded SOFR is backward- looking rather than forward- looking, parties making or receiving LIBOR- based payments may be unable to calculate payment amounts until the day that payment is due. Proposed mechanisms to solve the operational timing issue may result in a payment amount that does not fully reflect interest rates during the calculation period. In addition, any resulting differences in interest rate standards among our assets and our financing arrangements may result in interest rate mismatches between our assets and the borrowings used to fund such assets. Furthermore, the transition away from LIBOR may adversely impact our ability to manage and hedge exposures to fluctuations in interest rates using derivative instruments. There is no guarantee that ~~a~~ **the** transition from LIBOR to an alternative will not result in financial market disruptions, significant increases in benchmark rates, or borrowing costs to borrowers, any of which could have an adverse effect on our business, results of operations, financial condition, and stock price ~~. We are not able to predict when LIBOR will cease to be available~~ . Through certain of our subsidiaries, we may engage in securitization transactions relating to mortgage loans, which would expose us to potentially material risks. Through certain of our subsidiaries we may engage in securitization transactions relating to mortgage loans, which generally would require us to prepare marketing and disclosure documentation, including term sheets and prospectuses, which include disclosures regarding the securitization transactions and the assets being securitized. If our marketing and disclosure documentation are alleged or found to contain inaccuracies or omissions, we may be liable under federal and state securities laws (or under other laws) for damages to third parties that invest in these securitization transactions, including in circumstances where we relied on a third party in preparing accurate disclosures, or we may incur other expenses and costs in connection with disputing these allegations or settling claims. In recent years there has also been debate as to whether there are defects in the legal process and legal documents governing transactions in which securitization trusts and other secondary purchasers take legal ownership of mortgage loans and establish their rights as first priority lien holders on underlying mortgaged property. To the extent there are problems with ~~49the~~ -- **the** manner in which title and lien priority rights were established or transferred, securitization transactions that we may sponsor and third- party sponsored securitizations that we hold investments in may experience losses, which could expose us to losses and could damage our ability to engage in future securitization transactions. Our potential securitization activities could expose us to litigation, adversely affecting our business and financial results. Through certain of our subsidiaries we may engage in or participate in securitization transactions relating to mortgage loans. As a result of declining property values, increasing defaults, changes in interest rates, or other factors, the aggregate cash flows from the loans held by any securitization entity that we may sponsor and the securities and other assets held by these entities may be insufficient to repay in full the principal amount of ABS issued by these securitization entities. We ~~do~~ **51do** not expect to be directly liable for any of the ABS issued by these entities. Nonetheless, third parties who hold the ABS issued by these entities may try to hold us liable for any losses they experience, including through claims under federal and state securities laws or claims for breaches of representations and warranties we would make in connection with engaging in these securitization transactions. Defending a lawsuit can consume significant resources and may divert management' s attention from our operations. We may be required to establish reserves for potential losses from litigation, which could be material. To the extent we are unsuccessful in our defense of any lawsuit, we could suffer losses, which could be in excess of any reserves established relating to that lawsuit, and these losses could be material. We may be required to repurchase mortgage loans or indemnify investors if we breach representations and warranties, which could harm our earnings. We have sold and, on occasion, consistent with our qualification as a REIT and our desire to avoid being subject to the " prohibited transaction " penalty tax, we may sell some of our loans in the secondary market or as a part of a securitization of a portfolio of our loans. When we sell loans, we are required to make customary representations and warranties about such loans to the loan purchaser. Our mortgage loan sale agreements may require us to repurchase or substitute loans in the event we breach a representation or warranty given to the loan purchaser. In addition, we may be required to repurchase loans as a result of borrower fraud or in the event of early payment default on a mortgage loan. Likewise, we may be required to repurchase or substitute loans if we breach a representation or warranty in connection with our securitizations, if any. The remedies available to a purchaser of mortgage loans are generally broader than those available to us against the originating broker or correspondent. Further, if a purchaser enforces its remedies against us, we may not be able to enforce the remedies we have against the sellers. The repurchased loans typically can only be financed at a steep discount to their repurchase price, if at all. They are also typically sold at a significant discount to the UPB. Significant repurchase activity could harm our cash flow, results of operations, financial condition and business prospects. Certain financing arrangements restrict our operations and expose us to additional risk. Our existing financing arrangements, including ~~the~~ **our** ~~Senior~~ **senior** ~~Secured~~ **secured** ~~Notes~~ **notes** , ~~Corporate~~ **corporate** ~~Debt~~ **debt** ~~, Convertible Notes~~ , and our future financing arrangements are or will be governed by a credit agreement, indenture or other instrument containing covenants restricting our operating flexibility. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock. We will bear the cost of issuing and servicing such credit facilities, arrangements or securities. These restrictive covenants and operating restrictions could have a material adverse effect on our operating results, cause us to lose our REIT status, restrict our ability to finance or securitize new originations and acquisitions, force us to liquidate collateral and negatively affect the market price of our common stock and our ability to pay dividends. For further information on these covenants see " Item 7. Management' s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources " included in this annual report on Form 10- K. Our securitizations may also reduce and / or restrict our available cash needed to pay dividends to our stockholders in order to satisfy the REIT requirements. Under the terms of the securitization, excess interest collections with respect to the securitized loans are distributed to us as the trust certificate holder once the overcollateralization target is reached and maintained. If the securitized loans experience delinquencies exceeding default triggers specified in the securitizations, the excess interest collections will be paid to the noteholders as additional principal payments on the notes. If excess ~~50interest~~ -- **interest** collections are paid to noteholders rather than to us, we will be required to use cash from other sources to pay dividends to our stockholders in order to satisfy the REIT requirements or to fund our ongoing operations. The repurchase agreements that we will use to finance our assets will restrict us from leveraging our assets as fully as desired and may require us to provide additional collateral. We may use credit facilities together with other borrowings structured as repurchase agreements to finance our assets. If the market value of the assets pledged or sold by us under a repurchase agreement borrowing to a financing institution declines, we will normally be required by the financing institution to pay down a portion of the funds advanced, but we may not have the funds available to do so, which could result in defaults. Repurchase agreements that we may use in the ~~future~~ **52future** may also require us to provide additional collateral if the market value of the assets pledged or sold by us to a financing institution declines. Posting additional collateral to support our credit will reduce our liquidity and limit our ability to leverage our assets, which could adversely affect our business. In the event we do not have sufficient liquidity to meet such requirements, financing institutions can accelerate repayment of our indebtedness, increase interest rates, liquidate our collateral or terminate our ability to borrow. Such a situation would likely result in a rapid deterioration of our financial condition and possibly necessitate a filing for bankruptcy protection. For further information on our repurchase agreements see " Item 7. Management' s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources " included in this annual report on Form 10- K. Further, financial institutions providing the repurchase facilities may require us to maintain a certain amount of cash that is not invested or to set aside non- leveraged assets sufficient to maintain a specified liquidity position that would allow us to satisfy our collateral obligations. As a result, we may not be able to leverage our assets as fully as we would choose, which could reduce our return on equity. If we are unable to meet these collateral obligations, our financial condition could deteriorate rapidly. If a counterparty to our repurchase transactions defaults on its obligation to resell the underlying asset back to us at the end of the transaction term, or if the value of the underlying asset has declined as of the end of that term, or if we default on our obligations under the repurchase agreement, we will incur losses on our repurchase transactions. Under repurchase agreement financings, we generally sell assets to lenders (that is, repurchase agreement counterparties) and receive cash from the lenders. The lenders are obligated to resell the same assets back to us at the end of the term of the transaction, which typically ranges from 30 to 90 days, but which may have terms of up to 364 days or longer. Because the cash we will receive from the lender when it initially sells the assets to the lender is less than the value of those assets (this is referred to as the haircut), if the lender defaults on its obligation to resell the same assets back to us, we would incur a loss on the transaction equal to the amount of the haircut (assuming no change in the value of the assets). We would also incur losses on a repurchase transaction if the value of the underlying assets has declined as of the end of the transaction term, as we would have to repurchase the assets for their initial value but would receive assets worth less than that amount. Further, if we default on one of our obligations under a repurchase transaction, the lender will be able to terminate the transaction and cease entering into any other repurchase transactions with us. It is also possible that our repurchase agreements will contain cross-default provisions, so that if a default occurs under any one agreement, the lenders under our other agreements could also declare a default. If a default occurs under any of our repurchase agreements and the lenders terminate one or more of our repurchase agreements, we may need to enter into replacement repurchase agreements with different lenders. There can be no assurance that we will be successful in entering into such replacement repurchase agreements on the same terms as the repurchase agreements that were terminated or at all. Any losses we incur on our repurchase transactions could adversely affect our earnings and thus our cash available for distribution to our stockholders. Our rights under our repurchase agreements may be subject to the effects of bankruptcy laws in the event of the bankruptcy or insolvency of our Company or our lenders under the repurchase agreements, which may allow our lenders to repudiate our repurchase agreements. In the event of insolvency or bankruptcy, repurchase agreements normally qualify for special treatment under the Bankruptcy Code, the effect of which, among other things, would be to allow the lender under the applicable repurchase agreement to avoid the automatic stay provisions of the Bankruptcy Code and to foreclose on the collateral agreement without delay. 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 ~~51Act~~ -- **Act** , our ability to exercise our rights to recover our securities under a repurchase agreement or to be compensated for any damages resulting from the lender' s insolvency may be further limited by those statutes. These claims would be subject to significant delay and, if and when received, may be substantially less than the damages we actually incur. ~~The~~ **53The** change of control provisions in ~~the~~ **our** ~~Senior~~ **senior** ~~Secured~~ **secured** ~~Notes~~ **notes** , ~~Convertible Notes and the Corporate~~ **corporate** ~~Debt~~ **debt** and the related indentures could deter, delay or prevent an otherwise beneficial merger, acquisition, tender offer or other takeover attempt involving our Company. The change of control provisions in ~~the~~ **our** ~~Senior~~ **senior** ~~Secured~~ **secured** ~~Notes~~ **notes** , ~~Convertible Notes and Corporate~~ **corporate** ~~Debt~~ **debt** and ~~the~~ related indentures could make it more difficult or more expensive for a third- party to acquire our Company. If a merger, acquisition, tender offer or other takeover attempt involving our Company by a third- party constitutes a change of control under the related indentures, we or ReadyCap Holdings, LLC (" ReadyCap Holdings ") may be required to offer to repurchase all of ~~the~~ **our** ~~Senior~~ **senior** ~~Secured~~ **secured** ~~Notes~~ **notes** ~~, Convertible Notes~~ and ~~the Corporate~~ **corporate** ~~Debt~~ **debt** . As a result, our obligations under ~~the~~ **our** ~~Senior~~ **senior** ~~Secured~~ **secured** ~~Notes~~ **notes** ~~, Convertible Notes~~ and ~~the Corporate~~ **corporate** ~~Debt~~ **debt** could increase the cost of acquiring our Company or otherwise discourage a third party from acquiring our Company. We may enter into hedging transactions that could expose us to contingent liabilities in the future and adversely impact our financial condition. Subject to maintaining our qualification as a REIT, part of our strategy involves entering into hedging transactions that could require us to fund cash payments in certain circumstances (such as the early termination of a hedging instrument caused by an event of default or other early termination event). The amount due would be equal to the unrealized loss of the open swap positions with the respective counterparty and could also include other fees and charges, and these economic losses will be reflected in our results of operations. We may also be required to provide margin to our counterparties to collateralize our obligations under hedging agreements. Our ability to fund these obligations will depend on the liquidity of our assets and access to capital at the time. The need to fund these obligations could adversely impact our financial condition. Hedging against interest rate exposure may adversely affect our earnings, which could reduce our cash available for distribution to our stockholders. Subject to maintaining our qualification as a REIT, we will likely pursue various hedging strategies to seek to reduce our exposure to adverse changes in interest and foreign currency rates. Our hedging activity will vary in scope based on the level and volatility of interest rates, exchange rates, the type of assets held and other changing market conditions. Hedging may fail to protect or could adversely affect us because, among other things: ● interest rate, currency and / or credit hedging can be expensive and may result in us receiving less interest income; ● available interest rate hedges may not correspond directly with the interest rate risk for which protection is sought; ● the value of derivatives used for hedging may be adjusted from time to time in accordance with accounting rules to reflect changes in fair value and any downward adjustments or " mark- to- market " losses would reduce earnings or stockholders' equity; ● the market value of derivatives used for hedging may decrease from time to time, which may require us to deliver additional margin to our counterparties; ● the amount of income that a REIT may earn from non- qualifying hedging transactions (other than through TRSs) to offset interest rate losses is limited by U. S. federal tax provisions governing REITs; ● the credit quality of the hedging counterparty owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; ● the hedging counterparty owing money in the hedging transaction may default on its obligation to pay; and ● the duration of the hedge may not match the duration of the related liability. In general, when we acquire an ~~SBC~~ **LMM** loan or ABS asset, we may, but are not required to, enter into an interest rate swap agreement or other hedging instrument that effectively fixes our borrowing costs for a period close to the anticipated ~~52average~~ -- **average** life of the fixed- rate portion of the related assets. This strategy is designed to protect us from rising interest rates, because the borrowing costs are fixed for the duration of the fixed- rate portion of the related ~~SBC~~ **LMM** loan or ABS asset. However, if prepayment rates decrease in a rising interest rate environment, the life of the fixed- rate portion of the related assets could extend beyond the term of the swap agreement or other hedging instrument. This could have a negative impact on our results of operations, as borrowing costs would no longer be fixed after the end of the hedging instrument while the ~~income~~ **54income** earned on the ~~SBC~~ **LMM** loan or ABS asset would remain fixed. This situation may also cause the market value of our ~~SBC~~ **LMM** loan or ABS asset to decline, with little or no offsetting gain from the related hedging transactions. In extreme situations, we may be forced to sell assets to maintain adequate liquidity, which could cause us to incur losses. In addition, the use of this swap hedging strategy effectively limits increases in our book value in a declining rate environment, due to the effectively fixed nature of our hedged borrowing costs. In an extreme rate decline, prepayment rates on our assets might actually result in certain of our assets being fully paid off while the corresponding swap or other hedge instrument remains outstanding. In such a situation, we may be forced to terminate the swap or other hedge instrument at a level that causes us to incur a loss. 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. Our use of derivatives may expose us to counterparty and other risks. We will likely enter into over- the- counter interest rate swap agreements to hedge risks associated with movements in interest rates. Because such interest rate swaps are not cleared through a central counterparty, the counterparty' s performance is not guaranteed by a clearing house. As a result, if a swap counterparty cannot perform under the terms of an interest rate swap, we would not receive payments due under that agreement, we may lose any unrealized gain associated with the interest rate swap and the hedged liability would cease to be hedged by the interest rate swap. We may also be at risk for any collateral we have pledged to secure our obligation under the interest rate swap if the counterparty becomes insolvent or files for bankruptcy. The business failure of a hedging counterparty with whom we enter into a hedging transaction will most likely result in its default. Default by a party with whom we enter into a hedging transaction may result in the loss of unrealized profits and force us to cover our commitments, if any, at the then current market price. Although generally we will seek to reserve the right to terminate our hedging positions, we may not always be able to dispose of or close out a hedging position without the consent of the hedging counterparty and we may not be able to enter into an offsetting contract in order to cover our risk. We cannot provide any assurances that a liquid secondary market will exist for hedging instruments purchased or sold, and we may be required to maintain a position until exercise or expiration, which could result in losses. Derivative instruments are also subject to liquidity risk and may be difficult or impossible to sell, close out or replace quickly and at the price that reflects the fundamental value of the instrument. Although both over- the- counter and exchange- traded markets may experience lack of liquidity, over- the- counter, non- standardized derivative transactions are generally less liquid than exchange- traded instruments. Furthermore, derivative transactions are subject to increasing statutory and other regulatory requirements and, depending on the identity of the counterparty, applicable international requirements. Recently, new regulations have been promulgated by U. S. and foreign regulators attempting to strengthen oversight of derivative contracts. Any actions taken by regulators could constrain our strategy and could increase our costs, either of which could materially and adversely impact our operations. In particular, the Dodd- Frank Act requires certain derivatives, including certain interest rate swaps, to be executed on a regulated market and cleared through a central counterparty. Unlike uncleared swaps, the counterparty for the cleared swaps is the clearing house, which reduces counterparty risk. However, cleared swaps require us to appoint clearing brokers and to post margin in accordance with the clearing house' s rules, which has resulted in increased costs for cleared swaps over uncleared swaps. Margin requirements for uncleared swaps have recently been issued by certain regulators, and requirements from other regulators are expected to be issued soon. These rules require us to post margin for uncleared swaps with swap dealers. The margin for both cleared and uncleared swaps will generally be limited to cash and certain types of securities. These requirements may increase the costs of hedging and induce us to change or reduce our use of hedging transactions. ~~53Regulation~~ -- **Regulation** as a commodity pool operator could subject us to additional regulation and compliance requirements, which could materially adversely affect our business and financial condition. The Dodd- Frank Act extended the reach of commodity regulations for the first time to include not just traditional futures contracts but also derivative contracts referred to as " swaps. " As a consequence of this change, any investment fund that ~~trades~~ **55trades** in swaps may be considered a " commodity pool, " which would cause its operator to be regulated as a commodity pool operator (" CPO "). Under the new requirements, CPOs must register or file for an exemption from registration with the National Futures Association, the self- regulatory organization for swaps and other financial instruments regulated by the U. S. Commodity

Futures Trading Commission (“ CFTC ”), and become subject to regulation by the CFTC, including with respect to disclosure, recordkeeping and reporting. On December 7, 2012, the CFTC issued a no- action letter that provides mortgage REITs relief from such registration (the “ No- Action Letter ”), if they meet certain conditions and submit a claim for such no- action relief by email to the CFTC. We believe we will meet the conditions set forth in the No- Action Letter and we have filed our claim with the CFTC to perfect the use of the no- action relief from registration. However, if in the future we do not meet the conditions set forth in the No- Action Letter or the relief provided by the No- Action Letter becomes unavailable for any other reason and we are unable to obtain another exemption from registration, we may be required to reduce or eliminate our use of interest rate swaps or vary the manner in which we deploy interest rate swaps in our business and we or our directors may be required to register with the CFTC as CPOs and Waterfall may be required to register as a “ commodity trading advisor ” with the CFTC, which will require compliance with CFTC rules and subject us, our ~~board~~ **Board** ~~of directors~~ and Waterfall to regulation by the CFTC. In the event registration for our Company, our directors or Waterfall is required but is not obtained, we, our ~~board~~ **Board** ~~of directors~~ or Waterfall may be subject to fines, penalties and other civil or governmental actions or proceedings, any of which could have a material adverse effect on our business, financial condition and results of operations. The costs of compliance with the CFTC regulations, or the changes to our hedging strategy necessary to avoid their application, could have a material adverse effect on our business, financial condition and results of operations. If we attempt to qualify for hedge accounting treatment for our derivative instruments, but we fail to qualify, we may suffer losses because losses on the derivatives that we enter into may not be offset by a change in the fair value of the related hedged transaction. We record derivative and hedging transactions in accordance with GAAP. Under these standards, we may fail to qualify for, or choose not to elect, hedge accounting treatment for a number of reasons, including if we use instruments that do not meet the definition of a derivative (such as short sales), we fail to satisfy hedge documentation, and hedge effectiveness assessment requirements or our instruments are not highly effective. If we fail to qualify for, or choose not to elect, hedge accounting treatment, our operating results may be volatile because changes in the fair value of the derivatives that we enter into may not be offset by a change in the fair value of the related hedged transaction or item. Risks Related to Taxation as a REITOur failure to qualify as a REIT, or the failure of our predecessor to qualify as a REIT, would subject us to U. S. federal income tax and applicable state and local taxes, which would reduce the amount of cash available for distribution to our stockholders. We have been organized and operated and intend to continue to operate in a manner that will enable us to qualify as a REIT for U. S. federal income tax purposes commencing with our taxable year ended December 31, 2011. We have not requested and do not intend to request a ruling from the Internal Revenue Service (the “ IRS ”), that we qualify as a REIT. The U. S. federal income tax laws governing REITs are complex, and judicial and administrative interpretations of the U. S. federal income tax laws governing REIT qualification are limited. The complexity of these provisions and of applicable Treasury Regulations is greater in the case of a REIT that, like us, holds our assets through a partnership. To qualify as a REIT, we must meet, on an ongoing basis, various tests regarding the nature of our assets and our income, the ownership of our outstanding shares, and the amount of our distributions. Our ability to satisfy the asset tests depends on our analysis of the characterization and fair market values of our assets, some of which are not susceptible to a precise determination, and for which we may not obtain independent appraisals. Moreover, new legislation, court decisions or administrative guidance, in each case possibly with retroactive effect, may make it more difficult or impossible for us to qualify as a REIT. In addition, our ability to satisfy the requirements to qualify as a REIT depends in part on the actions of third parties over which we have no control or only limited influence, including in cases where we own an equity interest in an entity that is classified as a partnership for U. S. federal income tax purposes. Furthermore, we hold certain assets through our ownership interest in Ready Capital Subsidiary REIT I, LLC, which we refer to as our subsidiary REIT. Our ability to ~~54qualify~~ -- **qualify** as a REIT is dependent in part on the REIT qualification of our subsidiary REIT, which is required to separately satisfy each of the REIT requirements in order to qualify as a REIT. Thus, while we intend to operate so that we will qualify as a REIT, given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, and the possibility of future changes in our circumstances, no assurance can be given that we will so qualify for any particular year. These considerations also might restrict the types of assets that we can acquire in the future. ~~If~~ **56If** we fail to qualify as a REIT in any taxable year, and do not qualify for certain statutory relief provisions, we would be required to pay U. S. federal income tax on our taxable income, and distributions to our stockholders would not be deductible by us in determining our taxable income. In such a case, we might need to borrow money or sell assets in order to pay our taxes. Our payment of income tax would decrease the amount of our income available for distribution to our stockholders. Furthermore, if we fail to maintain our qualification as a REIT, we no longer would be required to distribute substantially all of our net taxable income to our stockholders. In addition, unless we were eligible for certain statutory relief provisions, we could not re- elect to qualify as a REIT until the fifth calendar year following the year in which we failed to qualify. The percentage of our assets represented by TRSs and the amount of our income that we can receive in the form of TRS dividends and interest are subject to statutory limitations that could jeopardize our REIT qualification and could limit our ability to acquire or force us to liquidate otherwise attractive investments. A REIT may own up to 100 % of the stock of one or more TRSs. A TRS may earn income that would not be qualifying income if earned directly by the parent REIT. In order to treat a subsidiary of the REIT as a TRS, both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. In order to qualify as a REIT, no more than 20 % of the value of our gross assets at the end of each calendar quarter may consist of securities of one or more TRSs. A significant portion of our activities are conducted through our TRSs, and we expect that such TRSs will, at times, hold significant assets. We have elected, together with certain of our subsidiaries, for each such entity to be treated as a TRS, and we may make TRS elections with respect to certain other entities we may form in the future (collectively referred to herein as" our TRSs"). While we intend to manage our affairs so as to satisfy the TRS limitation, there can be no assurance that we will be able to do so in all market circumstances. In order to satisfy the TRS limitation, we have been required to and may in the future be required to acquire assets that we otherwise would not acquire, liquidate or restructure assets that we hold through our TRSs, or otherwise engage in transactions that we would not otherwise undertake absent the requirements for REIT qualifications. Each of these actions could reduce the distributions available to our stockholders. In addition, we and our subsidiary REIT have made loans to our TRSs that meet the requirements to be treated as qualifying investments of new capital, which is generally treated as a real estate asset under the Code. Because such loans are treated as real estate assets for purposes of the REIT requirements, we do not treat these loans as TRS securities for purposes of the TRS asset limitation, which is consistent with private rulings issued by the IRS. However, no assurance can be provided that the IRS may not successfully assert that such loans should be treated as securities of our TRSs or our subsidiary REIT' s TRSs, which could adversely impact our qualification as a REIT. In addition, our TRSs have obtained financing in transactions in which we and our other subsidiaries have provided guaranties and similar credit support. Although we believe that these financings are properly treated as financings of our TRSs for U. S. federal income tax purposes, no assurance can be provided that the IRS would not assert that such financings should be treated as issued by other entities in our structure, which could impact our compliance with the TRS limitation and the other REIT requirements. Moreover, no assurance can be provided that we will be able to successfully manage our asset composition in a manner that causes us to satisfy the TRS limitation each quarter, and our failure to satisfy this limitation could result in our failure to qualify as a REIT. Any distributions we receive from our TRSs are classified as dividend income to the extent of the earnings and profits of the distributing corporation. Any of our TRSs may from time to time need to make such distributions in order to keep the value of our TRSs below 20 % of our total assets. However, TRS dividends will generally not constitute qualifying income for purposes of one of the tests we must satisfy to qualify as a REIT, namely, that at least 75 % of our gross income must in each taxable year generally be from real estate assets. While we will continue to monitor our compliance with both this gross income test and the limitation on the percentage of our assets represented by securities of our TRSs, and intend to conduct our affairs so as to comply with both, the two may at times be in conflict with one another. As an example, it is possible that we may wish to distribute a dividend from a TRS in order to reduce the value of our TRSs below the required threshold of our assets, but be unable to do so without violating the requirement that 75 % of our gross income in the taxable year be derived from real estate assets. Although there are other measures we can take in such circumstances in ~~55order~~ -- **order** to remain in compliance, there can be no assurance that we will be able to comply with both of these tests in all market conditions. ~~Complying~~ **57Complying** with REIT requirements may force us to liquidate or forego otherwise attractive investments, which could reduce returns on our assets and adversely affect returns to our stockholders. To qualify as a REIT, we must generally ensure that at least 75 % of our gross income for each taxable year, excluding certain amounts, is derived from certain real property- related sources, and at least 95 % of our gross income for each taxable year, excluding certain amounts, is derived from certain real property- related sources and passive income such as dividends and interest. In addition, we generally must ensure that at the end of each calendar quarter at least 75 % of the value of our total assets consists of cash, cash items, government securities and qualified REIT real estate assets, including certain mortgage loans. The remainder of our investment in securities (other than government securities and qualifying real estate assets) generally cannot include more than 10 % of the outstanding voting securities of any one issuer or more than 10 % of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5 % of the value of our assets (other than government securities and qualifying real estate assets) can consist of the securities of any one issuer, no more than 20 % of the value of our total assets can be represented by stock and securities of one or more TRSs and no more than 25 % of the value of our assets may consist of " nonqualified publicly offered REIT debt instruments. " If we fail to comply with these requirements at the end of any quarter, we must correct the failure within 30 days after the end of such calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate otherwise attractive investments from our portfolio. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders. In addition, if we are compelled to liquidate our investments to repay obligations to our lenders, we may be unable to comply with these requirements, ultimately jeopardizing our qualification as a REIT. The REIT requirements described above may also restrict our ability to sell REIT- qualifying assets, including asset sales made in connection with a disposition of certain segments of our business or in connection with a liquidation of us, without adversely impacting our qualifications as a REIT. Furthermore, 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, certain assets that we hold or intend to hold, including unsecured loans, loans secured by both real property and personal property where the fair market value of the personal property exceeds 15 % of the total fair market value of all of the property securing the loan, and interests in ABS secured by assets other than real property or mortgages on real property or on interests in real property, are not qualified and will not be qualified real estate assets for purposes of the asset tests. Accordingly, our ability to invest in such assets will be limited, and our investment in such assets could cause us to fail to qualify as a REIT if our holdings in such assets do not satisfy such limitations. Distributions from us or gain on the sale of our common stock may be treated as unrelated business taxable income, or " UBTI ", to U. S. tax-exempt holders of common stock. If (i) all or a portion of our assets are subject to the rules relating to taxable mortgage pools, (ii) a tax- exempt U. S. person has incurred debt to purchase or hold our common stock, (iii) we purchase real estate mortgage investment conduit (" REMIC ") residual interests that generate " excess inclusion income, " or (iv) we are a " pension held REIT, " then a portion of the distributions with respect to our common stock and, in the case of a U. S. person described in clause (ii), gains realized on the sale of such common stock by such U. S. person, may be subject to U. S. federal income tax as UBTI under the Code. We have engaged in certain securitization transactions that are treated as taxable mortgage pools for U. S. federal income tax purposes. Although we believe that such transactions are structured in a manner so that they should not cause any portion of the distributions in our shares to be treated as excess inclusion income, no assurance can be provided that the IRS would not assert a contrary position. The REIT distribution requirements could adversely affect our ability to execute our business plan and may require us to incur debt, sell assets or take other actions to make such distributions. To qualify as a REIT, we must distribute to our stockholders each calendar year dividends equal to at least 90 % of our REIT taxable income (including certain items of non- cash income), determined without regard to the deduction for dividends paid and excluding net capital gain. To the extent that we satisfy the 90 % distribution requirement, but distribute ~~56less~~ -- **less** than 100 % of our taxable income, we will be subject to U. S. federal corporate income tax on our undistributed income. In addition, we will incur a 4 % nondeductible excise tax on the amount, if any, by which our distributions in any calendar year are less than a minimum amount specified under U. S. federal income tax laws. Our current policy is to pay ~~distributions~~ **58distributions** which will allow us to satisfy the requirements to qualify as a REIT and generally not be subject to U. S. federal income tax on our undistributed income. Our taxable income may substantially exceed our net income as determined under U. S. GAAP, or differences in timing between the recognition of taxable income and the actual receipt of cash may occur. For example, it is likely that we will acquire assets that generate taxable income in excess of economic income or in advance of the corresponding cash flow from the assets. Under tax legislation commonly referred to as the Tax Cuts and Jobs Act (the " Tax Act "), which was signed into law on December 22, 2017, we generally will be required to recognize certain amounts in income no later than the time such amounts are reflected on our financial statements. The application of this rule may require the accrual of income earlier than would be the case under the otherwise applicable tax rules. Although the precise application of this rule is not entirely clear, final regulations generally exclude, among other items, OID and market discount income from the applicability of this rule. Also, in certain circumstances our ability to deduct interest expenses for U. S. federal income tax purposes may be limited. We may also acquire distressed debt investments that are subsequently modified by agreement with the borrower. If the amendments to the outstanding debt are " significant modifications " under the applicable Treasury Regulations, the modified debt may be considered to have been reissued to us at a gain in a debt- for- debt exchange with the borrower, with gain recognized by us to the extent that the principal amount of the modified debt exceeds our cost of purchasing it prior to modification. Finally, we may be required under the terms of the indebtedness that we incur to use cash received from interest payments to make principal payments on that indebtedness, with the effect that we will recognize income but will not have a corresponding amount of cash available for distribution to our stockholders. As a result of the foregoing, we may generate less cash flow than taxable income in a particular year and find it difficult or impossible to meet the REIT distribution requirements in certain circumstances. In such circumstances, we may be required to (i) sell assets in adverse market conditions, (ii) borrow on unfavorable terms, (iii) distribute amounts that would otherwise be used for future investment or used to repay debt, or (iv) make a taxable distribution of shares of common stock as part of a distribution in which stockholders may elect to receive shares of common stock or (subject to a limit measured as a percentage of the total distribution) cash, in order to comply with the REIT distribution requirements. Thus, compliance with the REIT distribution requirements may hinder our ability to grow, which could adversely affect the value of our common stock. We may be required to report taxable income with respect to certain of our investments in excess of the economic income we ultimately realize from them. We may acquire mortgage loans or other debt instruments in the secondary market for less than their face amount. The discount at which such securities 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. Market discount generally accrues on the basis of the constant yield to maturity of the debt instrument based generally on the assumption that all future payments on the debt instrument will be made. Accrued market discount is reported as income when, and to the extent that, any payment of principal of the debt instrument is made. In particular, payments on mortgage loans are ordinarily made monthly, and consequently accrued market discount may have to be included in income each month as if the debt instrument were assured of ultimately being collected in full. If we collect less on a 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 deduction in a subsequent taxable year. In addition, we may acquire distressed debt investments that are subsequently modified by agreement with the borrower. If the amendments to the outstanding debt are " significant modifications " under applicable Treasury Regulations, the modified debt may be considered to have been reissued to us at a gain in a debt- for- debt exchange with the borrower. In that event, we may be required to recognize taxable gain to the extent the principal amount of the modified debt exceeds our adjusted tax basis in the unmodified debt, even if the value of the debt or the payment expectations have not changed. In the event that any mortgage loans or other debt instruments acquired by us are delinquent as to mandatory principal and interest payments, or in the event a borrower with respect to a particular debt instrument acquired by us encounters financial difficulty rendering it unable to pay stated interest as due, we may nonetheless be required to continue to recognize the unpaid interest as taxable income as it accrues, despite doubt as to its ultimate collectability. While we would in general ~~57ultimately~~ -- **ultimately** have an offsetting loss deduction available to us when such interest was determined to be uncollectible, the loss would likely be treated as a capital loss, and the utility of that loss would therefore depend on our having capital gain in that later year or thereafter. ~~We~~ **59We** may hold excess MSRs, which means the portion of an MSR that exceeds the arm' s- length fee for services performed by the mortgage servicer. Based on IRS guidance concerning the classification of MSRs, we intend to treat any excess MSRs we acquire as ownership interests in the interest payments made on the underlying mortgage loans, akin to an " interest only " strip. Under this treatment, for purposes of determining the amount and timing of taxable income, each excess MSR is treated as a bond that was issued with OID on the date we acquired such excess MSR. In general, we will be required to accrue OID based on the constant yield to maturity of each excess MSR, and to treat such OID as taxable income in accordance with the applicable U. S. federal income tax rules. The constant yield of an excess MSR will be determined, and we will be taxed, based on a prepayment assumption regarding future payments due on the mortgage loans underlying the excess MSR. If the mortgage loans underlying an excess MSR prepay at a rate different than that under the prepayment assumption, our recognition of OID will be either increased or decreased depending on the circumstances. Thus, in a particular taxable year, we may be required to accrue an amount of income in respect of an excess MSR that exceeds the amount of cash collected in respect of that excess MSR. Furthermore, it is possible that, over the life of the investment in an excess MSR, the total amount we pay for, and accrue with respect to, the excess MSR may exceed the total amount we collect on such excess MSR. No assurance can be given that we will be entitled to a deduction for such excess, meaning that we may be required to recognize phantom income over the life of an excess MSR. The interest apportionment rules may affect our ability to comply with the REIT asset and gross income tests. The interest apportionment rules under Treasury Regulation Section 1. 856- 5 (c) provide 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. IRS Revenue Procedure 2014- 51 interprets the " principal amount " of the loan to be the face amount of the loan, despite the Code' s requirement that taxpayers treat any market discount, which 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. To the extent the face amount of any loan that we hold that is secured by both real property and other property exceeds the value of the real property securing such loan, the interest apportionment rules described above may apply to certain of our loan assets unless the loan is secured solely by real property and personal property and the value of the personal property does not exceed 15 % of the value of the property securing the loan. Thus, depending upon the value of the real property securing our mortgage loans and their face amount, and the other sources of our gross income generally, we may fail to meet the 75 % gross income test. In addition, although we will endeavor to accurately determine the values of the real property securing our loans at the time we acquire or commit to acquire such loans, such values may not be susceptible to a precise determination and will be determined based on the information available to us at such time. If the IRS were to successfully challenge our valuations of such assets and such revaluations resulted in a higher portion of our interest income being apportioned to property other than real property, we could fail to meet the 75 % gross income test. If we do not meet this test, we could potentially lose our REIT qualification or be required to pay a penalty tax to the IRS. In addition, the Code provides that a regular or a residual interest in a REMIC is generally treated as a real estate asset for the purposes of the REIT asset tests, and any amount includible in our gross income with respect to such an interest is generally treated as interest on an obligation secured by a mortgage on real property for the purposes of the gross income tests. If, however, less than 95 % of the assets of a REMIC in which we hold an interest consists of real estate assets (determined as if we held such assets), we will be treated as holding our proportionate share of the assets of the REMIC for the purpose of the asset tests and receiving directly our proportionate share of the income of the REMIC for the purpose of determining the amount of income from the REMIC that is treated as interest on an obligation secured by a mortgage on real property. In connection with the expanded HARP program, the IRS issued guidance providing that, among other things, if a REIT holds a regular interest in an " eligible REMIC, " or a residual interest in an " eligible REMIC " that informs the REIT that at least 80 % of the REMIC' s assets constitute real estate assets, then (i) the REIT may treat 80 % of the value of the interest in the REMIC as a real estate asset for the purpose of the REIT asset tests and (ii) the REIT may treat 80 % of the gross income received with respect to the interest in the REMIC as interest on an obligation secured by a mortgage ~~58on~~ **on** real property for the purpose of the 75 % gross income test. For this purpose, a REMIC is an " eligible REMIC " if (i) the REMIC has received a guarantee from Fannie Mae or Freddie Mac that will allow the REMIC to make any principal and interest payments on its regular and residual interests and (ii) all of the REMIC' s mortgages and pass- through certificates are secured by interests in single- family dwellings. If we were to acquire an interest in an eligible REMIC less ~~than~~ **60than** 95 % of the assets of which constitute real estate assets, the IRS guidance described above may generally allow us to treat 80 % of our interest in such a REMIC as a qualifying real estate asset for the purpose of the asset tests and 80 % of the gross income derived from the interest as qualifying income for the purpose of the 75 % gross income test. Although the portion of the income from such a REMIC interest that does not qualify for the 75 % gross income test would likely be qualifying income for the purpose of the 95 % gross income test, the remaining 20 % of the REMIC interest generally would not qualify as a real estate asset, which could adversely affect our ability to satisfy the REIT asset tests. Accordingly, owning such a REMIC interest could adversely affect our ability to qualify as a REIT. Our ownership of and relationship with any TRS which we may form or acquire will be limited, and a failure to comply with the limits would jeopardize our REIT qualification and our transactions with our TRSs may result in the application of a 100 % excise tax if such transactions are not conducted on arm' s- length terms. A REIT may own up to 100 % of the stock of one or more TRSs. A TRS may earn income that would not be qualifying income if earned directly by a REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. Overall, no more than 20 % of the value of a REIT' s assets may consist of stock and securities of one or more TRSs. A domestic TRS will pay U. S. federal, state and local income tax at regular corporate rates on any income that it earns. In addition, the TRS rules impose a 100 % excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm' s- length basis. We have elected and will elect to treat certain subsidiaries as TRSs. Any such TRS and any other domestic TRS that we may form would therefore be required to pay U. S. federal, state and local income tax on their taxable income, and their after- tax net income would be available for distribution to us but would not be required to be distributed to us by such TRS. We anticipate that the aggregate value of the TRS stock and securities owned by us will be less than 20 % of the value of our total assets (including the TRS stock and securities). Furthermore, we will monitor the value of our investments in our TRSs to ensure compliance with the rule that no more than 20 % of the value of our assets may consist of TRS stock and securities (which is applied at the end of each calendar quarter). In addition, we will scrutinize all of our transactions with TRSs to ensure that they are entered into on arm' s- length terms to avoid incurring the 100 % excise tax described above. There can be no assurance, however, that we will be able to comply with the TRS limitations or to avoid application of the 100 % excise tax discussed above. The ownership limits that apply to REITs, as prescribed by the Code and by our charter, may inhibit market activity in shares of our common stock and restrict our business combination opportunities. In order for us to qualify as a REIT, not more than 50 % in value of our outstanding shares of stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) at any time during the last half of each taxable year after the first year for which we elect to qualify as a REIT. Additionally, at least 100 persons must beneficially own our stock during at least 335 days of a taxable year or during a proportionate part of a taxable year of less than twelve months (other than the first taxable year for which we elect to be taxed as a REIT). Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary or appropriate to preserve our qualification as a REIT. Our charter also provides that, unless exempted by our ~~board~~ **Board** ~~of directors~~, no person may own more than 9. 8 % in value or in number, whichever is more restrictive, of the outstanding shares of our common stock, or 9. 8 % in value or in number, whichever is more restrictive, of the outstanding shares of all classes and series of our capital stock. Our ~~board~~ **Board** ~~of directors~~ may, in its sole discretion, subject to such conditions as it may determine and the receipt of certain representations and undertakings, prospectively or retroactively, waive the ownership limits or establish a different limit on ownership, or excepted holder limit, for a particular stockholder if the stockholder' s ownership in excess of the ownership limits would not result in us being " closely held " under Section 856 (h) of the Code or otherwise failing to qualify as a REIT. These ownership limits could delay or prevent a transaction or a change in control of us that might involve a premium price for shares of our common stock or otherwise be in the best interest of our stockholders. Certain financing activities may subject us to U. S. federal income tax and increase the tax liability of our stockholders. We may enter into transactions that could result in us, the operating partnership or a portion of the operating partnership' s assets being treated as a " taxable mortgage pool " for U. S. federal income tax purposes. Specifically, we may securitize ~~59residential~~ -- **residential** or commercial real estate loans that we originate or acquire and such securitizations, to the extent structured in a manner other than a REMIC, would likely result in us owning interests in a " taxable mortgage pool ". We would be precluded from holding equity interests in such a taxable mortgage pool securitization through the operating partnership. Accordingly, we would likely enter into such transactions through a qualified REIT subsidiary of one or more subsidiary ~~REITs~~ **61REITs** formed by the operating partnership and will be precluded from selling to outside investors equity interests in such securitizations or from selling any debt securities issued in connection with such securitizations that might be considered equity for U. S. federal income tax purposes. We will be taxed at the highest U. S. federal corporate income tax rate on any " excess inclusion income " arising from a taxable mortgage pool that is allocable to the percentage of our shares held in record name by " disqualified organizations, " which are generally certain cooperatives, governmental entities and tax- exempt organizations that are exempt from tax on unrelated business taxable income. To the extent that common stock owned by " disqualified organizations " is held in record name by a broker / dealer or other nominee, the broker / dealer or other nominee would be liable for the U. S. federal corporate income tax on the portion of our excess inclusion income allocable to the common stock held by the broker / dealer or other nominee on behalf of the disqualified organizations. Disqualified organizations may own our stock. Because this tax would be imposed on us, all of our investors, including investors that are not disqualified organizations, will bear a portion of the tax cost associated with the classification of us or a portion of our assets as a taxable mortgage pool. A regulated investment company, or " RIC ", or other pass- through entity owning our common stock in record name will be subject to tax at the highest corporate tax rate on any excess inclusion income allocated to their owners that are disqualified organizations. We have engaged in certain securitization transactions that are treated as taxable mortgage pools for U. S. federal income tax purposes. Although we believe that such transactions are structured in a manner so that they should not cause any portion of the distributions in our shares to be treated as excess inclusion income, no assurance can be provided that the IRS would not assert a contrary position. In addition, if we realize excess inclusion income and allocate it to our stockholders, this income cannot be offset by net operating losses of our stockholders. If the stockholder is a tax- exempt entity and not a disqualified organization, then this income is fully taxable as unrelated business taxable income under Section 512 of the Code. If the stockholder is a non- U. S. person, it would be subject to U. S. federal income tax withholding on this income without reduction or exemption pursuant to any otherwise applicable income tax treaty. If the stockholder is a REIT, a Regulated Investment Company, common trust fund or other pass- through entity, our allocable share of its excess inclusion income could be considered excess inclusion income of such entity. Accordingly, such investors should be aware that a portion of our income may be considered excess inclusion income. The tax on prohibited transactions will limit our ability to engage in transactions, including certain methods of securitizing mortgage loans, which would be treated as prohibited transactions for U. S. federal income tax purposes. Net income that we derive from a prohibited transaction is subject to a 100 % tax. The term " prohibited transaction " generally includes a sale or other disposition of property (including mortgage loans, but other than foreclosure property, as discussed below) that is held primarily for sale to customers in the ordinary course of a trade or business by us or by a borrower that has issued a shared appreciation mortgage or similar debt instrument to us. We might be subject to this tax if we were to dispose of or securitize loans, directly or through a subsidiary REIT, in a manner that was treated as a prohibited transaction for U. S. federal income tax purposes. We might also be subject to this tax if we were to sell assets in connection with a disposition of certain segments of our business or in connection with a liquidation of us. The 100 % tax does not apply to gains from the sale of property that is held through a TRS or other taxable corporation, although such income will be subject to tax in the hands of the corporation at regular corporate rates. We intend to conduct our operations so that any asset that we or a subsidiary REIT owns that could be treated as held for sale to customers in the ordinary course of our business qualifies for certain safe harbor provisions that prevent the application of this prohibited transaction tax. However, no assurance can be provided that such safe harbor provisions will apply. Moreover, as a result of the prohibited transaction tax we may choose not to engage in certain sales of loans at the REIT level, and may limit the structures we utilize for our securitization transactions, even though the sales or structures might otherwise be beneficial to us. In addition, whether property is held " primarily for sale to customers in the ordinary course of a trade or business " depends on the particular facts and circumstances. No assurance can be given that any property that we sell, other than property sold through a TRS or property that satisfies the safe harbor described above, will not be treated as property held for sale to customers. As a result, no assurance can be provided that we will not be subject to prohibited transaction tax. ~~60Characterization~~ -- **Characterization** of our repurchase agreements entered into to finance our investments as sales for tax purposes rather than as secured lending transactions would adversely affect our ability to qualify as a REIT. We enter into repurchase agreements with counterparties to achieve our desired amount of leverage for the assets in which we invest. Under our repurchase agreements, we generally sell assets to our counterparty to the agreement and receive cash from the counterparty. The counterparty is obligated to resell the assets back to us at the end of the term of the transaction. We believe that for U. S. federal income tax purposes we will be treated as the owner of the assets that are the subject of repurchase agreements and that the repurchase agreements will be treated as secured lending transactions ~~notwithstanding~~ **62notwithstanding** that such agreements may transfer record ownership of the assets to the counterparty during the term of the agreement. It is possible, however, that the IRS could successfully assert that we did not own these assets during the term of the repurchase agreements, in which case we could fail to qualify as a REIT. The failure of excess MSRs held by us to qualify as real estate assets, or the failure of the income from excess MSRs to qualify as interest from mortgages, could adversely affect our ability to qualify as a REIT. We may hold excess MSRs. In certain private letter rulings, the IRS ruled that excess MSRs meeting certain requirements would be treated as an interest in mortgages on real property and thus a real estate asset for purposes of the 75 % REIT asset test, and interest received by a REIT from such excess MSRs will be considered interest on obligations secured by mortgages on real property for purposes of the 75 % gross income test. A private letter ruling may be relied upon only by the taxpayer to whom it is issued, and the IRS may revoke a private letter ruling. Consistent with the analysis adopted by the IRS in such private letter rulings and based on advice of counsel, we intend to treat any excess MSRs that we acquire that meet the requirements provided in the private letter rulings as qualifying assets for purposes of the 75 % gross asset test, and we intend to treat income from such excess MSRs as qualifying income for purposes of the 75 % and 95 % gross income tests. Notwithstanding the IRS' s determination in the private letter rulings described above, it is possible that the IRS could successfully assert that any excess MSRs that we acquire do not qualify for purposes of the 75 % REIT asset test and income from such MSRs does not qualify for purposes of the 75 % and / or 95 % gross income tests, which could cause us to be subject to a penalty tax and could adversely impact our ability to qualify as a REIT. If we were to make a taxable distribution of shares of our stock, stockholders may be required to sell such shares or sell other assets owned by them in order to pay any tax imposed on such distribution. We may be able to distribute taxable dividends that are payable in shares of our stock. If we were to make such a taxable distribution of shares of our stock, stockholders would be required to include the full amount of such distribution as income. As a result, a stockholder may be required to pay tax with respect to such dividends in excess of cash received. Accordingly, stockholders receiving a distribution of our shares may be required to sell shares received in such distribution or may be required to sell other stock or assets owned by them, at a time that may be disadvantageous, in order to satisfy any tax imposed on such distribution. If a stockholder sells the shares it receives as a dividend in order to pay such tax, the sale proceeds may be less than the amount included in income with respect to the dividend. Moreover, in the case of a taxable distribution of shares of our stock with respect to which any withholding tax is imposed on a non- U. S. stockholder, we may have to withhold or dispose of part of the shares in such distribution and use such withheld shares or the proceeds of such disposition to satisfy the withholding tax imposed. Complying with REIT requirements may limit our ability to hedge effectively. The REIT provisions of the Code may limit our ability to hedge our assets and operations. Under these provisions, any income that we generate from transactions intended to hedge our interest rate risks will generally be excluded from gross income for purposes of the 75 % and 95 % gross income tests if (i) the instrument (A) hedges interest rate risk or foreign currency exposure on liabilities used to carry or acquire real estate assets or (B) hedges risk of currency fluctuations with respect to any item of income or gain that would be qualifying income under the 75 % or 95 % gross income tests, or (C) hedges an instrument described in clause (A) or (B) for a period following the extinguishment of the liability or the disposition of the asset that was previously hedged by the hedged instrument, and (ii) such instrument is properly identified under applicable Treasury Regulations. Any income from other hedges would generally constitute non- qualifying income for purposes of both the 75 % and 95 % gross income tests. As a result, we may have to limit our use of hedging techniques that might otherwise be advantageous or implement those hedges through a TRS, which could increase the cost of our hedging activities or result in greater risks associated with interest rate or other changes than we would otherwise incur. ~~61Even~~ -- **Even** if we qualify as a REIT, we may face tax liabilities that reduce our cash flow. Even if we qualify as a REIT, we may be subject to certain U. S. federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of foreclosures, and state or local income, franchise, property and transfer taxes, including mortgage- related taxes. In addition, we intend to hold a significant amount of our assets from time to time in our TRSs each of which pay U. S. federal, state and local income tax on its taxable income, and its after tax net income is available for distribution to us but is not required to be distributed to us by such TRS. In order to meet the REIT qualification requirements, or to avoid the imposition of a 100 % tax that applies to certain gains derived by a REIT from sales of inventory or property held primarily for sale to customers ~~in~~ **63in** the ordinary course of business, we may hold some of our assets through taxable subsidiary corporations, including domestic TRSs. Any taxes paid by such subsidiary corporations would decrease the cash available for distribution to our stockholders. For example, as a result of ReadyCap Holdings' SBA license, ReadyCap Holdings' ability to distribute cash and other assets is subject to significant limitations, and as a result, ReadyCap Holdings is required to hold certain assets that would be qualifying real estate assets for purposes of the REIT asset tests, would generate qualifying income for purposes of the 75 % income tests, and would not be subject to corporate taxation if held by our operating partnership. Also, we intend that loans that we originate or buy with an intention of selling in a manner that might expose us to the 100 % tax on " prohibited transactions " will be originated or bought by a TRS. Furthermore, loans that are to be modified may be held by a TRS on the date of their modification and for a period of time thereafter. Finally, some or all of the real estate properties that we may from time to time acquire by foreclosure or other procedure will likely be held in one or more TRSs. Since our TRSs do not file consolidated returns with one another, any net losses generated by one such entity will not offset net income generated by any other such entity. In addition, the TRS rules impose a 100 % excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm' s- length basis. Furthermore, if we acquire appreciated assets from a subchapter C corporation in a transaction in which the adjusted tax basis of the assets in our hands is determined by reference to the adjusted tax basis of the assets in the hands of the C corporation, and if we subsequently dispose of any such assets during the 5- year period following the acquisition of the assets from the C corporation, we will be subject to tax at the highest corporate tax rates on any gain from such assets to the extent of the excess of the fair market value of the assets on the date that they were contributed to us over the basis of such assets on such date, which we refer to as built- in gains. A portion of the assets contributed to our predecessor to the ZAIS Financial merger (" Pre- Merger Sutherland ") in connection with the REIT formation transactions and contributed to ZAIS Financial in connection with its formation may be subject to the built- in gains tax. Although we expect that the built- in gains tax liability arising from any such assets should be de minimis, there is no assurance that this will be the case. Our qualification as a REIT and exemption from U. S. federal income tax with respect to certain assets may be dependent on the accuracy of legal opinions or advice rendered or given, statements by the issuers of assets that we acquire, or information provided by our shareholders or other third parties, and the inaccuracy of any such opinions, advice or statements may adversely affect our REIT qualification and result in significant corporate- level tax. When purchasing securities, we may rely on opinions or advice of counsel for the issuer of such securities, or statements made in related offering documents, for purposes of determining whether such securities represent debt or equity securities for U. S. federal income tax purposes, and also to what extent those securities constitute REIT real estate assets for purposes of the REIT asset tests and produce income which qualifies under the 75 % gross income test. In addition, when purchasing the equity tranche of a securitization, we may rely on opinions or advice of counsel regarding the qualification of the securitization for exemption from U. S. corporate income tax and the qualification of interests in such securitization as debt for U. S. federal income tax purposes. The inaccuracy of any such opinions, advice or statements may adversely affect our REIT qualification and result in significant corporate- level tax. In addition, for purposes of the gross income tests, rental income qualifies as rents from real property only to the extent that we do not directly or constructively own, (i) in the case of any tenant which is a corporation, stock possessing 10 % or more of the total combined voting power of all classes of stock entitled to vote, or 10 % or more of the total value of shares of all classes of stock of such tenant, or (ii) in the case of any tenant which is not a corporation, an interest of 10 % or more in the assets or net profits of such tenant. We monitor the rental income generated by properties owned by us in order to determine if the rent is treated as paid by an entity that is treated as related to us for purposes of these rules. However, the attribution rules that apply for purposes of the above rules are complex. In order to determine whether we are deemed to hold an interest in the tenant under these attribution rules, we are required to rely on information that we obtain from our shareholders and other third parties regarding potential relationships that could cause us to be treated as owning an interest ~~62in~~ **in** such tenants. No assurance can be provided that we will have access to all information necessary to make this determination, and as a result no assurance can be provided that the rental income we receive will not be treated as received from related parties under these rules, which could adversely impact our ability to qualify as a REIT. We may be subject to adverse legislative or regulatory tax changes that could reduce the value of our common stock. At any time, the U. S. federal income tax laws or regulations governing REITs or the administrative interpretations of those laws or regulations may be amended, possibly with retroactive effect. We cannot predict when or if any new U. S. federal income tax law, regulation or administrative interpretation, or any amendment to any existing U. S. federal income tax law, ~~regulation~~ **64regulation** or administrative interpretation, will be adopted, promulgated or become effective, and any such law, regulation or interpretation may take effect retroactively. We and our stockholders could be adversely affected by any such change in, or any new, U. S. federal income tax law, regulation or administrative interpretation. The tax basis that we use to compute taxable income with respect to certain interests in loans that were held by our operating partnership at the time of the REIT formation transaction could be subject to challenge. Prior to the REIT formation transactions, our operating partnership had accounted for its interest in certain ~~SBC~~ **LMM** securitizations as an interest in a single debt instrument for U. S. federal income tax purposes. In connection with the REIT formation transactions, the predecessor to our operating partnership was treated as terminated for U. S. federal income tax purposes, and our operating partnership was treated as a new partnership that acquired the assets of such predecessor for U. S. federal income tax purposes. Beginning with such transactions, our operating partnership has properly accounted for our interests in these securitizations as interests in the underlying loans for U. S. federal income tax purposes. Since we did not have complete information regarding the tax basis of each of the loans held by our operating partnership at the time of the REIT formation transactions, our computation of taxable income with respect to these interests could be subject to adjustment by the IRS. If any such adjustment would be significant in amount, the resulting redetermination of our gross income for U. S. federal income tax purposes could cause us or Pre- Merger Sutherland to fail to satisfy the gross income tests, which could cause us to fail to qualify as a REIT. In addition, if any such adjustment resulted in an increase to our or Pre- Merger Sutherland' s REIT taxable income, we could be required to pay a deficiency dividend in order to maintain our REIT qualification. Potential changes to the U. S. tax laws could adversely impact us. The U. S. federal income tax laws and regulations governing REITs and their stockholders, as well as the administrative interpretations of those laws and regulations, are constantly under review and may be changed at any time, possibly with retroactive effect. No assurance can be given as to whether, when, or in what form, the U. S. federal income tax laws applicable to us and our stockholders may be enacted. Changes to the U. S. federal income tax laws and interpretations of U. S. federal tax laws could adversely affect an investment in our common stock. The Tax Act significantly changed U. S. federal income tax laws applicable to businesses and their owners, including REITs and their stockholders, and may lessen the relative competitive advantage of operating as a REIT rather than as a C corporation. Further changes to the tax laws are possible. In particular, the federal income taxation of REITs may be modified, possibly with retroactive effect, by legislative, administrative or judicial action at any time. We cannot assure stockholders that any such changes will not adversely affect the taxation of our stockholders. Any such changes could have an adverse effect on an investment in our shares or on the market value or the resale potential of our assets. Stockholders are urged to consult with their tax advisors with respect to the impact of these legislative changes on their investment in our shares and the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in our shares. There may be tax consequences to any modifications to our ~~borrowings, our~~ hedging transactions and other contracts to replace references to LIBOR. Many of our ~~debt and~~ interest rate hedge agreements ~~are~~ **were** linked to U. S. dollar LIBOR. We may have **had** to renegotiate such LIBOR- based instruments to replace references to LIBOR. Under ~~current~~ **applicable** law, certain modifications of terms of LIBOR- based instruments may have tax consequences, including deemed taxable exchanges of the pre- modification instrument for the modified instrument. Finalized Treasury Regulations, effective March 7, 2022, treat certain modifications that would have been taxable events under previous law as non- taxable events. The Treasury Regulations also permit REMICs ~~63to~~ **to** make certain modifications without losing REMIC qualification. The Treasury Regulations do not discuss REIT- specific issues of modifications to LIBOR- based instruments. ~~The IRS has also issued Revenue Procedure 2020-44, which provides additional guidance to facilitate the market' s transition from LIBOR rates. This guidance clarifies the treatment of certain debt instruments modified to replace LIBOR- based terms.~~ We ~~will~~ **have** ~~attempt~~ **attempted** to migrate to a post- LIBOR environment without jeopardizing our REIT qualification or suffering other adverse tax consequences but can give no assurances that we ~~will succeed~~ **were successful** . ~~Risks~~ **65Risks** Related to Our Organization and Structure Conflicts of interest could arise as a result of our REIT structure. Conflicts of interest could arise in the future as a result of the relationships between us and our affiliates, on the one hand, and our operating partnership or any partner thereof, on the other. Our directors and officers have duties to our Company under Maryland law in connection with their management of our Company. At the same time, we have fiduciary duties, as a general partner, to our operating partnership and to the limited partners under Delaware law in connection with the management of our operating partnership. Our duties as a general partner to our operating partnership and our partners may come into conflict with the duties of our directors and officers. Certain provisions of Maryland law could inhibit changes in control and prevent our stockholders from realizing a premium over the then- prevailing market price of our common stock. Certain provisions of the Maryland General Corporation Law (" MGCL ") may have the effect of deterring a third party from making a proposal to acquire us or of impeding a change in control under circumstances that otherwise could provide the holders of shares of our common stock with the opportunity to realize a premium over the then- prevailing market price of our common stock, including: ● " business combination" provisions of the MGCL 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 our then outstanding voting stock or an affiliate or associate of ours who, at any time within the two- year period prior to the date in question, was the beneficial owner of 10 % or more of our then outstanding voting stock) or an affiliate thereof for five years after the most recent date on which the stockholder becomes an interested stockholder and, thereafter, impose fair price and / or supermajority stockholder voting requirements on these combinations; ●" control share" provisions of the MGCL that provide that a holder of" control shares" of a Maryland corporation (defined as shares which, when aggregated with all other shares controlled by the stockholder (except solely by virtue of a revocable proxy), entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a" control share acquisition" (defined as the direct or indirect acquisition of ownership or control of issued and outstanding" control shares") has no voting rights with respect to such shares except to the extent approved by our stockholders by the affirmative vote of at least two- thirds of all the votes entitled to be cast on the matter, excluding votes entitled to be cast by the acquirer of control shares, our officers and personnel who are also directors; and ●" unsolicited takeover" provisions of the MGCL that permit our ~~board~~ **Board** ~~of directors~~ , without stockholder approval and regardless of what is currently provided in our charter or bylaws, to implement takeover defenses, some of which (for example, a classified board) we do not yet have. As permitted by the MGCL, our ~~board~~ **Board** ~~of directors~~ has by resolution exempted from the" business combination" provision of the MGCL business combinations (1) between us and our affiliates and (2) between us and any other person, provided that such business combination is first approved by our ~~board~~ **Board** ~~of directors~~ (including a majority of our directors who are not affiliates or associates of such person). Our bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions by any person of shares of our stock. There can be no assurance that these exemptions will not be amended or eliminated at any time in the future. ~~64Our~~ -- **Our** ability to issue additional shares of common and preferred stock may prevent a change in our control. Our charter authorizes us to issue additional authorized but unissued shares of common or preferred stock. In addition, our ~~board~~ **Board** ~~of directors~~ may, without common stockholder approval, amend our charter to increase or decrease the aggregate number of shares of our stock or the number of shares of stock of any class or series that we have the authority to issue. As a result, our ~~board~~ **Board** ~~of directors~~ may establish a class or series of shares of common or preferred stock that could delay or prevent a transaction or a change in control that might involve a premium price for shares of our common stock or otherwise be in the best interest of our stockholders. ~~Our~~ **66Our** rights and your rights to take action against our directors and officers are limited, which could limit your recourse in the event of actions not in your best interests. As permitted by Maryland law, our charter eliminates the liability of our directors and officers to us and you for money damages, except for liability resulting from: ● actual receipt of an improper benefit or profit in money, property or services; or ● a final judgment based upon a finding of active and deliberate dishonesty by the director or officer that was material to the cause of action adjudicated. In addition, our charter authorizes us, to the maximum extent permitted by Maryland law, to obligate our Company, and our bylaws obligate us, to indemnify any present or former director or officer or any individual who, while a director or officer of our Company and at our request, serves or has served another corporation, real estate investment trust, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, member, manager, partner or trustee who is, or is threatened to be, made a party to, or witness in, a proceeding by reason of his or her service in any such capacity from and against any claim or liability to which that individual may become subject or which that individual may incur by reason of such service and to pay or reimburse his or her reasonable expenses in advance of final disposition of a proceeding. Our charter and bylaws also permit us to indemnify and advance expenses to any individual who served a predecessor of our Company in any of the capacities described above and any employee or agent of our Company or a predecessor of our Company. Our amended and restated bylaws designate the Circuit Court for Baltimore City, Maryland as the sole and exclusive forum for some litigation, which could limit the ability of stockholders to obtain a favorable judicial forum for disputes with our Company. Unless we consent in writing to the selection of an alternative forum, the Circuit Court for Baltimore City, Maryland, or, if that court does not have jurisdiction, the United States District Court for the District of Maryland, Baltimore Division is the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of our Company, (ii) any action asserting a claim of breach of any duty owed by any director or officer or other employee of our Company to our Company or to our stockholders, (iii) any action asserting a claim against our Company or any director or officer or other employee of our Company arising pursuant to any provision of the MGCL or our charter or bylaws, or (iv) any action asserting a claim against our Company or any director or officer or other employee of our Company that is governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock shall be deemed to have notice of and to have consented to the provisions described above. This forum selection provision may limit the ability of stockholders of our Company to obtain a judicial forum that they find favorable for disputes with our Company or our directors, officers, employees, if any, or other stockholders. General Risk FactorsFuture offerings of debt or equity securities, which may rank senior to our common stock, may adversely affect the market price of ~~the~~ **our** common stock. If we decide to issue additional debt securities in the future, which may rank senior to our common stock, it is likely that they will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, any equity securities or convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock and may result in dilution to owners of our common stock. We and, indirectly, our stockholders, will bear the cost of issuing and servicing such securities. Because our decision to issue debt or equity securities in any future offering will depend on market conditions and other factors ~~65beyond~~ -- **beyond** our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, holders of our common stock will bear the risk of our future offerings reducing the market price of our common stock and diluting the value of their stock holdings in the Company. ~~We~~ **67We** cannot assure our ability to pay distributions in the future. To maintain our qualification as a REIT and generally not be subject to U. S. federal income tax, we intend to make regular quarterly distributions to holders of our common stock out of legally available funds. Our current policy is to distribute our net taxable income to our stockholders in a manner intended to satisfy the 90 % distribution requirement and to avoid corporate income tax. We expect to continue our current distribution practices in the future, but our ability to pay distributions may be adversely affected by a number of factors, including the risk factors described in this annual report on Form 10- K. All distributions will be made at the discretion of our ~~board~~ **Board** ~~of directors~~ and will depend on our earnings, financial condition, debt covenants, maintenance of our REIT qualification, restrictions on making distributions under Maryland law and other factors as our ~~board~~ **Board** ~~of directors~~ may deem relevant from time to time. We may not be able to make distributions in the future, and our ~~board~~ **Board** ~~of directors~~ may change our distribution policy in the future. We believe that a change in any one of the following factors, among others, could adversely affect our results of operations and impair our ability to pay distributions to our stockholders: ● the profitability of the assets we hold or acquire; ● our ability to make profitable acquisitions; ● margin calls or other expenses that reduce our cash flow; ● defaults in our asset portfolio or decreases in the value of our portfolio; and ● the fact that anticipated operating expense levels may not prove accurate, as actual results may vary from estimates. We cannot assure you that we will achieve results that will allow us to make a specified level of cash distributions or year- to- year increases in cash distributions in the future. In addition, some of our distributions may include a return of capital. Interest rate fluctuations may adversely affect the level of our net income and the value of our assets and common stock. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. Interest rate fluctuations present a variety of risks, including the risk of a narrowing of the difference between asset yields and borrowing rates, flattening or inversion of the yield curve and fluctuating prepayment rates, and may adversely affect our income and the value of our assets and common stock. Changes in accounting rules could occur at any time and could impact us in significantly negative ways that we are unable to predict or protect against. As has been widely publicized, the SEC, the FASB and other regulatory bodies that establish the accounting rules applicable to us have proposed or enacted a wide array of changes to accounting rules over the last several years. Moreover, in the future these regulators may propose additional changes that we do not currently anticipate. Changes to accounting rules that apply to us could significantly impact our business or our reported financial performance in negative ways that we cannot predict or protect against. We cannot predict whether any changes to current accounting rules will occur or what impact any codified changes will have on our business, results of operations, liquidity or financial condition. Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes- Oxley Act could have a material adverse effect on our business and stock price. As a public company, we are required to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes- Oxley Act of 2002. Internal control over financial reporting is complex and may be revised over time to adapt to changes in our business or changes in applicable accounting rules. We cannot assure you that our internal control over financial reporting will be effective in the future or that a material weakness will not be discovered with respect to a prior period for which we believe that internal controls were effective. If we are not able to maintain or ~~66~~ **document effective internal control over financial reporting, our independent registered public accounting firm may not be able to certify as to the effectiveness of our internal control over financial reporting as of the required dates. Matters impacting our internal controls may cause us to be unable to report our financial information on a timely basis, or may 68**