

Risk Factors Comparison 2025-02-18 to 2024-02-20 Form: 10-K

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

The following is a summary of the significant risk factors known to us that we believe could have a material adverse effect on our business, financial condition and results of operations. In addition to understanding the key risks described below, investors should understand that it is not possible to predict or identify all risk factors and, consequently, the following is not a complete discussion of all potential risks or uncertainties. Risks Related to Our Business and Operations Difficult conditions in the residential mortgage and real estate markets, the financial markets and the economy generally may adversely impact our business, results of operations and financial condition. Our results of operations are materially affected by conditions in the residential mortgage and real estate markets, the financial markets and the economy generally. In past years, concerns about the COVID-19 pandemic, unemployment, the availability and cost of credit, rising government debt levels, inflation, energy costs, global supply chain disruptions, climate change, global economic lethargy, warfare, geopolitical unrest across various regions worldwide, European sovereign debt issues, U. S. budget debates, federal government shutdowns and international trade disputes, **the imposition of sanctions or new or increased tariffs**, have from time to time contributed to increased volatility and uncertainty in the economy and financial markets. Adverse developments with respect to any of these ~~markets~~ **factors** may have an impact on new demand for homes and on homeowners' ability to make their mortgage payments, which may compress home ownership rates and weigh heavily on future home price performance. There is a strong correlation between home price growth rates (or losses) and mortgage loan delinquencies. Any stagnation in or deterioration of the residential mortgage or real estate markets may limit our ability to acquire our target assets on attractive terms or cause us to experience losses related to our assets. Our business model depends in part upon the continuing viability of Fannie Mae and Freddie Mac, or similar institutions, and any changes to their structure or creditworthiness could have an adverse impact on us. We purchase Agency RMBS that are protected from the risk of default on the underlying mortgages by guarantees from Fannie Mae, Freddie Mac or, in the case of Ginnie Mae securities, the U. S. government. In 2008, the U. S. government and U. S. Treasury undertook a series of actions designed to stabilize these GSEs, including placing them into a federal conservatorship. In December 2009, the U. S. government committed virtually unlimited capital to ensure the continued existence of Fannie Mae and Freddie Mac. There is no assurance that such capital will continue to be available or that the GSEs will honor their guarantees or other obligations. If these GSEs fail to honor their guarantees, the value of any Agency RMBS guaranteed by the GSEs that we hold would decline. The continued flow of residential mortgage-backed securities from the GSEs is essential to the operation of the mortgage markets in their current form. A number of legislative proposals have been introduced in the past that would phase out or reform the GSEs. It is not possible to predict the scope and nature of the actions that the U. S. government could ultimately take with respect to the GSEs, **including in light of recent changes in administration and executive offices of the U. S. government**. Although any phase out or reform ~~may~~ **would likely** take several years to implement, if the structure of Fannie Mae or Freddie Mac were altered, or if they were eliminated altogether, the amount and type of Agency RMBS and other mortgage-related assets available for investment would be significantly affected. A reduction in supply of Agency RMBS and other mortgage-related assets would result in increased competition for those assets and likely lead to a significant increase in the price for our target assets. Additionally, market uncertainty with respect to the treatment of the GSEs could have the effect of reducing the actual or perceived quality of, and therefore the market value for, the Agency RMBS that we currently hold in our portfolio. We operate in a highly regulated environment and may be adversely affected by changes in federal and state laws and regulations. We operate in a highly regulated environment and are subject to the rules, regulations, approvals, licensing, reporting and examination requirements of various federal, state and local authorities. Any change in applicable federal, state or local laws, rules and regulations, **including as a result of executive orders**, or the interpretation or enforcement thereof, could have a substantial impact on our assets, operating expenses, business strategies and results of operations. Our inability or failure to comply with the rules, regulations or reporting requirements, to obtain or maintain approvals and licenses applicable to our businesses, or to satisfy annual or periodic examinations may impact our ability to do business and expose us to fines, penalties or other claims and, as a result, could harm our business. Federal and state regulation of the mortgage industry is complex and constantly evolving, and changes to applicable rules, regulations and guidance may adversely impact our business. As a licensed servicer and owner of MSR, we are required to comply with numerous federal, state and local laws and regulations that control the manner in which we conduct our business and operations. ~~These requirements include, among other things, the Dodd-Frank Act, the Gramm-Leach-Bliley Act and the CARES Act.~~ In addition, given we are not a federally chartered depository institution, we must comply with applicable state licensing and compliance requirements in all jurisdictions in which we operate. These requirements can and do change as statutes and regulations are enacted, promulgated or amended, or as regulatory guidance or interpretations evolve or change. ~~The Dodd-Frank Act and its implementing regulations, as well as other federal~~ **Federal** and state ~~rules~~ **laws**, regulations and guidance that govern mortgage servicing, ~~and originations~~ **and originations** combine to create a complex and constantly evolving regulatory environment, and the failure to comply with these requirements may result in fines or the suspension or revocation of the qualifications, registrations and licenses necessary to operate as a servicer and owner of MSR **and as a mortgage originator**. New or modified regulations at the federal or state level to address concerns on a variety of fronts, including potential impacts from climate change, fair and equitable access to housing and consumer data privacy and security concerns, could increase our operational expenses or otherwise enhance regulatory supervision and enforcement efforts. Ongoing efforts to enhance cooperation between federal and state regulators could also contribute to increased industry scrutiny. We expect to continue to incur the operational and system costs necessary to maintain the processes that are needed to ensure

our compliance with applicable rules and regulations as well as to monitor compliance by our business partners. Additional rules and regulations implemented by the CFPB and state regulators, as well as any changes to existing rules, could lead to changes in the way we conduct our business and increased costs of compliance. We operate in a highly competitive market and we may not be able to compete successfully. We operate in a highly competitive market. Our profitability depends, in large part, on our ability to acquire a sufficient supply of our target assets at favorable prices. In acquiring assets, we compete with a variety of investors, including other mortgage REITs, specialty finance companies, public and private investment funds, asset managers, commercial and investment banks, broker-dealers, commercial finance and insurance companies, the GSEs, mortgage servicers and other financial institutions. In addition, the Federal Reserve has in the past committed to purchase unlimited amounts of Agency RMBS and other assets in order to stabilize the financial markets. Many of our competitors are substantially larger and may have greater financial, technical, marketing and other resources than we do. Competition for our target assets may lead to the price of such assets increasing and their availability decreasing, which may limit our ability to generate desired returns, reduce our earnings and, in turn, decrease the cash available for distribution to our stockholders. In addition, as we seek to grow our subservicing business, we will compete with bank and non-bank servicers for third-party subservicing clients. The subservicing market is highly competitive, and we expect to face competition related to the pricing and services we offer. There can be no assurance that we will be able to attract and retain subservicing clients, which may adversely impact our ability to grow our servicing platform and achieve economies of scale. **Finally, as we seek to expand our mortgage loan origination business, we will compete with bank and non-bank originators to provide various residential mortgage loan and real estate services products. The mortgage loan origination market remains highly competitive. There can be no assurance that we will be able to recapture or identify, attract, and fund new or additional mortgage loan originations, which may adversely impact our ability to grow our mortgage loan origination business.** Our business could suffer if we fail to attract and retain a skilled management team and workforce. We operate in a specialized and highly regulated industry and our success is dependent upon the efforts, experience, diligence, skill and deep knowledge of our industry and operations of our executive officers and our employees. Competition for employee talent can be significant, and the companies with which we compete for employees may have greater resources than we do and may be able to offer more attractive terms of employment. The departure of an executive officer, key employee or a significant and sudden turnover of employees in a key operational area of our company **Company** could have a material adverse effect on our ability to conduct our operations and to comply with contractual and regulatory obligations, which could adversely impact our business, results of operations and financial condition. We may change any of our strategies, policies or procedures without stockholder consent. We may change any of our strategies, policies or procedures with respect to investments, asset allocation, growth, operations, indebtedness, financing strategy and distributions at any time without the consent of stockholders. Changes in strategy could also result in the elimination of certain investments and business activities that we no longer view as attractive or in alignment with our business model. Shifts in strategy may increase our exposure to credit risk, interest rate risk, financing risk, default risk, regulatory risk and real estate market fluctuations. We also cannot assure you that we will be able to effectively execute on or realize the potential benefits of changes in strategy. Any such changes could adversely affect our financial condition, risk profile, results of operations, the market price of our common stock and our ability to make distributions to stockholders. Our risk management policies and procedures may not be effective. We have established and maintain various risk management policies and procedures designed to identify, monitor and mitigate financial risks, such as credit risk, interest rate risk, prepayment risk and liquidity risk, as well as operational **, information security** and compliance risks related to our business, assets and liabilities. These policies and procedures may not sufficiently identify all of the risks to which we are or may become exposed or mitigate the risks we have identified. Any expansion of our business activities, such as **our the recent acquisition-launch of our originations platform through our wholly-owned subsidiary, RoundPoint**, may result in our being exposed to risks to which we have not previously been exposed or may increase our exposure to certain types of risks. Alternatively, any narrowing of our business activities may increase the concentration of our exposure to certain types of risk. Any failure to effectively identify and mitigate the risks to which we are exposed could have an adverse effect on our business, results of operations and financial condition. Maintaining our exemptions from registration as an investment company under the 1940 Act imposes limits on our operations. We intend to conduct our operations so as not to become 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. We are organized as a holding company that conducts its businesses primarily through our subsidiaries. We intend to conduct the operations of Two Harbors and its subsidiaries so that they do not come within the definition of an investment company, either because less than 40 % of the value of their total assets on an unconsolidated basis will consist of “investment securities” or because they meet certain other exceptions or exemptions set forth in the 1940 Act based on the nature of their business purpose and activities. Certain of our subsidiaries may rely upon the exemption set forth in 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 exemption generally means that at least 55 % of each such subsidiary’s portfolio must be comprised of qualifying assets and at least 80 % of its portfolio must be comprised of qualifying assets and real estate-related assets under the 1940 Act. Qualifying assets for this purpose include mortgage loans and other assets, such as whole pool Agency and non-Agency RMBS, which are considered the functional equivalent of mortgage loans for the purposes of the 1940 Act. We expect each of our subsidiaries relying on Section 3 (c) (5) (C) to invest at least 55 % of its assets in whole pool Agency RMBS and other interests in real estate that constitute qualifying assets in accordance with SEC staff guidance and an additional 25 % of its assets in either qualifying assets and other types of real estate related assets that do not constitute qualifying assets. As a result of the foregoing restrictions, we may be limited in our ability to make or dispose of certain investments. To the extent the SEC publishes new or different guidance with respect to these matters, we may be required to adjust our strategy accordingly. Although we monitor the portfolios of our

subsidiaries that may rely on the Section 3 (c) (5) (C) exemption periodically, there can be no assurance that such subsidiaries will be able to maintain this exemption. Loss of our 1940 Act exemptions would adversely affect us, the market price of shares of our common stock and our ability to distribute dividends, and could result in the termination of certain of our financing or other agreements. As described above, we intend to conduct operations so that we are not required to register as an investment company under the 1940 Act. Although we monitor our portfolio and our activities periodically, there can be no assurance that we will be able to maintain our exemption from investment company registration under the 1940 Act. Furthermore, any modifications to the 1940 Act exemption rules or interpretations may require us to change our business and operations in order for us to continue to rely on such exemption. If we were no longer able to qualify for exemptions from registration under the 1940 Act, we could be required to restructure our activities or the activities of our subsidiaries, including effecting sales of assets in a manner that, or at a time when, we would not otherwise choose, which could negatively affect the value of our common stock, the sustainability of our business model, and our ability to make distributions. Such sales could occur during adverse market conditions, and we could be forced to accept prices below that which we believe are appropriate. The loss of our 1940 Act exemptions may also result in a default under or permit certain of our counterparties to terminate the many repurchase agreements, financing facilities or other agreements we have in place. The lack of liquidity of our assets may adversely affect our business, including our ability to value, finance and sell our assets. We have and may in the future acquire assets or other instruments with limited or no liquidity, including securities, MSR and other instruments that are not publicly traded. Market conditions could also significantly and negatively affect the liquidity of our assets. It may be difficult or impossible to obtain third- party pricing on such illiquid assets and validating third- party pricing for illiquid assets may be more subjective than more liquid assets. Illiquid assets typically experience greater price volatility, as a ready market may not exist for such assets, and such assets can be more difficult to value. Any illiquidity in our assets may make it difficult for us to sell such assets if the need or desire arises. The ability to quickly sell certain of our target assets, such as certain securities and MSR, may be constrained by a number of factors, including a small number of willing buyers, lack of transparency as to current market terms and price, and time delays resulting from the buyer' s desire to conduct due diligence on the assets, negotiation of a purchase and sale agreement, compliance with any applicable contractual or regulatory requirements, and for certain assets like MSR, operational and compliance considerations. Consequently, even if we identify a buyer for certain of our securities and MSR, there is no assurance that we would be able to sell such assets in a timely manner if the need or desire arises. Assets that are illiquid are typically more difficult and costly to finance. As a result, we may be required to finance the assets at unattractive rates or hold them on our balance sheet without the use of leverage. Assets tend to become less liquid during times of financial stress, which is often the time that liquidity is most needed. To the extent that we use leverage to finance assets that later become illiquid, we may lose that leverage if the financing counterparty determines that the collateral is no longer sufficient to secure the financing, or the counterparty could reduce the amount of money that it is willing to lend against the asset. **We may not be able to grow or realize the benefits of our direct- to- consumer loan origination platform, which could adversely impact our business, results of operations and financial condition. Late in the second quarter of 2024, through our wholly owned subsidiary, RoundPoint, we began operating an in- house, direct- to- consumer residential mortgage loan originations platform, which was established primarily to benefit our MSR portfolio through the retention or recapture of our existing borrowers. The originations platform also originates loans for borrowers that do not currently have a mortgage loan serviced by RoundPoint and also brokers second lien loans to our borrowers. For our own MSR portfolio, adding new or recaptured MSR through our origination platform is intended to hedge faster than expected MSR prepayment speeds in a refinance environment, and requires less capital relative to acquiring MSR through flow and bulk purchases from third- party originators. In addition, origination activities are generally counter- cyclical to MSR, which provides supplementary sources of profitability to our stockholders while also hedging our MSR. It is possible that the full benefits of the originations platform may not be realized as expected, or at all. Our ability to grow our mortgage loan originations business may be adversely affected by a variety of factors, including without limitation competition from new and existing market participants, elevated or rising interest rates, reductions in the overall level of refinancing activity or a decline in our brand and reputation. Any failure to achieve the anticipated benefits of our originations platform could adversely affect our business, results of operations and financial condition.** We use leverage in executing our business strategy, which may adversely affect the return on our assets and may reduce cash available for distribution to our stockholders, as well as increase losses when economic conditions are unfavorable. We use leverage to finance many of our investments and to enhance our financial returns. Through the use of leverage, we may acquire positions with market exposure significantly greater than the amount of capital committed to the transaction. It is not uncommon for investors in Agency RMBS to obtain leverage equal to ten or more times equity through the use of repurchase agreement financing. Subject to market conditions, we anticipate that we may deploy, on a debt- to- equity basis, up to ten times leverage on our Agency RMBS; however, there is no specific limit on the amount of leverage that we may use. Leverage will magnify both the gains and the losses of our positions. Leverage will increase our returns as long as we earn a greater return on investments purchased with borrowed funds than our cost of borrowing such funds. However, if we use leverage to acquire an asset and the value of the asset decreases, the leverage will increase our losses. Even if the asset increases in value, if the asset fails to earn a return that equals or exceeds our cost of borrowing, leverage will decrease our returns. We may be required to post large amounts of cash as collateral or margin to secure our leveraged positions, including on our MSR financing facilities. In the event of a sudden, precipitous drop in value of our financed assets, we might not be able to liquidate assets quickly enough to repay our borrowings, further magnifying losses. Even a small decrease in the value of a leveraged asset may require us to post additional margin or cash collateral. This may adversely affect our financial condition and results of operations and decrease the cash available to us for distributions to stockholders. We depend on repurchase agreements and other credit facilities to execute our business plan and any limitation on our ability to access funding through these sources could have a

material adverse effect on our business, results of operations and financial condition. Our ability to purchase and hold assets **and execute our business strategy** is affected by our ability to secure repurchase agreements and other credit facilities on acceptable terms. We currently have repurchase agreements, revolving credit facilities **, a warehouse facility** and other credit facilities in place with numerous counterparties, but we can provide no assurance that lenders will continue to provide us with sufficient financing through the repurchase markets or otherwise. In addition, with respect to MSR financing, there can be no assurance that the GSEs will consent to such transactions or consent on terms consistent with prior MSR financing transactions. Because repurchase agreements and similar credit facilities are generally short-term commitments of capital, changing conditions in the financing markets may make it more difficult for us to secure continued financing during times of market stress. Our ability to efficiently access financing through our repurchase agreements or otherwise may be adversely impacted by counterparty requirements regarding the type of assets that may be sold and the timing and process for such sales. Counterparty review and approval processes may delay the timing in which funding may be provided, or preclude funding altogether. For MSR, delays may also occur due to the need to obtain GSE approval of the collateral to be posted or the need for third-party valuations of the MSR collateral. Our lenders also may revise their eligibility requirements for the types of assets they are willing to finance or the terms of such financings, based on, among other factors, the regulatory environment and their management of perceived risk. Changes in the financing markets could adversely affect the marketability of the assets in which we invest, and this could negatively affect the value of our assets. If our lenders are unwilling or unable to provide us with financing, or if the financing is only available on terms that are uneconomical or otherwise not satisfactory to us, we could be forced to sell assets when prices are depressed. The amount of financing we receive under our repurchase agreements, revolving credit facilities or other credit facilities will be directly related to the lenders' valuation of the assets that secure the outstanding borrowings. If a lender determines that the value of the assets has decreased, it typically has the right to initiate a margin call, requiring us to transfer additional assets to such lender, or repay a portion of the outstanding borrowings. We may be forced to sell assets at significantly depressed prices to meet margin calls and to maintain liquidity at levels satisfactory to the counterparty, which could cause us to incur losses. Moreover, to the extent that we are forced to sell assets because of the availability of financing or changes in market conditions, other market participants may face similar pressures, which could exacerbate a difficult market environment and result in significantly greater losses on the sale of such assets. In an extreme case of market duress, a market may not exist for certain of our assets at any price. Although we generally seek to reduce our exposure to lender concentration-related risk by entering into financing relationships with multiple counterparties, we are not required to observe specific diversification criteria, except as may be set forth in the investment guidelines adopted by our board of directors. To the extent that the number of or net exposure under our lending arrangements may become concentrated with one or more lenders, the adverse impacts of defaults or terminations by such lenders may be significantly greater. **If our warehouse facilities are terminated or reduced, we may be unable to find replacement financing on favorable terms, or at all, which could adversely affect our business, results of operations and financial condition. To finance our origination activities, we have entered into a warehouse facility collateralized by the value of the mortgage loans pledged until they are sold to the GSEs or other third-party investors in the secondary market. Our borrowings are generally repaid with the proceeds we receive from mortgage loan sales. We depend upon one or more lenders to provide warehouse lines of credit for our loans. In the event that any of our warehouse facilities are terminated or not renewed, or if the principal amount that may be drawn under our funding agreements were to decrease significantly, we may be unable to find replacement financing on commercially favorable terms, or at all, which could limit our ability to maintain or grow our originations business.** Our inability to meet certain financial covenants related to our repurchase agreements, revolving credit facilities or other credit facilities could adversely affect our financial condition, results of operations and cash flow. In connection with certain of our repurchase agreements **, warehouse facilities**, revolving credit facilities and other credit facilities, we are required to comply with certain financial covenants, the most restrictive of which are disclosed within Item 7, "Management's Discussion and Analysis of Financial Conditions and Results of Operations" of this Annual Report on Form 10-K. Compliance with these financial covenants will depend on market factors and the strength of our business and operating results. Failure to comply with our financial covenants could result in an event of default, termination of the lending facility, acceleration of all amounts owing under the lending facility, and may give the counterparty the right to exercise certain other remedies under the lending agreement, including without limitation the sale of the **asset subject to repurchase collateral securing the facility** at the time of default, unless the counterparty granted a waiver. In addition, we may be subject to cross-default provisions under certain financing facilities that could cause an event of default under such financing facilities to be triggered by events of default under other financing arrangements. If a counterparty to a repurchase agreement defaults on its obligation to resell the underlying security back to us at the end of the repurchase agreement term, or if we default on our obligations under the repurchase agreement, we may incur losses. When we enter into repurchase agreements, we sell the assets to lenders 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 repurchase agreement. Because the cash that we receive from the lender when we initially sell the assets to the lender is less than the value of those assets (the difference being the "haircut"), if the lender defaults on its obligation to resell the same assets back to us, we would incur a loss on the repurchase agreement equal to the amount of the haircut (assuming there was no change in the value of the securities). Further, if we default on our obligations under a repurchase agreement, the lender will be able to terminate the repurchase agreement and may cease entering into any other repurchase agreements with us. If a default occurs under any of our repurchase agreements and a lender terminates one or more of its 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. Our rights under our repurchase agreements are subject to the effects of bankruptcy laws in the event of the bankruptcy or insolvency of us or our lenders under the repurchase agreements. In the event of our insolvency or bankruptcy, certain repurchase

agreements may qualify for special treatment under the U. S. Bankruptcy Code, the effect of which, among other things, would be to allow the lender under the applicable repurchase agreement to avoid the automatic stay provisions of the U. S. Bankruptcy Code and to 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 claim. In addition, if the lender is a broker or dealer subject to the Securities Investor Protection Act of 1970, or an insured depository institution subject to the Federal Deposit Insurance Act, our ability to exercise our rights to recover our assets 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 impairment or negative performance of other financial institutions could adversely affect us. We have exposure to and routinely execute transactions with numerous counterparties in the financial services industry, including broker- dealers, commercial banks, investment banks, investment funds and other institutions. The operations of U. S. and global financial services institutions are highly interconnected and a decline in the financial condition of one or more financial services institutions may expose us to credit losses or defaults, limit our access to liquidity or otherwise disrupt the operation of our businesses. While we regularly assess our exposure to different counterparties, the performance and financial strength of specific institutions are subject to rapid change, the timing and extent of which cannot be known. We may not have the ability to raise funds necessary to pay principal amounts owed upon maturity of our outstanding convertible senior notes or to purchase such notes upon a fundamental change. We have issued and **have** outstanding \$ ~~271~~ **261**. 9 million aggregate principal amount of 6.25 % convertible senior notes due January 2026. To the extent these notes are not converted into common stock by the noteholders prior to their maturity date, we will be obligated to repay the principal amount of all outstanding notes upon maturity. In addition, if a fundamental change occurs (as described in the supplemental indenture governing the notes), noteholders have the right to require us to purchase for cash any or all of their notes. We may not have sufficient funds available at the time we are required to repay principal amounts or to purchase the notes upon a fundamental change, and we may not be able to raise additional capital or arrange necessary financing in order to make such payments on terms that are acceptable to us, if at all. An increase in our borrowing costs relative to the interest that we receive on our leveraged assets may adversely affect our profitability. As our repurchase agreements and other short- term borrowings mature, we must enter into new borrowings, find other sources of liquidity or sell assets. An increase in short- term interest rates at the time that we seek to enter into new borrowings would reduce the spread between the returns on our assets and the cost of our borrowings. This would adversely affect the returns on our assets, which might reduce earnings and, in turn, cash available for distribution to stockholders. We are highly dependent on information technology, and system failures or security breaches could disrupt our business. Our business is highly dependent on information technology and our ability to process, record and monitor many complex transactions and large amounts of data efficiently and accurately. In the ordinary course of our business, we store sensitive data, including our proprietary business information and that of our business partners, and non- public personally identifiable information of mortgage borrowers, on our networks. The secure maintenance and transmission of this information is critical to our operations. Computer malware, viruses, ransomware and phishing attacks remain widespread and are increasingly sophisticated. We are from time to time the target of attempted cyber threats. We continuously monitor and develop our information technology networks and infrastructure to prevent, detect, address and mitigate the risk of unauthorized access, misuse, computer viruses and other events that could have a security impact. Despite these security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee or service provider error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, disruption to our operations, or disruption to our trading activities or damage our reputation, which could have a material adverse effect on our financial results and negatively affect the market price of our common stock and our ability to pay dividends to stockholders. The resources required to protect our information technology and infrastructure, and to comply with the laws and regulations related to data and privacy protection, are continuously evolving. Even in circumstances where we are able to successfully protect such technology and infrastructure from attacks, we may incur significant expenses in connection with our responses to such attacks. Government and regulatory scrutiny of the measures taken by companies to protect against cybersecurity attacks has resulted in heightened cybersecurity requirements and additional regulatory oversight. Any of the foregoing issues may adversely impact our results of operations and financial condition. We enter into hedging transactions that expose us to contingent liabilities in the future, which may adversely affect our financial results or cash available for distribution to stockholders. We engage in transactions intended to hedge against various risks to our portfolio, including the exposure to changes in interest rates. The extent of our hedging activity varies in scope based on, among other things, the level and volatility of interest rates, the type of assets held and other market conditions. Although these transactions are intended to reduce our exposure to various risks, hedging may fail to adequately protect or could adversely affect us because, among other things: available hedges may not correspond directly with the risks for which protection is sought; the duration of the hedge may not match the duration of the related liability; the amount of income that a REIT may earn from certain hedging transactions is limited by U. S. federal income tax provisions; the credit quality of a hedging counterparty may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; and the hedging counterparty may default on its obligations. Subject to maintaining our qualification as a REIT and satisfying the criteria for no- action relief from the Commodity Futures Trading Commission' s commodity pool operator registration rules, there are no current limitations on the hedging transactions that we may undertake. Our hedging transactions could require us to fund large cash payments in certain circumstances (e. g., the early termination of the hedging instrument caused by an event of default or other early termination event, or a demand by a

counterparty that we make increased margin payments). Our ability to fund these obligations will depend on the liquidity of our assets and our access to capital at the time. The need to fund these obligations could adversely affect our financial condition. Further, hedging transactions, which are intended to limit losses, may actually result in losses, which would adversely affect our earnings and could in turn reduce cash available for distribution to stockholders. Our financial results may experience greater fluctuations due to our decision not to elect hedge accounting treatment on our derivative instruments. We have elected to not qualify for hedge accounting treatment under Accounting Standards Codification (ASC) 815, Derivatives and Hedging, or ASC 815, for our current derivative instruments. The economics of our derivative hedging transactions are not affected by this election; however, our earnings (losses) for U. S. generally accepted accounting principles, or U. S. GAAP, purposes may be subject to greater fluctuations from period to period as a result of this accounting treatment for changes in fair value of derivative instruments or for the accounting of the underlying hedged assets or liabilities in our financial statements, as it does not necessarily align with the accounting used for derivative instruments. ~~The acquisition of RoundPoint directly exposes us to risks associated with mortgage servicing and any new services or business activities we may pursue could result in our exposure to new or increased risks. As a result of our acquisition of RoundPoint, we began directly servicing a portion of the mortgage loans underlying our MSR assets as well as mortgage loans underlying MSR owned by third parties. The ownership of an entity that is directly engaged in mortgage loan servicing operations exposes us to risks inherent in mortgage loan servicing more directly than engaging third-party mortgage loan servicers. Such risks include but are not limited to: legal or regulatory actions resulting from a failure to comply with applicable laws, rules and regulations; adverse impacts resulting from a failure to comply with rules and guidelines established by the GSEs, which could limit our ability to conduct business with them; impacts of payment delinquencies and mortgage defaults, including any additional servicing costs or servicing advance obligations we may incur; information technology system failures or data security breaches; failure to maintain the size and scale of our MSR and servicing portfolios; the termination of subservicing relationships if we fail to meet our servicing obligations to our clients; and any downgrade in our servicer ratings. Any of the foregoing risks could have a material adverse effect on our business, financial condition, results of operations and liquidity. We believe the operation and integration of RoundPoint as a part of our business will result in incremental pre-tax earnings, greater control over our MSR portfolio and long-term opportunities to expand upon and leverage RoundPoint's operational capabilities to pursue additional business opportunities. However, it is possible that the full benefits of the acquisition of RoundPoint may not be realized as expected or may not be achieved within our anticipated time frame, or at all.~~ We are subject to risks associated with the use of third-party service providers. We have engaged numerous third parties to provide us with financial, technology and other services to support our servicing **and originations** operations, as well as for general corporate purposes. If a service provider's activities do not comply with the applicable legal, regulatory or contractual requirements, we could be exposed to liability ~~as the servicer~~, which could negatively impact our relationships with our ~~servicing~~ customers or regulators, among others. In addition, if our current service providers were to stop providing services to us on acceptable terms, including as a result of one or more bankruptcies due to poor economic conditions, we may be unable to procure alternative services from other service providers in a timely and efficient manner and on acceptable terms, or at all. If a service provider fails to comply with applicable legal or regulatory requirements on our behalf, or provide to us the services we are contractually owed, we may incur significant costs to resolve any such disruptions in service and this could adversely affect our business, financial condition and results of operations. In addition, in connection with our servicing **and origination** activities and ownership of MSR, we possess non-public personally identifiable information that is shared with third-party service providers as required or permitted by law. In the event the information technology networks and infrastructure of a third-party service provider is breached, we may be liable for losses suffered by individuals whose personal information is stolen as a result of such breach and any such liability could be material. Even if we are not liable for such losses, any breach of these third-party systems could expose us to material costs related to notifying affected individuals or other parties and providing credit monitoring services, as well as to regulatory fines or penalties. Our ability to own and manage MSR and service mortgage loans is subject to terms and conditions established by the GSEs, which are subject to change. Our subsidiaries' continued approval from the GSEs to own and manage MSR and service mortgage loans is subject to compliance with each of their respective selling and servicing guidelines, minimum capital requirements and other conditions they may impose from time to time at their discretion. Failure to meet such guidelines and conditions could result in the unilateral termination of our subsidiaries' approved status by one or more GSEs, ~~or result in~~ **the acceleration and termination of our MSR financing facilities or the assessment of fines and loss of reimbursement of loan-related advances, expenses, interest and servicing fees**. In addition, the implementation of more restrictive or operationally intensive guidance may increase the costs associated with owning and managing MSR, our ability to finance MSR and our ability to generate revenue from servicing mortgage loans. **If our ability to sell loans in the secondary market is impaired, it could affect our volume and margins and we may not be able to continue to originate mortgage loans. We originate residential mortgage loans and may sell them to the GSEs or other third-party investors in the secondary market. There can be no assurance that we will be able to continue to sell our loans into the secondary market at attractive prices, or at all. If we are unable to sell our mortgage loans to the GSEs or other third-party investors, or the prices for such loans decline, our liquidity may be negatively impacted, we may be unable to continue to fund such loans, our revenues and margins on new loan originations could be reduced and our ability to repay our warehouse facilities could be impaired.** We are directly subject to risks associated with mortgage servicing, including risks related to previous mortgage loan servicers. ~~We~~ **Through our operational platform, RoundPoint, we directly service a portion of the mortgage loans underlying our MSR assets as well as mortgage loans underlying MSR owned by third parties in accordance with** requirements set forth by regulatory agencies and GSEs. ~~Failure~~ **This exposes us to risks inherent** meet these applicable requirements can result in **mortgage** the assessment of fines and loss of reimbursement of loan related advances, expenses, interest and servicing fees. ~~When the more directly than~~ **engaging third-party mortgage loan servicers, including legal or regulatory investigations or actions, adverse**

operational and reputational impacts resulting from a failure to comply with GSE rules and guidelines, additional servicing costs or servicing advance obligations resulting from payment delinquencies and mortgage defaults, and cybersecurity failures or breaches. Any of the foregoing risks could have a portfolio material adverse effect on our business, financial condition, results of operations and liquidity. In addition, when the servicing of a mortgage loan is assumed either through the purchase of MSR servicing rights or through a subservicing arrangement, various such loans in the acquired portfolio may have been previously serviced in a manner that could interfere with our ability to meet certain applicable requirements. If not remediated by a prior servicer, such events may lead to the eventual realization of a loss to us. The recovery process against a prior servicer can be prolonged and amounts ultimately recovered from prior servicers may differ from our estimated recoveries recorded based on the prior servicer's interpretation of responsibility for loss, which could lead to our realization of additional losses. Our securitization servicing and origination activities expose us to risk of litigation, which may materially and adversely affect our business and financial condition. In We are obligated to comply with numerous federal and state laws and regulations in connection with our mortgage loan originations and servicing businesses securitization transactions, we prepare disclosure documentation, including term sheets the Fair Housing Act and offering memorandums Equal Credit Opportunity Act, which contain disclosures regarding the securitization transactions are intended to provide protection from intentional and the assets securitized unintentional discriminatory practices to applicants and borrowers. If our disclosure documentation is alleged these anti-discrimination initiatives continue to expand, we could experience increased administrative burdens and incur additional related compliance costs and expenses. If or our loan origination or mortgage servicing practices are found to contain inaccuracies or omissions, we may be discriminatory, we may be found liable under federal securities laws, experience reputational harm and state securities laws or other applicable laws for damages to third parties that invest in these securitization transactions, including in circumstances in which 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. We depend on the accuracy and completeness of information about mortgage loan borrowers and any misrepresented information could adversely affect our business, results of operations and financial condition. In deciding whether to approve loans through our originations platform, we may rely on information furnished to us by or on behalf of borrowers, including financial statements and other information. We also may rely on representations of borrowers as to the accuracy and completeness of financial and other information provided. If any of this information is intentionally or negligently misrepresented and such misrepresentation is not detected prior to loan funding, the fair value of the loan may be significantly lower than expected. Whether a misrepresentation is made by the loan applicant, another party or one of our employees, we generally bear the risk of loss associated with the misrepresentation and the loan may be unsalable or subject to repurchase. Our controls and processes may not have detected or may not detect all misrepresented information in our loan originations. Any such misrepresented information could have a material adverse effect on our business, results of operations and financial condition. We may be subject to representation and warranty risk in our capacity as an owner of MSR as well as in connection with our prior securitization transactions and our sales of MSR and other assets. The MSR we acquire may be subject to existing representations and warranties made to the applicable investor (including, without limitation, the GSEs) regarding, among other things, the origination and prior servicing of those mortgage loans, as well as future servicing practices following our acquisition of such MSR. If such representations and warranties are inaccurate, we may be obligated to repurchase certain mortgage loans or indemnify the applicable investor for any losses suffered as a result of the origination or prior servicing of the mortgage loans. As such, the applicable investor will may have direct recourse to us for such origination and / or prior servicing issues **depending upon the terms and conditions approved by such investor in connection with our purchase of the related MSR**. In connection with our prior securitization transactions and with the sales of our MSR and other assets from time to time, we may have been or may be required to make **certain disclosures**, representations and warranties to the purchasers of the assets regarding certain characteristics of those assets. If our **disclosures or** representations and warranties are **alleged or found to contain inaccurate inaccuracies or omissions**, we may be obligated to repurchase the assets or indemnify the applicable purchaser, **which or be liable under federal or state securities laws or other applicable laws for damages to third parties. This may result in a loss or cause us to incur additional costs and expenses in connection with disputing these allegations or settling claims**. Even if we obtain representations and warranties from the parties from whom we acquired the asset, as applicable, they may not correspond with the representations and warranties we make or may otherwise not protect us from losses. Additionally, the loan originator or other parties from whom we acquired the MSR may be insolvent or otherwise unable to honor their respective indemnification or repurchase obligations for breaches of representation and warranties. Legal matters related to the termination of our Management Agreement with PRCM Advisers may adversely affect our business, results of operations, and / or financial condition. On August 14, 2020, our Management Agreement with PRCM Advisers terminated and we thereafter became a self-managed company. In connection with the termination of our Management Agreement, PRCM Advisers filed a complaint in federal court that alleges, among other things, the misappropriation of trade secrets in violation of both the Defend Trade Secrets Act and New York common law, breach of contract, breach of the implied covenant of good faith and fair dealing, unfair competition and business practices, unjust enrichment, conversion, and tortious interference with contract. The complaint seeks, among other things, an order enjoining the ~~company~~ **Company** from making any use of or disclosing PRCM Advisers' trade secret, proprietary, or confidential information; damages in an amount to be determined at a hearing and / or trial; disgorgement of the ~~company~~ **Company**'s wrongfully obtained profits; and fees and costs incurred by PRCM Advisers in pursuing the action. Our board of directors believes the complaint is without merit and that the ~~company~~ **Company** has complied with the terms of the Management Agreement. However, the results of litigation are inherently uncertain. It is possible that a court could enjoin us from using certain intellectual property. In addition, any damages or costs and fees that may be awarded to PRCM Advisers related to the litigation may be significant. While we dispute and intend to

vigorously defend against the claims set forth in the complaint, it is possible that the results of the litigation with PRCM Advisers may adversely affect our business, results of operations and financial condition. Risks Related To Our Assets Declines in the market values of our assets may adversely affect our results of operations and financial condition. A substantial portion of our assets are classified for accounting purposes as “available-for-sale.” Changes in the market values of those assets will be directly charged or credited to stockholders’ equity. As a result, a decline in values may result in connection with factors that are out of our control and adversely affect our book value. Moreover, if the decline in value of an available-for-sale security is other than temporary, such decline will reduce our earnings. In addition, some of the assets in our portfolio are not publicly traded. The fair value of securities and other assets that are not publicly traded may not be readily determinable. We value these assets quarterly at fair value, as determined in accordance with ASC 820, Fair Value Measurements and Disclosures, which may include unobservable inputs. Because such 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 securities existed. We may be adversely affected if our determinations regarding the fair value of these assets are materially higher than the values that we ultimately realize upon their disposal. Changes in mortgage prepayment rates may adversely affect the value of our assets. The value of our assets is affected by prepayment rates on mortgage loans, and our investment strategy includes making investments based on our expectations regarding prepayment rates. A prepayment rate 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. With respect to our securities portfolio, typically the value of a mortgage-backed security includes market assumptions regarding the speed at which the underlying mortgages will be prepaid. Faster than expected prepayments could adversely affect our profitability, including in the following ways:

- We may purchase securities that have a higher interest rate than the market interest rate at the time. In exchange for this higher interest rate, we may pay a premium over the par value to acquire the security. In accordance with U. S. GAAP, we may amortize this premium over the estimated term of the security. If the security is prepaid in whole or in part prior to its maturity date, however, we may be required to expense the premium that was prepaid at the time of the prepayment.
- A substantial portion of our adjustable-rate Agency RMBS may bear interest rates that are lower than their fully indexed rates, which are equivalent to the applicable index rate plus a margin. If an adjustable-rate security is prepaid prior to or soon after the time of adjustment to a fully-indexed rate, we will have held that security while it was least profitable and lost the opportunity to receive interest at the fully indexed rate over the remainder of its expected life.
- If we are unable to acquire new Agency RMBS similar to the prepaid security, our financial condition, results of operations and cash flows could suffer. Changes in prepayment rates **may** also significantly affect the value of MSR ~~because such rights are priced on an assumption of a stable repayment rate~~. If the prepayment rate is significantly greater than expected, the fair value of the MSR could decline and we may be required to record a non-cash charge, which would have a negative impact on our financial results. Furthermore, a significant increase in the prepayment rate could materially reduce the ultimate cash flows we receive from MSR, and we could ultimately receive substantially less than what we paid for such assets. Prepayment rates may be affected by a number of factors including mortgage rates, the availability of mortgage credit, the relative economic vitality of the area in which the related properties are located, the remaining life of the loans, the size of the remaining loans, the servicing of mortgage loans, changes in tax laws, other opportunities for investment, homeowner mobility and other economic, social, geographic, demographic and legal factors. Consequently, prepayment rates cannot be predicted with certainty. If we make erroneous assumptions regarding prepayment rates in connection with our investment decisions, we may experience significant losses. Our delayed delivery transactions, including TBAs, subject us to certain risks, including price risks and counterparty risks. We may purchase Agency RMBS through delayed delivery transactions, including TBAs. In a delayed delivery transaction, we enter into a forward purchase agreement with a counterparty to purchase either (i) an identified Agency RMBS, or (ii) a to-be-issued (or “to-be-announced”) Agency RMBS with certain terms. As with any forward purchase contract, the value of the underlying Agency RMBS may decrease between the contract date and the settlement date. Furthermore, a transaction counterparty may fail to deliver the underlying Agency RMBS at the settlement date. It may be uneconomical to roll our TBA dollar roll transactions or we may be unable to meet margin calls on our TBA contracts, which could negatively affect our financial condition and results of operations. We utilize TBA dollar roll transactions as a means of investing in and financing Agency RMBS. TBA contracts enable us to purchase or sell, for future delivery, Agency RMBS with certain principal and interest terms and certain types of collateral, but the specific securities to be delivered are not identified until shortly before the TBA settlement date. Prior to settlement of the TBA contract we may choose to move the settlement of the securities to a later date by entering into an offsetting position (referred to as a “pair off”), net settling the paired off positions for cash, and simultaneously purchasing a similar TBA contract for a later settlement date, collectively referred to as a “dollar roll.” The Agency RMBS purchased for a forward settlement date under the TBA contracts are typically priced at a discount to Agency RMBS for settlement in the current month. This difference (or discount) is referred to as the “price drop.” The price drop is the economic equivalent of net interest carry income on the underlying Agency RMBS over the roll period (interest income less implied financing cost) and is commonly referred to as a “dollar roll income.”

Consequently, dollar roll transactions and such forward purchase of Agency RMBS represent a form of financing and increase our “at-risk” leverage. Under certain market conditions, TBA dollar roll transactions may result in negative carry income whereby the Agency RMBS purchased for a forward settlement date under TBA contract are priced at a premium to Agency RMBS for settlement in the current month. Under such conditions, it may be uneconomical to roll our TBA positions prior to the settlement date, and we may have to take physical delivery of the underlying securities and settle our obligations for cash. We may not have sufficient funds or alternative financing sources available to settle such obligations. In addition, pursuant to the margin provisions established by the Mortgage-Backed Securities Division, or MBSD, of the Fixed Income Clearing Corporation, or FICC, we are subject to margin calls on our TBA contracts. Further, our prime brokerage agreements may require us to post additional margin above the levels established by the MBSD. Any failure to procure adequate financing to

settle our obligations or meet margin calls under our TBA contracts could result in defaults or force us to sell assets under adverse market conditions or through foreclosure and adversely affect our results of operations and financial condition. Increases in interest rates could adversely affect the value of our assets and cause our interest expense to increase. Our operating results depend in large part on the difference between the income from our assets and financing costs. We anticipate that, in many cases, the income from our 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 financial results. 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. We cannot predict the impact that any future actions or non-actions by the Federal Reserve with respect to the federal funds rate or otherwise may have on the markets or the economy. 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. We endeavor to hedge our exposure to changes in interest rates, but there can be no assurances that our hedges will be successful, or that we will be able to enter into or maintain such hedges. An increase in interest rates may cause a decrease in the availability of certain of our target assets, which could adversely affect our ability to acquire target assets that satisfy our investment objectives and to generate income and pay dividends. 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 certain target assets available to us, which could adversely affect our ability to acquire assets that satisfy our investment and business objectives. Rising interest rates may also cause certain 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 pay dividends may be materially and adversely affected. The value of our Agency RMBS and MSR may be adversely affected by deficiencies in servicing and foreclosure practices, as well as related delays in the foreclosure process. Deficiencies in servicing and foreclosure practices among servicers of residential mortgage loans have raised and may in the future raise concerns relating to such practices. The integrity of servicing and foreclosure processes is critical to the value of our Agency RMBS and MSR, and our financial results could be adversely affected by deficiencies in the conduct of those processes. For example, delays in the foreclosure process that may result from improper servicing practices may adversely affect the values of, and our losses on, our mortgage-related assets. Foreclosure delays may also result in the curtailment of payments to the GSEs, thereby resulting in additional expense and reducing the amount of funds available for distribution to investors. We continue to monitor and review the issues raised by improper servicing practices. While we cannot predict exactly how servicing, loss mitigation and foreclosure matters or any resulting litigation, regulatory actions or settlement agreements will affect our business, there can be no assurance that these matters will not have an adverse impact on our results of operations and financial condition. We are required to make servicing advances that can be subject to delays in recovery or may not be recoverable. During any period in which a borrower is not making payments on a loan underlying our MSR, we may be required under our servicing agreements with the GSEs to advance our own funds to meet some combination of contractual principal and interest remittance requirements, property taxes and insurance premiums, legal expenses and other protective advances. We may also be required under these agreements to advance funds to maintain, repair and market real estate properties. In certain situations, our contractual obligations may require us to make certain advances for which we may not be reimbursed. In addition, in the event a loan underlying our MSR defaults or becomes delinquent, or the mortgagor is allowed to enter into a forbearance, the repayment of advances may be delayed, which may adversely affect our liquidity. Any significant increase in required servicing advances, material delays in our receipt of advance reimbursements or the ineligibility of advances for reimbursement could have an adverse impact on our financial condition and cash flows. Risks Related to Our Organization and Structure Certain provisions of Maryland law could inhibit changes in control. Certain provisions of the Maryland General Corporation Law, or 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 such shares. We are subject to the “business combination” provisions of the MGCL that, subject to limitations, prohibit certain business combinations between our **company-Company** and an “interested stockholder” (as defined under the MGCL) or an affiliate thereof for five years after the most recent date on which the stockholder becomes an interested stockholder. In addition, the “unsolicited takeover” provisions of the MGCL (Title 3, Subtitle 8 of the MGCL) permit our 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 we do not currently have. These provisions may have the effect of inhibiting a third party from making an acquisition proposal for our **company-Company** or of delaying, deferring or preventing a change in control of our **company-Company**. Our authorized but unissued shares of common and preferred stock and the ownership limitations contained in our charter may prevent a change in control. Our charter authorizes Two Harbors to issue additional authorized but unissued shares of common or preferred stock. In addition, our board of directors may, without stockholder approval, amend our charter to increase or decrease the aggregate number of shares of our stock or the number of shares of stock of any class or series that Two Harbors has the authority to issue and classify or reclassify any unissued shares of common or preferred stock and set the terms of the classified or reclassified shares. As a result, our board may establish a series of shares of common or preferred stock that could delay or prevent a transaction or a change in control that might be in the best interests of stockholders. In addition, our charter contains restrictions limiting the ownership and transfer of shares of our common stock and other outstanding shares of capital stock. The relevant sections of our charter provide that, subject to certain exceptions, ownership of shares of our common stock by any person is limited to 9.8% by value or by number of shares, whichever is more restrictive, of our outstanding shares of common stock (the common share ownership limit), and no more than 9.8% by value or number of shares, whichever is more restrictive, of our outstanding capital stock

(the aggregate share ownership limit). The common share ownership limit and the aggregate share ownership limit are collectively referred to herein as the “ownership limits.” These charter provisions will restrict the ability of persons to purchase shares in excess of the relevant ownership limits. Our charter contains provisions that make removal of our directors difficult, which could make it difficult for stockholders to effect changes in management. Our charter provides that, subject to the rights of any series of preferred stock, a director may be removed only by the affirmative vote of at least two-thirds of all the votes entitled to be cast generally in the election of directors. Our charter and bylaws provide that vacancies generally may be filled only by a majority of the remaining directors in office, even if less than a quorum. These requirements make it more difficult to change management by removing and replacing directors and may prevent a change in control that is in the best interests of stockholders. Our rights and stockholders’ rights to take action against directors and officers are limited, which could limit recourse in the event of actions not in the best interests of stockholders. As permitted by Maryland law, our charter eliminates the liability of its directors and officers to Two Harbors and its stockholders for money damages, except for liability resulting from: actual receipt of an improper benefit or profit in money, property or services; or a final judgment based upon a finding of active and deliberate dishonesty by the director or officer that was material to the cause of action adjudicated. In addition, pursuant to our charter we have agreed contractually to indemnify our present and former directors and officers for actions taken by them in those capacities to the maximum extent permitted by Maryland law. Further, our bylaws require us to indemnify each present or former director or officer, to the maximum extent permitted by Maryland law, who is made, or threatened to be made, a party to any proceeding because of his or her service to Two Harbors. As part of these indemnification obligations, we may be obligated to fund the defense costs incurred by our directors and officers. Our amended and restated bylaws designate certain Maryland courts as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders. Our amended and restated bylaws provide that, 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, shall be the sole and exclusive forum for the following: any derivative action or proceeding brought on behalf of the ~~company~~ **Company**; any action asserting a claim of breach of any duty owed by any of our directors, officers or other employees to the ~~company~~ **Company** or to our stockholders; any action asserting a claim against the ~~company~~ **Company** or any of our directors, officers or other employees arising pursuant to any provision of the MGCL or our charter or bylaws; or any action asserting a claim against the ~~company~~ **Company** or any of our directors, officers or other employees that is governed by the internal affairs doctrine. This choice of forum provision may limit a stockholder’s ability to bring a claim in a judicial forum that the stockholder believes is favorable for disputes with us or our directors, officers or other employees, which may discourage lawsuits against us and our directors, officers and employees.

Risks Related to Our Securities Future issuances and sales of shares of our common stock may depress the market price of our common stock or have adverse consequences for our stockholders. We may issue additional shares of our common stock in public offerings, private placements as well as through equity awards to our directors, officers and employees pursuant to our ~~Second Restated 2009 Equity Incentive Plan or our~~ **2021 Equity Incentive Plan**. Additionally, shares of our common stock have also been reserved for issuance in connection with the conversion of our 6.25% convertible senior notes due ~~January~~ **January** 2026 and our Series A, Series B and Series C preferred stock. We cannot predict the effect, if any, of future issuances or sales of our common stock on the market price of our common stock. We also cannot predict the amounts and timing of equity awards to be issued pursuant to our equity incentive plans, nor can we predict the amount and timing of any conversions of our convertible senior notes due January 2026 or our Series A, Series B and Series C preferred stock into shares of our common stock. Any stock offerings, awards or conversions resulting in the issuance of substantial amounts of common stock, or the perception that such awards or conversions could occur, may adversely affect the market price for our common stock. Any future offerings of our securities could dilute our existing stockholders and may rank senior for purposes of dividend and liquidating distributions. We may from time to time issue securities which may rank senior and / or be dilutive to our stockholders. For example, our senior unsecured notes due January 2026 are convertible into shares of our common stock at the election of the noteholder, and our Series A, Series B and Series C preferred shares may be converted into shares of our common stock following the occurrence of certain events, as set forth in the articles supplementary for each series. Any election by noteholders or preferred stockholders to convert their notes or preferred shares into shares of our common stock will dilute the interests of other common stockholders. In the future, we may again elect to raise capital through the issuance of convertible or non-convertible debt or common or preferred equity securities. Upon liquidation, holders of our debt securities and preferred stock, if any, and lenders with respect to other borrowings will be entitled to our available assets prior to the holders of our common stock. Convertible debt and convertible preferred stock may have anti-dilution provisions which are unfavorable to our common stockholders. Because our decision to issue debt or equity securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our common stock and diluting the value of their holdings. We have not established a minimum distribution payment level and we cannot assure you of our ability to pay distributions in the future. We intend to continue to pay quarterly distributions and to make distributions to our stockholders in an amount such that we distribute all or substantially all of our REIT taxable income in each year. We have not established a minimum distribution payment level and our ability to pay distributions may be adversely affected by a number of factors, including the risk factors described herein. All distributions will be made, subject to Maryland law, at the discretion of our board of directors and will depend on our earnings, our financial condition, any debt covenants, maintenance of our REIT qualification and other factors as our board of directors may deem relevant. We cannot assure you that we will achieve results that will allow us to make a specified level of cash distributions and distributions in future periods may be significantly lower than in prior ~~quarterly~~ **quarterly** periods. The market price of our common stock could fluctuate and could cause you to lose a significant part of your investment. The market price of our common stock may be highly volatile. In addition, the trading volume in our common stock may fluctuate and cause significant

price variations to occur. If the market price of our common stock declines significantly, you may be unable to resell your shares of our common stock at a gain. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly in the future. The market price of our common stock may be influenced by many factors, including without limitation: changes in financial estimates by analysts; fluctuations in our results of operations or financial condition or the results of operations or financial condition of companies perceived to be similar to us; general economic and financial and real estate market conditions; changes in market valuations of similar companies; monetary policy and regulatory developments in the U. S.; and additions or departures of key personnel.

Tax Risks Our failure to qualify as a REIT would subject us to U. S. federal income tax and potentially increased state and local taxes, which would reduce the amount of our income available for distribution to our stockholders. We operate in a manner that will enable us to qualify as a REIT and have elected to be taxed as a REIT for U. S. federal income tax purposes commencing with our taxable year ended December 31, 2009. We have not requested and do not intend to request a ruling from the Internal Revenue Service, or IRS, that we qualify as a REIT. The U. S. federal income tax laws governing REITs and the assets they hold are complex, and judicial and administrative interpretations of the U. S. federal income tax laws governing REIT qualification are limited. To continue to qualify as a REIT, we must meet, on an ongoing basis, various tests regarding the nature of our assets and income, the ownership of our outstanding shares, and the amount of our distributions. Moreover, new legislation, court decisions, administrative guidance or actions by federal agencies or others to modify or re-characterize our assets may make it more difficult or impossible for us to qualify as a REIT. Thus, while we intend to operate so that we qualify as a REIT, no assurance can be given that we will so qualify for any particular year. If 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. 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 stockholders. Complying with REIT requirements may cause us to forego otherwise attractive investment opportunities or financing or hedging strategies. In order to qualify as a REIT for U. S. federal income tax purposes, we must continually satisfy various tests on an annual and quarterly basis regarding the sources of our income, the nature and diversification of our assets, the amounts we distribute to stockholders and the ownership of our stock. To meet these tests, we may be required to forego investments we might otherwise make. We also may be required to make distributions to stockholders at disadvantageous times. Thus, compliance with the REIT requirements may hinder our investment performance. Complying with REIT requirements may force us to liquidate otherwise profitable assets. In order to continue to qualify as a REIT, we must ensure that at the end of each calendar quarter, at least 75 % of the value of our assets consists of cash, cash items, government securities and designated real estate assets, including certain mortgage loans and shares in other REITs. Subject to certain exceptions, our ownership of securities, other than government securities and securities that constitute 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 total assets, other than government securities and securities that constitute 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 securities of one or more TRSs, and no more than 25 % of the value of our total assets can consist of debt of “publicly offered” REITs that is not secured by real property or interests in real property. If we fail to comply with these requirements at the end of any calendar quarter, we must generally correct such failure within 30 days after the end of such calendar quarter to avoid losing our REIT qualification. As a result, we may be required to liquidate otherwise profitable assets prematurely, which could reduce our return on assets, which could adversely affect our results of operations and financial condition. Potential characterization of distributions or gain on sale may be treated as unrelated business taxable income to tax exempt investors. If (i) all or a portion of our assets are subject to the rules relating to taxable mortgage pools, (ii) we are a “pension held REIT,” (iii) a tax exempt stockholder has incurred debt to purchase or hold our common stock, or (iv) we purchase residual REMIC interests that generate “excess inclusion income,” then a portion of the distributions to and, in the case of a stockholder described in clause (iii), gains realized on the sale of common stock by such tax exempt stockholder may be subject to U. S. federal income tax as unrelated business taxable income under the **Internal Revenue** Code. Complying with REIT requirements may limit our ability to hedge effectively. The REIT provisions of the **Internal Revenue** Code may limit our ability to hedge our assets and liabilities. Any income from a hedging transaction will not constitute gross income for purposes of the 75 % or 95 % gross income test if we properly identify the transaction as specified in applicable Treasury Regulations and we enter into such transaction (i) in the normal course of our business primarily to manage risk of interest rate or price changes or currency fluctuations with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, to acquire or carry real estate assets or (ii) primarily to manage 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. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of both of these gross income tests. As a result of these rules, we intend to limit our use of advantageous hedging techniques or implement those hedges through a TRS. This could increase the cost of our hedging activities. The failure of our Agency RMBS that are subject to a repurchase agreement to qualify as real estate assets would adversely affect our ability to qualify as a REIT. We may enter into repurchase agreements under which we will nominally sell certain of our Agency RMBS to a counterparty and simultaneously enter into an agreement to repurchase the sold assets. We believe that we will be treated for U. S. federal income tax purposes as the owner of the securities that are the subject of any such agreement notwithstanding that such agreement may transfer record ownership of the assets to the counterparty during the term of the agreement. It is possible, however, that the IRS could assert that we did not own the securities during the term of the repurchase agreement, in which case we could fail to qualify as a REIT. 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. In order to continue to qualify as a REIT, we must distribute to

stockholders, each calendar year, 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 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 law. We intend to distribute our net income to stockholders in a manner intended to satisfy the 90 % distribution requirement and to avoid both corporate income tax and the 4 % nondeductible excise tax. Our taxable income may substantially exceed our net income as determined by U. S. GAAP or differences in timing between the recognition of taxable income and the actual receipt of cash may occur in which case we may have taxable income in excess of cash flow from our operating activities. In such event, 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. Our qualification as a REIT may depend on the accuracy of legal opinions or advice rendered or given or statements by the issuers of assets we acquire, including with respect to the treatment of our TBA securities and transactions for tax purposes. 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, among other things, whether such securities represent debt or equity securities for U. S. federal income tax purposes, the value of such securities, and also to what extent those securities constitute qualified real estate assets for purposes of the REIT asset tests and produce qualified income for purposes of the 75 % gross income test. In addition, we may from time to time obtain and rely upon opinions of counsel regarding the qualification of certain assets and income as real estate assets. The inaccuracy of any such opinions, advice or statements may adversely affect our ability to qualify as a REIT and result in significant corporate-level tax. We may utilize TBAs as a means of investing and financing Agency RMBS. There is no direct authority with respect to the qualification of TBAs as real estate assets or U. S. government securities for purposes of the 75 % asset test or the qualification of income or gains from dispositions of TBAs as gains from the sale of real property (including interests in real property and interests in mortgages on real property) or other qualifying income for purposes of the 75 % gross income test. We intend to treat our TBAs as qualifying assets for purposes of the 75 % asset test, to the extent set forth in an opinion from Sidley Austin LLP substantially to the effect that, for purposes of the 75 % asset test, our ownership of TBAs should be treated as ownership of the underlying Agency RMBS, and to treat income and gains from our TBAs as qualifying income for purposes of the 75 % gross income test, to the extent set forth in an opinion from Sidley Austin LLP substantially to the effect that, for purposes of the 75 % gross income test, any gain recognized by us in connection with the settlement of our TBAs should be treated as gain from the sale or disposition of the underlying Agency RMBS. Such opinions of counsel are not binding on the IRS, and there can be no assurance that the IRS will not successfully challenge the conclusions set forth therein. Our ownership of, and relationship with, our TRSs will be restricted and a failure to comply with the restrictions would jeopardize our REIT status and may result in the application of a 100 % excise tax. A REIT may own up to 100 % of the stock of one or more TRSs. A TRS may earn income that would not be qualifying REIT income if earned directly by the parent REIT. Both the TRS and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35 % of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 20 % of the value of a REIT's total assets may consist of stock or securities of one or more TRSs. The value of our interests in and thus the amount of assets held in a TRS may also be restricted by our need to qualify for an exclusion from regulation as an investment company under the Investment Company Act. Any domestic TRS we own will pay U. S. federal, state and local income tax at regular corporate rates. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100 % excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis. Although we monitor our investments in and transactions with TRSs, there can be no assurance that we will be able to comply with the limitation on the value of our TRSs discussed above or to avoid application of the 100 % excise tax discussed above. Dividends payable by REITs generally do not qualify for the reduced tax rates on dividend income from regular corporations, which could adversely affect the value of our shares. The maximum U. S. federal income tax rate for dividends payable to domestic stockholders that are individuals, trusts and estates is 20 %. Dividends payable by REITs, however, are generally not eligible for these reduced rates. Although the reduced U. S. federal income tax rate applicable to dividend income from regular corporate dividends does not adversely affect the taxation of REITs or dividends paid by REITs, the more favorable rates applicable to regular corporate dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our shares of common stock.