UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

☑ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED: June 30, 2022

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _______________ TO _________________

COMMISSION FILE NUMBER: 1-33796

CHIMERA INVESTMENT CORPORATION

(Exact name of Registrant as specified in its Charter)

Maryland	26-0630461
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

630 Fifth Ave, Ste 2400

New York, New York

(Address of principal executive offices)

10111

(Zip Code)

(888) 895-6557

(Registrant’s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	**CIM**	**New York Stock Exchange**
8.00% Series A Cumulative Redeemable Preferred Stock	**CIM PRA**	**New York Stock Exchange**
8.00% Series B Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock	**CIM PRB**	**New York Stock Exchange**
7.75% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock	**CIM PRC**	**New York Stock Exchange**
8.00% Series D Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock	**CIM PRD**	**New York Stock Exchange**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes ☑ No ☐

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☑ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☑

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the last practicable date:

Class	Outstanding at July 31, 2022
Common Stock, $0.01 par value	231,751,256

CHIMERA INVESTMENT CORPORATION

FORM 10-Q

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Part I - Financial Information

Item 1. Consolidated Financial Statements

CHIMERA INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(dollars in thousands, except share and per share data)
(Unaudited)

	June 30, 2022	December 31, 2021
Cash and cash equivalents	$ 158,455	$ 385,741
Non-Agency RMBS, at fair value (net of allowance for credit losses of $5 million and $213 thousand, respectively)	1,321,775	1,810,208
Agency RMBS, at fair value	73,454	60,487
Agency CMBS, at fair value	455,637	761,208
Loans held for investment, at fair value	11,894,421	12,261,926
Accrued interest receivable	70,201	69,513
Other assets	58,811	58,320
Total assets [(1)]	$ 14,032,754	$ 15,407,403
Liabilities:		
Secured financing agreements ($4.0 billion and $4.4 billion pledged as collateral, respectively)	$ 3,148,832	$ 3,261,613
Securitized debt, collateralized by Non-Agency RMBS ($309 million and $365 million pledged as collateral, respectively)	81,732	87,999
Securitized debt at fair value, collateralized by Loans held for investment ($ 11.1 billion and $11.0 billion pledged as collateral, respectively)	7,682,291	7,726,043
Payable for investments purchased	11,555	477,415
Accrued interest payable	22,733	20,416
Dividends payable	85,675	86,152
Accounts payable and other liabilities	26,937	11,574
Total liabilities [(1)]	$ 11,059,755	$ 11,671,212
Commitments and Contingencies (See Note 16)		
Stockholders' Equity:		
Preferred Stock, par value of $0.01 per share, 100,000,000 shares authorized:		
8.00% Series A cumulative redeemable: 5,800,000 shares issued and outstanding, respectively ($145,000 liquidation preference)	$ 58	$ 58
8.00% Series B cumulative redeemable: 13,000,000 shares issued and outstanding, respectively ($325,000 liquidation preference)	130	130
7.75% Series C cumulative redeemable: 10,400,000 shares issued and outstanding, respectively ($260,000 liquidation preference)	104	104
8.00% Series D cumulative redeemable: 8,000,000 shares issued and outstanding, respectively ($200,000 liquidation preference)	80	80
Common stock: par value $0.01 per share; 500,000,000 shares authorized, 231,748,414 and 236,951,266 shares issued and outstanding, respectively	2,317	2,370
Additional paid-in-capital	4,312,604	4,359,045
Accumulated other comprehensive income	305,730	405,054
Cumulative earnings	4,127,887	4,552,008
Cumulative distributions to stockholders	(5,775,911)	(5,582,658)
Total stockholders' equity	$ 2,972,999	$ 3,736,191
Total liabilities and stockholders' equity	$ 14,032,754	$ 15,407,403

(1) The Company's consolidated statements of financial condition include assets of consolidated variable interest entities, orIEs, that can only be used to settle obligations and liabilities of the VIE for which creditors do not have recourse to the primary beneficiary (Chimera Investment Corporation). As of June 30, 2022, and December 31, 2021, total assets of consolidated VIEs were $10,783,461 and $10,666,591, respectively, and total liabilities of consolidated VIEs were $7,293,599 and $7,223,655, respectively. See Note 9 for further discussion.

See accompanying notes to consolidated financial statements.

CHIMERA INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands, except share and per share data)
(Unaudited)

	For the Quarters Ended		For the Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Net interest income:				
Interest income (1)	$ 195,357	$ 252,677	$ 397,532	$ 495,805
Interest expense (2)	78,467	80,610	142,939	188,677
Net interest income	116,890	172,067	254,593	307,128
Increase/(decrease) in provision for credit losses	4,497	453	4,737	327
Other investment gains (losses):				
Net unrealized gains (losses) on derivatives	(1,618)	—	(1,618)	—
Net unrealized gains (losses) on financial instruments at fair value	(239,246)	36,108	(609,412)	306,120
Net realized gains (losses) on sales of investments	—	7,517	—	45,313
Gains (losses) on extinguishment of debt	(2,897)	(21,777)	(2,897)	(258,914)
Other investment gains	980	—	980	—
Total other gains (losses)	(242,781)	21,848	(612,947)	92,519
Other expenses:				
Compensation and benefits	8,859	9,230	20,211	22,669
General and administrative expenses	5,944	6,173	11,657	11,371
Servicing and asset manager fees	9,315	9,081	18,607	18,362
Transaction expenses	6,727	5,745	10,531	22,182
Total other expenses	30,845	30,229	61,006	74,584
Income (loss) before income taxes	(161,233)	163,233	(424,097)	324,736
Income tax expense (benefit)	94	(88)	24	3,824
Net income (loss)	$ (161,327)	$ 163,321	$ (424,121)	$ 320,912
Dividends on preferred stock	18,438	18,438	36,845	36,875
Net income (loss) available to common shareholders	$ (179,765)	$ 144,883	$ (460,966)	$ 284,037
Net income (loss) per share available to common shareholders:				
Basic	$ (0.76)	$ 0.63	$ (1.95)	$ 1.23
Diluted	$ (0.76)	$ 0.60	$ (1.95)	$ 1.14
Weighted average number of common shares outstanding:				
Basic	235,310,440	231,638,042	236,156,868	231,105,595
Diluted	235,310,440	241,739,536	236,156,868	251,723,940

(1) Includes interest income of consolidated VIEs of $ 140,209 and $149,115 for the quarters ended June 30, 2022 and 2021, respectively, and $ 271,275 and $307,214 for the six months ended June 30, 2022 and 2021, respectively. See Note 9 to consolidated financial statements for further discussion.

(2) Includes interest expense of consolidated VIEs of $ 50,193 and $50,935 for the quarters ended June 30, 2022 and 2021, respectively, and $ 92,684 and $116,141 for the six months ended June 30, 2022 and 2021, respectively. See Note 9 to consolidated financial statements for further discussion.

See accompanying notes to consolidated financial statements.

CHIMERA INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(dollars in thousands, except share and per share data)
(Unaudited)

	For the Quarters Ended		For the Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Comprehensive income (loss):				
Net income (loss)	$ (161,327)	$ 163,321	$ (424,121)	$ 320,912
Other comprehensive income:				
Unrealized gains (losses) on available-for-sale securities, net	(58,369)	(26,215)	(99,324)	$ (64,867)
Reclassification adjustment for net realized losses (gains) included in net income	—	(11,323)	—	$ (37,116)
Other comprehensive income (loss)	(58,369)	(37,538)	(99,324)	$ (101,983)
Comprehensive income (loss) before preferred stock dividends	**$ (219,696)**	**$ 125,783**	**$ (523,445)**	**$ 218,929**
Dividends on preferred stock	$ 18,438	$ 18,438	$ 36,845	$ 36,875
Comprehensive income (loss) available to common stock shareholders	**$ (238,134)**	**$ 107,345**	**$ (560,290)**	**$ 182,054**

See accompanying notes to consolidated financial statements.

CHIMERA INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(dollars in thousands, except per share data)
(Unaudited)

For the Quarter Ended June 30, 2022

	Series A Preferred Stock Par Value	Series B Preferred Stock Par Value	Series C Preferred Stock Par Value	Series D Preferred Stock Par Value	Common Stock Par Value	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Cumulative Earnings	Cumulative Distributions to Stockholders	Total
Balance, March 31, 2022	$ 58	$ 130	$ 104	$ 80	$ 2,370	$ 4,360,340	$ 364,099	$ 4,289,214	$ (5,679,667)	$ 3,336,728
Net income (loss)	—	—	—	—	—	—	—	(161,327)	—	(161,327)
Other comprehensive income (loss)	—	—	—	—	—	—	(58,369)	—	—	(58,369)
Repurchase of common stock	—	—	—	—	(54)	(48,832)	—	—	—	(48,886)
Stock based compensation	—	—	—	—	1	1,096	—	—	—	1,097
Common dividends declared	—	—	—	—	—	—	—	—	(77,806)	(77,806)
Preferred dividends declared	—	—	—	—	—	—	—	—	(18,438)	(18,438)
Balance, June 30, 2022	$ 58	$ 130	$ 104	$ 80	$ 2,317	$ 4,312,604	$ 305,730	$ 4,127,887	$ (5,775,911)	$ 2,972,999

For the Quarter Ended June 30, 2021

	Series A Preferred Stock Par Value	Series B Preferred Stock Par Value	Series C Preferred Stock Par Value	Series D Preferred Stock Par Value	Common Stock Par Value	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Cumulative Earnings	Cumulative Distributions to Stockholders	Total
Balance, March 31, 2021	$ 58	$ 130	$ 104	$ 80	$ 2,306	$ 4,320,419	$ 493,651	$ 4,039,485	$ (5,289,735)	$ 3,566,498
Net income (loss)	—	—	—	—	—	—	—	163,321	—	163,321
Other comprehensive income (loss)	—	—	—	—	—	—	(37,538)	—	—	(37,538)
Settlement of convertible debt	—	—	—	—	49	31,764	—	—	—	31,813
Settlement of warrants	—	—	—	—	—	(1,105)	—	—	—	(1,105)
Stock based compensation	—	—	—	—	1	1,908	—	—	—	1,909
Common dividends declared	—	—	—	—	—	—	—	—	(79,029)	(79,029)
Preferred dividends declared	—	—	—	—	—	—	—	—	(18,438)	(18,438)
Balance, June 30, 2021	$ 58	$ 130	$ 104	$ 80	$ 2,356	$ 4,352,986	$ 456,113	$ 4,202,806	$ (5,387,202)	$ 3,627,431

For the Six Months Ended June 30, 2022

	Series A Preferred Stock Par Value	Series B Preferred Stock Par Value	Series C Preferred Stock Par Value	Series D Preferred Stock Par Value	Common Stock Par Value	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Cumulative Earnings	Cumulative Distributions to Stockholders	Total
Balance, December 31, 2021	$ 58	$ 130	$ 104	$ 80	$ 2,370	$ 4,359,045	$ 405,054	$ 4,552,008	$ (5,582,658)	$ 3,736,191
Net income (loss)	—	—	—	—	—	—	—	(424,121)	—	(424,121)
Other comprehensive income (loss)	—	—	—	—	—	—	(99,324)	—	—	(99,324)
Repurchase of common stock	—	—	—	—	(54)	(48,832)	—	—	—	(48,886)
Stock based compensation	—	—	—		1	2,391	—	—	—	2,392
Common dividends declared	—	—	—	—	—	—	—	—	(156,408)	(156,408)
Preferred dividends declared	—	—	—	—	—	—	—	—	(36,845)	(36,845)
Balance, June 30, 2022	$ 58	$ 130	$ 104	$ 80	$ 2,317	$ 4,312,604	$ 305,730	$ 4,127,887	$ (5,775,911)	$ 2,972,999

For the Six Months Ended June 30, 2021

	Series A Preferred Stock Par Value	Series B Preferred Stock Par Value	Series C Preferred Stock Par Value	Series D Preferred Stock Par Value	Common Stock Par Value	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Cumulative Earnings	Cumulative Distributions to Stockholders	Total
Balance, December 31, 2020	$ 58	$ 130	$ 104	$ 80	$ 2,306	$ 4,538,029	$ 558,096	$ 3,881,894	$ (5,201,311)	$ 3,779,386
Net income (loss)	—	—	—	—	—	—	—	320,912	—	320,912
Other comprehensive income (loss)	—	—	—	—	—	—	(101,983)	—	—	(101,983)
Repurchase of Common Stock	—	—	—	—	(2)	(1,826)	—	—	—	(1,828)
Settlement of warrants	—	—	—	—	—	(220,945)	—	—	—	(220,945)
Settlement of convertible debt	—	—	—	—	49	31,764	—	—	—	31,813
Stock based compensation	—	—	—	—	3	5,964	—	—	—	5,967
Common dividends declared	—	—	—	—	—	—	—	—	(149,016)	(149,016)
Preferred dividends declared	—	—	—	—	—	—	—	—	(36,875)	(36,875)
Balance, June 30, 2021	$ 58	$ 130	$ 104	$ 80	$ 2,356	$ 4,352,986	$ 456,113	$ 4,202,806	$ (5,387,202)	$ 3,627,431

See accompanying notes to consolidated financial statements.

CHIMERA INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)
(Unaudited)

	For the Six Months Ended	
	June 30, 2022	June 30, 2021
Cash Flows From Operating Activities:		
Net income (loss)	$ (424,121)	$ 320,912
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
(Accretion) amortization of investment discounts/premiums, net	53,789	38,546
Accretion (amortization) of deferred financing costs, debt issuance costs, and securitized debt discounts/premiums, net	(2,257)	11,179
Net unrealized losses (gains) on derivatives	1,618	—
Proceeds (payments) for derivative settlements	(6,200)	—
Margin (paid) received on derivatives	5,990	—
Net unrealized losses (gains) on financial instruments at fair value	609,412	(306,120)
Net realized losses (gains) on sales of investments	—	(45,313)
Other investment (gains) losses	(980)	—
Net increase (decrease) in provision for credit losses	4,737	327
(Gain) loss on extinguishment of debt	2,897	258,914
Equity-based compensation expense	2,392	5,967
Changes in operating assets:		
Decrease (increase) in accrued interest receivable, net	(687)	5,843
Decrease (increase) in other assets	(403)	(25,599)
Changes in operating liabilities:		
Increase (decrease) in accounts payable and other liabilities	10,579	12,656
Increase (decrease) in accrued interest payable, net	1,890	(17,823)
Net cash provided by (used in) operating activities	$ 258,656	$ 259,489
Cash Flows From Investing Activities:		
Agency MBS portfolio:		
Purchases	$ (55,962)	$ (169,287)
Sales	—	201,653
Principal payments	252,490	368,791
Non-Agency RMBS portfolio:		
Purchases	(23,000)	(9,766)
Sales	—	47,674
Principal payments	126,199	170,247
Loans held for investment:		
Purchases	(1,378,671)	(1,431,377)
Sales	—	1,227,864
Principal payments	1,248,170	1,260,128
Net cash provided by (used in) investing activities	$ 169,226	$ 1,665,927
Cash Flows From Financing Activities:		
Proceeds from secured financing agreements	$ 19,843,712	$ 24,499,818
Payments on secured financing agreements	(19,959,390)	(25,585,419)
Payments on repurchase of common stock	(44,103)	(1,828)
Proceeds from securitized debt borrowings, collateralized by Loans held for investment	755,203	4,677,423
Payments on securitized debt borrowings, collateralized by Loans held for investment	(1,054,187)	(5,028,491)
Payments on securitized debt borrowings, collateralized by Non-Agency RMBS	(2,673)	(12,060)
Settlement of warrants	—	(220,945)
Common dividends paid	(156,885)	(139,178)

Preferred dividends paid		(36,845)		(36,875)
Net cash provided by (used in) financing activities	$	(655,168)	$	(1,847,555)
Net increase (decrease) in cash and cash equivalents		(227,286)		77,861
Cash and cash equivalents at beginning of period		385,741		269,090
Cash and cash equivalents at end of period	$	158,455	$	346,951
Supplemental disclosure of cash flow information:				
Interest received	$	450,635	$	540,193
Interest paid	$	142,879	$	195,321
Non-cash investing activities:				
Payable for investments purchased	$	11,555	$	58,467
Net change in unrealized gain (loss) on available-for sale securities	$	(99,324)	$	(101,983)
Transfer of investments due to consolidation				
Loans held for investment, at fair value	$	1,047,838	$	—
Securitized debt at fair value, collateralized by loans held for investment	$	774,510	$	—
Non-Agency RMBS, at fair value	$	(218,276)	$	—
Non-cash financing activities:				
Dividends declared, not yet paid	$	85,675	$	87,050
Conversion of convertible debt	$	—	$	31,813

See accompanying notes to consolidated financial statements.

CHIMERA INVESTMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

Chimera Investment Corporation, or the Company, was organized in Maryland on June 1, 2007. The Company commenced operations on November 21, 2007 when it completed its initial public offering. The Company elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder, or the Code.

The Company is an internally managed REIT that is primarily engaged, through its subsidiaries, in the business of investing in a diversified portfolio of mortgage assets, including residential mortgage loans, Agency RMBS, Non-Agency RMBS, Agency CMBS, and other real estate-related assets. The following defines certain of the commonly used terms in this Quarterly Report on Form 10-Q: Agency refers to a federally chartered corporation, such as Fannie Mae or Freddie Mac, or an agency of the U.S. Government, such as Ginnie Mae; MBS refers to mortgage-backed securities secured by pools of residential or commercial mortgage loans; Agency RMBS and Agency CMBS refer to MBS that are secured by pools of residential and commercial mortgage loans, respectively, and are issued or guaranteed by an Agency; Agency MBS refers to MBS that are issued or guaranteed by an Agency and includes Agency RMBS and Agency CMBS collectively; Non-Agency RMBS refers to residential MBS that are not guaranteed by any agency of the U.S. Government or any Agency. IO refers to Interest-only securities.

The Company conducts its operations through various subsidiaries including subsidiaries it treats as taxable REIT subsidiaries, or TRSs. In general, a TRS may hold assets and engage in activities that the Company cannot hold or engage in directly and generally may engage in any real estate or non-real estate related business. The Company currently has twelve wholly-owned direct subsidiaries: Chimera RMBS Whole Pool LLC and Chimera RMBS LLC formed in June 2009; CIM Trading Company LLC, or CIM Trading, formed in July 2010; Chimera Funding TRS LLC, or CIM Funding TRS, a TRS formed in October 2013; Chimera CMBS Whole Pool LLC and Chimera RMBS Securities LLC formed in March 2015; Chimera RR Holding LLC formed in April 2016; Anacostia LLC, a TRS formed in June 2018; NYH Funding LLC, a TRS formed in May 2019; Kali 2020 Holdings LLC formed in May 2020; Varuna Capital Partners LLC formed in September 2020; and Aarna Holdings LLC formed in November 2020.

The Company exchanged its interest in Kah Capital Management, LLC for a interest in Kah Capital Holdings, LLC, which is accounted for as an equity method investment in other assets on the Statement of Financial Condition during the quarter ended June 30, 2022. Kah Capital Holdings, LLC is the parent of Kah Capital Management, LLC. The Company did not pay any fees to Kah Capital Management, LLC during the quarter ended June 30, 2022 and paid $351 thousand during the quarter ended June 30, 2021. The Company paid $250 thousand and $697 thousand during the six months ended June 30, 2022 and 2021, respectively, in fees to Kah Capital Management, LLC. These fees are paid for investment services provided and are reported within Other Expenses on the Statement of Operations. The Company has made a $75 million capital commitment to a fund managed by Kah Capital Management, LLC.

2. Summary of the Significant Accounting Policies

(a) Basis of Presentation and Consolidation

The accompanying consolidated financial statements and related notes of the Company have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. In the opinion of the Company, all normal and recurring adjustments considered necessary for a fair presentation of its financial position, results of operations and cash flows have been included. Investment transactions are recorded on the trade date.

The consolidated financial statements include the Company’s accounts, the accounts of its wholly-owned subsidiaries, and variable interest entities, or VIEs, in which the Company is the primary beneficiary. All intercompany balances and transactions have been eliminated in consolidation.

The Company uses securitization trusts considered to be VIEs in its securitization transactions. VIEs are defined as entities in which equity investors (i) do not have the characteristics of a controlling financial interest, or (ii) do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The entity that consolidates a VIE is known as its primary beneficiary and is generally the entity with (i) the power to direct the activities that most significantly impact the VIEs’ economic performance, and (ii) the right to receive benefits from the VIE or the obligation to absorb losses of the VIE that could be significant to the VIE. For VIEs that do not have substantial on-going activities, the

power to direct the activities that most significantly impact the VIEs' economic performance may be determined by an entity's involvement with the design and structure of the VIE.

The trusts are structured as entities that receive principal and interest on the underlying collateral and distribute those payments to the security holders. The assets held by the securitization entities are restricted in that they can only be used to fulfill the obligations of the securitization entity. The Company's risks associated with its involvement with these VIEs are limited to its risks and rights as a holder of the security it has retained as well as certain risks associated with being the sponsor and depositor of and the seller, directly or indirectly to, the securitizations entities.

Determining the primary beneficiary of a VIE requires judgment. The Company determined that for the securitizations it consolidates, its ownership provides the Company with the obligation to absorb losses or the right to receive benefits from the VIE that could be significant to the VIE. In addition, the Company has the power to direct the activities of the VIEs that most significantly impact the VIEs' economic performance, or power, such as rights to replace the servicer without cause, or the Company was determined to have power in connection with its involvement with the structure and design of the VIE.

The Company's interest in the assets held by these securitization vehicles, which are consolidated on the Company's Consolidated Statements of Financial Condition, is restricted by the structural provisions of these trusts, and a recovery of the Company's investment in the vehicles will be limited by each entity's distribution provisions. Generally, the securities retained by the Company are the most subordinate in the capital structure, which means those securities receive distributions after the senior securities have been paid. The liabilities of the securitization vehicles, which are also consolidated on the Company's Consolidated Statements of Financial Condition, are non-recourse to the Company, and can only be satisfied using proceeds from each securitization vehicle's respective asset pool.

The assets of securitization entities are comprised of residential mortgage-backed securities, or RMBS, or residential mortgage loans.See Notes 3, 4 and 9 for further discussion of the characteristics of the securities and loans in the Company's portfolio.

(b) Statements of Financial Condition Presentation

The Company's Consolidated Statements of Financial Condition include both the Company's direct assets and liabilities and the assets and liabilities of consolidated securitization vehicles. Retained beneficial interests of the consolidated securitization vehicles are eliminated on consolidation. Assets of each consolidated VIE can only be used to satisfy the obligations of that VIE, and the liabilities of consolidated VIEs are non-recourse to the Company. The Company is not obligated to provide, nor does it intend to provide, any financial support to these consolidated securitization vehicles. The notes to the consolidated financial statements describe the Company's assets and liabilities including the assets and liabilities of consolidated securitization vehicles. See Note 9 for additional information related to the Company's investments in consolidated securitization vehicles.

(c) Use of Estimates

The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although the Company's estimates contemplate current conditions and how it expects them to change in the future, it is reasonably possible that actual conditions could be materially different than anticipated in those estimates, which could have a material adverse impact on the Company's results of operations and its financial condition.

The Company has made significant estimates including in accounting for income recognition on Agency MBS, Non-Agency RMBS, IO MBS (Note 3) and residential mortgage loans (Note 4), valuation of Agency MBS and Non-Agency RMBS (Notes 3 and 5), residential mortgage loans (Notes 4 and 5) and securitized debt (Notes 5 and 7). Actual results could differ materially from those estimates.

d) Significant Accounting Policies

There have been no significant changes to the Company's accounting policies included in Note 2 to the consolidated financial statements of the Company's Form 10-K for the year ended December 31, 2021, other than the significant accounting policies discussed below.

Fair Value Disclosure

A complete discussion of the methodology utilized by the Company to estimate the fair value of its financial instruments is included in Note 5 to these consolidated financial statements.

Income Taxes

The Company does not have any material unrecognized tax positions that would affect its financial statements or require disclosure.No accruals for penalties and interest were necessary as of June 30, 2022 or December 31, 2021.

(e) Recent Accounting Pronouncements

Reference Rate Reform (Topic 848)

In March 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2020-4,*Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting.* The amendments in this update provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this update apply only to contracts, hedging relationships, and other transactions that reference London Inter Bank Offering Rate (or LIBOR) or another reference rate expected to be discontinued because of reference rate reform. The amendments in this update are effective for contracts held by the Company subject to reference rate reform that fall within the scope of this update beginning immediately through December 31, 2022 at which time the transition is expected to be complete. The Company has not yet had any contracts modified to adopt reference rate reform. When a contract within the scope of this update is updated for reference rate reform, the Company will evaluate the impact in accordance with this update.

3. Mortgage-Backed Securities

The Company classifies its Non-Agency RMBS as senior, subordinated, or Interest-only. The Company also invests in Agency MBS which it classifies as Agency RMBS to include residential and residential interest-only MBS and Agency CMBS to include commercial and commercial interest-only MBS. Senior interests in Non-Agency RMBS are generally entitled to the first principal repayments in their pro-rata ownership interests at the acquisition date. The tables below present amortized cost, allowance for credit losses, fair value and unrealized gain/losses of the Company's MBS investments as of June 30, 2022 and December 31, 2021.

June 30, 2022
(dollars in thousands)

	Principal or Notional Value	Total Premium	Total Discount	Amortized Cost	Allowance for credit losses	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gain/(Loss)
Non-Agency RMBS									
Senior	$ 1,203,494	$ 7,157	$ (649,934)	$ 560,717	$ (3,377)	$ 853,928	$ 298,961	$ (2,373)	$ 296,588
Subordinated	509,636	4,322	(167,768)	346,190	(1,513)	350,078	33,036	(27,635)	5,401
Interest-only	3,468,368	172,096	—	172,096	—	117,769	18,638	(72,965)	(54,327)
Agency RMBS									
Interest-only	1,709,415	125,825	—	125,825	—	73,454	222	(52,593)	(52,371)
Agency CMBS									
Project loans	304,305	6,059	(200)	310,164	—	316,478	8,131	(1,817)	6,314
Interest-only	2,732,537	148,228	—	148,228	—	139,159	2,037	(11,106)	(9,069)
Total	$ 9,927,755	$ 463,687	$ (817,902)	$ 1,663,220	$ (4,890)	$ 1,850,866	$ 361,025	$ (168,489)	$ 192,536

December 31, 2021 (dollars in thousands)									
	Principal or Notional Value	**Total Premium**	**Total Discount**	**Amortized Cost**	**Allowance for credit losses**	**Fair Value**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Net Unrealized Gain/(Loss)**
Non-Agency RMBS									
Senior	$ 1,283,788	$ 5,906	$ (673,207)	$ 616,487	$ (212)	$ 985,682	$ 369,913	$ (506)	$ 369,407
Subordinated	845,432	5,179	(274,843)	575,768	(1)	652,025	99,240	(22,982)	76,258
Interest-only	3,904,665	191,230	—	191,230	—	172,501	36,512	(55,241)	(18,729)
Agency RMBS									
Interest-only	992,978	102,934	—	102,934	—	60,487	—	(42,447)	(42,447)
Agency CMBS									
Project loans	560,565	10,812	(879)	570,498	—	614,419	43,921	—	43,921
Interest-only	2,578,640	147,024	—	147,024	—	146,789	3,044	(3,279)	(235)
Total	$ 10,166,068	$ 463,085	$ (948,929)	$ 2,203,941	$ (213)	$ 2,631,903	$ 552,630	$ (124,455)	$ 428,175

The following tables present the gross unrealized losses and estimated fair value of the Company's Agency and Non-Agency MBS by length of time that such securities have been in a continuous unrealized loss position at June 30, 2022 and December 31, 2021. All available for sale Non-Agency RMBS not accounted under the fair value option election in an unrealized loss position have been evaluated by the Company for current expected credit losses.

June 30, 2022 (dollars in thousands)									
	Unrealized Loss Position for Less than 12 Months			**Unrealized Loss Position for 12 Months or More**			**Total**		
	Estimated Fair Value	Unrealized Losses	Number of Positions	Estimated Fair Value	Unrealized Losses	Number of Positions	Estimated Fair Value	Unrealized Losses	Number of Positions
Non-Agency RMBS									
Senior	$ 38,567	$ (2,373)	6	$ —	$ —	—	$ 38,567	$ (2,373)	6
Subordinated	182,366	(25,086)	29	18,882	(2,549)	8	201,248	(27,635)	37
Interest-only	37,102	(15,426)	60	19,218	(57,539)	55	56,320	(72,965)	115
Agency RMBS									
Interest-only	21,000	(3,326)	13	45,239	(49,267)	23	66,239	(52,593)	36
Agency CMBS									
Project loans	70,286	(1,817)	34	—	—	—	70,286	(1,817)	34
Interest-only	125,989	(10,895)	7	295	(211)	2	126,284	(11,106)	9
Total	$ 475,310	$ (58,923)	149	$ 83,634	$ (109,566)	88	$ 558,944	$ (168,489)	237

December 31, 2021 (dollars in thousands)									
	Unrealized Loss Position for Less than 12 Months			Unrealized Loss Position for 12 Months or More			Total		
	Estimated Fair Value	Unrealized Losses	Number of Positions	Estimated Fair Value	Unrealized Losses	Number of Positions	Estimated Fair Value	Unrealized Losses	Number of Positions
Non-Agency RMBS									
Senior	$ 30,846	$ (506)	2	$ —	$ —	—	$ 30,846	$ (506)	2
Subordinated	36,942	(657)	7	28,371	(22,325)	9	65,313	(22,982)	16
Interest-only	11,872	(1,958)	24	30,474	(53,283)	56	42,346	(55,241)	80
Agency RMBS									
Interest-only	5,003	(1,215)	4	55,486	(41,232)	21	60,489	(42,447)	25
Agency CMBS									
Interest-only	131,551	(3,164)	7	491	(115)	1	132,042	(3,279)	8
Total	$ 216,214	$ (7,500)	44	$ 114,822	$ (116,955)	87	$ 331,036	$ (124,455)	131

At June 30, 2022, the Company did not intend to sell any of its Agency and Non-Agency MBS that were in an unrealized loss position, and it was not more likely than not that the Company would be required to sell these MBS investments before recovery of their amortized cost basis, which may be at their maturity. With respect to RMBS held by consolidated VIEs, the ability of any entity to cause the sale by the VIE prior to the maturity of these RMBS is either expressly prohibited, not probable, or is limited to specified events of default, none of which have occurred as of June 30, 2022.

The Company had $514 thousand gross unrealized losses on its Agency MBS (excluding Agency MBS which are reported at fair value with changes in fair value recorded in earnings) as of June 30, 2022. There were no such losses on its Agency MBS as of December 31, 2021. Given the inherent credit quality of Agency MBS, the Company does not consider any of the current impairments on its Agency MBS to be credit related. In evaluating whether it is more likely than not that it will be required to sell any impaired security before its anticipated recovery, which may be at their maturity, the Company considers the significance of each investment, the amount of impairment, the projected future performance of such impaired securities, as well as the Company's current and anticipated leverage capacity and liquidity position. Based on these analyses, the Company determined that at June 30, 2022 unrealized losses on its Agency MBS were temporary.

Gross unrealized losses on the Company's Non-Agency RMBS (excluding Non-Agency RMBS which are reported at fair value with changes in fair value recorded in earnings), net of any allowance for credit losses, were $10 million and $506 thousand, at June 30, 2022 and December 31, 2021, respectively. After evaluating the securities and recording any allowance for credit losses, the Company concluded that the remaining unrealized losses reflected above were non-credit related and would be recovered from the securities' estimated future cash flows. The Company considered a number of factors in reaching this conclusion, including that it did not intend to sell the securities, it was not considered more likely than not that it would be forced to sell the securities prior to recovering the amortized cost, and there were no material credit events that would have caused the Company to otherwise conclude that it would not recover the amortized cost. The allowance for credit losses are calculated by comparing the estimated future cash flows of each security discounted at the yield determined as of the initial acquisition date or, if since revised, as of the last date previously revised, to the net amortized cost basis. Significant judgment is used in projecting cash flows for Non-Agency RMBS.

The Company has reviewed its Non-Agency RMBS that are in an unrealized loss position to identify those securities with losses that are credit related based on an assessment of changes in cash flows expected to be collected for such RMBS, which considers recent bond performance and expected future performance of the underlying collateral. A summary of the credit losses allowance on available-for-sale securities for the quarters and six months ended June 30, 2022 and 2021 is presented below.

	For the Quarter Ended		For the Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
	(dollars in thousands)		(dollars in thousands)	
Beginning allowance for credit losses	$ 453	$ 54	$ 213	$ 180
Additions to the allowance for credit losses on securities for which credit losses were not previously recorded	1,253	468	1,592	468
Allowance on purchased financial assets with credit deterioration	—	—	—	—
Reductions for the securities sold during the period	—	—	—	—
Increase/(decrease) on securities with an allowance in the prior period	3,062	(14)	3,021	(179)
Write-offs charged against the allowance	(18)	—	(76)	(62)
Recoveries of amounts previously written off	140	—	140	101
Ending allowance for credit losses	$ 4,890	$ 508	$ 4,890	$ 508

The following table presents significant credit quality indicators used for the credit loss allowance on our Non-Agency RMBS investments as of June 30, 2022 and December 31, 2021.

	June 30, 2022			
		(dollars in thousands)		
		Prepay Rate	CDR	Loss Severity
	Amortized Cost	Weighted Average	Weighted Average	Weighted Average
Non-Agency RMBS				
Senior	31,050	8.3%	3.6%	45.5%
Subordinated	66,792	13.5%	0.4%	37.3%

	December 31, 2021			
		(dollars in thousands)		
		Prepay Rate	CDR	Loss Severity
	Amortized Cost	Weighted Average	Weighted Average	Weighted Average
Non-Agency RMBS				
Senior	6,941	2.4%	5.1%	60.9%
Subordinated	1	10.0%	0.3%	30.0%

The increase in the allowance for credit losses for the quarter ended June 30, 2022 is primarily due to increases in expected losses and delinquencies as compared to the same period of 2021. In addition, certain Non-Agency RMBS positions now have higher unrealized losses and resulted in the the recognition of an allowance for credit losses which was previously limited by unrealized gains on these investments.

The following tables present a summary of unrealized gains and losses at June 30, 2022 and December 31, 2021.

June 30, 2022 (dollars in thousands)						
	Gross Unrealized Gain Included in Accumulated Other Comprehensive Income	Gross Unrealized Gain Included in Cumulative Earnings	Total Gross Unrealized Gain	Gross Unrealized Loss Included in Accumulated Other Comprehensive Income	Gross Unrealized Loss Included in Cumulative Earnings	Total Gross Unrealized Loss
Non-Agency RMBS						
Senior	$ 298,961	$ —	$ 298,961	$ (988)	$ (1,385)	$ (2,373)
Subordinated	17,178	15,858	33,036	(8,907)	(18,728)	(27,635)
Interest-only	—	18,638	18,638	—	(72,965)	(72,965)
Agency RMBS						
Interest-only	—	222	222	—	(52,593)	(52,593)
Agency CMBS						
Project loans	—	8,131	8,131	(514)	(1,303)	(1,817)
Interest-only	—	2,037	2,037	—	(11,106)	(11,106)
Total	$ 316,139	$ 44,886	$ 361,025	$ (10,409)	$ (158,080)	$ (168,489)

December 31, 2021 (dollars in thousands)						
	Gross Unrealized Gain Included in Accumulated Other Comprehensive Income	Gross Unrealized Gain Included in Cumulative Earnings	Total Gross Unrealized Gain	Gross Unrealized Loss Included in Accumulated Other Comprehensive Income	Gross Unrealized Loss Included in Cumulative Earnings	Total Gross Unrealized Loss
Non-Agency RMBS						
Senior	$ 369,913	$ —	$ 369,913	$ (506)	$ —	$ (506)
Subordinated	33,587	65,653	99,240	—	(22,982)	(22,982)
Interest-only	—	36,512	36,512	—	(55,241)	(55,241)
Agency RMBS						
Interest-only	—	—	—	—	(42,447)	(42,447)
Agency CMBS						
Project loans	2,060	41,861	43,921	—	—	—
Interest-only	—	3,044	3,044	—	(3,279)	(3,279)
Total	$ 405,560	$ 147,070	$ 552,630	$ (506)	$ (123,949)	$ (124,455)

Changes in prepayments, actual cash flows, and cash flows expected to be collected, among other items, are affected by the collateral characteristics of each asset class. The Company chooses assets for the portfolio after carefully evaluating each investment's risk profile.

The following tables provide a summary of the Company's MBS portfolio at June 30, 2022 and December 31, 2021.

June 30, 2022					
	Principal or Notional Value at Period-End (dollars in thousands)	Weighted Average Amortized Cost Basis	Weighted Average Fair Value	Weighted Average Coupon	Weighted Average Yield at Period-End (1)
Non-Agency RMBS					
Senior	$ 1,203,494	$ 46.59	70.95	4.7 %	18.3 %
Subordinated	509,636	67.93	68.69	4.6 %	7.1 %
Interest-only	3,468,368	4.96	3.40	1.4 %	7.9 %
Agency RMBS					
Interest-only	1,709,415	7.36	4.30	1.4 %	1.0 %
Agency CMBS					
Project loans	304,305	101.93	104.00	4.3 %	4.1 %
Interest-only	2,732,537	5.42	5.09	0.7 %	4.3 %

(1) Bond Equivalent Yield at period end.

	December 31, 2021				
	Principal or Notional Value at Period-End (dollars in thousands)	Weighted Average Amortized Cost Basis	Weighted Average Fair Value	Weighted Average Coupon	Weighted Average Yield at Period-End [(1)]
Non-Agency RMBS					
Senior	$ 1,283,788	$ 48.02	$ 76.78	4.5 %	18.0 %
Subordinated	845,432	68.10	77.12	3.8 %	7.1 %
Interest-only	3,904,665	4.90	4.42	1.7 %	13.2 %
Agency RMBS					
Interest-only	992,978	10.37	6.09	1.3 %	0.3 %
Agency CMBS					
Project loans	560,565	101.77	109.61	4.3 %	4.1 %
Interest-only	2,578,640	5.70	5.69	0.7 %	4.6 %

(1) Bond Equivalent Yield at period end.

Actual maturities of MBS are generally shorter than the stated contractual maturities. Actual maturities of the Company's MBS are affected by the underlying mortgages, periodic payments of principal, realized losses and prepayments of principal. The following tables provide a summary of the fair value and amortized cost of the Company's MBS at June 30, 2022 and December 31, 2021 according to their estimated weighted-average life classifications. The weighted-average lives of the MBS in the tables below are based on lifetime expected prepayment rates using the Company's prepayment assumptions for the Agency MBS and Non-Agency RMBS. The prepayment model considers current yield, forward yield, steepness of the interest rate curve, current mortgage rates, mortgage rates of the outstanding loan, loan age, margin, and volatility.

	June 30, 2022 (dollars in thousands) Weighted Average Life				
	Less than one year	Greater than one year and less than five years	Greater than five years and less than ten years	Greater than ten years	Total
Fair value					
Non-Agency RMBS					
Senior	$ 16,680	$ 254,209	$ 274,948	$ 308,091	$ 853,928
Subordinated	2,177	52,706	89,145	206,050	350,078
Interest-only	269	71,457	43,661	2,382	117,769
Agency RMBS					
Interest-only	—	15,359	58,095	—	73,454
Agency CMBS					
Project loans	8,252	—	—	308,226	316,478
Interest-only	528	135,516	3,115	—	139,159
Total fair value	$ 27,906	$ 529,247	$ 468,964	$ 824,749	$ 1,850,866
Amortized cost					
Non-Agency RMBS					
Senior	$ 7,095	$ 195,680	$ 157,884	$ 200,058	$ 560,717
Subordinated	2	42,105	96,592	207,491	346,190
Interest-only	11,490	114,167	44,189	2,250	172,096
Agency RMBS					
Interest-only	—	28,205	97,620	—	125,825
Agency CMBS					
Project loans	8,252	—	—	301,912	310,164
Interest-only	882	144,308	3,038	—	148,228
Total amortized cost	$ 27,721	$ 524,465	$ 399,323	$ 711,711	$ 1,663,220

	December 31, 2021 (dollars in thousands) Weighted Average Life				
	Less than one year	Greater than one year and less than five years	Greater than five years and less than ten years	Greater than ten years	Total
Fair value					
Non-Agency RMBS					
Senior	$ 3,186	$ 279,222	$ 318,684	$ 384,590	$ 985,682
Subordinated	3,303	149,089	276,979	222,654	652,025
Interest-only	2,300	140,558	29,642	1	172,501
Agency RMBS					
Interest-only	—	—	60,487	—	60,487
Agency CMBS					
Project loans	8,388	—	—	606,031	614,419
Interest-only	1,335	141,997	3,457	—	146,789
Total fair value	$ 18,512	$ 710,866	$ 689,249	$ 1,213,276	$ 2,631,903
Amortized cost					
Non-Agency RMBS					
Senior	$ 2,349	$ 194,506	$ 190,030	$ 229,602	$ 616,487
Subordinated	1	129,063	244,103	202,601	575,768
Interest-only	27,764	140,757	22,648	61	191,230
Agency RMBS					
Interest-only	—	—	102,934	—	102,934
Agency CMBS					
Project loans	8,388	—	—	562,110	570,498
Interest-only	1,540	142,290	3,194	—	147,024
Total amortized cost	$ 40,042	$ 606,616	$ 562,909	$ 994,374	$ 2,203,941

The Non-Agency RMBS investments are secured by pools of mortgage loans which are subject to credit risk.The following table summarizes the delinquency, bankruptcy, foreclosure and Real estate owned, or REO, total of the pools of mortgage loans securing the Company's investments in Non-Agency RMBS at June 30, 2022 and December 31, 2021. When delinquency rates increase, it is expected that the Company will incur additional credit losses.

June 30, 2022	30 Days Delinquent	60 Days Delinquent	90+ Days Delinquent	Bankruptcy	Foreclosure	REO	Total
% of Unpaid Principal Balance	2.6 %	0.9 %	3.7 %	1.4 %	3.2 %	0.6 %	12.4 %

December 31, 2021	30 Days Delinquent	60 Days Delinquent	90+ Days Delinquent	Bankruptcy	Foreclosure	REO	Total
% of Unpaid Principal Balance	3.4 %	1.3 %	5.5 %	1.3 %	2.6 %	0.4 %	14.5 %

The Non-Agency RMBS in the Portfolio have the following collateral characteristics at June 30, 2022 and December 31, 2021.

	June 30, 2022		December 31, 2021	
Weighted average maturity (years)		19.9		21.4
Weighted average amortized loan to value [1]		59.1 %		60.3 %
Weighted average FICO [2]		713		706
Weighted average loan balance (in thousands)	$	260	$	259
Weighted average percentage owner-occupied		84.1 %		84.0 %
Weighted average percentage single family residence		61.6 %		62.7 %
Weighted average current credit enhancement		1.2 %		1.2 %
Weighted average geographic concentration of top four states	CA	32.2 %	CA	31.2 %
	NY	11.0 %	NY	10.4 %
	FL	7.9 %	FL	8.0 %
	NJ	4.6 %	NJ	4.6 %

(1) Value represents appraised value of the collateral at the time of loan origination.
(2) FICO as determined at the time of loan origination.

The table below presents the origination year of the underlying loans related to the Company's portfolio of Non-Agency RMBS at June 30, 2022 and December 31, 2021.

Origination Year	June 30, 2022	December 31, 2021
2003 and prior	0.9 %	1.4 %
2004	1.1 %	1.2 %
2005	10.7 %	8.6 %
2006	43.9 %	53.7 %
2007	31.2 %	25.3 %
2008 and later	12.2 %	9.8 %
Total	100.0 %	100.0 %

Gross realized gains and losses are recorded in "Net realized gains (losses) on sales of investments" on the Company's Consolidated Statements of Operations.The proceeds and gross realized gains and gross realized losses from sales of investments for the quarters and six months ended June 30, 2022 and 2021 are as follows:

	For the Quarters Ended		For the Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
	(dollars in thousands)		(dollars in thousands)	
Proceeds from sales:				
Non-Agency RMBS	—	15,418	—	47,877
Agency RMBS	—	626	—	626
Agency CMBS	—	—	—	201,037
Gross realized gains:				
Non-Agency RMBS	—	11,229	—	37,742
Agency CMBS	—	—	—	13,735
Gross realized losses:				
Non-Agency RMBS	—	(2,503)	—	(4,955)
Agency RMBS	—	(1,209)	—	(1,209)
Net realized gain (loss)	$ —	$ 7,517	$ —	$ 45,313

4. Loans Held for Investment

The Loans held for investment are comprised primarily of loans collateralized by seasoned reperforming residential mortgages. Additionally, it includes business purpose loans.

At June 30, 2022 and December 31, 2021, all Loans held for investment are carried at fair value. See Note 5 for a discussion on how the Company determines the fair values of the Loans held for investment. As changes in the fair value of these loans are reflected in earnings, the Company does not estimate or record a loan loss provision. The total amortized cost of the Company's Loans held for investment was $12.1 billion and $11.4 billion as of June 30, 2022 and December 31, 2021, respectively.

The following table provides a summary of the changes in the carrying value of Loans held for investment at fair value at June 30, 2022 and December 31, 2021:

	For the Six Months Ended June 30, 2022	For the Year Ended December 31, 2021
	(dollars in thousands)	
Balance, beginning of period	$ 12,261,926	$ 13,112,129
Transfer due to consolidation	1,047,838	—
Purchases	925,789	3,364,609
Principal paydowns	(1,248,170)	(2,652,767)
Sales and settlements	(1,890)	(1,679,280)
Net periodic accretion (amortization)	(42,124)	(79,368)
Change in fair value	(1,048,948)	196,603
Balance, end of period	$ 11,894,421	$ 12,261,926

The primary cause of the change in fair value is due to market demand, interest rates and changes in credit risk of mortgage loans. The Company did not retain any beneficial interests on loan sales during the quarter and six months ended June 30, 2022. During the year ended December 31, 2021, the Company sold loans with a fair value of $450 million, with the Company retaining $25 million of beneficial interests in these loans.

Residential mortgage loans

The loan portfolio for all residential mortgages were originated during the following periods:

Origination Year	June 30, 2022	December 31, 2021 [1]
2002 and prior	6.4 %	6.6 %
2003	5.4 %	5.7 %
2004	10.3 %	11.7 %
2005	17.1 %	18.6 %
2006	21.0 %	22.7 %
2007	22.1 %	22.6 %
2008	6.6 %	6.2 %
2009	1.5 %	1.2 %
2010 and later	9.6 %	4.7 %
Total	100.0 %	100.0 %

(1) The above table excludes approximately $437 million of Loans held for investment for December 31, 2021, which were purchased prior to the reporting date and settled subsequent to the reporting date.

The following table presents a summary of key characteristics of the residential loan portfolio at June 30, 2022 and December 31, 2021:

	June 30, 2022		December 31, 2021 [1]	
Number of loans		119,640		114,946
Weighted average maturity (years)		20.9		19.3
Weighted average loan to value		83.1 %		84.2 %
Weighted average FICO		653		656
Weighted average loan balance (in thousands)	$	102	$	96
Weighted average percentage owner occupied		86.5 %		88.8 %
Weighted average percentage single family residence		79.1 %		82.2 %
Weighted average geographic concentration of top five states	CA	14.3 %	CA	13.9 %
	NY	8.6 %	FL	8.1 %
	FL	8.4 %	NY	8.0 %
	PA	4.7 %	VA	4.8 %
	VA	4.4 %	PA	4.8 %

(1) The above table excludes approximately $437 million of Loans held for investment for December 31, 2021, which were purchased prior to the reporting date and settled subsequent to the reporting date.

The following table summarizes the outstanding principal balance of the residential loan portfolio which are 30 days delinquent and greater as reported by the servicers at June 30, 2022 and December 31, 2021, respectively.

	30 Days Delinquent	60 Days Delinquent	90+ Days Delinquent	Bankruptcy	Foreclosure	REO	Total	Unpaid Principal Balance
			(dollars in thousands)					
June 30, 2022	$711,315	$224,813	$558,382	$212,770	$317,878	$28,793	$2,053,951	$12,252,230
% of Unpaid Principal Balance	5.8%	1.8%	4.6%	1.7%	2.6%	0.2%	16.7%	
December 31, 2021 (1)	$959,481	$227,593	$582,311	$215,669	$260,888	$27,712	$2,273,654	$11,082,096
% of Unpaid Principal Balance	8.7%	2.1%	5.3%	1.9%	2.4%	0.3%	20.7%	

(1) The above table excludes approximately $437 million of Loans held for investment for December 31, 2021, which were purchased prior to the reporting date and settled subsequent to the reporting period.

The fair value of residential mortgage loans 90 days or more past due was $806 million and $830 million as of June 30, 2022 and December 31, 2021, respectively.

5. Fair Value Measurements

The Company applies fair value guidance in accordance with GAAP to account for its financial instruments. The Company categorizes its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Financial assets and liabilities recorded at fair value on the Consolidated Statements of Financial Condition or disclosed in the related notes are categorized based on the inputs to the valuation techniques as follows:

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets and liabilities in active markets.

Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – inputs to the valuation methodology are unobservable and significant to fair value.

Fair value measurements categorized within Level 3 are sensitive to changes in the assumptions or methodology used to determine fair value and such changes could result in a significant increase or decrease in the fair value. Any changes to the valuation methodology are reviewed by the Company to ensure the changes are appropriate. As markets and products evolve and the pricing for certain products becomes more transparent, the Company will continue to refine its valuation methodologies. The methodology utilized by the Company for the periods presented is unchanged. The methods used to produce a fair value calculation may not be indicative of net realizable value or reflective of future fair values. Furthermore, the Company believes its valuation methods are appropriate and consistent with other market participants. Using different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. The Company uses inputs that are current as of the measurement date, which may include periods of market dislocation, during which price transparency may be reduced.

The Company determines the fair values of its investments using internally developed processes and validates them using a third-party pricing service. During times of market dislocation, the observability of prices and inputs can be difficult for certain investments. If the third-party pricing service is unable to provide a price for an asset, or if the price provided by them is deemed unreliable by the Company, then the asset will be valued at its fair value as determined by the Company without validation to third-party pricing. Illiquid investments typically experience greater price volatility as an active market does not exist. Observability of prices and inputs can vary significantly from period to period and may cause instruments to change classifications within the three level hierarchy.

A description of the methodologies utilized by the Company to estimate the fair value of its financial instruments by instrument class follows:

Agency MBS and Non-Agency RMBS

The Company determines the fair value of all of its investment securities based on discounted cash flows utilizing an internal pricing model that incorporates factors such as coupon, prepayment speeds, loan size, collateral composition, borrower characteristics, expected interest rates, life caps, periodic caps, reset dates, collateral seasoning, delinquency, expected losses, expected default severity, credit enhancement, and other pertinent factors. To corroborate that the estimates of fair values generated by these internal models are reflective of current market prices, the Company compares the fair values generated by the model to non-binding independent prices provided by an independent third-party pricing service. For certain highly liquid asset classes, such as Agency fixed-rate pass-through bonds, the Company's valuations are also compared to quoted prices for To-Be-Announced, or TBA, securities.

Each quarter the Company develops thresholds generally using market factors or other assumptions, as appropriate. If internally developed model prices differ from the independent third-party prices by greater than these thresholds for the period, the Company conducts a further review, both internally and with the third-party pricing service of the prices of such securities. First, the Company obtains the inputs used by the third-party pricing service and compares them to the Company's inputs. The Company then updates its own inputs if the Company determines the third-party pricing inputs more accurately reflect the current market environment. If the Company believes that its internally developed inputs more accurately reflect the current market environment, it will request that the third-party pricing service review market factors that may not have been considered by the third-party pricing service and provide updated prices. The Company reconciles and resolves all pricing differences in excess of the thresholds before a final price is established. At June 30, 2022, eighteen investment holdings with an internally developed fair value of $169 million had a difference between the model generated prices and third-party prices provided in excess of the thresholds for the period. The internally developed prices were $29 million higher, in the aggregate, than the third-party prices provided of $140 million. After review and discussion, the Company affirmed and valued the investments at the higher internally developed prices. No other differences were noted at June 30, 2022 in excess of the thresholds for the period. At December 31, 2021, seven investment holdings with an internally developed fair value of $50 million had a difference between the model generated prices and third-party prices provided in excess of the thresholds for the period. The internally developed prices were $8 million higher, in the aggregate, than the third-party prices provided of $42 million. After review and discussion, the Company affirmed and valued the investments at the higher internally developed prices. No other differences were noted at December 31, 2021 in excess of the thresholds for the period.

The Company's estimate of prepayment, default and severity curves all involve judgment and assumptions that are deemed to be significant to the fair value measurement process. This subjective estimation process renders the majority of the Non-Agency RMBS fair value estimates as Level 3 in the fair value hierarchy. As the fair values of Agency MBS are more observable, these investments are classified as Level 2 in the fair value hierarchy.

Loans Held for Investment

Loans held for investment is comprised primarily of seasoned reperforming residential mortgage loans. Loans held for investment also includes business purpose loans.

Loans consisting of seasoned reperforming residential mortgage loans:

The Company estimates the fair value of its Loans held for investment consisting of seasoned reperforming residential mortgage loans on a loan by loan basis using an internally developed model which compares the loan held by the Company with a loan currently offered in the market. The loan price is adjusted in the model by considering the loan factors which would impact the value of a loan. These loan factors include loan coupon, FICO, loan-to-value ratios, delinquency history, owner occupancy, and property type, among other factors. A baseline is developed for each significant loan factor and adjusts the price up or down depending on how that factor for each specific loan compares to the baseline rate. Generally, the most significant impact on loan value is the loan coupon rate as compared to coupon rates currently available in the market and delinquency history.

The Company also monitors market activity to identify trades which may be used to compare internally developed prices; however, as the portfolio of loans held at fair value is a seasoned reperforming pool of residential mortgage loans, comparable loan pools are not common or directly comparable. There are limited transactions in the marketplace to develop a comprehensive direct range of values.

The Company reviews the fair values generated by the model to determine whether prices are reflective of the current market by corroborating its estimates of fair value by comparing the results to non-binding independent prices provided by an independent third-party pricing service for the loan portfolio. Each quarter the Company develops thresholds generally using market factors or other assumptions as appropriate.

If the internally developed fair values of the loan pools differ from the independent third-party prices by greater than the threshold for the period, the Company highlights these differences for further review, both internally and with the third-party pricing service. The Company obtains certain inputs used by the third-party pricing service and evaluates them for reasonableness. Then the Company updates its own model if the Company determines the third-party pricing inputs more accurately reflect the current market environment or observed information from the third-party vendor. If the Company believes that its internally developed inputs more accurately reflect the current market environment, it will request that the third-party pricing service review market factors that may not have been considered by the third-party pricing service. The Company reconciles and resolves all pricing differences in excess of the thresholds before a final price is established.

At June 30, 2022, one loan pool with an internally developed fair value of $811 million had a difference between the model generated price and third-party price provided in excess of the threshold for the period. The internally developed price was $41 million higher than the third-party price provided of $770 million. After review and discussion, the Company affirmed and valued the investments at the higher internally developed price. No other differences were noted at June 30, 2022 in excess of the threshold for the period. At December 31, 2021, three loan pools with an internally developed fair value of $3.5 billion had a difference between the model generated prices and third-party prices provided in excess of the threshold for the period. The internally developed prices were $97 million higher than the third-party prices provided of $3.4 billion. After review and discussion, the Company affirmed and valued the investments at the higher internally developed prices. No other differences were noted at December 31, 2021 in excess of the threshold for the period.

The Company’s estimates of fair value of Loans held for investment involve judgment and assumptions that are deemed to be significant to the fair value measurement process, which renders the resulting fair value estimates Level 3 inputs in the fair value hierarchy.

Business purpose loans:

Business purpose loans are loans to businesses that are secured by real property which will be renovated by the borrower. Upon completion of the renovation the property will be either sold by the borrower or refinanced by the borrower who may subsequently sell or rent the property. Most, but not all, of the properties securing these loans are residential and a portion of the loan is used to cover renovation costs. The business purpose loans are included as a part of the Company's Loans held for investment portfolio and are carried at fair value with changes in fair value reflected in earnings. These loans tend to be short duration, often less than one year, and generally the coupon rate is higher than the Company's typical residential mortgage loans. As these loans are generally short-term in nature and there is an active market for these loans, the Company estimates fair value of the business purpose loans based on the recent purchase price of the loan, adjusted for observable market activity for similar assets offered in the market. Business purpose loans have a fair value of $217 million and $230 million as of June 30, 2022 and December 31, 2021, respectively.

As the fair value prices of the business purpose loans are based on the recent trades of similar assets in an active market, the Company has classified them as Level 2 in the fair value hierarchy.

Securitized Debt, collateralized by Loans Held for Investment

The process for determining the fair value of securitized debt, collateralized by Loans held for investment is based on discounted cash flows utilizing an internal pricing model that incorporates factors such as coupon, prepayment speeds, loan size, collateral composition, borrower characteristics, expected interest rates, life caps, periodic caps, reset dates, collateral seasoning, delinquencies, expected losses, expected default severity, credit enhancement, and other pertinent factors. This process, including the review process, is consistent with the process used for Agency MBS and Non-Agency RMBS using internal models. For further discussion of the valuation process and benchmarking process, see *Agency MBS and Non-Agency RMBS* discussion herein. The primary cause of the change in fair value is due to market demand and changes in credit risk of mortgage loans.

At June 30, 2022, five securitized debt collateralized by loans held for investment positions with an internally developed fair value of $23 million had a difference between the model generated prices and third-party prices provided in excess of the threshold for the period. The internally developed prices were $115 thousand higher on a net basis than the third-party prices provided of $23 million. After review and discussion, the Company affirmed and valued the securitized debt positions at the higher internally developed prices. No other differences were noted at June 30, 2022 in excess of the threshold for the period.

At December 31, 2021, there were no pricing differences in excess of the predetermined thresholds between the model generated prices and independent third-party prices

The Company's estimates of fair value of securitized debt, collateralized by Loans held for investment involve judgment and assumptions that are deemed to be significant to the fair value measurement process, which renders the resulting fair value estimates Level 3 inputs in the fair value hierarchy.

Securitized Debt, collateralized by Non-Agency RMBS

The Company carries securitized debt, collateralized by Non-Agency RMBS at the principal balance outstanding plus unamortized premiums, less unaccreted discounts recorded in connection with the financing of the loans or RMBS with third parties. For disclosure purposes, the Company estimates the fair value of securitized debt, collateralized by Non-Agency RMBS by estimating the future cash flows associated with the underlying assets collateralizing the secured debt outstanding. The Company models the fair value of each underlying asset by considering, among other items, the structure of the underlying security, coupon, servicer, delinquency, actual and expected defaults, actual and expected default severities, reset indices, and prepayment speeds in conjunction with market research for similar collateral performance and the Company's expectations of general economic conditions in the sector and other economic factors. This process, including the review process, is consistent with the process used for Agency MBS and Non-Agency RMBS using internal models. For further discussion of the valuation process and benchmarking process, see *Agency MBS and Non-Agency RMBS* discussion herein.

The Company's estimates of fair value of securitized debt, collateralized by Non-Agency RMBS involve judgment and assumptions that are deemed to be significant to the fair value measurement process, which renders the resulting fair value estimates Level 3 inputs in the fair value hierarchy.

Fair value option

The table below shows the unpaid principal and fair value of the financial instruments carried at fair value with changes in fair value reflected in earnings under the fair value option election as of June 30, 2022 and December 31, 2021, respectively:

	June 30, 2022		**December 31, 2021**	
	(dollars in thousands)			
	Unpaid Principal/ Notional	**Fair Value**	**Unpaid Principal/ Notional**	**Fair Value**
Assets:				
Non-Agency RMBS				
Senior	20,243	18,866	—	—
Subordinated	323,145	228,006	653,616	500,288
Interest-only	3,468,368	117,769	3,904,665	172,501
Agency RMBS				
Interest-only	1,709,415	73,454	992,978	60,487
Agency CMBS				
Project loans	269,394	281,348	499,186	549,529
Interest-only	2,732,537	139,159	2,578,640	146,789
Loans held for investment, at fair value	12,252,230	11,894,421	11,519,255	12,261,926
Liabilities:				
Securitized debt at fair value, collateralized by Loans held for investment	8,257,080	7,682,291	7,762,864	7,726,043

The table below shows the impact of change in fair value on each of the financial instruments carried at fair value with changes in fair value reflected in earnings under the fair value option election in statement of operations for the quarters and six months ended June 30, 2022 and 2021:

	For the Quarter Ended		For the Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
	(dollars in thousands)		(dollars in thousands)	
	Gain/(Loss) on Change in Fair Value		Gain/(Loss) on Change in Fair Value	
Assets:				
Non-Agency RMBS				
Senior	(784)	—	(1,385)	—
Subordinated	(24,694)	24,145	(45,274)	33,411
Interest-only	(8,639)	(1,720)	(35,599)	(27,571)
Agency RMBS				
Interest-only	(4,312)	(5,564)	(9,924)	(5,326)
Agency CMBS				
Project loans	(12,078)	(14,334)	(35,032)	(54,884)
Interest-only	(1,964)	2,318	(8,834)	2,240
Loans held for investment, at fair value	(450,653)	16,679	(1,049,031)	100,727
Liabilities:				
Securitized debt at fair value, collateralized by Loans held for investment	263,878	14,584	520,616	257,523

Derivatives

Swaptions

The Company uses an option pricing model to determine the fair value of its swaptions. For bi-lateral swaptions, the Company compares its own estimate of fair value with counterparty prices to evaluate for reasonableness. The counter-party pricing quotes, incorporate common market pricing methods, including a spread measurement to the Treasury yield curve or interest rate swap curve as well as underlying characteristics of the particular contract. Swaptions are modeled by the Company by incorporating such factors as the term to maturity, swap curve, overnight index swap rates, and the payment rates on the fixed portion of the interest rate swaps. The Company has classified the characteristics used to determine the fair value of swaptions as Level 2 inputs in the fair value hierarchy.

Secured Financing Agreements

Secured financing agreements are collateralized financing transactions utilized by the Company to acquire investment securities. For short term secured financing agreements and longer term floating rate secured financing agreements, the Company estimates fair value using the contractual obligation plus accrued interest payable. The Company has classified the characteristics used to determine the fair value of Secured Financing Agreements as Level 2 inputs in the fair value hierarchy.

Short-term Financial Instruments

The carrying value of cash and cash equivalents, accrued interest receivable, dividends payable, payable for investments purchased, and accrued interest payable are considered to be a reasonable estimate of fair value due to the short term nature and low credit risk of these short-term financial instruments.

The Company's financial assets and liabilities carried at fair value on a recurring basis, including the level in the fair value hierarchy, at June 30, 2022 and December 31, 2021 are presented below.

	June 30, 2022 (dollars in thousands)				
	Level 1	Level 2	Level 3	Counterparty and Cash Collateral, netting	Total
Assets:					
Non-Agency RMBS, at fair value	$ —	$ —	$ 1,321,775	$ —	$ 1,321,775
Agency RMBS, at fair value	—	73,454	—	—	73,454
Agency CMBS, at fair value	—	455,637	—	—	455,637
Loans held for investment, at fair value	—	217,441	11,676,980	—	11,894,421
Derivatives, at fair value	—	4,582	—	(4,582)	—
Liabilities:					
Securitized debt at fair value, collateralized by Loans held for investment	—	—	7,682,291	—	7,682,291

	December 31, 2021 (dollars in thousands)				
	Level 1	Level 2	Level 3	Counterparty and Cash Collateral, netting	Total
Assets:					
Non-Agency RMBS, at fair value	$ —	$ —	1,810,208	$ —	$ 1,810,208
Agency RMBS, at fair value	—	60,487	—	—	60,487
Agency CMBS, at fair value	—	761,208	—	—	761,208
Loans held for investment, at fair value	—	229,627	12,032,299	—	12,261,926
Liabilities:					
Securitized debt at fair value, collateralized by Loans held for investment	—	—	7,726,043	—	7,726,043

The table below provides a summary of the changes in the fair value of financial instruments classified as Level 3 at June 30, 2022 and December 31, 2021.

Fair Value Reconciliation, Level 3

	For the Six Months Ended June 30, 2022 (dollars in thousands)		
	Non-Agency RMBS	Loans held for investment	Securitized Debt
Beginning balance Level 3	$ 1,810,208	$ 12,032,299	$ 7,726,043
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Transfer due to consolidation	(218,276)	1,047,838	774,514
Purchases of assets/ issuance of debt	23,000	805,785	755,203
Principal payments	(126,185)	(1,119,641)	(1,054,198)
Sales and Settlements	—	(1,890)	—
Net accretion (amortization)	17,039	(41,871)	1,337
Gains (losses) included in net income			
(Increase) decrease in provision for credit losses	(4,737)	—	—
Realized gains (losses) on sales and settlements	—	—	—
Net unrealized gains (losses) included in income	(82,258)	(1,045,540)	(520,608)
Gains (losses) included in other comprehensive income			
Total unrealized gains (losses) for the period	(97,016)	—	—
Ending balance Level 3	$ 1,321,775	$ 11,676,980	$ 7,682,291

Fair Value Reconciliation, Level 3

	For the Year Ended December 31, 2021 (dollars in thousands)		
	Non-Agency RMBS	Loans held for investment	Securitized Debt
Beginning balance Level 3	$ 2,150,714	$ 13,112,129	$ 8,711,677
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	(272,198)	—
Purchases of assets/ issuance of debt	34,656	3,248,683	5,521,953
Principal payments	(299,330)	(2,495,015)	(2,247,983)
Sales and Settlements	(47,674)	(1,679,280)	(4,192,295)
Net accretion (amortization)	57,473	(79,223)	12,010
Gains (losses) included in net income			
Other than temporary credit impairment losses	(33)	—	—
Realized gains (losses) on sales and settlements	32,807	—	258,903
Net unrealized gains (losses) included in income	31,358	197,203	(338,222)
Gains (losses) included in other comprehensive income			
Total unrealized gains (losses) for the period	(149,763)	—	—
Ending balance Level 3	$ 1,810,208	$ 12,032,299	$ 7,726,043

There were no transfers in or out from Level 3 during the quarter and six months ended June 30, 2022. During the year ended December 31, 2021, there were transfers out of $272 million Loans held for investment from Level 3 into Level 2, relating to business purpose loans as these assets are valued based on recent trades of similar assets within an active market. The Company determines when transfers have occurred between levels of the fair value hierarchy based on the date of the event or change in circumstances that caused the transfer.

The significant unobservable inputs used in the fair value measurement of the Company's Non-Agency RMBS and securitized debt are the weighted average discount rates, prepayment rate, constant default rate, and the loss severity.

Discount Rate

The discount rate refers to the interest rate used in the discounted cash flow analysis to determine the present value of future cash flows. The discount rate takes into account not just the time value of money, but also the risk or uncertainty of future cash flows. An increased uncertainty of future cash flows results in a higher discount rate. The discount rate used to calculate the present value of the expected future cash flows is based on the discount rate implicit in the security as of the last measurement date. As discount rates move up, the values of the discounted cash flows are reduced.

The discount rates applied to the expected cash flows to determine fair value are derived from a range of observable prices on securities backed by similar collateral. As the market becomes more or less liquid, the availability of these observable inputs will change.

Prepayment Rate

The prepayment rate specifies the percentage of the collateral balance that is expected to prepay at each point in the future. The prepayment rate is based on factors such as interest rates, loan-to-value ratio, debt-to-income ratio, and is scaled up or down to reflect recent collateral-specific prepayment experience as obtained from remittance reports and market data services.

Constant Default Rate

Constant default rate represents an annualized rate of default on a group of mortgages. The constant default rate, or CDR, represents the percentage of outstanding principal balances in the pool that are in default, which typically equates to the home being past 60-day and 90-day notices and in the foreclosure process. When default rates increase, expected cash flows on the underlying collateral decreases. When default rates decrease, expected cash flows on the underlying collateral increases.

Default vectors are determined from the current "pipeline" of loans that are more than 30 days delinquent, in foreclosure, bankruptcy, or are REO. These delinquent loans determine the first 30 months of the default curve. Beyond month 30, the default curve transitions to a value that is reflective of a portion of the current delinquency pipeline.

Loss Severity

Loss severity rates reflect the amount of loss expected from a foreclosure and liquidation of the underlying collateral in the mortgage loan pool. When a mortgage loan is foreclosed the collateral is sold and the resulting proceeds are used to settle the outstanding obligation. In many circumstances, the proceeds from the sale do not fully repay the outstanding obligation. In these cases, a loss is incurred by the lender. Loss severity is used to predict how costly future losses are likely to be. An increase in loss severity results in a decrease in expected future cash flows. A decrease in loss severity results in an increase in expected future cash flows.

The curve generated to reflect the Company's expected loss severity is based on collateral-specific experience with consideration given to other mitigating collateral characteristics. Collateral characteristics such as loan size, loan-to-value, seasoning or loan age and geographic location of collateral also effect loss severity.

Sensitivity of Significant Inputs – Non-Agency RMBS and securitized debt, collateralized by Loans held for investment

Prepayment rates vary according to interest rates, the type of financial instrument, conditions in financial markets, and other factors, none of which can be predicted with any certainty. In general, when interest rates rise, it is relatively less attractive for borrowers to refinance their mortgage loans, and as a result, prepayment speeds tend to decrease. When interest rates fall, prepayment speeds tend to increase. For RMBS investments purchased at a premium, as prepayment rates increase, the amount of income the Company earns decreases as the purchase premium on the bonds amortizes faster than expected. Conversely, decreases in prepayment rates result in increased income and can extend the period over which the Company amortizes the purchase premium. For RMBS investments purchased at a discount, as prepayment rates increase, the amount of income the Company earns increases from the acceleration of the accretion of the purchase discount into interest income. Conversely, decreases in prepayment rates result in decreased income as the accretion of the purchase discount into interest income occurs over a longer period.

For securitized debt carried at fair value issued at a premium, as prepayment rates increase, the amount of interest expense the Company recognizes decreases as the issued premium on the debt amortizes faster than expected. Conversely, decreases in prepayment rates result in increased expense and can extend the period over which the Company amortizes the premium.

For debt issued at a discount, as prepayment rates increase, the amount of interest the Company expenses increases from the acceleration of the accretion of the discount into interest expense. Conversely, decreases in prepayment rates result in decreased expense as the accretion of the discount into interest expense occurs over a longer period.

A summary of the significant inputs used to estimate the fair value of Level 3 Non-Agency RMBS held for investment at fair value as of June 30, 2022 and December 31, 2021 follows. The weighted average discount rates are based on fair value.

June 30, 2022
Significant Inputs

	Discount Rate		Prepay Rate		CDR		Loss Severity	
	Range	Weighted Average	Range	Weighted Average	Range	Weighted Average	Range	Weighted Average
Non-Agency RMBS								
Senior	5%-10%	5.6%	1%-30%	11.1%	0%-13%	1.7%	26%-78%	34.1%
Subordinated	5%-12%	7.2%	1%-25%	13.3%	0%-6%	0.5%	10%-49%	38.2%
Interest-only	0%-100%	10.3%	6%-30%	15.6%	0%-8%	1.2%	0%-80%	30.8%

December 31, 2021
Significant Inputs

	Discount Rate		Prepay Rate		CDR		Loss Severity	
	Range	Weighted Average	Range	Weighted Average	Range	Weighted Average	Range	Weighted Average
Non-Agency RMBS								
Senior	1% -10%	3.9%	1% -30%	11.4%	0% -7%	1.8%	26% -78%	36.6%
Subordinated	2% -10%	5.6%	6% -45%	17.8%	0% -6%	1.1%	10% -55%	40.1%
Interest-only	0% -100%	10.3%	6% -55%	24.9%	0% -9%	1.3%	26% -84%	33.0%

A summary of the significant inputs used to estimate the fair value of securitized debt at fair value, collateralized by Loans held for investment, as of June 30, 2022 and December 31, 2021 follows:

June 30, 2022
Significant Inputs

	Discount Rate		Prepay Rate		CDR		Loss Severity	
	Range	Weighted Average	Range	Weighted Average	Range	Weighted Average	Range	Weighted Average
Securitized debt at fair value, collateralized by Loans held for investment	0%-9%	5.5%	0%-20%	13.3%	0%-10%	1.2%	0%-70%	52.3%

December 31, 2021
Significant Inputs

	Discount Rate		Prepay Rate		CDR		Loss Severity	
	Range	Weighted Average	Range	Weighted Average	Range	Weighted Average	Range	Weighted Average
Securitized debt at fair value, collateralized by Loans held for investment	1% -7%	2.6%	6% - 20%	15.1%	0% - 11%	1.4%	30% - 75%	56.1%

All of the significant inputs listed have some degree of market observability based on the Company’s knowledge of the market, information available to market participants, and use of common market data sources. Collateral default and loss severity projections are in the form of “curves” that are updated quarterly to reflect the Company’s collateral cash flow projections. Methods used to develop these projections conform to industry conventions. The Company uses assumptions it considers its best estimate of future cash flows for each security.

Sensitivity of Significant Inputs – Loans held for investment

The Loans held for investment are comprised of loans collateralized by seasoned reperforming residential mortgages. Additionally, it includes non-conforming, single family, owner occupied, jumbo and prime residential mortgages. The significant unobservable factors used to estimate the fair value of the Loans held for investment collateralized by seasoned

reperforming residential mortgage loans, as of June 30, 2022 and December 31, 2021, include coupon, FICO score at origination, loan-to-value, or LTV ratios, owner occupancy status, and property type. A summary of the significant factors used to estimate the fair value of Loans held for investment collateralized primarily by seasoned reperforming residential mortgages at fair value as of June 30, 2022 and December 31, 2021 follows:

	June 30, 2022	December 31, 2021
Factor:		
Coupon		
Base Rate	5.6%	3.1%
Actual	5.8%	6.1%
FICO		
Base Rate	640	640
Actual	651	654
Loan-to-value (LTV)		
Base Rate	87%	87%
Actual	83%	84%
Loan Characteristics:		
Occupancy		
Owner Occupied	88%	91%
Investor	5%	3%
Secondary	7%	6%
Property Type		
Single family	80%	83%
Manufactured housing	4%	4%
Multi-family/mixed use/other	16%	13%

The loan factors are generally not observable for the individual loans and the base rates developed by the Company's internal model are subjective and change as market conditions change. The impact of the loan coupon on the value of the loan is dependent on the loan history of delinquent payments. A loan with no history of delinquent payments would result in a higher overall value than a loan which has a history of delinquent payments. Similarly, a higher FICO score and a lower LTV ratio results in increases in the fair market value of the loan and a lower FICO score and a higher LTV ratio results in a lower value. See Note 4 for delinquency details for the Loans held for investment portfolio.

Property types also affect the overall loan values. Property types include single family, manufactured housing and multi-family/mixed use and other types of properties. Single family homes represent properties which house one to four family units. Manufactured homes include mobile homes and modular homes. Loan value for properties that are investor or secondary homes have a reduced value as compared to the baseline loan value. Additionally, single family homes will result in an increase to the loan value, whereas manufactured and multi-family/mixed use and other properties will result in a decrease to the loan value, as compared to the baseline.

Financial instruments not carried at fair value

The following table presents the carrying value and fair value, as described above, of the Company's financial instruments not carried at fair value on a recurring basis at June 30, 2022 and December 31, 2021.

	June 30, 2022 (dollars in thousands)		
	Level in Fair Value Hierarchy	Carrying Amount	Fair Value
Secured financing agreements	2	3,148,832	3,153,013
Securitized debt, collateralized by Non-Agency RMBS	3	81,732	58,563

	December 31, 2021 (dollars in thousands)		
	Level in Fair Value Hierarchy	Carrying Amount	Fair Value
Secured financing agreements	2	3,261,613	3,265,577
Securitized debt, collateralized by Non-Agency RMBS	3	87,999	72,505

6. Secured Financing Agreements

Secured financing agreements include short term repurchase agreements with original maturity dates of less than one-year, long-term financing agreements with original maturity dates of more than one year and loan warehouse credit facilities collateralized by loans acquired by the Company.

The repurchase agreements are collateralized by Agency and Non-Agency mortgage-backed securities with interest rates generally indexed to either the one-month LIBOR rates, the three-month LIBOR rates, or the Secured Overnight Financing Rate ("SOFR") and re-price accordingly. The maturity dates on the repurchase agreements are all less than one year and generally are less than 180 days. The collateral pledged as security on the repurchase agreements may include the Company's investments in bonds issued by consolidated VIEs, which are eliminated in consolidation.

The long-term financing agreements include secured financing arrangements with an original term of one year or greater which is secured by Non-Agency RMBS and Loans held for investments pledged as collateral. Maturity date on these long-term secured financing agreements range between September 2023 to March 2024. The collateral pledged as security on the long-term financing agreements may include the Company's investments in bonds issued by consolidated VIEs, which are eliminated in consolidation.

The warehouse credit facilities collateralized by loans are repurchase agreements intended to finance loans until they can be sold into a longer-term securitization structure. The maturity dates on the warehouse credit facilities range from 30 days to one year with interest rates indexed to SOFR.

The secured financing agreements generally require the Company to post collateral at a specific rate in excess of the unpaid principal balance of the agreement. For certain secured financing agreements, this may require the Company to post additional margin if the fair value of the assets were to drop. To mitigate this risk, the Company has negotiated several long-term financing agreements which are not subject to additional margin requirements upon a drop in the fair value of the collateral pledged or until the drop is greater than a threshold. At June 30, 2022 and December 31, 2021, the Company has $877 million and $1.2 billion, respectively, of secured financing agreements which are not subject to additional margin requirements upon a change in the fair value of the collateral pledged. At June 30, 2022 and December 31, 2021, the Company has $481 million and $113 million, respectively, of secured financing agreements which are not subject to additional margin requirements until the drop in the fair value of collateral is greater than a threshold. Repurchase agreements may allow the credit counterparty to avoid the automatic stay provisions of the Bankruptcy Code, in the event of a bankruptcy of the Company, and take possession of, and liquidate, the collateral under such repurchase agreements without delay.

The secured financing agreements outstanding, weighted average borrowing rates, weighted average remaining maturities, average balances and the fair value of the collateral pledged as of June 30, 2022 and December 31, 2021 were:

	June 30, 2022	December 31, 2021
Secured financing agreements outstanding secured by:		
Agency RMBS (in thousands)	$ 7,816	$ 23,170
Agency CMBS (in thousands)	326,571	589,535
Non-Agency RMBS and Loans held for investment (in thousands)[1]	2,814,445	2,648,908
Total:	$ 3,148,832	$ 3,261,613
MBS pledged as collateral at fair value on Secured financing agreements:		
Agency RMBS (in thousands)	$ 8,408	$ 28,320
Agency CMBS (in thousands)	356,239	617,457
Non-Agency RMBS and Loans held for investment (in thousands)	3,634,726	3,747,573
Total:	$ 3,999,373	$ 4,393,350
Average balance of Secured financing agreements secured by:		
Agency RMBS (in thousands)	$ 17,402	$ 47,155
Agency CMBS (in thousands)	393,014	963,894
Non-Agency RMBS and Loans held for investment (in thousands)	2,869,125	2,926,880
Total:	$ 3,279,541	$ 3,937,929
Average borrowing rate of Secured financing agreements secured by:		
Agency RMBS	1.45 %	0.68 %
Agency CMBS	1.38 %	0.21 %
Non-Agency RMBS and Loans held for investment	3.49 %	2.78 %
Average remaining maturity of Secured financing agreements secured by:		
Agency RMBS	18 Days	4 Days
Agency CMBS	23 Days	13 Days
Non-Agency RMBS and Loans held for investment	278 Days	257 Days
Average original maturity of Secured financing agreements secured by:		
Agency RMBS	91 Days	61 Days
Agency CMBS	55 Days	35 Days
Non-Agency RMBS and Loans held for investment	297 Days	283 Days

(1) The outstanding balance for secured financing agreements in the table above is net of $ 3 million of deferred financing cost as of December 31, 2021.

At June 30, 2022 and December 31, 2021, we pledged $28 million and $19 million, respectively, of margin cash collateral to the Company's secured financing agreement counterparties. At June 30, 2022 and December 31, 2021, the secured financing agreements collateralized by MBS and Loans held for investment had the following remaining maturities and borrowing rates.

	June 30, 2022			December 31, 2021		
	(dollars in thousands)					
	Principal	Weighted Average Borrowing Rates	Range of Borrowing Rates	Principal [1]	Weighted Average Borrowing Rates	Range of Borrowing Rates
1 to 29 days	322,212	1.46%	1.12% - 1.75%	1,018,670	0.73%	0.11% - 1.95%
30 to 59 days	383,451	2.67%	1.18% - 4.40%	379,031	1.66%	1.55% - 1.70%
60 to 89 days	98,567	2.09%	1.73% - 2.44%	342,790	1.86%	0.90% - 2.35%
90 to 119 days	234,331	3.93%	2.42% - 4.65%	67,840	1.66%	1.66% - 1.66%
120 to 180 days	387,481	3.21%	2.45% - 3.60%	157,944	1.38%	0.95% - 1.45%
180 days to 1 year	1,137,376	3.45%	2.76% - 4.60%	895,210	3.70%	1.95% - 4.38%
1 to 2 years	585,414	4.25%	3.39% - 4.38%	143,239	3.05%	3.05% - 3.05%
Greater than 3 years	—	NA	NA	256,889	5.56%	5.56% - 5.56%
Total	$ 3,148,832	3.26%		$ 3,261,613	2.30%	

(1) The principal balance for secured financing agreements in the table above is net of $ 3 million of deferred financing cost as of and December 31, 2021.

Certain of the long-term financing agreements and warehouse credit facilities are subject to certain covenants. These covenants include that the Company maintain its REIT status as well as maintain a net asset value or GAAP equity greater than a certain level. If the Company fails to comply with these covenants at any time, the financing may become immediately due in full. Additionally, certain financing agreements become immediately due if the total stockholders' equity of the Company drops by 50% from the most recent year end. Currently, the Company is in compliance with all covenants and does not expect to fail to comply with any of these covenants within the next twelve months. The Company has a total of $1.9 billion unused uncommitted warehouse credit facilities as of June 30, 2022.

At June 30, 2022 and December 31, 2021 , there was no amount at risk with any counterparty greater than 10% of the Company's equity.

7. Securitized Debt

All of the Company’s securitized debt is collateralized by residential mortgage loans or Non-Agency RMBS. For financial reporting purposes, the Company’s securitized debt is accounted for as secured borrowings. Thus, the residential mortgage loans or RMBS held as collateral are recorded in the assets of the Company as Loans held for investment or Non-Agency RMBS and the securitized debt is recorded as a non-recourse liability in the accompanying Consolidated Statements of Financial Condition.

Securitized Debt Collateralized by Non-Agency RMBS

At June 30, 2022 and December 31, 2021, the Company’s securitized debt collateralized by Non-Agency RMBS was carried at amortized cost and had a principal balance of $110 million and $113 million, respectively. At June 30, 2022 and December 31, 2021, the debt carried a weighted average coupon of 6.7%. As of June 30, 2022, the maturities of the debt range between the years 2036 and 2037. None of the Company’s securitized debt collateralized by Non-Agency RMBS is callable.

The Company did not acquire any securitized debt collateralized by Non-Agency RMBS during the quarters and six months ended June 30, 2022 and 2021.

The following table presents the estimated principal repayment schedule of the securitized debt collateralized by Non-Agency RMBS at June 30, 2022 and December 31, 2021, based on expected cash flows of the residential mortgage loans or RMBS, as adjusted for projected losses on the underlying collateral of the debt. All of the securitized debt recorded in the Company’s Consolidated Statements of Financial Condition is non-recourse to the Company.

	June 30, 2022		December 31, 2021
	(dollars in thousands)		
Within One Year	$	1,534	$	4,374
One to Three Years		1,462		2,361
Three to Five Years		494		949
Greater Than Five Years		5		82
Total	$	3,495	$	7,766

Maturities of the Company's securitized debt collateralized by Non-Agency RMBS are dependent upon cash flows received from the underlying collateral. The estimate of their repayment is based on scheduled principal payments on the underlying collateral. This estimate will differ from actual amounts to the extent prepayments or losses are experienced. See Note 3 for a more detailed discussion of the securities collateralizing the securitized debt.

Securitized Debt Collateralized by Loans Held for Investment

At June 30, 2022 and December 31, 2021, the Company's securitized debt collateralized by Loans held for investment had a principal balance of $8.3 billion and $7.8 billion, respectively. At June 30, 2022 and December 31, 2021, the total securitized debt collateralized by Loans held for investment carried a weighted average coupon of 2.6% and 2.4%, respectively. As of June 30, 2022, the maturities of the debt range between the years 2023 and 2070.

The Company did not acquire any securitized debt collateralized by loans held for investment during the quarter and six months ended June 30, 2022. During the quarter ended June 30, 2021, the Company acquired securitized debt collateralized by Loans held for investment with an amortized cost balance of $1.0 billion for $1.1 billion. This transaction resulted in net loss on extinguishment of debt of $22 million. During the six months ended June 30, 2021, the Company acquired securitized debt collateralized by Loans held for investment with an amortized cost balance of $3.7 billion for $4.0 billion. This transaction resulted in net loss on extinguishment of debt of $256 million.

The following table presents the estimated principal repayment schedule of the securitized debt collateralized by Loans held for investment at June 30, 2022 and December 31, 2021, based on expected cash flows of the residential mortgage loans or RMBS, as adjusted for projected losses on the underlying collateral of the debt. All of the securitized debt recorded in the Company's Consolidated Statements of Financial Condition is non-recourse to the Company.

	June 30, 2022		December 31, 2021	
	(dollars in thousands)			
Within One Year	$	1,983,989	$	2,031,445
One to Three Years		2,885,751		2,886,255
Three to Five Years		1,796,749		1,697,760
Greater Than Five Years		1,588,390		1,145,995
Total	$	8,254,879	$	7,761,455

Maturities of the Company's securitized debt collateralized by Loans held for investment are dependent upon cash flows received from the underlying loans. The estimate of their repayment is based on scheduled principal payments on the underlying loans. This estimate will differ from actual amounts to the extent prepayments or loan losses are experienced. See Note 4 for a more detailed discussion of the loans collateralizing the securitized debt.

Certain of the securitized debt collateralized by Loans held for investment contain call provisions at the option of the Company. The following table presents the par value of the callable debt by year at June 30, 2022.

June 30, 2022 (dollars in thousands)		
Year		Principal
Currently callable	$	408,438
2022		1,306,044
2023		1,491,687
2024		1,337,036
2025		2,070,962
2026		264,676
2027		614,930
Total	$	7,493,773

8. Long Term Debt

Convertible Senior Notes

As of December 31, 2021 all of the outstanding principal amount on the Company's7.0% convertible senior notes due 2023 (the “Notes”) were either converted or acquired by the Company. At December 31, 2021, there was no outstanding principal amount, unamortized deferred debt issuance cost and accrued interest payable on these Notes. The net interest expense for the quarter and six months ended June 30, 2021 was $1 million and $2 million, respectively.

9. Consolidated Securitization Vehicles and Other Variable Interest Entities

Since its inception, the Company has utilized VIEs for the purpose of securitizing whole mortgage loans or re-securitizing RMBS and obtaining long-term, non-recourse financing. The Company evaluated its interest in each VIE to determine if it is the primary beneficiary.

During the quarter and six months ended June 30, 2022, the Company consolidated approximately $728 million and $2.2 billion, respectively, unpaid principal balance of seasoned residential reperforming residential mortgage loans. During the quarter and six months ended June 30, 2021, the Company securitized and consolidated approximately $1.5 billion and $5.6 billion, respectively, unpaid principal balance of seasoned residential reperforming residential mortgage loans.

VIEs for Which the Company is the Primary Beneficiary

The retained beneficial interests in VIEs for which the Company is the primary beneficiary are typically the subordinated tranches of these securitizations and in some cases the Company may hold interests in additional tranches. The table below reflects the assets and liabilities recorded in the Consolidated Statements of Financial Condition related to the consolidated VIEs as of June 30, 2022 and December 31, 2021.

		June 30, 2022		December 31, 2021
		(dollars in thousands)		
Assets:				
Non-Agency RMBS, at fair value[1]	$	309,408	$	399,048
Loans held for investment, at fair value		10,405,132		10,205,587
Accrued interest receivable		52,186		47,237
Other assets		16,735		14,719
Total Assets:	$	10,783,461	$	10,666,591
Liabilities:				
Securitized debt, collateralized by Non-Agency RMBS	$	81,732	$	87,999
Securitized debt at fair value, collateralized by Loans held for investment		7,192,070		7,118,374
Accrued interest payable		17,478		15,101
Other liabilities		2,319		2,181
Total Liabilities:		7,293,599		7,223,655

(1) June 30, 2022 balance includes allowance for credit losses of $ 3 million.

Income and expense amounts related to consolidated VIEs recorded in the Consolidated Statements of Operations is presented in the tables below.

	For the Quarters ended	
	June 30, 2022	June 30, 2021
	(dollars in thousands)	
Interest income, Assets of consolidated VIEs	$ 140,209	$ 149,115
Interest expense, Non-recourse liabilities of VIEs	50,193	50,935
Net interest income	$ 90,016	$ 98,180
(Increase) decrease in provision for credit losses	$ (3,120)	$ (365)
Servicing fees	$ 6,692	$ 6,640

	For the Six Months ended	
	June 30, 2022	June 30, 2021
	(dollars in thousands)	
Interest income, Assets of consolidated VIEs	$ 271,275	$ 307,214
Interest expense, Non-recourse liabilities of VIEs	92,684	116,141
Net interest income	$ 178,591	$ 191,073
(Increase) decrease in provision for credit losses	$ (3,143)	$ (248)
Servicing fees	$ 13,555	$ 13,683

VIEs for Which the Company is Not the Primary Beneficiary

The Company is not required to consolidate VIEs in which it has concluded it does not have a controlling financial interest, and thus is not the primary beneficiary. In such cases, the Company does not have both the power to direct the entities' most significant activities, such as rights to replace the servicer without cause, and the obligation to absorb losses or right to receive benefits that could potentially be significant to the VIEs. The Company's investments in these unconsolidated VIEs are carried in Non-Agency RMBS on the Consolidated Statements of Financial Condition and include senior and subordinated bonds issued by the VIEs.

The fair value of the Company's investments in each unconsolidated VIEs at June 30, 2022, ranged from less than $1 million to $26 million, with an aggregate amount of $1.0 billion. The fair value of the Company's investments in each unconsolidated VIEs at December 31, 2021, ranged from less than $1 million to $220 million, with an aggregate amount of $1.4 billion. The Company's maximum exposure to loss from these unconsolidated VIEs was $886 million and $1.2 billion at June 30, 2022 and December 31, 2021, respectively. The maximum exposure to loss was determined as the amortized cost of the unconsolidated VIE, which represents the purchase price of the investment adjusted by any unamortized premiums or discounts as of the reporting date.

10. Derivative Instruments

In connection with the Company's interest rate risk strategy, the Company may economically hedge a portion of its interest rate risk by entering into derivative financial instrument contracts in the form of interest rate swaps, swaptions, and Treasury futures. Swaps are used to lock in a fixed rate related to a portion of its current and anticipated payments on its secured financing agreements. The Company typically agrees to pay a fixed rate of interest, or pay rate, in exchange for the right to receive a floating rate of interest, or receive rate, over a specified period of time. Interest rate swaptions provide the option to enter into an interest rate swap agreement for a predetermined notional amount, stated term and pay and receive interest rates in the future. The Company's swaptions are not centrally cleared. Treasury futures are derivatives which track the prices of generic benchmark Treasury securities with identical maturity and are traded on an active exchange. It is generally the

Company's policy to close out any Treasury futures positions prior to delivering the underlying security. Treasury futures lock in a fixed rate related to a portion of its current and anticipated payments on its secured financing agreements.

The Company's derivatives are recorded as either assets or liabilities in the Consolidated Statements of Financial Condition and measured at fair value. These derivative financial instrument contracts are not designated as hedges for GAAP; therefore, all changes in fair value are recognized in earnings. The Company elects to net the fair value of its derivative contracts by counterparty when appropriate. These contracts contain legally enforceable provisions that allow for netting or setting off of all individual derivative receivables and payables with each counterparty and therefore, the fair values of those derivative contracts are reported net by counterparty.

The use of derivatives creates exposure to credit risk relating to potential losses that could be recognized if the counterparties to these instruments fail to perform their obligations under the contracts. In the event of a default by the counterparty, the Company could have difficulty obtaining its RMBS or cash pledged as collateral for these derivative instruments. The Company periodically monitors the credit profiles of its counterparties to determine if it is exposed to counterparty credit risk. See Note 15 for further discussion of counterparty credit risk.

During the quarter ended June 30, 2022, the Company purchased a swaption contract for a one-year forward starting swap of $1.0 billion notional in May 2023 with a 3.26% strike rate. The underlying swap terms will allow the Company to pay a fix rate of 3.26% and receive floating overnight SOFR rate. The Company paid $6 million premium for the purchase of this swaption contract. The Company also maintains collateral in the form of cash on margin from counterparty to its swaption contact. In accordance with the Company's netting policy, the Company presents the fair value of its swaption contract net of cash margin received. See Note 15 for additional details on derivative netting.

This swaption contract is subject to certain early termination provisions. These provisions include that the Company maintains $1.0 billion or higher total stockholders' equity, and a leverage ratio below twelve. Currently, the Company is in compliance with these early termination provisions and does not expect to fail to comply with any of these early termination provisions within the next twelve months.

The table below summarizes the location and fair value of the derivatives reported in the Consolidated Statements of Financial Condition after counterparty netting and posting of cash collateral as of June 30, 2022. The Company did not have any derivative instruments as of December 31, 2021.

		June 30, 2022			
		Derivative Assets		Derivative Liabilities	
Derivative Instruments	**Notional Amount Outstanding**	**Location on Consolidated Statements of Financial Condition**	**Net Estimated Fair Value/Carrying Value**	**Location on Consolidated Statements of Financial Condition**	**Net Estimated Fair Value/Carrying Value**
		(dollars in thousands)			
Swaptions	1,000,000	Derivatives, at fair value	$ —	Derivatives, at fair value	$ —
Total	$ 1,000,000		$ —		$ —

The effect of the Company's derivatives on the Consolidated Statements of Operations for the quarter and the six months ended June 30, 2022 and June 30, 2021, respectively is presented below.

		Net gains (losses) on derivatives for the quarters ended		Net gains (losses) on derivatives for the six months ended	
Derivative Instruments	**Location on Consolidated Statements of Operations and Comprehensive Income**	**June 30, 2022**	**June 30, 2021**	**June 30, 2022**	**June 30, 2021**
		(dollars in thousands)		(dollars in thousands)	
Swaptions	Net unrealized gains (losses) on derivatives	(1,618)	—	(1,618)	—
Total		$ (1,618)	$ —	$ (1,618)	$ —

When the Company enters into derivative contracts, they are typically subject to International Swaps and Derivatives Association Master Agreements or other similar agreements which may contain provisions that grant counterparties certain rights with respect to the applicable agreement upon the occurrence of certain events such as (i) a decline in stockholders'

equity in excess of specified thresholds or dollar amounts over set periods of time, (ii) the Company's failure to maintain its REIT status, (iii) the Company's failure to comply with limits on the amount of leverage, and (iv) the Company's stock being delisted from the New York Stock Exchange, or NYSE. Upon the occurrence of any one of items (i) through (iv), or another default under the agreement, the counterparty to the applicable agreement has a right to terminate the agreement in accordance with its provisions. If the Company breaches any of these provisions, it will be required to settle its obligations under
the agreements at their termination values, which approximates fair value.

11. Capital Stock

Preferred Stock

The Company declared dividends to Series A preferred stockholders of $3 million and $6 million , or $0.50 and $1.00 per preferred share, during the quarter and six months ended June 30, 2022, respectively. The Company declared dividends to Series A preferred stockholders of $3 million and $6 million, or $0.50 and $1.00 per preferred share, during the quarter and six months ended June 30, 2021, respectively.

The Company declared dividends to Series B preferred stockholders of $7 million and $13 million, or $0.50 and $1.00 per preferred share,during the quarter and six months ended June 30, 2022, respectively. The Company declared dividends to Series B preferred stockholders of $7 million and $13 million, or $0.50 and $1.00 per preferred share,during the quarter and six months ended June 30, 2021, respectively.

The Company declared dividends to Series C preferred stockholders of $5 million and $10 million, or $0.484375 and $0.968750 per preferred share, during quarter and six months ended June 30, 2022, respectively. The Company declared dividends to Series C preferred stockholders of $5 million and $10 million, or $0.484375 and $0.968750 per preferred share, during quarter ended and six months ended June 30, 2021, respectively.

The Company declared dividends to Series D preferred stockholders of $4 million and $8 million, or $0.50 and $1.00 per preferred share, during the quarter and six months ended June 30, 2022, respectively. The Company declared dividends to Series D preferred stockholders of $4 million and $8 million, or $0.50 and $1.00 per preferred share, during the quarter and six months ended June 30, 2021, respectively.

On October 30, 2021, all 5,800,000 issued and outstanding shares of Series A Preferred Stock with an outstanding liquidation preference of $145 million became callable at a redemption price equal to the liquidation preference plus accrued and unpaid dividends through, but not including the redemption date. The Company's fixed-to-floating rate series B, C and D preferred stock are LIBOR based and will become floating on their respective call dates.

Common Stock

In February 2021, the Company's Board of Directors increased the authorization of the Company's share repurchase program to $250 million, or the Repurchase Program. Such authorization does not have an expiration date, and at present, there is no intention to modify or otherwise rescind such authorization. Shares of the Company's common stock may be purchased in the open market, including through block purchases, through privately negotiated transactions, or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended, or the Exchange Act. The timing, manner, price and amount of any repurchases will be determined at the Company's discretion and the program may be suspended, terminated or modified at any time, for any reason. Among other factors, the Company intends to only consider repurchasing shares of its common stock when the purchase price is less than the last publicly reported book value per common share. In addition, the Company does not intend to repurchase any shares from directors, officers or other affiliates. The program does not obligate the Company to acquire any specific number of shares, and all repurchases will be made in accordance with Rule 10b-18, which sets certain restrictions on the method, timing, price and volume of stock repurchases.

The Company repurchased approximately 5.4 million shares of its common stock at an average price of $9.10 for a total of $49 million during the quarter and six months ended June 30, 2022. The Company did not repurchase any of its common stock during the quarter ended June 30, 2021. The Company repurchased approximately 161 thousand shares of its common stock at an average price of $11.39 per share for a total of $2 million during the six months ended June 30, 2021. The approximate dollar value of shares that may yet be purchased under the Repurchase Program is $177 million as of June 30, 2022.

In February 2022, the Company entered into separate Distribution Agency Agreements (the "Sales Agreements") with each of Credit Suisse Securities (USA) LLC, JMP Securities LLC, Goldman Sachs & Co. LLC, Morgan Stanley & Co. LLC and RBC Capital Markets, LLC (the "Sales Agents"). Pursuant to the terms of the Sales Agreements, the Company may offer and sell shares of our common stock, having an aggregate offering price of up to $500,000,000, from time to time through any of the

Sales Agents under the Securities Act of 1933. During the quarter and six months ended June 30, 2022, the Company did not issue any shares under the at-the-market sales program.

During the quarter and six months ended June 30, 2022, the Company declared dividends to common shareholders of $78 million and $156 million, or $0.33 and $0.66 per share, respectively. During the quarter and six months ended June 30, 2021, the Company declared dividends to common shareholders of $79 million and $149 million, or $0.33 and $0.63 per share, respectively.

Earnings per Share (EPS)

EPS for the quarter and six months ended June 30, 2022 and 2021, are computed as follows:

	For the Quarters Ended	
	June 30, 2022	**June 30, 2021**
	(dollars in thousands)	
Numerator:		
Net income (loss) available to common shareholders - Basic	$ (179,765)	$ 144,883
Effect of dilutive securities:		
Interest expense attributable to convertible notes	—	959
Net income (loss) available to common shareholders - Diluted	$ (179,765)	$ 145,842
Denominator:		
Weighted average basic shares	235,310,440	231,638,042
Effect of dilutive securities	—	10,101,494
Weighted average dilutive shares	235,310,440	241,739,536
Net income (loss) per average share attributable to common stockholders - Basic	$ (0.76)	$ 0.63
Net income (loss) per average share attributable to common stockholders - Diluted	$ (0.76)	$ 0.60

	For the Six Months Ended	
	June 30, 2022	June 30, 2021
	(dollars in thousands)	
Numerator:		
Net income (loss) available to common shareholders - Basic	$ (460,966)	$ 284,037
Effect of dilutive securities:		
Interest expense attributable to convertible notes	—	2,035
Net income (loss) available to common shareholders - Diluted	$ (460,966)	$ 286,072
Denominator:		
Weighted average basic shares	236,156,868	231,105,595
Effect of dilutive securities	—	20,618,345
Weighted average dilutive shares	236,156,868	251,723,940
Net income (loss) per average share attributable to common stockholders - Basic	$ (1.95)	$ 1.23
Net income (loss) per average share attributable to common stockholders - Diluted	$ (1.95)	$ 1.14

For the quarter and the six months ended June 30, 2022 potentially dilutive shares of2.3 million were excluded from the computation of fully diluted EPS because their effect would have been anti-dilutive. At June 30, 2021 potentially dilutive shares of 59 thousand were excluded from the computation of fully diluted EPS because their effect would have been anti-dilutive. Anti-dilutive shares for the quarter and six months ended June 30, 2022 and six months ended June 30, 2021 were comprised of restricted stock units and performance stock units.

12. Accumulated Other Comprehensive Income

The following table presents the changes in the components of Accumulated Other Comprehensive Income, or the AOCI, for the six months ended June 30, 2022 and 2021:

	June 30, 2022 (dollars in thousands)	
	Unrealized gains (losses) on available-for-sale securities, net	Total Accumulated OCI Balance
Balance as of December 31, 2021	$ 405,054	$ 405,054
OCI before reclassifications	(99,324)	(99,324)
Amounts reclassified from AOCI	—	—
Net current period OCI	(99,324)	(99,324)
Balance as of June 30, 2022	$ 305,730	$ 305,730

	June 30, 2021 (dollars in thousands)	
	Unrealized gains (losses) on available-for-sale securities, net	Total Accumulated OCI Balance
Balance as of December 31, 2020	$ 558,096	$ 558,096
OCI before reclassifications	(64,867)	(64,867)
Amounts reclassified from AOCI	(37,116)	(37,116)
Net current period OCI	(101,983)	(101,983)
Balance as of June 30, 2021	$ 456,113	$ 456,113

There were no amounts reclassified from AOCI during the six months ended June 30, 2022. The amounts reclassified from AOCI balance comprised of $17 million net unrealized gains on available-for-sale securities sold for the six months ended June 30, 2021.

13. Equity Compensation, Employment Agreements and other Benefit Plans

In accordance with the terms of the Company's 2007 Equity Incentive Plan (as amended and restated on December 10, 2015), or the Incentive Plan, directors, officers and employees of the Company are eligible to receive restricted stock grants. These awards generally have a vesting period lasting three years. There were approximately 1 million shares available for future grants under the Incentive Plan as of June 30, 2022.

The Compensation Committee of the Board of Directors of the Company has approved a Stock Award Deferral Program, or the Deferral Program. Under the Deferral Program, non-employee directors and certain executive officers can elect to defer payment of certain stock awards made pursuant to the Incentive Plan. Deferred awards are treated as deferred stock units and paid at the earlier of separation from service or a date elected by the participant who is separating. Payments are generally made in a lump sum or, if elected by the participant, in five annual installments. Deferred awards receive dividend equivalents during the deferral period in the form of additional deferred stock units. Amounts are paid at the end of the deferral period by delivery of shares from the Incentive Plan (plus cash for any fractional deferred stock units), less any applicable tax withholdings. Deferral elections do not alter any vesting requirements applicable to the underlying stock award. At June 30, 2022 and December 31, 2021, there are approximately 1 million and 914 thousand shares for which payments have been deferred until separation or a date elected by the participant, respectively. At June 30, 2022 and December 31, 2021, there are approximately 800 thousand and 699 thousand dividend equivalent rights earned but not yet delivered.

Grants of Restricted Stock Units, or RSUs

During the quarters and six months ended June 30, 2022 and 2021, the Company granted RSU awards to employees. These RSU awards are designed to reward employees of the Company for services provided to the Company. Generally, the RSU awards vest equally over a three-year period beginning from the grant date and will fully vest after three years. For employees who are retirement eligible, defined as years of service to the Company plus age, is equal to or greater than 65, the service period is considered to be fulfilled and all grants are expensed immediately. The RSU awards are valued at the market price of the Company's common stock on the grant date and generally the employees must be employed by the Company on the vesting dates to receive the RSU awards. The Company granted 93 thousand and 221 thousand RSU awards during the quarter and six months ended June 30, 2022 with a grant date fair value of $1 million and $3 million, respectively for the 2022 performance year. The Company granted 62 thousand and 244 thousand RSU awards during the quarter and six months ended June 30, 2021, with a grant date fair value of $1 million and $3 million, respectively, for the 2021 performance year.

In addition, during the six months ended June 30, 2021, the Company granted certain of its senior management 1 million RSU awards that vest in five equal tranches with one tranche vested immediately and the remaining four will vest equally over a four-year period. These additional RSUs are not subject to retirement eligible provisions and had a grant date fair value of $10 million.

Grants of Performance Share Units, or PSUs

PSU awards are designed to align compensation with the Company's future performance. The PSU awards granted during the first quarter of 2022 and 2021, include a three-year performance period ending on December 31, 2024 and December 31, 2023, respectively. The final number of shares awarded will be between 0% and 200% of the PSUs granted based on the Company Economic Return compared to a peer group. The Company's three-year Company Economic Return is equal to the Company's change in book value per common share plus common stock dividends. Compensation expense will be recognized on a straight-line basis over the three-year vesting period based on an estimate of the Company Economic Return in relation to the entities in the peer group and will be adjusted each period based on the Company's best estimate of the actual number of shares awarded. We did not grant any PSUs during the quarters ended June 30, 2022 and 2021. During the six months ended June 30, 2022, the Company granted 128 thousand PSU awards to senior management with a grant date fair value of $2 million. During the six months ended June 30, 2021, the Company granted 182 thousand PSU awards to senior management with a grant date fair value of $2 million.

The Company recognized stock based compensation expenses of $602 thousand and $4 million for the quarters and six months ended June 30, 2022. The Company recognized stock based compensation expenses $2 million and $7 million for the quarters and six months ended June 30, 2021.

The Company also maintains a qualified 401(k) plan. The plan is a retirement savings plan that allows eligible employees to contribute a portion of their wages on a tax-deferred basis under Section 401(k) of the Code. For the quarter ended June 30,

2022, employees may contribute, through payroll deductions, up to $20,500 if under the age of 50 years and an additional $6,500 “catch-up” contribution for employees 50 years or older. The Company matches 100% of the first 6% of the eligible compensation deferred by employee contributions. The employer funds the 401(k) matching contributions in the form of cash, and participants may direct the Company match to an investment of their choice. The benefit of the Company’s contributions vests immediately. Generally, a participating employee is entitled to distributions from the plans upon termination of employment, retirement, death or disability. The 401(k) expenses related to the Company’s qualified plan for the quarters and six months ended June 30, 2022 were $179 thousand and $327 thousand, respectively. The 401(k) expenses related to the Company’s qualified plan for the quarters and six months ended June 30, 2021 were $11 thousand and $236 thousand, respectively.

14. Income Taxes

For the year ended December 31, 2021, the Company qualified to be taxed as a REIT under Code Sections 856 through 860. As a REIT, the Company is not subject to U.S. federal income tax to the extent that it makes qualifying distributions of taxable income to its stockholders. To maintain qualification as a REIT, the Company must distribute at least 90% of its annual REIT taxable income (subject to certain adjustments) to its shareholders and meet certain other requirements such as assets it may hold, income it may generate and its shareholder composition. It is generally the Company’s policy to distribute to its shareholders all of the Company’s taxable income.

The state and local tax jurisdictions in which the Company is subject to tax-filing obligations generally recognize the Company’s status as a REIT and therefore the Company generally does not pay income tax in such jurisdictions. The Company may, however, be subject to certain minimum state and local tax filing fees and its TRSs are subject to U.S. federal, state and local taxes. The Company recorded current income tax expense of $94 thousand and $24 thousand for the quarter and six months ended June 31, 2022, respectively. The Company recorded a current income tax benefit of $200 thousand for the quarter ended June 30, 2021 and current income tax expense of $4 million for the six months ended June 30, 2021.

The Company’s effective tax rate differs from its combined U.S. federal, state and city corporate statutory tax rate primarily due to the deduction of dividend distributions required to be paid under Code Section 857(a).

The Company’s U.S. federal, state and local tax returns for the tax years ending on or after December 31, 2018 remain open for examination.

15. Credit Risk and Interest Rate Risk

The Company’s primary components of market risk are credit risk and interest rate risk. The Company is subject to interest rate risk in connection with its investments in Agency MBS and Non-Agency RMBS, residential mortgage loans, borrowings under secured financing agreements and securitized debt. When the Company assumes interest rate risk, it attempts to minimize interest rate risk through asset selection, hedging and matching the income earned on mortgage assets with the cost of related financing.

The Company attempts to minimize credit risk through due diligence, asset selection and portfolio monitoring. The Company has established a whole loan target market including qualified mortgages, non-qualified mortgages and reperforming residential mortgage loans. Additionally, the Company seeks to minimize credit risk through compliance with regulatory requirements, geographic diversification, owner occupied property, and moderate loan-to-value ratios. These factors are considered to be important indicators of credit risk.

By using derivative instruments and secured financing agreements, the Company is exposed to counterparty credit risk if counterparties to the contracts do not perform as expected. If a counterparty fails to perform on a derivative hedging instrument, the Company’s counterparty credit risk is equal to the amount reported as a derivative asset on its balance sheet to the extent that amount exceeds collateral obtained from the counterparty or, if in a net liability position, the extent to which collateral posted exceeds the liability to the counterparty. The amounts reported as a derivative asset/(liability) are derivative contracts in a gain/(loss) position, and to the extent subject to master netting arrangements, net of derivatives in a loss/(gain) position with the same counterparty and collateral received/(pledged). If the counterparty fails to perform on a secured financing agreement, the Company is exposed to a loss to the extent that the fair value of collateral pledged exceeds the liability to the counterparty. The Company attempts to minimize counterparty credit risk by evaluating and monitoring the counterparty’s credit, executing master netting arrangements and obtaining collateral, and executing contracts and agreements with multiple counterparties to reduce exposure to a single counterparty.

The Company's secured financing agreements transactions are governed by underlying agreements that provide for a right of setoff by the lender, including in the event of default or in the event of bankruptcy of the borrowing party to the

transactions.The Company's derivative transactions are governed by underlying agreements that provide for a right of setoff under master netting arrangements, including in the event of default or in the event of bankruptcy of either party to the transactions. The Company presents its assets and liabilities subject to such arrangements on a net basis in the Consolidated Statements of Financial Condition. The following table presents information about our liabilities that are subject to such arrangements and can potentially be offset on our consolidated statements of financial condition as of June 30, 2022 and December 31, 2021.

June 30, 2022
(dollars in thousands)

	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in the Consolidated Statements of Financial Position	Net Amounts Offset in the Consolidated Statements of Financial Position	Gross Amounts Not Offset with Financial Assets (Liabilities) in the Consolidated Statements of Financial Position		Net Amount
				Financial Instruments	Cash Collateral (Received) Pledged [1]	
Secured financing agreements	$ (3,148,832)	$ —	$ (3,148,832)	$ 3,999,373	$ 28,310	$ 878,851
Swaptions - Gross Assets	4,582	(4,582)	—	—	(1,408)	(1,408)
Swaptions - Gross Liabilities	—	—	—	—	—	—
Total	$ (3,144,250)	$ (4,582)	$ (3,148,832)	$ 3,999,373	$ 26,902	$ 877,443

December 31, 2021
(dollars in thousands)

	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in the Consolidated Statements of Financial Position	Net Amounts Offset in the Consolidated Statements of Financial Position	Gross Amounts Not Offset with Financial Assets (Liabilities) in the Consolidated Statements of Financial Position		Net Amount
				Financial Instruments	Cash Collateral (Received) Pledged [1]	
Secured financing agreements	$ (3,261,613)	$ —	$ (3,261,613)	$ 4,393,350	$ 19,078	$ 1,149,815
Total	$ (3,261,613)	$ —	$ (3,261,613)	$ 4,393,350	$ 19,078	$ 1,149,815

16. Commitments and Contingencies

From time to time, the Company may become involved in various claims and legal actions arising in the ordinary course of business. In connection with certain securitization transactions engaged in by the Company, it has the obligation under certain circumstances to repurchase assets from the VIE upon breach of certain representations and warranties.

17. Subsequent Events

None.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and notes to those statements included in Item 1 of this Quarterly Report on Form 10-Q.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this report that are subject to risks and uncertainties. These forward-looking statements include information about, among other things, possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. When we use the words ‘‘believe,’’ ‘‘expect,’’ ‘‘anticipate,’’ ‘‘estimate,’’ ‘‘plan,’’ ‘‘continue,’’ ‘‘intend,’’ ‘‘should,’’ ‘‘may,’’ ‘‘would,’’ ‘‘will’’ or similar expressions, we intend to identify forward-looking statements. Statements regarding the following subjects, among others, are forward-looking by their nature:

- our business and investment strategy;
- our ability to accurately forecast the payment of future dividends on our common and preferred stock, and the amount of such dividends;
- our ability to determine accurately the fair market value of our assets;
- availability of investment opportunities in real estate-related and other securities, including our valuation of potential opportunities that may arise as a result of current and future market dislocations;
- effect of the novel coronavirus, or COVID-19, pandemic on real estate market, financial markets and our Company, including the impact on the value, availability, financing and liquidity of mortgage assets;
- how COVID-19 may affect us, our operations and our personnel;
- our expected investments;
- changes in the value of our investments, including negative changes resulting in margin calls related to the financing of our assets;
- changes in inflation, interest rates and mortgage prepayment rates;
- prepayments of the mortgage and other loans underlying our mortgage-backed securities, or MBS, or other asset-backed securities, or ABS;
- rates of default, delinquencies, forbearance, deferred payments or decreased recovery rates on our investments;
- general volatility of the securities markets in which we invest;
- our ability to maintain existing financing arrangements and our ability to obtain future financing arrangements;
- our ability to affect our strategy to securitize residential mortgage loans;
- interest rate mismatches between our investments and our borrowings used to finance such purchases;
- effects of interest rate caps on our adjustable-rate investments;
- the degree to which our hedging strategies may or may not protect us from interest rate volatility;
- the impact of and changes to various government programs, including in response to COVID-19;
- impact of and changes in governmental regulations, tax law and rates, accounting guidance, and similar matters;
- market trends in our industry, interest rates, the debt securities markets or the general economy;
- estimates relating to our ability to make distributions to our stockholders in the future;
- our understanding of our competition;
- our ability to find and retain qualified personnel;
- our ability to maintain our classification as a real estate investment trust, or REIT, for U.S. federal income tax purposes;
- our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended, or 1940 Act;
- our expectations regarding materiality or significance; and
- the effectiveness of our disclosure controls and procedures.

Special Note Regarding COVID-19 pandemic

During the first six months of 2022, the financial markets continued to show signs of improvement from the disruptions driven by the COVID-19 pandemic during previous two years. However, there is still uncertainty about the future of COVID-19 and variants and its impact on our business, operations, personnel, or the U.S. economy as a whole. Any forecasts in this regard would be highly uncertain and could not be predicted with any certainty, including the scope and duration of the pandemic, the effectiveness of our work from home or remote work arrangements, third-party providers' ability to support our operation, and any actions taken by governmental authorities and other third parties in response to the pandemic, and the other factors discussed above and throughout this Quarterly Report on Form 10-Q. The uncertain future development of this crisis could materially and adversely affect our business, operations, operating results, financial condition, liquidity or capital levels.

Forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. You should not place undue reliance on these forward-looking statements. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity, results of operations and prospects may vary materially from those expressed in our forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise from time to time, and it is impossible for us to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Executive Summary

We are a publicly traded REIT that is primarily engaged in the business of investing directly or having a beneficial interest in a diversified portfolio of mortgage assets, including residential mortgage loans, Agency RMBS, Non-Agency RMBS, Agency CMBS, and other real estate-related assets. We use leverage to increase returns while managing the difference or spread between longer duration assets and shorter duration financing. Our principal business objective is seeking to provide an opportunity for stockholders to realize attractive risk-adjusted returns through the generation of distributable income and through asset performance linked to residential mortgage credit fundamentals. We selectively invest in residential mortgage assets with a focus on credit analysis, projected prepayment rates, interest rate sensitivity and expected return.

We currently focus our investment activities primarily on acquiring residential mortgage loans, Non-Agency RMBS and Agency mortgage-backed securities, or MBS. At June 30, 2022, based on the fair value of our interest earning assets, approximately 87% of our investment portfolio was residential mortgage loans, 10% of our investment portfolio was Non-Agency RMBS, and 3% of our investment portfolio was Agency MBS. At December 31, 2021, based on the fair value of our interest earning assets, approximately 82% of our investment portfolio was residential mortgage loans, 12% of our investment portfolio was Non-Agency RMBS, and 6% of our investment portfolio was Agency MBS.

We use leverage to seek to increase our potential returns and to finance the acquisition of our assets. We expect to finance our investments using a variety of financing sources, including securitizations, warehouse facilities and repurchase agreements. We may seek to manage our debt and interest rate risk by utilizing interest rate hedges, such as interest rate swaps, caps, options and futures to reduce the effect of interest rate fluctuations related to our financing sources.

Our investment strategy is intended to take advantage of opportunities in the current interest rate and credit environment. We update the execution of our strategy to changing market conditions by shifting our asset allocations across various asset classes as interest rates and credit cycles change over time. We expect to take a long-term view of assets and liabilities.

Business Update

Record high inflation in the second quarter continued to put pressure on the Federal Reserve to raise its benchmark interest rates at a faster pace than previously estimated. Primary mortgage rates have risen to levels last seen in 2008, just prior to the Great Financial Crisis. This has negatively impacted both the primary and secondary markets for residential mortgages.

During the second quarter we settled on $201 million of seasoned reperforming residential mortgage loans we had committed to purchase earlier in the year. We also purchased and settled on $120 million of business purpose loans during the period.

Overall, our recourse financing during the quarter decreased by $276 million. We continue to seek to optimize our liabilities through securitization enabling us to have long-term non-mark-to-market financing on our residential mortgage loans; during the second quarter we completed two securitization transactions totaling $728 million. In addition, we refinanced a $207 million non-mark-to-market secured financing facility into a larger $308 million 12-month evergreen secured facility with a margin holiday feature. We also agreed to an extension on an existing $529 million non-mark-to-market secured facility by an additional 18 months to March 2024. This facility had been previously set to mature in September 2022. Lastly, our short-term funding costs increased by 73 basis points during the quarter due to higher interest rates.

Given the market outlook of higher interest rates, and the consequential potential for increasing interest expense, we entered into a swaption contract (one-year forward starting swap in May 2023, with a 3.26% strike rate on $1 billion notional value) to partially hedge our forward cost of borrowing.

As mentioned earlier, during the second quarter we completed two securitizations. In May 2022, we sponsored CIM 2022-R2, a rated securitization of seasoned reperforming residential mortgage loans with a principal balance of $508 million. Securities issued by CIM 2022-R2, with an aggregate balance of approximately $380 million, were sold in a private placement to institutional investors. These senior securities represented approximately 75% of the capital structure. We retained subordinate interests in securities with an aggregate balance of approximately $128 million and certain interest-only securities. We also retained an option to call the securitized mortgage loans at any time beginning in May 2027. Our average cost of debt of this securitization is 4.4%.

In June, we completed our investor loan securitization, CIM 2022-I1 with a principal balance of approximately $219 million. Securities issued by CIM 2022-I1, with an aggregate balance of approximately $123 million were sold in a private placement to institutional investors. These senior securities represented approximately 56% of the capital structure. Our average cost of debt of this securitization is 5.1%.

We continued to focus on growing our residential credit portfolio. Year-to-date through June 30, 2022, we acquired $925 million in residential loans. We continue to use securitization as the primary financing vehicle for loans acquired and completed

three securitizations totaling $1.1 billion this year. As of the end of second quarter, 96% of our capital is allocated to residential credit assets.

Market Conditions and our Strategy

The second quarter of 2022 saw trends which began in the fourth quarter of 2021 continuing with a dramatic rise in forward interest rates and a widening of credit spreads, a trend which began in the fourth quarter of 2021. As inflationary pressures continued to rise, numerous members of the Federal Reserve made increasingly hawkish statements, culminating in a 50-basis point increase in the Federal Funds target rate in May and an even more aggressive 75-basis point rate increase in June, representing the fastest pace of credit tightening since the 1980's. With concerns that the Federal Reserve may overshoot with its rate increases, the broad-based equity indices fell by more than 15% in the quarter and resulted in an inversion of the treasury yield curve. Markets are increasingly beginning to price in a recession in the upcoming 12 to 18 months. Mortgages rates also moved higher, surpassing 6%, representing a doubling year-over-year, leading to a dramatic slowdown in mortgage originations for new homes and refinancing activity. Housing markets finally began to show some weakness, albeit substantially less than equity or credit markets showed. Consumer sentiment also began showing some signs of weakness due to high gasoline prices, however, the consumer generally remains in relatively good financial shape according to Federal Reserve data on disposable personal income.

Spreads on all fixed income sectors continued to widen substantially. Securitized product spreads also continued to widen, with substantial underperformance in bond prices. Within the mortgage sector, Non-QM, Prime Jumbo and Agency Eligible Investor loans performed especially poorly, with several Non-QM originators substantially reducing or shutting down production completely. Numerous new issue transactions were either pulled or widened in the market, although clearing levels were eventually found for most assets. RPL and NPL transactions were few and far between, with low supply and markets provided improved price execution on whole loans as compared to securitization. The outlook going forward hints at continued challenges, although commodities and rates have finally started retreating on recession fears, paving the way for a possible stabilization in credit spreads for securitized assets.

As a result of the conditions described above, we experienced mark downs in our Agency and Residential Credit portfolios. In addition, our securitized debt also experienced mark downs, resulting in unrealized gains that offset some of the book value reduction on our asset portfolio. This drove a decline in our book value per common share to $8.82, or $1.33 per common share as of June 30, 2022 as compared to $10.15 as of March 31, 2022.

While the current market conditions present us with challenges, we believe that our strategy of buying, financing, and securitizing residential mortgage loans will continue to generate positive risk adjusted returns over the long run. In addition, the significant movement in our share price relative to our book value, provided us with an attractive opportunity to repurchase our common stock that we believe will be beneficial to our shareholders. Utilizing our existing stock repurchase authorization, this quarter we repurchased 5.4 million shares of our common stock at a weighted average price of $9.10 per share. Total share repurchases amounted to $49 million during the second quarter, 2022. As we navigate through volatile markets, we believe our strategy of maintaining low leverage and ample liquidity will provide flexibility to add accretive assets to the portfolio or repurchase our common shares subject to market conditions.

Business Operations

Net Income (Loss) Summary

The table below presents our net income (loss) on a GAAP basis for the quarters ended June 30, 2022 and March 30, 2022, and the six months ended June 30, 2022 and June 30, 2021.

Net Income (Loss)
(dollars in thousands, except share and per share data)
(unaudited)

	For the Quarters Ended			For the Six Months Ended		
	June 30, 2022	March 31, 2022	QoQ Change	June 30, 2022	June 30, 2021	YoY Change
Net interest income:						
Interest income [1]	$ 195,357	$ 202,175	$ (6,818)	$ 397,532	$ 495,805	$ (98,273)
Interest expense [2]	78,467	64,473	13,994	142,939	188,677	(45,738)
Net interest income	116,890	137,702	(20,812)	254,593	307,128	(52,535)
Increase (decrease) in provision for credit losses	4,497	240	4,257	4,737	327	4,410
Other investment gains (losses):						
Net unrealized gains (losses) on derivatives	(1,618)	—	(1,618)	(1,618)	—	(1,618)
Net unrealized gains (losses) on financial instruments at fair value	(239,246)	(370,167)	130,921	(609,412)	306,120	(915,532)
Net realized gains (losses) on sales of investments	—	—	—	—	45,313	(45,313)
Gains (losses) on extinguishment of debt	(2,897)	—	(2,897)	(2,897)	(258,914)	256,017
Other investment gains	980	—	980	980	—	980
Total other gains (losses)	(242,781)	(370,167)	127,386	(612,947)	92,519	(705,467)
Other expenses:						
Compensation and benefits	8,859	11,353	(2,494)	20,211	22,669	(2,458)
General and administrative expenses	5,944	5,711	233	11,657	11,371	286
Servicing and asset manager fees	9,315	9,291	24	18,607	18,362	245
Transaction expenses	6,727	3,804	2,923	10,531	22,182	(11,651)
Total other expenses	30,845	30,159	686	61,006	74,584	(13,578)
Income (loss) before income taxes	(161,233)	(262,864)	101,631	(424,097)	324,736	(748,833)
Income taxes	94	(70)	164	24	3,824	(3,800)
Net income (loss)	$ (161,327)	$ (262,794)	$ 101,467	$ (424,121)	$ 320,912	$ (745,033)
Dividends on preferred stock	18,438	18,408	30	36,845	36,875	(30)
Net income (loss) available to common shareholders	$ (179,765)	$ (281,202)	$ 101,437	$ (460,966)	$ 284,037	$ (745,003)
Net income (loss) per share available to common shareholders:						
Basic	$ (0.76)	$ (1.19)	$ 0.43	$ (1.95)	$ 1.23	$ (3.18)
Diluted	$ (0.76)	$ (1.19)	$ 0.43	$ (1.95)	$ 1.14	$ (3.09)
Weighted average number of common shares outstanding:						
Basic	235,310,440	237,012,702	(1,702,262)	236,156,868	231,105,595	5,051,273
Diluted	235,310,440	237,012,702	(1,702,262)	236,156,868	251,723,940	(15,567,072)
Dividends declared per share of common stock	$ 0.33	$ 0.33	$ —	$ 0.66	$ 0.63	$ 0.03

(1) Includes interest income of consolidated VIEs of $140,209 and $131,066 for the quarters ended June 30, 2022 and March 31, 2022, respectively, and $271,275 and $307,214 for the six months ended June 30, 2022 and 2021, respectively. See Note 9 to consolidated financial statements for further discussion.
(2) Includes interest expense of consolidated VIEs of $50,193 and $42,491 for the quarters ended June 30, 2022 and March 31, 2022, respectively, and $92,684 and $116,141 for the six months ended June 30, 2022 and 2021, respectively. See Note 9 to consolidated financial statements for further discussion.

See accompanying notes to consolidated financial statements.

Results of Operations for the Quarters Ended June 30, 2022 and March 31, 2022,and for the Six Months Ended June 30, 2022 and June 30, 2021.

Our primary source of income is interest income earned on our assets, net of interest expense paid on our financing liabilities.

Quarter ended June 30, 2022 compared to the Quarter ended March 31, 2022

For the quarter ended June 30, 2022, our net loss available to common shareholders was $180 million, or $0.76 per average basic common share, compared to a net loss of $281 million, or $1.19 per average basic common share, for the quarter ended March 31, 2022. The net loss for the quarter ended June 30, 2022 was primarily driven by additional mark to market losses on our portfolio's asset prices due to continued increases in interest rates and credit spread widening. During the quarter ended June 30, 2022, we had net unrealized losses on financial instruments at fair value of $239 million, partially offset by net interest income of $117 million. The decrease in net loss available to common shareholders for the quarter ended June 30, 2022, as compared to the quarter ended March 31, 2022, was primarily driven by a decrease in unrealized losses on financial instruments at fair value of $131 million.

Six Months ended June 30, 2022 compared to the Six Months ended June 30, 2021

For the six months ended June 30, 2022, our net loss available to common shareholders was $461 million, or $1.95 per average basic common share, compared to a net income of $284 million, or $1.23 per average basic common share for the six months ended June 30, 2021. The net loss available for the six months ended June 30, 2022 was primarily driven by mark to market losses on our portfolio's asset prices due to continued increases in interest rates and credit spread widening. During the six months ended June 30, 2022, we had net unrealized losses on financial instruments at fair value of $609 million, partially offset by net interest income of $255 million. The increase in net loss available to common shareholders for the six months ended June 30, 2022, as compared to the six months ended June 30, 2021 was primarily driven by an increase in unrealized losses on financial instruments at fair value of $916 million partially offset by a decrease in losses on extinguishment of debt of $256 million, which related to acquisitions of securitized debt collateralized by Loans held for investment.

Interest Income

Quarter ended June 30, 2022 compared to the Quarter ended March 31, 2022

Interest income decreased by $7 million, or 3% to $195 million for the quarter ended June 30, 2022 as compared to $202 million for the quarter ended March 31, 2022. This decrease in our interest income was driven by a decline in prepayment penalties and early paydowns received during the quarter ended June 30, 2022 as compared to the quarter ended March 31, 2022. During the quarter ended June 30, 2022 our interest income decreased by $17 million on our Agency CMBS investments due to no prepayment penalties received, and Non-Agency RMBS by $6 million due to lower Non-Agency RMBS asset balances, which was offset in part by an increase in interest income of $16 million on our Loans held for investments due to higher yields and higher loan asset balances as compared to the quarter ended March 31, 2022.

Six Months ended June 30, 2022 compared to the Six Months ended June 30, 2021

Interest income decreased by $98 million, or 20%, to $398 million for the six months ended June 30, 2022 as compared to $496 million for the six months ended June 30, 2021. This decrease in our interest income during the six months ended June 30, 2022 was primarily driven by a decline in our average interest earning assets and lower yields on our Loans held for investments and Non-Agency RMBS as compared to the six months ended June 30, 2021. We reduced our average interest earning asset balances by $1.2 billion to $13.7 billion as compared to $14.9 billion from the same period of 2021 to respond to rising interest rates and residential credit cycle changes. This reduction in our Agency CMBS, Non-Agency RMBS and Loans held for investment portfolios decreased our interest income earned on Non-Agency RMBS by $40 million, Loans held for investments by $30 million, and Agency CMBS by $28 million.

Interest Expense

Quarter ended June 30, 2022 compared to the Quarter ended March 31, 2022

Interest expense increased by $14 million, or 22%, to $78 million for the quarter ended June 30, 2022 as compared to $64 million for the quarter ended March 31, 2022. This increase in our interest expense during the quarter ended June 30, 2022 was primarily driven by an increase Federal Funds Rate and an increase in our average interest bearing liability balances as compared to the quarter ended March 31, 2022. During the quarter ended June 30, 2022 we increased our average interest

bearing liability balances by $612 million to $11.7 billion, as compared to $11.1 billion, from the quarter ended March 31, 2022. During the quarter ended June 30, 2022 interest expense on both securitized debt and total secured financing agreements each increased by $7 million as compared to the quarter ended March 31, 2022.

Six Months ended June 30, 2022 compared to the Six Months ended June 30, 2021

Interest expense decreased by $46 million, or 24%, to $143 million for the six months ended June 30, 2022 as compared to $189 million for the six months ended June 30, 2021. This decrease was primarily driven by our de-levering efforts to reduce secured financing agreements balances, and calls of our higher rate securitized debt financing, replacing it with lower rates available.

During the six months ended June 30, 2022 we reduced our average interest bearing liability balances by $1.5 billion to $11.3 billion as compared to $12.8 billion, from the six months ended June 30, 2021. During the six months ended June 30, 2022 interest expense on securitized debt decreased by $25 million and the average cost of funding on this same debt decreased by 40 basis points as compared to the six months ended June 30, 2021. Additionally, due to lower average balances and financing rates our interest expense on secured financing agreements collateralized by Loans held for investment and Non-Agency RMBS decreased by $10 million and $8 million, respectively, as compared to the six months ended June 30, 2021.

Economic Net Interest Income

Our Economic net interest income is a non-GAAP financial measure that equals GAAP net interest income adjusted for interest expense on long term debt and any interest earned on cash. We believe this presentation is useful to investors because it depicts the economic value of our investment strategy by showing all components of interest expense and net interest income of our investment portfolio. However, Economic net interest income should not be viewed in isolation and is not a substitute for net interest income computed in accordance with GAAP. Where indicated, interest expense, adjusting for interest payments on long term debt and any interest earned on cash, is referred to as Economic interest expense. Where indicated, net interest income reflecting interest payments on long term debt and any interest earned on cash, is referred to as Economic net interest income.

The following table reconciles the Economic net interest income to GAAP net interest income and Economic interest expense to GAAP interest expense for the periods presented.

	GAAP Interest Income	GAAP Interest Expense	Interest Expense on Long Term Debt	Economic Interest Expense	GAAP Net Interest Income	Other [1]	Economic Net Interest Income
For the Quarter Ended June 30, 2022	$ 195,357	$ 78,467	$ —	$ 78,467	$ 116,890	$ (81)	$ 116,809
For the Quarter Ended March 31, 2022	$ 202,175	$ 64,473	$ —	$ 64,473	$ 137,702	$ (18)	$ 137,684
For the Quarter Ended December 31, 2021	$ 221,162	$ 66,598	$ —	$ 66,598	$ 154,564	$ (12)	$ 154,552
For the Quarter Ended September 30, 2021	$ 220,579	$ 71,353	$ (239)	$ 71,114	$ 149,226	$ 220	$ 149,446
For the Quarter Ended June 30, 2021	$ 252,677	$ 80,610	$ (959)	$ 79,651	$ 172,067	$ 936	$ 173,003

(1) Primarily interest expense on Long term debt and interest income on cash and cash equivalents.

Net Interest Rate Spread

The following table shows our average earning assets held, interest earned on assets, yield on average interest earning assets, average debt balance, economic interest expense, economic average cost of funds, economic net interest income and net interest rate spread for the periods presented.

	For the Quarter Ended					
	June 30, 2022 (dollars in thousands)			March 31, 2022 (dollars in thousands)		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Assets:						
Interest-earning assets [1]:						
Agency RMBS	$ 126,498	$ 312	1.0 %	$ 113,723	$ 253	0.9 %
Agency CMBS	466,403	5,938	5.1 %	559,478	22,870	16.4 %
Non-Agency RMBS	1,098,317	39,362	14.3 %	1,310,359	45,675	13.9 %
Loans held for investment	12,378,236	149,664	4.8 %	11,599,206	133,359	4.6 %
Total	$ 14,069,454	$ 195,276	5.6 %	$ 13,582,766	$ 202,157	6.0 %
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Secured financing agreements collateralized by:						
Agency RMBS	$ 14,665	$ 36	1.0 %	$ 20,342	$ 31	0.6 %
Agency CMBS	336,379	770	0.9 %	435,545	270	0.2 %
Non-Agency RMBS	831,864	6,221	3.0 %	817,261	5,448	2.7 %
Loans held for investment	2,190,270	18,077	3.3 %	1,948,974	12,839	2.6 %
Securitized debt	8,330,885	53,363	2.6 %	7,870,127	45,885	2.3 %
Total	$ 11,704,063	$ 78,467	2.7 %	$ 11,092,249	$ 64,473	2.3 %
Economic net interest income/net interest rate spread		$ 116,809	2.9 %		$ 137,684	3.7 %
Net interest-earning assets/net interest margin	$ 2,365,391		3.3 %	$ 2,490,517		4.1 %
Ratio of interest-earning assets to interest bearing liabilities	1.20			1.22		

(1) Interest-earning assets at amortized cost

	For the Six Months Ended					
	June 30, 2022 (dollars in thousands)			June 30, 2021 (dollars in thousands)		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Assets:						
Interest-earning assets [1]:						
Agency RMBS	$ 119,817	$ 565	0.9 %	$ 113,844	$ 663	1.2 %
Agency CMBS	518,559	28,809	11.1 %	1,244,370	56,592	9.1 %
Non-Agency RMBS	1,216,330	85,037	14.0 %	1,537,031	125,517	16.3 %
Loans held for investment	11,890,868	283,022	4.8 %	11,985,846	312,998	5.2 %
Total	$ 13,745,574	$ 397,433	5.8 %	$ 14,881,091	$ 495,770	6.7 %
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Secured financing agreements collateralized by:						
Agency RMBS	$ 17,402	$ 67	0.8 %	$ 63,566	$ 265	0.8 %
Agency CMBS	393,014	1,040	0.5 %	1,126,446	876	0.2 %
Non-Agency RMBS	828,040	11,668	2.8 %	937,280	20,095	4.3 %
Loans held for investment	2,041,086	30,916	3.0 %	2,067,638	40,699	3.9 %
Securitized debt	8,057,619	99,248	2.5 %	8,582,254	124,706	2.9 %
Total	$ 11,337,161	$ 142,939	2.5 %	$ 12,777,184	$ 186,641	2.9 %
Economic net interest income/net interest rate spread		$ 254,494	3.3 %		$ 309,129	3.8 %
Net interest-earning assets/net interest margin	$ 2,408,413		3.7 %	$ 2,103,907		4.2 %
Ratio of interest-earning assets to interest bearing liabilities	1.21			1.16		

(1) Interest-earning assets at amortized cost

Economic Net Interest Income and the Average Earning Assets

Quarter ended June 30, 2022 compared to the Quarter ended March 31, 2022

Our Economic net interest income (which is a non-GAAP measure, see "Economic net interest income" discussion earlier for details) decreased by $21 million to $117 million for the quarter ended June 30, 2022 from $138 million compared to the quarter ended March 31, 2022. Our net interest rate spread, which equals the yield on our average interest-earning assets less the economic average cost of funds, decreased by 80 basis points for the quarter ended June 30, 2022, as compared to the quarter ended March 31, 2022. The net interest margin, which equals the Economic net interest income as a percentage of the net average balance of our interest-earning assets less our interest-bearing liabilities, decreased by 80 basis points for the quarter ended June 30, 2022, as compared to March 31, 2022. Our Average net interest-earning assets decreased by $125 million to $2.4 billion for the quarter ended June 30, 2022, compared to $2.5 billion for the quarter ended March 31, 2022. The decrease in our net interest rate spread is primarily due to an increase in secured financing rates driven by the higher Federal Funds Rates and lower yields on our Agency CMBS due to no prepayment penalties or early paydowns received during the quarter ended June 30, 2022 as compared to quarter ended March 31, 2022.

Six Months ended June 30, 2022 compared to the Six Months ended June 30, 2021

Our Economic net interest income (which is a non-GAAP measure, see "Economic net interest income" discussion earlier for details) decreased by $55 million to $254 million for the six months ended June 30, 2022 from $309 million for the six months ended June 30, 2021. Our net interest rate spread, which equals the yield on our average interest-earning assets less the economic average cost of funds, decreased by 50 basis points for the six months ended June 30, 2022, as compared to the same period of 2021. The net interest margin, which equals the Economic net interest income as a percentage of the net average balance of our interest-earning assets less our interest-bearing liabilities, decreased by 50 basis points for the six months ended June 30, 2022, as compared to the same period of 2021. Our Average net interest-earning assets increased by $305 million to $2.4 billion for the six months ended June 30, 2022, compared to $2.1 billion for the same period of 2021. The decrease in our

net interest rate spread for the six months ended June 30, 2022 as compared to the six months ended June 30, 2021 is primarily due to decline in our asset yields.

Economic Interest Expense and the Cost of Funds

The borrowing rate at which we are able to finance our assets using secured financing agreements and securitized debt is typically correlated to LIBOR and the term of the financing. The table below shows our average borrowed funds, Economic interest expense, average cost of funds (inclusive of realized losses on interest rate swaps), average one-month LIBOR, average three-month LIBOR and average one-month LIBOR relative to average three-month LIBOR.

	Average Debt Balance	Economic Interest Expense	Average Cost of Funds	Average One-Month LIBOR	Average Three-Month LIBOR	Average One-Month LIBOR Relative to Average Three-Month LIBOR
	(Ratios have been annualized, dollars in thousands)					
For the Quarter Ended June 30, 2022	$ 11,704,063	$ 78,467	2.68 %	1.02 %	1.53 %	(0.51)%
For the Quarter Ended March 31, 2022	$ 11,092,249	$ 64,473	2.32 %	0.23 %	0.52 %	(0.29)%
For the Quarter Ended December 31, 2021	$ 11,477,331	$ 66,598	2.32 %	0.09 %	0.16 %	(0.07)%
For the Quarter Ended September 30, 2021	$ 11,902,369	$ 71,114	2.39 %	0.09 %	0.13 %	(0.04)%
For the Quarter Ended June 30, 2021	$ 12,422,089	$ 79,651	2.56 %	0.10 %	0.16 %	(0.06)%

Average interest-bearing liabilities increased by $612 million for the quarter ended June 30, 2022, as compared to quarter ended March 31, 2022. Economic interest expense increased by $14 million for the quarter ended June 30, 2022, as compared to quarter ended March 31, 2022 due to increase in Federal Funds Rates and higher interest-bearing liabilities balance. The increase in our average interest-bearing liabilities for the quarter ended June 30, 2022 was to finance the additional asset purchases as compared to the quarter ended March 31, 2022.

Provision for Credit Losses

Quarter ended June 30, 2022 compared to the Quarter ended March 31, 2022

For the quarter ended June 30, 2022 and March 31, 2022, we recorded a net increase in provision of credit losses of $4 million and $240 thousand, respectively. The increase in the allowance for credit losses for the quarter ended June 30, 2022 and March 31, 2022, is primarily due to increases in expected losses and delinquencies. In addition, certain Non-Agency RMBS positions, now have higher unrealized losses and resulted in the the recognition of an allowance for credit losses which was previously limited by unrealized gains on these investments.

Six Months ended June 30, 2022 compared to the Six Months ended June 30, 2021

For the six months ended June 30, 2022 and the six months June 30, 2021, we recorded a net increase in provision of credit losses of $5 million and $327 thousand, respectively. The changes in the allowance for credit losses for the six months ended June 30, 2022 and June 30, 2021 are primarily due to changes in expected losses and delinquencies. In addition, certain Non-Agency RMBS positions, now have higher unrealized losses and resulted in the the recognition of an allowance for credit losses which was previously limited by unrealized gains on these investments.

Net Unrealized Gains (Losses) on Derivatives

We use derivatives to economically hedge the effects of changes in interest rates on our portfolio, specifically our secured financing agreements. Unrealized gains and losses include the change in market value, period over period, on our derivatives portfolio. Changes in market value are generally a result of changes in interest rates. We may or may not ultimately realize these unrealized derivative gains and losses depending on trade activity, changes in interest rates and the values of the underlying securities. For the quarter and six months ended June 30, 2022, we had an unrealized total net loss of $2 million. We did not have derivatives for the quarter ended March 31, 2022 or the six months ended June 30, 2021.

Net Unrealized Gains (Losses) on Financial Instruments at Fair Value

During the quarter and six months ended June 30, 2022, there was an increase in headline inflation, an inversion of yield curve, an increase in expected Fed Funds Rate and widening of credit spreads. As a result, we experienced mark to market losses in

our Agency MBS and Residential Credit portfolios compared to prior periods. In addition, our securitized debt also experienced mark downs, resulting in mark to market gains that offset some of the mark to market losses on our asset portfolio. During the quarter ended June 30, 2022, we had Net unrealized losses of $451 million, $34 million and $18 million on Loans held for investments, Non-Agency RMBS, and Agency MBS, respectively, which were offset by Net unrealized gains on Securitized debt collateralized by loans held for investment of $264 million. During the six months ended June 30, 2022, we had Net unrealized losses of $1.0 billion, $82 million and $54 million on Loans held for investments, Non-Agency RMBS, and Agency MBS, respectively, which were offset by Net unrealized gains on Securitized debt collateralized by loans held for investment of $521 million.

Quarter ended June 30, 2022 compared to the Quarter ended March 31, 2022

We recorded Net unrealized losses on financial instruments at fair value of $239 million for the quarter ended June 30, 2022, as compared to the Net unrealized losses on financial instruments at fair value of $370 million for the quarter ended March 31, 2022.

Six Months ended June 30, 2022 compared to the Six Months ended June 30, 2021

We recorded Net unrealized losses on financial instruments at fair value of $609 million for the six months ended June 30, 2022, as compared to Net unrealized gains on financial instruments at fair value of $306 million for the six months ended June 30, 2021.

Gains and Losses on Sales of Assets

We do not forecast sales of investments as we generally expect to invest for long term gains. However, from time to time, we may sell assets to create liquidity necessary to pursue new opportunities, to achieve targeted leverage ratios as well as for gains when prices indicate a sale is most beneficial to us, or is the most prudent course of action to maintain a targeted risk adjusted yield for our investors.

There were no investment sales during the quarter and six months ended June 30, 2022. We recorded a realized gain of $45 million for the six months ended June 30, 2021 as we sold some of our Agency CMBS and Non-Agency RMBS investments to strengthen our liquidity during that period.

Extinguishment of Securitized Debt

When we acquire our outstanding securitized debt, we extinguish the outstanding debt and recognize a gain or loss based on the difference between the carrying value of the debt and the cost to acquire the debt which is reflected in the Consolidated Statements of Operations as a gain or loss on extinguishment of debt.

We did not acquire any securitized debt collateralized by Non-Agency RMBS during the quarters ended June 30, 2022 and March 31, 2022, and six months ended June 30, 2022 and 2021.

We did not acquire any securitized debt collateralized by loans held for investment during the quarters ended June 30, 2022 and March 31, 2022. We did not acquire any securitized debt collateralized by loans held for investment during the six months ended June 30, 2022. During the six months ended June 30, 2021, we acquired securitized debt collateralized by Loans held for investment with an amortized cost balance of $3.7 billion for $4.0 billion. This transaction resulted in net loss on extinguishment of debt of $256 million.

Compensation, General and Administrative Expenses and Transaction Expenses

The table below shows our total compensation and benefit expense, general and administrative, or G&A expenses, and transaction expenses as compared to average total assets and average equity for the periods presented.

	Total Compensation, G&A and Transaction Expenses	Total Compensation, G&A and Transaction Expenses/Average Assets	Total Compensation, G&A and Transaction Expenses/Average Equity
	(Ratios have been annualized, dollars in thousands)		
For the Quarter Ended June 30, 2022	$ 21,530	0.59 %	2.73 %
For the Quarter Ended March 31, 2022	$ 20,868	0.54 %	2.36 %
For the Quarter Ended December 31, 2021	$ 21,275	0.54 %	2.24 %
For the Quarter Ended September 30, 2021	$ 21,426	0.54 %	2.29 %
For the Quarter Ended June 30, 2021	$ 21,148	0.52 %	2.35 %

Compensation and benefit costs were approximately $9 million and $11 million for the quarters ended June 30, 2022 and March 31, 2022, respectively. The Compensation and benefit costs were approximately $20 million and $23 million for the six months ended June 30, 2022 and June 30, 2021, respectively. The decrease in Compensation and benefit costs were driven by a decline in performance based compensation costs.

G&A expenses were approximately $6 million and $6 million for the quarters ended June 30, 2022 and March 31, 2022, respectively and remained relatively unchanged. The G&A expenses were approximately $12 million and $11 million for the six months ended June 30, 2022 and June 30, 2021, respectively and remained relatively unchanged. The G&A expenses are primarily comprised of legal, market data and research, auditing, consulting, information technology, and independent investment consulting expenses.

We incurred transaction expenses in relation to securitizations of $7 million and $4 million for the quarters ended June 30, 2022 and March 31, 2022 , respectively. The transactions expenses were approximately $11 million and $22 million for the six months ended June 30, 2022 and June 30, 2021, respectively. The transaction expenses increased by $3 million for the quarter ended June 30, 2022 as compared to the quarter ended March 31, 2022 due to higher call and securitization activity. The transaction expense decreased by $11 million during six months ended June 30, 2022 as compared to the six months ended June 30, 2021 due to lower call and securitization activity.

Servicing and Asset Manager Fees

Servicing fees and asset manager expenses remained relatively unchanged at $9 million and $9 million for the quarters ended June 30, 2022, and March 31, 2022, respectively. The servicing fees and asset manager expenses were $19 million and $18 million for the six months ended June 30, 2022 and June 30, 2021, respectively. These servicing fees are primarily related to the servicing costs of the whole loans held in consolidated securitization vehicles and are paid from interest income earned by the VIEs. The servicing fees generally range from 11 to 50 basis points of unpaid principal balances of our consolidated VIEs.

Earnings available for distribution

Earnings available for distribution is a non-GAAP measure and is defined as GAAP net income excluding unrealized gains or losses on financial instruments carried at fair value with changes in fair value recorded in earnings, realized gains or losses on the sales of investments, gains or losses on the extinguishment of debt, interest expense on long term debt, changes in the provision for credit losses, and transaction expenses incurred. In addition, stock compensation expense charges incurred on awards to retirement eligible employees is reflected as an expense over a vesting period (36 months) rather than reported as an immediate expense.

As defined, Earnings available for distribution is the Economic net interest income, as defined previously, reduced by compensation and benefits expenses (adjusted for awards to retirement eligible employees), general and administrative expenses, servicing and asset manager fees, income tax benefits or expenses incurred during the period, as well as the preferred dividend charges. We view Earnings available for distribution as a consistent measure of our investment portfolio's ability to generate income for distribution to common stockholders. Earnings available for distribution is one of the metrics, but not the exclusive metric, that our board of directors uses to determine the amount, if any, of dividends on our common stock. Other metrics that our board of directors may consider when determining the amount, if any, of dividends on our common stock include (among others) REIT taxable income, dividend yield, book value, reinvestment opportunities and other cash needs. In addition, Earnings available for distribution is different than REIT taxable income and the determination of whether we have met the requirement to distribute at least 90% of our annual REIT taxable income (subject to certain adjustments) to our stockholders in order to maintain qualification as a REIT is not based on Earnings available for distribution. Therefore, Earnings available for distribution should not be considered as an indication of our REIT taxable income, a guaranty of our ability to pay dividends, or as a proxy for the amount of dividends we may pay, because Earnings available for distribution

excludes certain items that impact our cash needs. We believe Earnings available for distribution as described above helps us and investors evaluate our financial performance period over period without the impact of certain transactions. Therefore, Earnings available for distribution should not be viewed in isolation and is not a substitute for net income or net income per basic share computed in accordance with GAAP. In addition, our methodology for calculating Earnings available for distribution may differ from the methodologies employed by other REITs to calculate the same or similar supplemental performance measures, and accordingly, our Earnings available for distribution may not be comparable to the Earnings available for distribution reported by other REITs.

The following table provides GAAP measures of net income and net income per diluted share available to common stockholders for the periods presented and details with respect to reconciling the line items to Earnings available for distribution and related per average diluted common share amounts. Earnings available for distribution is presented on an adjusted dilutive shares basis. Certain prior period amounts have been reclassified to conform to the current period's presentation.

	For the Quarters Ended (dollars in thousands, except per share data)				
	June 30, 2022	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021
GAAP Net income (loss) available to common stockholders	$ (179,765)	$ (281,202)	$ (718)	$ 313,030	$ 144,883
Adjustments:					
Net unrealized (gains) losses on financial instruments at fair value	239,246	370,167	108,286	(239,524)	(36,108)
Net realized (gains) losses on sales of investments	—	—	—	—	(7,517)
(Gains) losses on extinguishment of debt	2,897	—	(980)	25,622	21,777
Interest expense on long term debt	—	—	—	238	959
Increase (decrease) in provision for credit losses	4,497	240	92	(386)	453
Net unrealized (gains) losses on derivatives	1,618	—	—	—	—
Transaction expenses	6,727	3,804	4,241	3,432	5,745
Stock Compensation expense for retirement eligible awards	(309)	723	(363)	(365)	(361)
Other investment gains	(980)	—	—	—	—
Earnings available for distribution	**$ 73,931**	**$ 93,732**	**$ 110,558**	**$ 102,047**	**$ 129,831**
GAAP net income (loss) per diluted common share	**$ (0.76)**	**$ (1.19)**	**$ (0.00)**	**$ 1.30**	**$ 0.60**
Earnings available for distribution per adjusted diluted common share	**$ 0.31**	**$ 0.39**	**$ 0.46**	**$ 0.42**	**$ 0.54**

The table below summarizes the reconciliation from weighted-average diluted shares under GAAP to the weighted-average adjusted diluted shares used for Earnings available for distribution for the periods reported below.

	For the Quarters Ended				
	June 30, 2022	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021
Weighted average diluted shares - GAAP	235,310,440	237,012,702	236,896,512	240,362,602	241,739,536
Potentially dilutive shares [(1)]	2,277,366	2,421,546	2,672,393	—	—
Adjusted weighted average diluted shares - Earnings available for distribution	237,587,806	239,434,248	239,568,905	240,362,602	241,739,536

(1) Potentially dilutive shares related to restricted stock units and performance stock units excluded from the computation of weighted average GAAP diluted shares because their effect would have been anti-dilutive given the GAAP net loss available to common shareholders for the quarters ended June 30, 2022, March 31, 2022, and December 31, 2021.

Our Earnings available for distribution for the quarter ended June 30, 2022 were $74 million, or $0.31 per average diluted common share, and decreased by $20 million, or $0.08 per average diluted common share, as compared to $94 million, or $0.39 per average diluted common share, for the quarter ended March 31, 2022. The decrease in Earnings available for distribution was driven by an increase in interest expense driven by higher Fed Funds rate and no prepayment penalties or early paydowns received during the quarter ended June 30, 2022 as compared to the quarter ended March 31, 2022.

Net Income (Loss) and Return on Total Stockholders' Equity

The table below shows our Net Income and Economic net interest income as a percentage of average stockholders' equity and Earnings available for distribution as a percentage of average common stockholders' equity. Return on average equity is defined

as our GAAP net income (loss) as a percentage of average equity. Average equity is defined as the average of our beginning and ending stockholders' equity balance for the period reported. Economic net interest income and Earnings available for distribution are non-GAAP measures as defined in previous sections.

	Return on Average Equity	Economic Net Interest Income/Average Equity *	Earnings available for distribution/Average Common Equity
		(Ratios have been annualized)	
For the Quarter Ended June 30, 2022	(20.45)%	14.81 %	13.29 %
For the Quarter Ended March 31, 2022	(29.72)%	15.57 %	14.38 %
For the Quarter Ended December 31, 2021	1.87 %	16.30 %	15.45 %
For the Quarter Ended September 30, 2021	35.47 %	15.99 %	14.54 %
For the Quarter Ended June 30, 2021	18.16 %	19.24 %	19.47 %

* Excludes long term debt expense.

Return on average equity improved by 927 basis points for the quarter ended June 30, 2022, as compared to the quarter ended March 31, 2022. This increase is driven primarily by lower unrealized asset pricing losses on our financial instruments. Economic net interest income as a percentage of average equity decreased by 76 basis points for the quarter ended June 30, 2022 compared to the quarter ended March 31, 2022. Earnings available for distribution as a percentage of average common equity decreased by 109 basis points for the quarter ended June 30, 2022 compared to the quarter ended March 31, 2022. The decrease in Earnings available for distribution as a percentage of average common equity for the quarter ended June 30, 2022 as compared to the quarter ended March 31, 2022, was primarily driven an increase in interest expense driven by higher Fed Funds rate and no prepayment penalties or early paydowns received.

Financial Condition

Portfolio Review

During the six months ended June 30, 2022, we focused our efforts on taking advantage of the opportunity to acquire higher yielding assets. During the six months ended June 30, 2022, on an aggregate basis, we purchased $1.5 billion of investments and received $1.6 billion in principal payments related to our Agency MBS, Non-Agency RMBS and Loans held for investment portfolio.

The following table summarizes certain characteristics of our portfolio at June 30, 2022 and December 31, 2021.

	June 30, 2022	December 31, 2021
Interest earning assets at period-end [1]	$ 13,745,287	$ 14,893,829
Interest bearing liabilities at period-end	$ 10,912,855	$ 11,075,655
GAAP Leverage at period-end	3.7:1	3.0:1
GAAP Leverage at period-end (recourse)	1.1:1	0.9:1

(1) Excludes cash and cash equivalents.

Portfolio Composition	June 30, 2022	December 31, 2021	June 30, 2022	December 31, 2021
	Amortized Cost		Fair Value	
Non-Agency RMBS	7.8 %	10.1 %	9.6 %	12.1 %
Senior	4.1 %	4.5 %	6.2 %	6.5 %
Subordinated	2.5 %	4.2 %	2.5 %	4.4 %
Interest-only	1.2 %	1.4 %	0.9 %	1.2 %
Agency RMBS	0.9 %	0.8 %	0.5 %	0.4 %
Interest-only	0.9 %	0.8 %	0.5 %	0.4 %
Agency CMBS	3.4 %	5.3 %	3.3 %	5.2 %
Project loans	2.3 %	4.2 %	2.3 %	4.2 %
Interest-only	1.1 %	1.1 %	1.0 %	1.0 %
Loans held for investment	87.9 %	83.8 %	86.6 %	82.3 %
Fixed-rate percentage of portfolio	95.7 %	95.4 %	94.9 %	94.4 %
Adjustable-rate percentage of portfolio	4.3 %	4.6 %	5.1 %	5.6 %

GAAP leverage at period-end is calculated as a ratio of our secured financing agreements and securitized debt liabilities over GAAP book value. GAAP recourse leverage is calculated as a ratio of our secured financing agreements over stockholders equity.

The following table presents details of each asset class in our portfolio at June 30, 2022 and December 31, 2021. The principal or notional value represents the interest income earning balance of each class. The weighted average figures are weighted by each investment's respective principal/notional value in the asset class.

June 30, 2022	Principal or Notional Value at Period-End (dollars in thousands)	Weighted Average Amortized Cost Basis	Weighted Average Fair Value	Weighted Average Coupon	Weighted Average Yield at Period-End [1]	Weighted Average 3 Month Prepay Rate at Period-End	Weighted Average 12 Month Prepay Rate at Period-End	Weighted Average 3 Month CDR at Period-End	Weighted Average 12 Month CDR at Period-End	Weighted Average Loss Severity[2]	Weighted Average Credit Enhancement
Non-Agency Mortgage-Backed Securities											
Senior	$ 1,203,494	$ 46.59	$ 70.95	4.7 %	18.3 %	13.5 %	14.5 %	1.7 %	1.7 %	24.1 %	2.2 %
Subordinated	$ 509,636	$ 67.93	$ 68.69	4.6 %	7.1 %	14.0 %	20.2 %	0.3 %	0.2 %	31.8 %	5.8 %
Interest-only	$ 3,468,368	$ 4.96	$ 3.40	1.4 %	7.9 %	13.9 %	20.9 %	0.8 %	1.1 %	30.4 %	0.1 %
Agency RMBS											
Interest-only	$ 1,709,415	$ 7.36	$ 4.30	1.4 %	1.0 %	24.8 %	21.1 %	N/A	N/A	N/A	N/A
Agency CMBS											
Project loans	$ 304,305	$ 101.93	$ 104.00	4.3 %	4.1 %	— %	— %	N/A	N/A	N/A	N/A
Interest-only	$ 2,732,537	$ 5.42	$ 5.09	0.7 %	4.3 %	4.5 %	9.2 %	N/A	N/A	N/A	N/A
Loans held for investment	$ 12,252,230	$ 98.86	$ 97.22	5.6 %	4.9 %	14.6 %	15.3 %	1.0 %	0.8 %	44.2 %	N/A

(1) Bond Equivalent Yield at period-end. Weighted Average Yield is calculated using each investment's respective amortized cost.
(2) Calculated based on reported losses to date, utilizing widest data set available (i.e., life-time losses, 12-month loss, etc.)

	December 31, 2021										
	Principal or Notional Value at Period-End (dollars in thousands)	Weighted Average Amortized Cost Basis	Weighted Average Fair Value	Weighted Average Coupon	Weighted Average Yield at Period-End[1]	Weighted Average 3 Month Prepay Rate at Period-End	Weighted Average 12 Month Prepay Rate at Period-End	Weighted Average 3 Month CDR at Period-End	Weighted Average 12 Month CDR at Period-End	Weighted Average Loss Severity[2]	Weighted Average Credit Enhancement
Non-Agency Mortgage-Backed Securities											
Senior	$ 1,283,788	$ 48.02	$ 76.78	4.5 %	18.0 %	14.1 %	14.6 %	1.6 %	1.9 %	23.6 %	2.8 %
Subordinated	$ 845,432	$ 68.10	$ 77.12	3.8 %	7.1 %	18.6 %	19.3 %	0.2 %	0.5 %	28.9 %	3.6 %
Interest-only	$ 3,904,665	$ 4.90	$ 4.42	1.7 %	13.2 %	22.2 %	25.5 %	1.0 %	1.8 %	23.4 %	— %
Agency RMBS											
Interest-only	$ 992,978	$ 10.37	$ 6.09	1.3 %	0.3 %	25.6 %	26.6 %	N/A	N/A	N/A	N/A
Agency CMBS											
Project loans	$ 560,565	$ 101.77	$ 109.61	4.3 %	4.1 %	— %	— %	N/A	N/A	N/A	N/A
Interest-only	$ 2,578,640	$ 5.70	$ 5.69	0.7 %	4.6 %	14.0 %	30.9 %	N/A	N/A	N/A	N/A
Loans held for investment	$ 11,519,255	$ 99.22	$ 106.58	5.5 %	4.9 %	16.1 %	15.0 %	0.9 %	0.4 %	50.5 %	N/A

(1) Bond Equivalent Yield at period-end. Weighted Average Yield is calculated using each investment's respective amortized cost.
(2) Calculated based on reported losses to date, utilizing widest data set available (i.e., life-time losses, 12-month loss, etc.)

Based on the projected cash flows for our Non-Agency RMBS that are not of high credit quality, a portion of the original purchase discount is designated as Accretable Discount, which reflects the purchase discount expected to be accreted into interest income, and a portion is designated as Non-Accretable Difference, which represents the contractual principal on the security that is not expected to be collected. The amount designated as Non-Accretable Difference may be adjusted over time, based on the actual performance of the security, its underlying collateral, actual and projected cash flow from such collateral, economic conditions and other factors. If the performance of a security is more favorable than previously estimated, a portion of the amount designated as Non-Accretable Difference may be transferred to Accretable Discount and accreted into interest income over time. Conversely, if the performance of a security is less favorable than previously estimated, a provision for credit loss may be recognized resulting in an increase in the amounts designated as Non-Accretable Difference.

The following table presents changes to Accretable Discount (net of premiums) as it pertains to our Non-Agency RMBS portfolio, excluding premiums on interest-only investments, during the previous five quarters.

	For the Quarters Ended (dollars in thousands)				
Accretable Discount (Net of Premiums)	**June 30, 2022**	**March 31, 2022**	**December 31, 2021**	**September 30, 2021**	**June 30, 2021**
Balance, beginning of period	$ 258,494	$ 333,546	$ 352,545	$ 338,024	$ 358,562
Accretion of discount	(17,408)	(19,470)	(22,172)	(21,820)	(37,986)
Purchases	—	—	—	1,995	(3,453)
Sales	—	—	—	—	(17,123)
Elimination in consolidation	—	(60,361)	—	—	—
Transfers from/(to) credit reserve, net	305	4,779	3,173	34,346	38,024
Balance, end of period	$ 241,391	$ 258,494	$ 333,546	$ 352,545	$ 338,024

We invest a significant majority of our capital in pools of Non-Agency RMBS and Loans held for investment. These investments carry risk for credit losses. As we are exposed to risk for credit losses, it is important for us to closely monitor credit losses incurred, as well as how expectations of credit losses are expected to change. We estimate future credit losses based on historical experience, market trends, current delinquencies as well as expected recoveries. The net present value of these expected credit losses can change, sometimes significantly from period to period as new information becomes available. When credit loss experience and expectations improve, we will collect more principal on our investments. If credit loss experience deteriorates, we will collect less principal on our investments. The favorable or unfavorable changes in credit losses are reflected in the yield on our investments in mortgage loans and recognized in earnings over the remaining life of our investments. The following table presents changes to net present value of expected credit losses for our Non-Agency RMBS and Loans held for investment portfolios during the previous five quarters. Gross losses are discounted at the rate used to amortize any discounts or premiums on our investments into income. A decrease (negative balance) in the "Increase/(decrease)"

line item in the tables below represents a favorable change in expected credit losses. An increase (positive balance) in the "Increase/(decrease)" line item in the tables below represents an unfavorable change in expected credit losses.

	For the Quarters Ended (dollars in thousands)				
Non-Agency RMBS	**June 30, 2022**	**March 31, 2022**	**December 31, 2021**	**September 30, 2021**	**June 30, 2021**
Balance, beginning of period	$ 94,590	$ 106,240	$ 107,686	$ 129,053	$ 133,607
Realized losses	(909)	7,995	(987)	(229)	(2,482)
Accretion	2,614	3,049	2,928	3,374	3,466
Purchased losses	—	—	—	1,006	3,066
Sold losses	—	—	—	—	(678)
Losses removed due to consolidation	—	(10,191)	—	—	—
Increase/(decrease)	(5,108)	(12,503)	(3,387)	(25,518)	(7,926)
Balance, end of period	$ 91,187	$ 94,590	$ 106,240	$ 107,686	$ 129,053

	For the Quarters Ended (dollars in thousands)				
Loans held for investment	**June 30, 2022**	**March 31, 2022**	**December 31, 2021**	**September 30, 2021**	**June 30, 2021**
Balance, beginning of period	$ 409,650	$ 369,028	$ 340,431	$ 420,323	$ 448,763
Realized losses	(10,766)	(12,260)	(8,368)	(7,641)	(13,244)
Accretion	4,563	4,251	4,074	4,487	4,795
Purchased losses	3,028	14,883	3,485	5,524	—
Losses added due to consolidation	—	49,774	—	—	—
Increase/(decrease)	(91,176)	(16,026)	29,406	(82,262)	(19,991)
Balance, end of period	$ 315,299	$ 409,650	$ 369,028	$ 340,431	$ 420,323

Liquidity and Capital Resources

General

Liquidity measures our ability to meet cash requirements, including ongoing commitments to repay our borrowings, purchase RMBS, residential mortgage loans and other assets for our portfolio, pay dividends and other general business needs. Our principal sources of capital and funds for additional investments primarily include earnings, principal paydowns and sales from our investments, borrowings under securitizations and re-securitizations, secured financing agreements and other financing facilities including warehouse facilities, and proceeds from equity or other securities offerings.

As discussed earlier, during the first half of 2022, we experienced mark downs in our Agency, Residential Credit and securitized debt portfolios as a result of the increase in headline inflation, an inversion of yield curve, an increase in expected Fed Funds Rate and widening of credit spreads. There is still uncertainty and risks related to the COVID-19 pandemic and potentially new, more infectious variants. If these conditions become more pronounced, we may experience an adverse impact on our liquidity. We have sought and expect to continue to seek longer-term, more durable financing to reduce our risk to margin calls related to shorter-term repurchase financing.

Our ability to fund our operations, meet financial obligations and finance target asset acquisitions may be impacted by our ability to secure and maintain our master secured financing agreements, warehouse facilities and secured financing agreements facilities with our counterparties. Because secured financing agreements and warehouse facilities are short-term commitments of capital, lenders may respond to market conditions making it more difficult for us to renew or replace on a continuous basis our maturing short-term borrowings and have and may continue to impose more onerous conditions when rolling forward such financings. If we are not able to renew our existing facilities or arrange for new financing on terms acceptable to us, or if we default on our covenants or are otherwise unable to access funds under our financing facilities or if we are required to post more collateral or face larger haircuts, we may have to curtail our asset acquisition activities and dispose of assets.

To meet our short term (one year or less) liquidity needs, we expect to continue to borrow funds in the form of secured financing agreements and, subject to market conditions, other types of financing. The terms of the secured financing transaction borrowings under our master secured financing agreement generally conform to the terms in the standard master secured financing agreement as published by the Securities Industry and Financial Markets Association, or SIFMA, or similar market accepted agreements, as to repayment and margin requirements. In addition, each lender typically requires that we include supplemental terms and conditions to the standard master secured financing agreement. Typical supplemental terms and conditions include changes to the margin maintenance requirements, net asset value, required haircuts or the percentage that is subtracted from the value of MBS that collateralizes the financing, purchase price maintenance requirements, and requirements that all disputes related to the secured financing agreement be litigated or arbitrated in a particular jurisdiction. These provisions may differ for each of our lenders.

Based on our current portfolio, leverage ratio and available borrowing arrangements, we believe our assets will be sufficient to enable us to meet anticipated short-term liquidity requirements. If our cash resources are insufficient to satisfy our liquidity requirements, we may have to sell additional investments, potentially at a loss, issue debt or additional common or preferred equity securities.

To meet our longer-term liquidity needs (greater than one year), we expect our principal sources of capital and funds to continue to be provided by earnings, principal paydowns and sales from our investments, borrowings under securitizations and re-securitizations, secured financing agreements and other financing facilities, as well as proceeds from equity or other securities offerings.

In addition to the principal sources of capital described above, we may enter into warehouse facilities and use longer dated structured secured financing agreements. The use of any particular source of capital and funds will depend on market conditions, availability of these facilities, and the investment opportunities available to us.

Current Period

We held cash and cash equivalents of approximately $158 million and $386 million at June 30, 2022 and December 31, 2021, respectively. As a result of our operating, investing and financing activities described below, our cash position decreased
by $228 million from December 31, 2021 to June 30, 2022.

Our operating activities provided net cash of approximately $259 million and $259 million for the six months ended June 30, 2022 and 2021, respectively. The cash flows from operations were primarily driven by interest received in excess of interest paid of $308 million and $345 million during the six months ended June 30, 2022 and 2021, respectively.

Our investing activities provided cash of $169 million and $1.7 billion for the six months ended June 30, 2022 and 2021, respectively. During the six months ended June 30, 2022, we received cash for principal repayments on Agency MBS, Non-Agency RMBS and Loans held for investment of $1.6 billion. This cash received was offset in part by cash used on investment purchases of $1.5 billion, primarily consisting of Loans held for investment of $1.4 billion, Agency MBS of $56 million and Non-Agency RMBS of $23 million. During the six months ended June 30, 2021, we received cash from sale of investments of $1.5 billion, primarily consisting of Loans held for investments of $1.2 billion and principal repayments on our Agency MBS, Non-Agency RMBS, and Loans held for investments of $1.8 billion. This cash provided was offset in part by cash used on investment purchases of $1.6 billion, primarily consisting of Loans held for investments.

Our financing activities used cash of $655 million and $1.8 billion for the six months ended June 30, 2022 and 2021, respectively. During the six months ended June 30, 2022, we primarily used cash for repayment of principal on our securitized debt of $1.1 billion, payment of common and preferred dividends of $194 million, net payments on our secured financing agreements of $116 million and repurchase of our common stock of $44 million. This cash used was offset in part by cash received for securitized debt collateralized by loans issuance of $755 million. During the six months ended June 30, 2021, we used cash for repayment of principal on our securitized debt of $5.0 billion, net payments on our secured financing agreements of $1.1 billion, settlement of warrants of $221 million, and paid common and preferred dividends of $176 million. This cash paid was offset in part by cash received for securitized debt collateralized by loans issuance of $4.7 billion.

Our recourse leverage was 1.1:1 and 0.9:1 at June 30, 2022 and at December 31, 2021, respectively and remained relatively low. Our recourse leverage excludes the securitized debt which can only be repaid from the proceeds on the assets securing this debt in their respective VIEs. Our recourse leverage is presented as a ratio of our secured financing agreements, which are recourse to our assets and our equity.

At June 30, 2022 and December 31, 2021, the remaining maturities and borrowing rates on our RMBS and loan secured financing agreements were as follows.

	June 30, 2022			December 31, 2021		
	(dollars in thousands)					
	Principal	Weighted Average Borrowing Rates	Range of Borrowing Rates	Principal [(1)]	Weighted Average Borrowing Rates	Range of Borrowing Rates
1 to 29 days	322,212	1.46%	1.12% - 1.75%	1,018,670	0.73%	0.11% - 1.95%
30 to 59 days	383,451	2.67%	1.18% - 4.40%	379,031	1.66%	1.55% - 1.70%
60 to 89 days	98,567	2.09%	1.73% - 2.44%	342,790	1.86%	0.90% - 2.35%
90 to 119 days	234,331	3.93%	2.42% - 4.65%	67,840	1.66%	1.66% - 1.66%
120 to 180 days	387,481	3.21%	2.45% - 3.60%	157,944	1.38%	0.95% - 1.45%
180 days to 1 year	1,137,376	3.45%	2.76% - 4.60%	895,210	3.70%	1.95% - 4.38%
1 to 2 years	585,414	4.25%	3.39% - 4.38%	143,239	3.05%	3.05% - 3.05%
Greater than 3 years	—	NA	NA	256,889	5.56%	5.56% - 5.56%
Total	$ 3,148,832	3.26%		$ 3,261,613	2.30%	

(1) The principal balance for secured financing agreements in the table above is ne t of $3 million of deferred financing cost as of December 31, 2021.

Average remaining maturity of Secured financing agreements secured by:

	June 30, 2022	December 31, 2021
Agency RMBS (in thousands)	18 Days	4 Days
Agency CMBS (in thousands)	23 Days	13 Days
Non-Agency RMBS and Loans held for investment (in thousands)	278 Days	257 Days

We collateralize the secured financing agreements we use to finance our operations with our MBS investments and mortgage loans held in trusts controlled by us. Our counterparties negotiate a 'haircut', which is the difference expressed in percentage terms between the fair value of the collateral and the amount the counterparty will lend to us, when we enter into a financing transaction. The size of the haircut reflects the perceived risk and market volatility associated with holding the MBS by the lender. The haircut provides lenders with a cushion for daily market value movements that reduce the need for a margin call to be issued or margin to be returned as normal daily increases or decreases in MBS market values occur. Haircuts have remained relatively stable during second quarter of 2022. At June 30, 2022, the weighted average haircut on our remaining secured financing agreements collateralized by Agency RMBS IOs was 20.0%, Agency CMBS was 8.5% and Non-Agency RMBS and Loans held for investment was 26.7%. At December 31, 2021, the weighted average haircut on our remaining secured financing agreements collateralized by Agency RMBS IOs was 15.0%, Agency CMBS was 6.7% and Non-Agency RMBS and Loans held for investment was 27.9%.

The fair value of the Non-Agency MBS is more difficult to determine in current financial conditions, as well as more volatile period to period than Agency MBS, the Non-Agency MBS typically requires a larger haircut. In addition, when financing assets using standard form of SIFMA Master Repurchase Agreements, the counterparty to the agreement typically nets its exposure to us on all outstanding repurchase agreements and issues margin calls if movement of the fair values of the assets in the aggregate exceeds their allowable exposure to us. A decline in asset fair values could create a margin call or may create no margin call depending on the counterparty's specific policy. In addition, counterparties consider a number of factors, including their aggregate exposure to us as a whole and the number of days remaining before the repurchase transaction closes prior to issuing a margin call. To minimize the risk of margin calls, as of June 30, 2022, we have entered into $877 million of financing arrangements for which the collateral cannot be adjusted as a result of changes in market value, minimizing the risk of a margin call as a result in price volatility. We refer to these agreements as non-mark-to-market (non-MTM) facilities. These non-MTM facilities generally have higher costs of financing, but lower the risk of a margin call which could result in sales of our assets at distressed prices. All non-MTM facilities are collateralized by non-agency RMBS collateral, which tends to have increased volatile price changes during periods of market stress. In addition we have entered into certain secured financing agreements which are not subject to additional margin requirement until the drop in fair value of collateral is greater than a threshold. We refer to these agreements as limited mark-to-market (limited MTM) facilities. As of June 30, 2022 we have $481 million, of limited MTM facilities. We believe these non-MTM and limited MTM facilities significantly reduce our financing risks. See Note 5 to our Consolidated Financial Statements for a discussion on how we determine the fair values of the RMBS collateralizing our secured financing agreements.

At June 30, 2022, the weighted average borrowing rates for our secured financing agreements collateralized by Agency RMBS IOs was 1.5%, Agency CMBS was 1.4% and Non-Agency MBS and Loans held for investment was 3.5%. At December 31, 2021, the weighted average borrowing rates for our secured financing agreements collateralized by Agency RMBS IOs was 0.7%, Agency CMBS was 0.2%, and Non-Agency MBS and Loans held for investment was 2.8%.

The table below presents our average daily secured financing agreements balance and the secured financing agreements balance at each period end for the periods presented. Our balance at period-end tends to fluctuate from the average daily balances due to the adjusting of the size of our portfolio by using leverage.

Period	Average secured financing agreements balances		Secured financing agreements balance at period end	
	(dollars in thousands)			
Quarter End June 30, 2022	$	3,373,179	$	3,148,832
Quarter End March 31, 2022	$	3,222,122	$	3,424,405
Quarter End December 31, 2021	$	3,468,212	$	3,261,613
Quarter End September 30, 2021	$	3,824,615	$	3,788,336
Quarter End June 30, 2021	$	3,792,547	$	3,554,428

Our secured financing agreements do not required us to maintain any specific leverage ratio. We believe the appropriate leverage for the particular assets we are financing depends on the credit quality and risk of those assets. At June 30, 2022 and December 31, 2021, the carrying value of our total interest-bearing debt was approximately $10.9 billion and $11.1 billion, respectively, which represented a leverage ratio of approximately 3.7:1 and 3.0:1, respectively. We include our secured financing agreements and securitized debt in the numerator of our leverage ratio and stockholders' equity as the denominator.

At June 30, 2022, we had secured financing agreements with 11 counterparties. All of our secured financing agreements are secured by Agency MBS, Non-Agency RMBS and Loans held for investment and cash. Under these secured financing agreements, we may not be able to reclaim our collateral but will still be obligated to pay our repurchase obligations. We mitigate this risk by ensuring our counterparties are highly rated. As of June 30, 2022 and December 31, 2021, we had $4.0 billion and $4.4 billion, respectively, of securities or cash pledged against our secured financing agreements obligations.

We expect to enter into new secured financing agreements at maturity. When we renew our secured financing agreements, there is a risk that we will not be able to renew them or obtain favorable interest rates and haircuts as a result of uncertainty in the market including, but not limited to, uncertainty as a result of the COVID-19 pandemic.

Exposure to Financial Counterparties

We actively manage the number of secured financing agreements counterparties to reduce counterparty risk and manage our liquidity needs. The following table summarizes our exposure to our secured financing agreements counterparties at June 30, 2022:

	June 30, 2022				
Country	**Number of Counterparties**		**Secured Financing Agreement**		**Exposure [1]**
	(dollars in thousands)				
United States	8		1,883,665		551,672
Japan	1		769,352		176,286
Canada	1		422,023		130,386
South Korea	1		73,792		4,774
Total	11	$	3,148,832	$	863,117

(1) Represents the amount of securities and/or cash pledged as collateral to each counterparty less the aggregate of secured financing agreement.

We regularly monitor our exposure to financing counterparties for credit risk and allocate assets to these counterparties based, in part, on the credit quality and internally developed metrics measuring counterparty risk. Our exposure to a particular counterparty is calculated as the excess collateral which is pledged relative to the secured financing agreement balance. If our exposure to our financing counterparties exceeds internally developed thresholds, we develop a plan to reduce the exposure to an acceptable level. At June 30, 2022, we did not have any exposure to a counterparty which exceeded 10% of our equity.

At June 30, 2022, we did not use credit default swaps or other forms of credit protection to hedge the exposures summarized in the table above.

Stockholders' Equity

In February 2021, our Board of Directors increased the authorization of our share repurchase program, or the Repurchase Program, to $250 million. Such authorization does not have an expiration date, and at present, there is no intention to modify or otherwise rescind such authorization. Shares of our common stock may be purchased in the open market, including through block purchases, through privately negotiated transactions, or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Exchange Act. The timing, manner, price and amount of any repurchases will be determined at our discretion and the program may be suspended, terminated or modified at any time for any reason. Among other factors, we intend to only consider repurchasing shares of our common stock when the purchase price is less than the last publicly reported book value per common share. In addition, we do not intend to repurchase any shares from directors, officers or other affiliates. The program does not obligate us to acquire any specific number of shares, and all repurchases will be made in accordance with Rule 10b-18, which sets certain restrictions on the method, timing, price and volume of stock repurchases.

We repurchased approximately 5.4 million shares of our common stock at an average price of $9.10 for a total of $49 million during the quarter and six months ended June 30, 2022. We did not repurchase any of our common stock during the quarter ended June 30, 2021. We repurchased approximately 161 thousand shares of our common stock at an average price of $11.39 per share for a total of $2 million during the six months ended June 30, 2021. The approximate dollar value of shares that may yet be purchased under the Repurchase Program is $177 million as of June 30, 2022.

In February 2022, we entered into separate Distribution Agency Agreements (the "Sales Agreements") with each of Credit Suisse Securities (USA) LLC, JMP Securities LLC, Goldman Sachs & Co. LLC, Morgan Stanley & Co. LLC and RBC Capital Markets, LLC (the "Sales Agents"). Pursuant to the terms of the Sales Agreements, we may offer and sell shares of our common stock, having an aggregate offering price of up to $500,000,000, from time to time through any of the Sales Agents under the Securities Act of 1933. During the quarter and six months ended June 30, 2022, we did not issue any shares under the at-the-market sales program.

During the quarter and six months ended June 30, 2022, we declared dividends to common shareholders of $78 million and $156 million, or $0.33 and $0.66 per share, respectively. During the quarter and six months ended June 30, 2021, we declared dividends to common shareholders of $79 million and $149 million, or $0.33 and $0.63 per share, respectively.

We declared dividends to Series A preferred stockholders of $3 million and $6 million , or $0.50 and $1.00 per preferred share, during the quarter and six months ended June 30, 2022, respectively. We declared dividends to Series A preferred stockholders of $3 million and $6 million , or $0.50 and $1.00 per preferred share, during the quarter and six months ended June 30, 2021, respectively.

We declared dividends to Series B preferred stockholders of $7 million and $13 million, or $0.50 and $1.00 per preferred share, during the quarter and six months ended June 30, 2022, respectively. We declared dividends to Series B preferred stockholders of $7 million and $13 million, or $0.50 and $1.00 per preferred share, during the quarter and six months ended June 30, 2021, respectively.

We declared dividends to Series C preferred stockholders of $5 million and $10 million, or $0.484375 and $0.968750 per preferred share, during quarter and six months ended June 30, 2022, respectively. We declared dividends to Series C preferred stockholders of $5 million and $10 million, or $0.48 and $0.97 per preferred share, during quarter ended and six months ended June 30, 2021, respectively.

We declared dividends to Series D preferred stockholders of $4 million and $8 million, or $0.50 and $1.00 per preferred share, during the quarter and six months ended June 30, 2022, respectively. We declared dividends to Series D preferred stockholders of $4 million and $8 million, or $0.50 and $1.00 per preferred share, during the quarter and six months ended June 30, 2021, respectively.

On October 30, 2021, all 5,800,000 issued and outstanding shares of Series A Preferred Stock with an outstanding liquidation preference of $145 million became callable at a redemption price equal to the liquidation preference plus accrued and unpaid dividends through, but not including, the redemption date. The dividend rate on shares of Series A Preferred Stock is 8.00% per annum. Our fixed-to-floating rate series B, C and D preferred stock are LIBOR based and will become floating on their respective call dates.

Restricted Stock Unit and Performance Share Unit Grants

Grants of Restricted Stock Units, or RSUs

During the quarter and six months ended June 30, 2022 and 2021, we granted RSU awards to our employees. These RSU awards are designed to reward our employees for services provided to us. Generally, the RSU awards vest equally over a three-year period beginning from the grant date and will fully vest after three years. For employees who are retirement eligible, defined as years of service to us plus age, is equal to or greater than 65, the service period is considered to be fulfilled and all grants are expensed immediately. The RSU awards are valued at the market price of our common stock on the grant date and generally the employees must be employed by us on the vesting dates to receive the RSU awards. We granted 93 thousand and 221 thousand RSU awards during the quarter and six months ended June 30, 2022, with a grant date fair value of $1 million and $3 million, respectively for the 2022 performance year. We granted 62 thousand and 244 thousand RSU awards during the quarter and six months ended June 30, 2021, with a grant date fair value of $1 million and $3 million, respectively, for the 2021 performance year. In addition, during the six months ended June 30, 2021, we granted certain of our senior management 1 million RSU awards that vest in five equal tranches with one tranche vested immediately and the remaining four will vest equally over a four-year period. These additional RSUs are not subject to retirement eligible provisions and had a grant date fair value of $10 million.

Grants of Performance Share Units, or PSUs

PSU awards are designed to align compensation with our future performance. The PSU awards granted during the first quarter of 2022 and 2021 include a three-year performance period ending on December 31, 2024 and December 31, 2023, respectively. The final number of shares awarded will be between 0% and 200% of the PSUs granted based on our Economic Return compared to a peer group. Our three-year Economic Return is equal to our change in book value per common share plus common stock dividends. Compensation expense will be recognized on a straight-line basis over the three-year vesting period based on an estimate of our Economic Return in relation to the entities in the peer group and will be adjusted each period based on our best estimate of the actual number of shares awarded. We did not grant any PSUs during the quarters ended June 30, 2022 and 2021. During the six months ended June 30, 2022, we granted 128 thousand PSU awards to senior management with a grant date fair value of $2 million. During the six months ended June 30, 2021, we granted 182 thousand PSU awards to senior management with a grant date fair value of $2 million.

At June 30, 2022 and December 31, 2021, there were approximately 3.0 million and 2.8 million, respectively, unvested shares of RSUs and PSUs issued to our employees and directors.

Contractual Obligations and Commitments

The following tables summarize our contractual obligations at June 30, 2022 and December 31, 2021. The estimated principal repayment schedule of the securitized debt is based on expected cash flows of the residential mortgage loans or RMBS, as adjusted for expected principal write-downs on the underlying collateral of the debt.

June 30, 2022
(dollars in thousands)

Contractual Obligations	Within One Year	One to Three Years	Three to Five Years	Greater Than or Equal to Five Years	Total
Secured financing agreements	$ 2,563,418	$ 585,414	$ —	$ —	$ 3,148,832
Securitized debt, collateralized by Non-Agency RMBS	1,534	1,462	494	5	3,495
Securitized debt at fair value, collateralized by Loans held for investment	1,983,989	2,885,751	1,796,749	1,588,390	8,254,879
Interest expense on MBS secured financing agreements(1)	13,798	1,935	—	—	15,733
Interest expense on securitized debt(1)	203,438	284,271	160,562	155,063	803,334
Total	$ 4,766,177	$ 3,758,833	$ 1,957,805	$ 1,743,458	$ 12,226,273

(1) Interest is based on variable rates in effect as of June 30, 2022.

December 31, 2021 (dollars in thousands)					
Contractual Obligations	Within One Year	One to Three Years	Three to Five Years	Greater Than or Equal to Five Years	Total
Secured financing agreements	$ 2,861,485	$ 143,239	$ 256,889	$ —	$ 3,261,613
Securitized debt, collateralized by Non-Agency RMBS	4,374	2,361	949	82	7,766
Securitized debt at fair value, collateralized by Loans held for investment	2,031,445	2,886,255	1,697,760	1,145,995	7,761,455
Interest expense on MBS secured financing agreements(1)	7,687	352	1,270	—	9,309
Interest expense on securitized debt(1)	170,798	223,316	117,998	101,367	613,479
Total	$ 5,075,789	$ 3,255,523	$ 2,074,866	$ 1,247,444	$ 11,653,622

(1) Interest is based on variable rates in effect as of December 31, 2021.

Not included in the table above are the unfunded construction loan commitments of $12 million and $23 million as of June 30, 2022 and December 31, 2021, respectively. We expect the majority of these commitments will be paid within one year and are reported under Payable for investments purchased in our Consolidated Statements of Financial Condition.

Capital Expenditure Requirements

At June 30, 2022 and December 31, 2021, we had no material commitments for capital expenditures.

Dividends

To maintain our qualification as a REIT, we must pay annual dividends to our stockholders of at least 90% of our taxable income (subject to certain adjustments). Before we pay any dividend, we must first meet any operating requirements and scheduled debt service on our financing facilities and other debt payable.

Critical Accounting Estimates

Accounting policies are integral to understanding our Management's Discussion and Analysis of Financial Condition and Results of Operations. The preparation of financial statements in accordance with GAAP requires management to make certain judgments and assumptions, on the basis of information available at the time of the financial statements, in determining accounting estimates used in the preparation of these statements. Our significant accounting policies and accounting estimates are described in Note 2 to the Consolidated Financial Statements. Critical accounting policies are described in this section. An accounting policy is considered critical if it requires management to make assumptions or judgments about matters that are highly uncertain at the time the accounting estimate was made or require significant management judgment in interpreting the accounting literature. If actual results differ from our judgments and assumptions, or other accounting judgments were made, this could have a significant and potentially adverse impact on our financial condition, results of operations and cash flows.

The accounting policies and estimates which we consider most critical relate to the recognition of revenue on our investments, including recognition of any losses, and the determination of fair value of our financial instruments.

The consolidated financial statements include, on a consolidated basis, our accounts, the accounts of our wholly-owned subsidiaries, and variable interest entities, or VIEs, for which we are the primary beneficiary. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although our estimates contemplate current conditions and how we expect them to change in the future, it is reasonably possible that actual conditions could be different than anticipated in those estimates, which could materially adversely impact our results of operations and our financial condition. Management has made significant estimates in several areas, including current expected credit losses of Non-Agency

RMBS, valuation of Loans held for investments, Agency and Non-Agency MBS and interest rate swaps and income recognition on Loans held for investments and Non-Agency RMBS. Actual results could differ materially from those estimates.

Recent Accounting Pronouncements

Refer to Note 2 in the Notes to Consolidated Financial Statements for a discussion of accounting guidance we have recently adopted or expect to be adopted in the future.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The primary components of our market risk are related to credit risk, interest rate risk, prepayment risk, extension risk, basis risk and market risk. While we do not seek to avoid risk completely, we believe the risk can be quantified from historical experience and we seek to actively manage that risk and to maintain capital levels consistent with the risks we undertake.

Additionally, refer to Item 1A, "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2021 for additional information on risks we face, including the potential effects of the COVID-19 pandemic.

Credit Risk

We are subject to credit risk in connection with our investments in Non-Agency RMBS and residential mortgage loans and face more credit risk on assets we own that are rated below ‘‘AAA’’ or not rated. The credit risk related to these investments pertains to the ability and willingness of the borrowers to pay, which is assessed before credit is granted or renewed and periodically reviewed throughout the loan or security term. We believe that residual loan credit quality, and thus the quality of our assets, is primarily determined by the borrowers’ credit profiles and loan characteristics.

In connection with loan acquisitions, we or a third-party perform an independent review of the mortgage file to assess the origination and servicing of the mortgage loan as well as our ability to enforce the contractual rights in the mortgage. Depending on the size of the loans, we may not review all of the loans in a pool, but rather a sample of loans for diligence review based upon specific risk-based criteria such as property location, loan size, effective loan-to-value ratio, borrower’s characteristics and other criteria we believe to be important indicators of credit risk. Additionally, we obtain representations and warranties from each seller with respect to the residential mortgage loans, including the origination and servicing of the mortgage loan as well as the enforceability of the lien on the mortgaged property. A seller who breaches these representations and warranties in making a loan that we purchase may be obligated to repurchase the loan from us. Our resources include a portfolio management system, as well as third-party software systems. We utilize third-party due diligence firms to perform an independent mortgage loan file review to ensure compliance with existing guidelines. In addition to statistical sampling techniques, we create adverse credit and valuation samples, which we individually review.

Additionally, the Non-Agency RMBS which we acquire for our portfolio are reviewed by us to ensure that they satisfy our risk-based criteria. Our review of Non-Agency RMBS includes utilizing a portfolio management system. Our review of Non-Agency RMBS and other ABS is based on quantitative and qualitative analysis of the risk-adjusted returns on Non-Agency RMBS and other ABS. This analysis includes an evaluation of the collateral characteristics supporting the RMBS such as borrower payment history, credit profiles, geographic concentrations, credit enhancement, seasoning, and other pertinent factors.

If the effects of the COVID-19 pandemic result in widespread and sustained principal and interest shortfalls on MBS investments in our portfolio, we could incur significant delinquencies, foreclosures and credit losses. The future effects of the COVID-19 pandemic on economic activity could negatively affect the timing and amount of principal and interest payments on our existing investments as mortgage holder may have difficulty making payments contractually due. Further, in the event of delinquencies, regulatory changes and policies designed to protect borrowers may slow or prevent us from making our business decisions or may result in a delay in our taking remediation actions. See the “Market Conditions and our Strategy” section of this “Part I. Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations” and related “Special Note Regarding Forward-Looking Statements,” as well as Item 1A, “Risk Factors” included in our Annual Report on Form 10-K for the year ended December 31, 2021 for more information on how COVID-19 pandemic may impact the credit quality of our mortgage-related assets.

Interest Rate Risk

Our net interest income, borrowing activities and profitability could be negatively affected by volatility in interest rates caused by uncertainties stemming from the COVID-19 pandemic and updated Federal Reserve rate hike projections in 2022. As Federal Reserve increases its Federal Funds Rate, the margin between short and long-term rates could further compress. A

prolonged period of extremely volatile and unstable market conditions would likely increase our funding costs and negatively affect market risk mitigation strategies. Higher income volatility from changes in interest rates and spreads to benchmark indices could cause a loss of future net interest income and a decrease in the current fair market values of our assets. Fluctuations in interest rates will impact both the level of income and expense recorded on most of our assets and liabilities and the market value of all interest-earning assets and interest-bearing liabilities, which in turn could have a material adverse effect on our net income, operating results, or financial condition.

Interest rate risk is 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 are subject to interest rate risk in connection with our investments and our related debt obligations, which are generally secured financing agreements and securitization trusts. Our secured financing agreements and warehouse facilities may be of limited duration that is periodically refinanced at current market rates. We typically mitigate this risk through utilization of derivative contracts, primarily interest rate swap agreements, swaptions, futures and mortgage options.

Interest Rate Effects on Net Interest Income

Our operating results depend, in large part, on differences between the income from our investments and our borrowing costs. Most of our warehouse facilities and secured financing agreements provide financing based on a floating rate of interest calculated on a fixed spread over LIBOR or SOFR. The fixed spread varies depending on the type of underlying asset which collateralizes the financing. During periods of rising interest rates, the borrowing costs associated with our investments tend to increase while the income earned on our investments may remain substantially unchanged or decrease. This will result in a narrowing of the net interest spread between the related assets and borrowings and may even result in losses. Further, defaults could increase and result in credit losses to us, which could adversely affect our liquidity and operating results. Such delinquencies or defaults could also have an adverse effect on the spread between interest-earning assets and interest-bearing liabilities. We generally do not hedge against credit losses. Hedging techniques are partly based on assumed levels of prepayments of our fixed-rate and hybrid adjustable-rate residential mortgage loans and RMBS. If prepayments are slower or faster than assumed, the life of the residential mortgage loans and RMBS will be longer or shorter, which would reduce the effectiveness of any hedging strategies we may use and may cause losses on such transactions.

Interest Rate Effects on Fair Value

Another component of interest rate risk is the effect changes in interest rates will have on the fair value of the assets we acquire. We face the risk that the fair value of our assets will increase or decrease at different rates than that of our liabilities, including our hedging instruments, if any. We primarily assess our interest rate risk by estimating the duration of our assets compared to the duration of our liabilities and hedges. Duration essentially measures the market price volatility of financial instruments as interest rates change. We generally calculate duration using various financial models and empirical data. Different models and methodologies can produce different duration numbers for the same securities.

It is important to note that the impact of changing interest rates on fair value can change significantly when interest rates change beyond 100 basis points from current levels. Therefore, the volatility in the fair value of our assets could increase significantly when interest rates change beyond 100 basis points. In addition, other factors impact the fair value of our interest rate-sensitive investments and hedging instruments, such as the shape of the yield curve, market expectations as to future interest rate changes and other market conditions. Accordingly, in the event of changes in actual interest rates, the change in the fair value of our assets would likely differ from that shown below and such difference might be material and adverse to our stockholders.

Effect of U.S. Dollar London Inter Bank Offered Rate or, LIBOR transition

The interest rates on our repurchase agreements, as well as adjustable-rate mortgage loans in our securitizations, are generally based on LIBOR as are some classes of our preferred stock. On March 5, 2021, the United Kingdom Financial Conduct Authority (or FCA), which regulates LIBOR, announced that all LIBOR tenors relevant to us will cease to be published or will no longer be representative after June 30, 2023. The FCA's announcement coincides with the March 5, 2021, announcement of LIBOR's administrator, the ICE Benchmark Administration Limited (or IBA), indicating that, as a result of not having access to input data necessary to calculate LIBOR tenors relevant to us on a representative basis after June 30, 2023, IBA would have to cease publication of such LIBOR tenors immediately after the last publication on June 30, 2023. These announcements mean that any of our LIBOR-based borrowings that extend beyond June 30, 2023 will need to be converted to a replacement rate. Moreover, any adjustable-rate mortgage loans based upon LIBOR will need to convert by that time too.

On January 1, 2022, ICE discontinued the publication of the 1-week and 2-month tenors of USD-LIBOR. In the U.S., the Alternative Reference Rates Committee (“ARRC”) has identified the Secured Overnight Financing Rate (“SOFR”) as its preferred alternative rate for U.S. dollar-based LIBOR. SOFR is a measure of the cost of borrowing cash overnight,

collateralized by U.S. Treasury securities, and is based on directly observable U.S. Treasury-backed repurchase transactions. However, there are significant differences between LIBOR and SOFR, such as LIBOR being an unsecured lending rate while SOFR is a secured lending rate, and SOFR is an overnight rate while LIBOR reflects term rates at different maturities.

While some market participants are still evaluating what convention of SOFR will be adopted for various types of financial instruments and securitization vehicles, the mortgage market, including our repurchase agreements, has currently adopted the daily compounded and paid in arrears SOFR convention. That convention, however, may change in the future. As our LIBOR-based borrowings are converted to SOFR, the differences between LIBOR and SOFR, plus the recommended spread adjustment, could result in interest costs that are higher than if LIBOR remained available, which could have a material adverse effect on our operating results. In addition, and other market participants have less experience understanding and modeling SOFR-based assets and liabilities than LIBOR-based assets and liabilities, increasing the difficulty of investing, hedging, and risk management. The process of transition involves operational risks. It is not yet possible to predict the magnitude of LIBOR's end on our borrowing costs and other operations given the remaining uncertainty about which rates will replace LIBOR and the related timing.

Holders of our fixed-to-floating preferred shares should refer to the relevant prospectus to understand the USD-LIBOR cessation provisions applicable to that class. We do not currently intend to amend any of our fixed-to-floating preferred shares to change the existing USD-LIBOR cessation fallbacks.

On March 15, 2022, President Biden signed the Adjustable Interest Rate (LIBOR) Act, which transitions contracts that use LIBOR as a benchmark for adjustable interest rates to another benchmark, once LIBOR is permanently discontinued after June 30, 2023. The Act provides, among other things, that a default alternative benchmark based on SOFR published by the New York Federal Reserve Bank will automatically apply after the LIBOR replacement date for any contract that does not select a benchmark replacement for LIBOR or identify a person authorized to select a benchmark replacement after LIBOR is permanently discontinued. The Act also provides that if the SOFR-based benchmark replacement is selected to replace LIBOR, the person responsible under a contract for determining values is not required to obtain the consent of anyone before determining values based on that benchmark replacement. The Act further creates a safe harbor by ensuring that the SOFR-based benchmark replacement is by law a commercially reasonable replacement for LIBOR, that the use of that benchmark replacement cannot be deemed a breach of a contract or an impairment of the right of any person to receive payment under that contract, and that no person can be liable for selecting or using that benchmark replacement. The Act further authorizes the Board of the Federal Reserve to promulgate regulations under the statute to designate specific SOFR-based rates that incorporate the statutory spread adjustments as replacement rates for covered LIBOR contracts. The Federal Reserve has proposed (i) SOFR compounded in arrears for derivatives, using the same methodology as under the International Swaps and Derivatives Association protocol, (ii) CME Term SOFR for all covered non-government-sponsored enterprise (“GSE”) cash products and (iii) a 30-day compounded SOFR average for certain GSE contracts. The proposed rules remain subject to public comment. We are currently evaluating the impact of the Act and proposed regulations on our LIBOR-based instruments, including certain classes of our outstanding fixed-to-floating preferred stock. However, we believe that the Act should provide some measure of certainty with respect to the treatment of such instruments once LIBOR is permanently discontinued.

Interest Rate Cap Risk

We may also invest in adjustable-rate residential mortgage loans and RMBS. These are mortgages or RMBS in which the underlying mortgages are typically subject to periodic and lifetime interest rate caps and floors, which limit the amount by which the security’s interest yield may change during any given period. However, our borrowing costs pursuant to our financing agreements will not be subject to similar restrictions. Therefore, in a period of increasing interest rates, interest rate costs on our borrowings could increase without limitation by caps, while the interest-rate yields on our adjustable-rate residential mortgage loans and RMBS would effectively be limited. This problem will be magnified to the extent we acquire adjustable-rate RMBS that are not based on mortgages which are fully indexed. In addition, the mortgages or the underlying mortgages in an RMBS may be subject to periodic payment caps that result in some portion of the interest being deferred and added to the principal outstanding. This could result in our receipt of less cash income on our adjustable-rate mortgages or RMBS than we need in order to pay the interest cost on our related borrowings. These factors could lower our net interest income or cause a net loss during periods of rising interest rates, which would harm our financial condition, cash flows and results of operations.

Interest Rate Mismatch Risk

We fund a substantial portion of the acquisitions of our investments with borrowings that have interest rates based on indices and re-pricing terms similar to, but of somewhat shorter maturities than, the interest rate indices and re-pricing terms of the mortgages and mortgage-backed securities. In most cases the interest rate indices and re-pricing terms of our mortgage assets and our funding sources will not be identical, thereby creating an interest rate mismatch between assets and liabilities. Our cost

of funds would likely rise or fall more quickly than would our earnings rate on assets. During periods of changing interest rates, such interest rate mismatches could negatively impact our financial condition, cash flows and results of operations. To mitigate interest rate mismatches, we may utilize the hedging strategies discussed above. Our analysis of risks is based on our experience, estimates, models and assumptions. These analyses rely on models which utilize estimates of fair value and interest rate sensitivity. Actual economic conditions or implementation of investment decisions by our management may produce results that differ significantly from the estimates and assumptions used in our models and the projected results.

To mitigate potential interest rate mismatches, we have entered into agreements for longer term, non mark-to-market financing facilities at rates that are higher than short term secured financing agreements. These longer term agreements are primarily on our less liquid non-agency RMBS assets. Having non mark-to-market financing facilities may be useful in this market to prevent significant margin calls or collateral liquidation in a volatile market. If the market normalizes and repurchase rates fall, we may be locked into long term and higher interest expenses than are otherwise available in the market to finance our portfolio.

Our profitability and the value of our portfolio may be adversely affected during any period as a result of changing interest rates. The following table quantifies the potential changes in net interest income and market value on the assets we retain and derivatives, if interest rates go up or down 50 and 100 basis points, assuming parallel movements in the yield curves. All changes in income and value are measured as percentage changes from the projected net interest income and the value of the assets we retain at the base interest rate scenario. The base interest rate scenario assumes interest rates at June 30, 2022 and various estimates regarding prepayment and all activities are made at each level of rate change. Actual results could differ significantly from these estimates.

	June 30, 2022	
Change in Interest Rate	Projected Percentage Change in Net Interest Income	Projected Percentage Change in Market Value [1]
-100 Basis Points	10.12 %	7.86 %
-50 Basis Points	4.72 %	3.61 %
Base Interest Rate	—	—
+50 Basis Points	(4.32) %	(3.82) %
+100 Basis Points	(8.49) %	(7.15) %

(1) Projected Percentage Change in Market Value is based on instantaneous moves in interest rates.

Prepayment Risk

As we receive prepayments of principal on these investments, premiums and discounts on such investments will be amortized or accreted into interest income. In general, an increase in actual or expected prepayment rates will accelerate the amortization of purchase premiums, thereby reducing the interest income earned on the investments. Conversely, discounts on such investments are accelerated and accreted into interest income increasing interest income when prepayments increase. Actual prepayment results may be materially different than the assumptions we use for our portfolio.

Extension Risk

Management computes the projected weighted-average life of our investments based on assumptions regarding the rate at which the borrowers will prepay the underlying mortgages. In general, when fixed-rate or hybrid adjustable-rate residential mortgage loans or RMBS are acquired via borrowings, we may, but are not required to, enter into an interest rate swap agreement or other hedging instrument that attempts to fix our borrowing costs for a period close to the anticipated average life of the fixed-rate portion of the related assets. This strategy is designed to protect us from rising interest rates as the borrowing costs are managed to maintain a net interest spread for the duration of the fixed-rate portion of the related assets. However, if prepayment rates decrease in a rising interest rate environment, the life of the fixed-rate portion of the related assets could extend beyond the term of the swap agreement or other hedging instrument. This could have a negative impact on our results from operations, as borrowing costs would no longer be fixed after the end of the hedging instrument while the income earned on the fixed and hybrid adjustable-rate assets would remain fixed. In extreme situations, we may be forced to sell assets to maintain adequate liquidity, which could cause us to incur losses.

Basis Risk

We may seek to limit our interest rate risk by hedging portions of our portfolio through interest rate swaps or other types of hedging instruments. Basis risk relates to the risk of the spread between our MBS and hedges widening. Such a widening may cause a decline in the fair value of our MBS that is greater than the increase in fair value of our hedges resulting in a net decline in book value.

Market Risk

Market Value Risk

Certain of our securities classified as available-for-sale are reflected at their estimated fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive income. The estimated fair value of these securities fluctuates primarily due to changes in interest rates, prepayment speeds, market liquidity, credit quality, and other factors. Generally, in a rising interest rate environment, the estimated fair value of these securities would be expected to decrease; conversely, in a decreasing interest rate environment, the estimated fair value of these securities would be expected to increase. As market volatility increases or liquidity decreases, the fair value of our investments may be adversely impacted.

Real Estate Market Risk

We own assets secured by real property and may own real property directly. Residential property values are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions and unemployment (which may be adversely affected by industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing); changes or continued weakness in specific industry segments; construction quality, age and design; demographic factors; natural disasters and other acts of God; and retroactive changes to building or similar codes. In addition, decreases in property values reduce the value of the collateral and the potential proceeds available to a borrower to repay our loans, which could also cause us to incur losses.

Risk Management

Subject to maintaining our REIT status, we seek to manage risk exposure to protect our portfolio of residential mortgage loans, RMBS, and other assets and related debt against the effects of major interest rate changes. We generally seek to manage risk by:

- monitoring and adjusting, if necessary, the reset index and interest rate related to our RMBS and our financings;
- attempting to structure our financing agreements to have a range of different maturities, terms, amortizations and interest rate adjustment periods, rights to post both cash and collateral for margin calls and provisions for non-mark-to-market financing facilities;
- using derivatives, financial futures, swaps, options, caps, floors and forward sales to adjust the interest rate sensitivity of our investments and our borrowings;
- using securitization financing to receive the benefit of attractive financing terms for an extended period of time in contrast to short term financing and maturity dates of the investments not included in the securitization; and
- actively managing, through assets selection, on an aggregate basis, the interest rate indices, interest rate adjustment periods, and gross reset margins of our investments and the interest rate indices and adjustment periods of our financings.

Our efforts to manage our assets and liabilities are focused on the timing and magnitude of the re-pricing of assets and liabilities. We attempt to control risks associated with interest rate movements. Methods for evaluating interest rate risk include an analysis of our interest rate sensitivity "gap," which is the difference between interest-earning assets and interest-bearing liabilities maturing or re-pricing within a given time period. A gap is considered positive when the amount of interest-rate sensitive assets exceeds the amount of interest-rate sensitive liabilities. A gap is considered negative when the amount of interest-rate sensitive liabilities exceeds interest-rate sensitive assets. During a period of rising interest rates, a negative gap would tend to adversely affect net interest income, while a positive gap would tend to result in an increase in net interest income. During a period of falling interest rates, a negative gap would tend to result in an increase in net interest income, while a positive gap would tend to affect net interest income adversely. Because different types of assets and liabilities with the same or similar maturities may react differently to changes in overall market rates or conditions, changes in interest rates may affect net interest income positively or negatively even if an institution were perfectly matched in each maturity category.

The following table sets forth the estimated maturity or re-pricing of our interest-earning assets and interest-bearing liabilities at June 30, 2022. The amounts of assets and liabilities shown within a particular period were determined in accordance with the contractual terms of the assets and liabilities, and securities are included in the period in which their interest rates are first scheduled to adjust and not in the period in which they mature and includes the effect of the interest rate swaps, if any. The interest rate sensitivity of our assets and liabilities in the table could vary substantially based on actual prepayments.

June 30, 2022 (dollars in thousands)	Within 3 Months	3-12 Months	1 Year to 3 Years	Greater than 3 Years	Total
Rate sensitive assets	$ 1,504,842	$ 8,651,013	$ 57,436	$ 3,549,219	$ 13,762,510
Cash equivalents	158,455	—	—	—	158,455
Total rate sensitive assets	$ 1,663,297	$ 8,651,013	$ 57,436	$ 3,549,219	$ 13,920,965
Rate sensitive liabilities	4,870,375	5,960,746	—	—	10,831,121
Interest rate sensitivity gap	$ (3,207,078)	$ 2,690,267	$ 57,436	$ 3,549,219	$ 3,089,844
Cumulative rate sensitivity gap	$ (3,207,078)	$ (516,811)	$ (459,375)	$ 3,089,844	
Cumulative interest rate sensitivity gap as a percentage of total rate sensitive assets	(23)%	(4)%	(3)%	22 %	

Our analysis of risks is based on our management's experience, estimates, models and assumptions. These analyses rely on models which utilize estimates of fair value and interest rate sensitivity. Actual economic conditions or implementation of investment decisions by our management may produce results that differ significantly from the estimates and assumptions used in our models and the projected results shown in the above tables. These analyses contain certain forward-looking statements and are subject to the safe harbor statement set forth under the heading, "Special Note Regarding Forward-Looking Statements."

Cybersecurity Risk

We have a suite of information security controls including enterprise technology hardware and software solutions, security programs such as cybersecurity risk assessment and tabletop exercise specific to our industry, testing of the resiliency of our systems including penetration and disaster recovery tests to continually improve our Business Continuity program against ever-changing threat landscape. We have established an incident response plan and team to take steps it determines are appropriate to contain, mitigate and remediate a cybersecurity incident and to respond to the associated business, legal and reputational risks. Our round-the-clock Security Operation Center actively monitors suspicious activities including tactics, techniques, or procedures related to state-sponsored threat actors and associated groups. Our cybersecurity user awareness program provides regular training sessions on cybersecurity risks and mitigation strategies. We assess our cybersecurity risk awareness, prevention, and response capabilities against industry standard frameworks and maturity models. In addition, we recently had an independent third-party perform a cybersecurity maturity assessment of our systems, policies and procedures focused on the National Institute of Standards and Technology, or NIST, Cybersecurity Framework and the SEC's Office of Compliance Inspections and Examinations, or OCIE cybersecurity guidance. The review noted positive findings as well as making a few recommendations which we are implementing. None of the recommendations involved high risk items.

There is no assurance that these efforts will fully mitigate cybersecurity risk and mitigation efforts are not an assurance that no cybersecurity incidents will occur.

We have been working remotely since March 2020 and have adopted a hybrid work schedule since the middle of March 2022. While we feel our remote work environment is secure, cybersecurity attacks have increased in an attempt to breach our system and take advantage of employees working from home. The technology in employees' homes may not be as robust as in our offices and could cause the networks, information systems, applications, and other tools available to employees to be more limited or less reliable than in our offices. We have experienced higher than normal phishing and other attempts to access our systems. We have not had a cybersecurity breach and maintain vigilance around our technology platforms, but there is no assurance that all cybersecurity risks will be mitigated.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) was performed under the supervision and with the participation of the Company's senior management, including the Chief

Executive Officer, Chief Financial Officer and the Chief Accounting Officer. Based on that evaluation, the Company's management, including the Chief Executive Officer, Chief Financial Officer and the Chief Accounting Officer, concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) Changes in Internal Control over Financial Reporting

As required by Rule 13a-15(d) under the Securities Exchange Act of 1934, the Company's management, including its Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, has evaluated the Company's internal control over financial reporting to determine whether any changes occurred during the period covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there has been no such change during the second quarter of 2022.

PART II. Other Information

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

Under "Part I — Item 1A — Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2021 we set forth risk factors related to our business and operations. You should carefully consider the risk factors set forth in our Form 10-K for the year ended December 31, 2021. As of the date hereof, there have been no material changes to the risk factors set forth in our Form 10-K for the year ended December 31, 2021.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In February 2021, the Company's Board of Directors increased the authorization of the Company's share repurchase program to $250 million, or the Repurchase Program. Such authorization does not have an expiration date, and at present, there is no intention to modify or otherwise rescind such authorization. Shares of the Company's common stock may be purchased in the open market, including through block purchases, through privately negotiated transactions, or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended, or the Exchange Act. The timing, manner, price and amount of any repurchases will be determined at the Company's discretion and the program may be suspended, terminated or modified at any time, for any reason. Among other factors, the Company intends to only consider repurchasing shares of its common stock when the purchase price is less than the last publicly reported book value per common share. In addition, the Company does not intend to repurchase any shares from directors, officers or other affiliates. The program does not obligate the Company to acquire any specific number of shares, and all repurchases will be made in accordance with Rule 10b-18, which sets certain restrictions on the method, timing, price and volume of stock repurchases.

The following table presents information with respect to (i) the total number of shares of common stock repurchased by the Company under the Repurchase Program, (ii) the average price paid per share of common stock, and (iii) approximate dollar value for repurchase under the Repurchase Program during the second quarter of 2022:

Period[1]	Total Number of Common Shares Repurchased[2]	Average Price Paid per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs[2]	Approximate Dollar Value of the Purchase	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs
4/1/2022 - 4/30/2022	—	—	—	—	$226 million
5/1/2022 - 5/31/2022	2,508,149	$ 9.49	2,508,149	$ 23,794,552	$202 million
6/1/2022 - 6/30/2022	2,863,332	$ 8.76	2,863,332	$ 25,091,229	$177 million
Total:	5,371,481	$ 9.10	5,371,481	$ 48,885,781	$177 million

(1) All shares repurchased for the quarter ended June 30, 2022, which are reported in the table above, were executed under the Repurchase Program.
(2) The Repurchase Program does not have an expiration date to date and no repurchase program expired during the quarter ended June 30, 2022.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

EXHIBIT INDEX

Exhibit Number	Description
3.1	Articles of Amendment and Restatement of Chimera Investment Corporation (filed as Exhibit 3.1 to the Company's Registration Statement on Amendment No. 1 to Form S-11 (File No. 333-145525) filed on September 27, 2007 and incorporated herein by reference).
3.2	Articles of Amendment to the Articles of Amendment and Restatement of Chimera Investment Corporation (filed as Exhibit 3.1 to the Company's Report on Form 8-K filed on May 28, 2009 and incorporated herein by reference).
3.3	Articles of Amendment to the Articles of Amendment and Restatement of Chimera Investment Corporation (filed as Exhibit 3.1 to the Company's Report on Form 8-K filed on November 5, 2010 and incorporated herein by reference).
3.4	Articles of Amendment to the Articles of Amendment and Restatement of Chimera Investment Corporation (filed as Exhibit 3.1 to the Company's Report on Form 8-K filed on April 6, 2015 and incorporated herein by reference).
3.5	Articles of Amendment to the Articles of Amendment and Restatement of Chimera Investment Corporation (filed as Exhibit 3.2 to the Company's Report on Form 8-K filed on April 6, 2015 and incorporated herein by reference).
3.6	Articles of Amendment to the Articles of Amendment and Restatement of Chimera Investment Corporation (filed as Exhibit 3.6 to the Company's Report on Form 8-A filed on January 17, 2019 and incorporated herein by reference).
3.7	Certificate of Correction, dated as of September 10, 2021 (filed as Exhibit 3.7 to the Company's Report on Form 8-K filed on September 13, 2021 and incorporated herein by reference)
3.8	Articles Supplementary to the Articles of Amendment and Restatement of Chimera Investment Corporation designating the Company's 8.00% Series A Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, par value $0.01 per share (filed with the SEC as Exhibit 3.1 to the Company's Report on Form 8-K filed October 12, 2016 and incorporated herein by reference).
3.9	Articles Supplementary to the Articles of Amendment and Restatement of Chimera Investment Corporation designating the Company's 8.00% Series B Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, par value $0.01 per share (filed with the SEC as Exhibit 3.7 to the Company's Registration Statement on Form 8-A filed on February 24, 2017 and incorporated herein by reference).
3.10	Articles Supplementary to the Articles of Amendment and Restatement of Chimera Investment Corporation designating the Company's 7.75% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (filed as Exhibit 3.8 to the Company's Report on Form 8-A filed September 18, 2018 and incorporated herein by reference).
3.11	Articles Supplementary to the Articles of Amendment and Restatement of Chimera Investment Corporation designating the Company's 8.00% Series D Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (filed as Exhibit 3.10 to the Company's Report on Form 8-A filed January 17, 2019 and incorporated herein by reference).
3.12	Amended and Restated Bylaws of Chimera Investment Corporation (filed with the Commission as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on January 10, 2017 and incorporated herein by reference).
4.2	Specimen Common Stock Certificate of Chimera Investment Corporation (filed as Exhibit 4.1 to the Company's Registration Statement on Amendment No. 1 to Form S-11 (File No. 333-145525) filed on September 27, 2007 and incorporated herein by reference).

4.3	Form of specimen certificate representing the shares of 8.00% Series A Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock Certificate (filed as Exhibit 4.1 to the Company's Report on Form 8-K filed October 12, 2016 and incorporated herein by reference).
4.4	Form of specimen certificate representing the shares of 8.00% Series B Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock Certificate (filed with the SEC as Exhibit 4.1 to the Company's Registration Statement on Form 8-A filed on February 24, 2017 and incorporated herein by reference).
4.5	Form of specimen certificate representing the shares of 7.75% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock Certificate (filed with the SEC as Exhibit 4.1 to the Company's Registration Statement on Form 8-A filed on September 18, 2018 and incorporated herein by reference).
4.6	Form of specimen certificate representing the shares of 8.00% Series D Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock Certificate (filed with the SEC as Exhibit 4.1 to the Company's Registration Statement on Form 8-A filed on January 17, 2019 and incorporated herein by reference).
31.1	Certification of Mohit Marria, Chief Executive Officer and Chief Investment Officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Subramaniam Viswanathan, Chief Financial Officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Mohit Marria, Chief Executive Officer and Chief Investment Officer of the Registrant, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Subramaniam Viswanathan, Chief Financial Officer the Registrant, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* This exhibit is being furnished rather than filed, and shall not be deemed incorporated by reference into any filing, in accordance with Item 601 of Regulation S-K

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHIMERA INVESTMENT CORPORATION

	By:	/s/ Mohit Marria
		Mohit Marria Chief Executive Officer and Chief Investment Officer (Principal Executive Officer of the registrant)
Date: August 4, 2022		
	By:	/s/ Subramaniam Viswanathan
		Subramaniam Viswanathan Chief Financial Officer (Principal Financial Officer of the registrant)
Date: August 4, 2022		

CERTIFICATIONS

Exhibit 31.1

I, Mohit Marria, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Chimera Investment Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

    a. Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2022
/s/ Mohit Marria

Mohit Marria
Chief Executive Officer, Chief Investment Officer and Principal Executive Officer

CERTIFICATIONS

Exhibit 31.2

I, Subramaniam Viswanathan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Chimera Investment Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

    a. Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2022
/s/ Subramaniam Viswanathan

Subramaniam Viswanathan
Chief Financial Officer and Principal Financial Officer

Exhibit 32.1

CHIMERA INVESTMENT CORPORATION
630 FIFTH AVE SUITE 2400
NEW YORK, NEW YORK 10111

CERTIFICATION
PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002, 18 U.S.C. SECTION 1350

In connection with the quarterly report on Form 10-Q of Chimera Investment Corporation (the "Company") for the period ended June 30, 2022 to be filed with Securities and Exchange Commission on or about the date hereof (the "Report"), I, Mohit Marria, Chief Executive Officer and Chief Investment Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates of, and for the periods covered by, the Report.

It is not intended that this statement be deemed to be filed for purposes of the Securities Exchange Act of 1934.

/s/ Mohit Marria

Mohit Marria
Chief Executive Officer, Chief Investment Officer and Principal Executive Officer
Date: August 4, 2022

Exhibit 32.2

CHIMERA INVESTMENT CORPORATION
630 FIFTH AVE SUITE 2400
NEW YORK, NEW YORK 10111

CERTIFICATION
PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002, 18 U.S.C. SECTION 1350

In connection with the quarterly report on Form 10-Q of Chimera Investment Corporation (the "Company") for the period ended June 30, 2022 to be filed with Securities and Exchange Commission on or about the date hereof (the "Report"), I, Subramaniam Viswanathan, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates of, and for the periods covered by, the Report.

It is not intended that this statement be deemed to be filed for purposes of the Securities Exchange Act of 1934.

/s/ Subramaniam Viswanathan

Subramaniam Viswanathan
Chief Financial Officer and Principal Financial Officer
Date: August 4, 2022