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: March 31, 2021
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.)

520 Madison Avenue 32nd Floor
New York, New York
(Address of principal executive offices)
10022
(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 Cumulative Fixed-to-Floating Rate Redeemable Preferred Stock	**CIM PRB**	**New York Stock Exchange**
7.75% Series C Cumulative Fixed-to-Floating Rate Redeemable Preferred Stock	**CIM PRC**	**New York Stock Exchange**
8.00% Series D Cumulative Fixed-to-Floating Rate 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 and post such files).

Yes ☑ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, 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 April 30, 2021
Common Stock, $0.01 par value	230,555,167

CHIMERA INVESTMENT CORPORATION

FORM 10-Q

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Part I

Item 1. Consolidated Financial Statements

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

	March 31, 2021	December 31, 2020
Cash and cash equivalents	$ 317,489	$ 269,090
Non-Agency RMBS, at fair value (net of allowance for credit losses of $ 54 thousand and $180 thousand, respectively)	2,013,478	2,150,714
Agency RMBS, at fair value	86,354	90,738
Agency CMBS, at fair value	1,355,289	1,740,368
Loans held for investment, at fair value	12,808,012	13,112,129
Accrued interest receivable	77,562	81,158
Other assets	41,078	78,822
Total assets (1)	$ 16,699,262	$ 17,523,019
Liabilities:		
Secured financing agreements ($5.7 billion and $6.7 billion pledged as collateral, respectively)	$ 4,045,912	$ 4,636,847
Securitized debt, collateralized by Non-Agency RMBS ($479 million and $505 million pledged as collateral, respectively)	107,367	113,433
Securitized debt at fair value, collateralized by loans held for investment ($ 12.1 billion and $12.4 billion pledged as collateral, respectively)	8,734,372	8,711,677
Long term debt	51,772	51,623
Payable for investments purchased	76,534	106,169
Accrued interest payable	24,855	40,950
Dividends payable	77,355	77,213
Accounts payable and other liabilities	14,597	5,721
Total liabilities (1)	$ 13,132,764	$ 13,743,633
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, 230,553,340 and 230,556,760 shares issued and outstanding, respectively	2,306	2,306
Additional paid-in-capital	4,320,419	4,538,029
Accumulated other comprehensive income	493,651	558,096
Cumulative earnings	4,039,485	3,881,894
Cumulative distributions to stockholders	(5,289,735)	(5,201,311)
Total stockholders' equity	$ 3,566,498	$ 3,779,386
Total liabilities and stockholders' equity	$ 16,699,262	$ 17,523,019

(1) The Company's consolidated statements of financial condition include assets of consolidated variable interest entities ("VIEs") 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 March 31, 2021, and December 31, 2020, total assets of consolidated VIEs were $11,736,522 and $12,165,017, respectively, and total liabilities of consolidated VIEs were $8,113,248 and $8,063,110, 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	
	March 31, 2021	**March 31, 2020**
Net interest income:		
Interest income [1]	$ 243,127	$ 300,266
Interest expense [2]	108,066	142,083
Net interest income	135,061	158,183
Increase/(decrease) in provision for credit losses	(126)	6,314
Other investment gains (losses):		
Net unrealized gains (losses) on derivatives	—	201,000
Realized gains (losses) on terminations of interest rate swaps	—	(463,966)
Net realized gains (losses) on derivatives	—	(41,086)
Net gains (losses) on derivatives	—	(304,052)
Net unrealized gains (losses) on financial instruments at fair value	270,012	(260,887)
Net realized gains (losses) on sales of investments	37,796	75,854
Gains (losses) on extinguishment of debt	(237,137)	—
Total other gains (losses)	70,671	(489,085)
Other expenses:		
Compensation and benefits	13,439	12,934
General and administrative expenses	5,198	5,137
Servicing and asset manager fees	9,281	10,530
Transaction expenses	16,437	4,906
Total other expenses	44,355	33,507
Income (loss) before income taxes	161,503	(370,723)
Income taxes	3,912	32
Net income (loss)	$ 157,591	$ (370,755)
Dividends on preferred stock	18,438	18,438
Net income (loss) available to common shareholders	$ 139,153	$ (389,193)
Net income (loss) per share available to common shareholders:		
Basic	$ 0.60	$ (2.08)
Diluted	$ 0.54	$ (2.08)
Weighted average number of common shares outstanding:		
Basic	230,567,231	187,018,602
Diluted	261,435,081	187,018,602

(1) Includes interest income of consolidated VIEs of $ 158,100 and $ 174,681 for the quarters ended March 31, 2021 and 2020, respectively. See Note 9 to consolidated financial statements for further discussion.

(2) Includes interest expense of consolidated VIEs of $ 65,205 and $ 64,629 for the quarters ended March 31, 2021 and 2020, 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	
	March 31, 2021	**March 31, 2020**
Comprehensive income (loss):		
Net income (loss)	$ 157,591	$ (370,755)
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities, net	(38,652)	(199,204)
Reclassification adjustment for net realized losses (gains) included in net income	(25,793)	(6,641)
Other comprehensive income (loss)	(64,445)	(205,845)
Comprehensive income (loss) before preferred stock dividends	**$ 93,146**	**$ (576,600)**
Dividends on preferred stock	$ 18,438	$ 18,438
Comprehensive income (loss) available to common stock shareholders	**$ 74,708**	**$ (595,038)**

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 March 31, 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)	—	—	—	—	—	—	—	157,591	—	157,591
Other comprehensive income (loss)	—	—	—	—	—	—	(64,445)	—	—	(64,445)
Repurchase of common stock	—	—	—	—	(2)	(1,826)	—	—	—	(1,828)
Settlement of warrants	—	—	—	—	—	(219,840)	—	—	—	(219,840)
Stock based compensation	—	—	—	—	2	4,056	—	—	—	4,058
Common dividends declared	—	—	—	—	—	—	—	—	(69,986)	(69,986)
Preferred dividends declared	—	—	—	—	—	—	—	—	(18,438)	(18,438)
Balance, March 31, 2021	$ 58	$ 130	$ 104	$ 80	$ 2,306	$ 4,320,419	$ 493,651	$ 4,039,485	$ (5,289,735)	$ 3,566,498

For the Quarter Ended March 31, 2020

	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, 2019	$ 58	$ 130	$ 104	$ 80	$ 1,873	$ 4,275,963	$ 708,336	$ 3,793,040	$ (4,826,291)	$ 3,953,293
Net income (loss)	—	—	—	—	—	—	—	(370,755)	—	(370,755)
Other comprehensive income (loss)	—	—	—	—	—	—	(205,845)	—	—	(205,845)
Repurchase of common stock	—	—	—	—	(14)	(22,051)	—	—	—	(22,065)
Stock based compensation	—	—	—	—	1	1,142	—	—	—	1,143
Common dividends declared	—	—	—	—	—	—	—	—	(93,479)	(93,479)
Preferred dividends declared	—	—	—	—	—	—	—	—	(18,438)	(18,438)
Balance, March 31, 2020	$ 58	$ 130	$ 104	$ 80	$ 1,860	$ 4,255,054	$ 502,491	$ 3,422,285	$ (4,938,208)	$ 3,243,854

See accompanying notes to consolidated financial statements.

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

	For the Quarters Ended	
	March 31, 2021	March 31, 2020
Cash Flows From Operating Activities:		
Net income (loss)	$ 157,591	$ (370,755)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
(Accretion) amortization of investment discounts/premiums, net	13,260	36,319
Accretion (amortization) of deferred financing costs, debt issuance costs, and securitized debt discounts/premiums, net	9,673	(18,318)
Net unrealized losses (gains) on derivatives	—	(201,000)
Margin (paid) received on derivatives	—	325,594
Net unrealized losses (gains) on financial instruments at fair value	(270,012)	260,887
Net realized losses (gains) on sales of investments	(37,796)	(75,854)
Net increase (decrease) in provision for credit losses	(126)	6,314
(Gain) loss on extinguishment of debt	237,137	—
Equity-based compensation expense	4,058	1,143
Changes in operating assets:		
Decrease (increase) in accrued interest receivable, net	3,593	23,763
Decrease (increase) in other assets	12,042	(394,817)
Changes in operating liabilities:		
Increase (decrease) in accounts payable and other liabilities	8,877	6,417
Increase (decrease) in accrued interest payable, net	(16,096)	(19,156)
Net cash provided by (used in) operating activities	$ 122,201	$ (419,463)
Cash Flows From Investing Activities:		
Agency MBS portfolio:		
Purchases	$ (28,856)	$ (160,516)
Sales	201,037	6,244,850
Principal payments	147,859	593,341
Non-Agency RMBS portfolio:		
Purchases	—	(19,503)
Sales	32,459	33,797
Principal payments	63,311	67,518
Loans held for investment:		
Purchases	(1,069,554)	(575,541)
Sales	903,358	—
Principal payments	564,559	461,594
Net cash provided by (used in) investing activities	$ 814,173	$ 6,645,540
Cash Flows From Financing Activities:		
Proceeds from secured financing agreements	$ 14,021,592	$ 38,210,544
Payments on secured financing agreements	(14,615,709)	(44,491,093)
Payments on repurchase of common stock	(1,828)	(22,066)
Proceeds from securitized debt borrowings, collateralized by loans held for investment	3,400,687	731,013
Payments on securitized debt borrowings, collateralized by loans held for investment	(3,379,096)	(386,362)
Payments on securitized debt borrowings, collateralized by Non-Agency RMBS	(5,499)	(4,449)
Settlement of warrants	(219,840)	—
Common dividends paid	(69,844)	(93,613)
Preferred dividends paid	(18,438)	(18,438)
Net cash provided by (used in) financing activities	$ (887,975)	$ (6,074,464)

Net increase (decrease) in cash and cash equivalents		48,399		151,613
Cash and cash equivalents at beginning of period		269,090		109,878
Cash and cash equivalents at end of period	$	317,489	$	261,491
Supplemental disclosure of cash flow information:				
Interest received	$	259,981	$	359,664
Interest paid	$	114,490	$	178,292
Non-cash investing activities:				
Payable for investments purchased	$	76,534	$	699,164
Net change in unrealized gain (loss) on available-for sale securities	$	(64,445)	$	(205,845)
Non-cash financing activities:				
Dividends declared, not yet paid	$	77,355	$	98,434

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 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 thirteen 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 Insurance Company, LLC formed in July 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 holds a significant, non-consolidated interest in Kah Capital Management, which is treated as an equity method investment. The Company paid $46 thousand and $250 thousand in fees to Kah Capital Management for investment services provided during the quarters ended March 31, 2021 and 2020, respectively.

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 securities transactions are recorded on the trade date. Certain prior period amounts have been reclassified to conform to the current period's presentation.

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 (Note 4 and 5), securitized debt (Note 5 and 7) and derivative instruments (Notes 5 and 10). 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, 2020, 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 March 31, 2021 or December 31, 2020.

(e) Recent Accounting Pronouncements

Reference Rate Reform (Topic 848)

In March 2020, the FASB issued 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 generally accepted accounting principles (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, we will evaluate the impact in accordance with this update.

Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)

In August 2020, the FASB issued ASU No. 2020-6,*Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity.* The FASB issued this update to simplify the current guidance for convertible instruments and the derivatives scope exception for contracts in an entity's own equity. Additionally, the amendments affect the diluted EPS calculation for instruments that may be settled in cash or shares and for convertible instruments. The update also provides for expanded disclosure requirements to increase transparency. The amendments in this update are effective for the Company on January 1, 2022. The Company has not yet adopted this guidance and is currently evaluating what impact this update will have on the consolidated financial statements.

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 Company's MBS investments as of March 31, 2021 and December 31, 2020.

March 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	$ 1,498,212	$ 3,923	$ (748,648)	$ 753,487	$ (54)	$ 1,202,495	$ 449,362	$ (300)	$ 449,062
Subordinated	857,925	6,902	(301,842)	562,985	—	594,221	65,882	(34,646)	31,236
Interest-only	4,850,934	229,963	—	229,963	—	216,762	43,519	(56,720)	(13,201)
Agency RMBS									
Interest-only	1,199,688	114,244	—	114,244	—	86,354	355	(28,245)	(27,890)
Agency CMBS									
Project loans	1,196,682	21,438	(845)	1,217,275	—	1,333,102	115,835	(8)	115,827
Interest-only	1,114,212	19,952	—	19,952	—	22,187	2,681	(446)	2,235
Total	$ 10,717,653	$ 396,422	$ (1,051,335)	$ 2,897,906	$ (54)	$ 3,455,121	$ 677,634	$ (120,365)	$ 557,269

December 31, 2020 (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	$ 1,560,135	$ 3,934	$ (773,804)	$ 790,265	$ (180)	$ 1,277,800	$ 487,963	$ (248)	$ 487,715
Subordinated	905,674	7,059	(347,056)	565,677	—	610,655	83,007	(38,029)	44,978
Interest-only	5,628,240	249,610	—	249,610	—	262,259	67,868	(55,219)	12,649
Agency RMBS									
Interest-only	1,262,963	118,867	—	118,867	—	90,738	270	(28,399)	(28,129)
Agency CMBS									
Project loans	1,527,621	28,559	(861)	1,555,319	—	1,714,483	159,233	(69)	159,164
Interest-only	1,326,665	23,572	—	23,572	—	25,885	2,659	(346)	2,313
Total	$ 12,211,298	$ 431,601	$ (1,121,721)	$ 3,303,310	$ (180)	$ 3,981,820	$ 801,000	$ (122,310)	$ 678,690

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 March 31, 2021 and December 31, 2020. All available for sale Non-Agency RMBS in an unrealized loss position have been evaluated by the Company for current expected credit losses.

March 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	$ 3,567	$ (41)	1	$ 10,472	$ (259)	1	$ 14,039	$ (300)	2
Subordinated	19,468	(201)	2	68,894	(34,445)	17	88,362	(34,646)	19
Interest-only	43,940	(10,693)	38	23,269	(46,027)	46	67,209	(56,720)	84
Agency RMBS									
Interest-only	18,473	(1,065)	3	62,515	(27,180)	19	80,988	(28,245)	22
Agency CMBS									
Project loans	—	—	—	8,578	(8)	1	8,578	(8)	1
Interest-only	3,146	(446)	4	—	—	—	3,146	(446)	4
Total	$ 88,594	$ (12,446)	48	$ 173,728	$ (107,919)	84	$ 262,322	$ (120,365)	132

	December 31, 2020 (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	$ 11,985	$ (248)	2	$ —	$ —	—	$ 11,985	$ (248)	2
Subordinated	253,822	(8,711)	5	34,697	(29,318)	15	288,519	(38,029)	20
Interest-only	38,604	(8,682)	34	22,761	(46,537)	43	61,365	(55,219)	77
Agency RMBS									
Interest-only	31,059	(4,938)	6	54,153	(23,461)	16	85,212	(28,399)	22
Agency CMBS									
Project loans	—	—	—	8,581	(69)	1	8,581	(69)	1
Interest-only	4,052	(346)	6	—	—	—	4,052	(346)	6
Total	$ 339,522	$ (22,925)	53	$ 120,192	$ (99,385)	75	$ 459,714	$ (122,310)	128

At March 31, 2021, 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 March 31, 2021.

Gross unrealized losses on the Company’s Agency MBS (excluding Agency MBS which are reported at fair value with changes in fair value recorded in earnings) were $8 thousand and $69 thousand as of March 31, 2021 and December 31, 2020, respectively. 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 March 31, 2021 and December 31, 2020, 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 $300 thousand and $248 thousand, at March 31, 2021 and December 31, 2020, respectively. After evaluating the securities and recording the allowance for credit losses, we 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 we did not intend to sell the securities, it was not considered more likely than not that we would be forced to sell the securities prior to recovering the amortized cost, and there were no material credit events that would have caused us to otherwise conclude that we 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 loss allowance on available-for-sale securities at March 31, 2021 and December 31, 2020 is presented below.

	For the Quarter Ended	
	March 31, 2021	March 31, 2020
	(dollars in thousands)	
Beginning allowance for credit losses	$ 180	$ —
Additions to the allowance for credit losses on securities for which credit losses were not previously recorded	—	6,314
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	(164)	—
Write-offs charged against the allowance	(62)	—
Recoveries of amounts previously written off	100	—
Ending allowance for credit losses	$ 54	$ 6,314

The following table presents significant credit quality indicators used for the credit loss allowance on our Non-Agency RMBS investments as of March 31, 2021 and December 31, 2020.

	March 31, 2021			
		(dollars in thousands)		
		Prepay Rate	CDR	Loss Severity
	Amortized Cost	Weighted Average	Weighted Average	Weighted Average
Non-Agency RMBS				
Senior	3,741,047	1.0%	5.3%	62.6%

	December 31, 2020			
		(dollars in thousands)		
		Prepay Rate	CDR	Loss Severity
	Amortized Cost	Weighted Average	Weighted Average	Weighted Average
Non-Agency RMBS				
Senior	46,500,000	9.2%	3.5%	58.3%

The decrease in the allowance for credit losses for the quarter ended March 31, 2021 is primarily due to a reduction in expected losses and delinquencies as compared to the year ended December 31, 2020.

The following tables present a summary of unrealized gains and losses at March 31, 2021 and December 31, 2020.

March 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	$ 449,362	$ —	$ 449,362	$ (300)	$ —	$ (300)
Subordinated	42,036	23,846	65,882	—	(34,646)	(34,646)
Interest-only	—	43,519	43,519	—	(56,720)	(56,720)
Agency RMBS						
Interest-only	—	355	355	—	(28,245)	(28,245)
Agency CMBS						
Project loans	2,561	113,274	115,835	(8)	—	(8)
Interest-only	—	2,681	2,681	—	(446)	(446)
Total	$ 493,959	$ 183,675	$ 677,634	$ (308)	$ (120,057)	$ (120,365)

December 31, 2020 (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	$ 487,963	$ —	$ 487,963	$ (248)	$ —	$ (248)
Subordinated	65,043	17,964	83,007	—	(38,029)	(38,029)
Interest-only	—	67,868	67,868	—	(55,219)	(55,219)
Agency RMBS						
Interest-only	—	270	270	—	(28,399)	(28,399)
Agency CMBS						
Project loans	5,407	153,826	159,233	(69)	—	(69)
Interest-only	—	2,659	2,659	—	(346)	(346)
Total	$ 558,413	$ 242,587	$ 801,000	$ (317)	$ (121,993)	$ (122,310)

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 March 31, 2021 and December 31, 2020.

March 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	$ 1,498,212	$ 50.29	80.26	4.5 %	17.1 %
Subordinated	857,925	65.62	69.26	3.8 %	6.5 %
Interest-only	4,850,934	4.74	4.47	1.6 %	14.7 %
Agency RMBS					
Interest-only	1,199,688	9.52	7.20	1.6 %	1.1 %
Agency CMBS					
Project loans	1,196,682	101.72	111.40	4.2 %	4.1 %
Interest-only	1,114,212	1.79	1.99	0.6 %	7.8 %

(1) Bond Equivalent Yield at period end.

December 31, 2020	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	$ 1,560,135	$ 50.65	$ 81.90	4.5 %	16.9 %
Subordinated	905,674	62.46	67.43	3.8 %	6.3 %
Interest-only	5,628,240	4.43	4.66	1.5 %	16.2 %
Agency RMBS					
Interest-only	1,262,963	9.41	7.18	1.7 %	1.6 %
Agency CMBS					
Project loans	1,527,621	101.81	112.23	4.1 %	3.8 %
Interest-only	1,326,665	1.78	1.95	0.6 %	8.4 %

(1) Bond Equivalent Yield at period end.

The following table presents the weighted average credit rating of the Company's Non-Agency RMBS portfolio at March 31, 2021 and December 31, 2020.

	March 31, 2021	December 31, 2020
AAA	0.1 %	0.2 %
AA	0.1 %	0.1 %
A	1.3 %	1.2 %
BBB	2.0 %	1.9 %
BB	4.6 %	4.3 %
B	2.0 %	2.0 %
Below B	28.4 %	31.9 %
Not Rated	61.5 %	58.4 %
Total	100.0 %	100.0 %

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 March 31, 2021 and December 31, 2020 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.

	March 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	$ 9,803	$ 335,992	$ 439,608	$ 417,092	$ 1,202,495
Subordinated	7	115,897	62,987	415,330	594,221
Interest-only	7,605	158,444	48,216	2,497	216,762
Agency RMBS					
Interest-only	—	563	85,791	—	86,354
Agency CMBS					
Project loans	8,578	—	—	1,324,524	1,333,102
Interest-only	2,277	16,311	3,599	—	22,187
Total fair value	$ 28,270	$ 627,207	$ 640,201	$ 2,159,443	$ 3,455,121
Amortized cost					
Non-Agency RMBS					
Senior	$ 7,694	$ 237,243	$ 245,927	$ 262,623	$ 753,487
Subordinated	—	102,298	53,483	407,204	562,985
Interest-only	32,073	154,626	41,012	2,252	229,963
Agency RMBS					
Interest-only	—	1,827	112,417	—	114,244
Agency CMBS					
Project loans	8,586	—	—	1,208,689	1,217,275
Interest-only	2,629	13,892	3,431	—	19,952
Total amortized cost	$ 50,982	$ 509,886	$ 456,270	$ 1,880,768	$ 2,897,906

	December 31, 2020 (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	$ 7,850	$ 366,218	$ 467,336	$ 436,396	$ 1,277,800
Subordinated	5	105,272	102,805	402,573	610,655
Interest-only	5,780	143,631	110,468	2,380	262,259
Agency RMBS					
Interest-only	—	864	89,874	—	90,738
Agency CMBS					
Project loans	8,581	—	—	1,705,902	1,714,483
Interest-only	620	21,500	3,765	—	25,885
Total fair value	$ 22,836	$ 637,485	$ 774,248	$ 2,547,251	$ 3,981,820
Amortized cost					
Non-Agency RMBS					
Senior	$ 4,691	$ 256,935	$ 257,188	$ 271,451	$ 790,265
Subordinated	—	83,188	78,435	404,054	565,677
Interest-only	26,286	138,150	82,368	2,806	249,610
Agency RMBS					
Interest-only	—	1,898	116,969	—	118,867
Agency CMBS					
Project loans	8,650	—	—	1,546,669	1,555,319
Interest-only	788	19,273	3,511	—	23,572
Total amortized cost	$ 40,415	$ 499,444	$ 538,471	$ 2,224,980	$ 3,303,310

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 REO total of the pools of mortgage loans securing the Company's investments in Non-Agency RMBS at March 31, 2021 and December 31, 2020. When delinquency rates increase, it is expected that the Company will incur additional credit losses.

March 31, 2021	30 Days Delinquent	60 Days Delinquent	90+ Days Delinquent	Bankruptcy	Foreclosure	REO	Total
% of Unpaid Principal Balance	3.5 %	1.5 %	7.2 %	1.4 %	2.8 %	0.3 %	16.7 %

December 31, 2020	30 Days Delinquent	60 Days Delinquent	90+ Days Delinquent	Bankruptcy	Foreclosure	REO	Total
% of Unpaid Principal Balance	3.1 %	1.4 %	7.2 %	1.3 %	2.9 %	0.4 %	16.3 %

The Non-Agency RMBS in the Portfolio have the following collateral characteristics at March 31, 2021 and December 31, 2020.

	March 31, 2021		December 31, 2020	
Weighted average maturity (years)		21.8		22.2
Weighted average amortized loan to value(1)		61.1 %		61.4 %
Weighted average FICO (2)		710		714
Weighted average loan balance (in thousands)	$	278	$	291
Weighted average percentage owner occupied		82.3 %		81.8 %
Weighted average percentage single family residence		61.8 %		61.7 %
Weighted average current credit enhancement		1.0 %		0.9 %
Weighted average geographic concentration of top four states	CA	32.4 %	CA	33.8 %
	NY	9.5 %	NY	8.7 %
	FL	8.0 %	FL	7.9 %
	NJ	4.5 %	NJ	4.3 %

(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 March 31, 2021 and December 31, 2020.

Origination Year	March 31, 2021	December 31, 2020
2003 and prior	1.5 %	1.7 %
2004	1.4 %	1.4 %
2005	9.7 %	10.3 %
2006	53.3 %	52.1 %
2007	26.5 %	27.2 %
2008 and later	7.6 %	7.3 %
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 ended March 31, 2021 and 2020 are as follows:

	For the Quarters	
	March 31, 2021	March 31, 2020
	(dollars in thousands)	
Proceeds from sales:		
Non-Agency RMBS	32,459	33,797
Agency RMBS	—	5,710,134
Agency CMBS	201,037	105,017
Gross realized gains:		
Non-Agency RMBS	26,513	1,256
Agency RMBS	—	74,264
Agency CMBS	13,735	6,150
Gross realized losses:		
Non-Agency RMBS	(2,452)	—
Agency RMBS	—	(5,816)
Agency CMBS	—	—
Net realized gain (loss)	$ 37,796	$ 75,854

During the first quarter of 2020, the Company transferred Non-Agency RMBS investments with a market value of $135 million to a third party. As part of the transfer, the Company purchased an option to re-acquire these assets for a fixed price at a future date. This transfer was accounted for as a secured borrowing within the Secured financing agreements on the Statement of Financial Condition. There were no such transfers during the first quarter of 2021..

4. Loans Held for Investment

The Loans held for investment are comprised primarily of loans collateralized by seasoned reperforming residential mortgages. Additionally, it includes non-conforming, single family, owner occupied, jumbo, prime residential mortgages.

At March 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 our Loans held for investment was $12.1 billion and $12.5 billion as of March 31, 2021 and December 31, 2020, respectively.

The following table provides a summary of the changes in the carrying value of Loans held for investment at fair value at March 31, 2021 and December 31, 2020:

	For the Quarter Ended March 31, 2021	For the Year Ended December 31, 2020
	(dollars in thousands)	
Balance, beginning of period	$ 13,112,129	$ 14,292,815
Purchases	1,096,528	1,860,998
Principal paydowns	(564,558)	(1,966,590)
Sales and settlements	(904,630)	(1,053,943)
Net periodic accretion (amortization)	(15,504)	(85,794)
Realized gains (losses) on sales and settlements	—	—
Change in fair value	84,047	64,643
Balance, end of period	$ 12,808,012	$ 13,112,129

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 ended March 31, 2021. During the year ended December 31, 2020, the Company sold $1.1 billion of loans, with the Company retaining $22 million of beneficial interests.

Residential mortgage loans

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

Origination Year	March 31, 2021	December 31, 2020
2002 and prior	6.7 %	6.9 %
2003	5.8 %	5.9 %
2004	11.8 %	12.0 %
2005	18.0 %	18.2 %
2006	22.5 %	22.7 %
2007	22.3 %	22.4 %
2008	6.4 %	6.4 %
2009	1.3 %	1.3 %
2010 and later	5.2 %	4.2 %
Total	100.0 %	100.0 %

The following table presents a summary of key characteristics of the residential loan portfolio at March 31, 2021 and December 31, 2020:

		March 31, 2021		December 31, 2020
Number of loans		127,622		132,134
Weighted average maturity (years)		19.5		19.6
Weighted average loan to value		86.2 %		86.1 %
Weighted average FICO		649		630
Weighted average loan balance (in thousands)	$	96	$	96
Weighted average percentage owner occupied		86.7 %		87.7 %
Weighted average percentage single family residence		82.8 %		83.3 %
Weighted average geographic concentration of top five states	CA	12.8 %	CA	12.4 %
	FL	8.0 %	FL	8.0 %
	NY	7.5 %	NY	7.3 %
	PA	5.0 %	PA	5.0 %
	VA	4.9 %	VA	4.9 %

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 March 31, 2021 and December 31, 2020, respectively.

	30 Days Delinquent	60 Days Delinquent	90+ Days Delinquent	Bankruptcy	Foreclosure	REO	Total	Unpaid Principal Balance
			(dollars in thousands)					
March 31, 2021	$788,017	$254,294	$701,757	$261,818	$338,649	$26,828	$2,371,363	$12,222,214
% of Unpaid Principal Balance	6.5 %	2.1 %	5.7 %	2.1 %	2.8 %	0.2 %	19.4 %	
December 31, 2020	$727,012	$289,966	$729,713	$277,098	$297,509	$29,852	$2,351,150	12,640,193
% of Unpaid Principal Balance	5.8 %	2.3 %	5.8 %	2.2 %	2.4 %	0.2 %	18.6 %	

The fair value of residential mortgage loans 90 days or more past due was $964 million and $910 million as of March 31, 2021 and December 31, 2020, 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 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. After the review for the period ended March 31, 2021, 14 investment holdings with an internally developed fair value of $138 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 $1 million higher , in the aggregate, than the third-party prices provided of $137 million. After review and discussion, the Company affirmed and valued the investments at the higher internally developed prices. No other differences were noted at March 31, 2021 in excess of the thresholds for the period. At December 31, 2020, 23 investment holdings with an internally developed fair value of $389 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 $3 million lower, in the aggregate, than the third-party prices provided of $392 million. After review and discussion, the Company affirmed and valued the investments at the lower internally developed prices. No other differences were noted at December 31, 2020 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 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 as compared to coupon currently available in the market, 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 interest rate as compared to interest 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 subprime pool of 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 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.

After the review for the period ended March 31, 2021, 5 loan pools with an internally developed fair value of $1.1 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 $128 million higher than the third-party prices provided of $1.0 billion. After review and discussion, the Company affirmed and valued the investments at the higher internally developed prices. No other differences were noted at March 31, 2021 in excess of the threshold for the period. At December 31, 2020, 3 loan pools with an internally developed fair value of $503 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 $55 million higher than the third-party prices provided of $448 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, 2020 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.

Loans collateralized by jumbo, prime residential mortgages:

The loans collateralized by jumbo, prime residential mortgages are carried at fair value. The loans are held as part of a consolidated Collateralized Financing Entity, or a CFE. A CFE is a variable interest entity that holds financial assets, issues beneficial interests in those assets and has no more than nominal equity and the beneficial interests have contractual recourse only to the related assets of the CFE. Accounting guidance for CFEs allow the Company to elect to measure the CFE’s financial assets using the fair value of the CFE’s financial liabilities as the fair values of the financial liabilities of the CFE are more observable. Therefore, the fair value of the loans collateralized by jumbo, prime residential mortgages is based on the fair value of the financial liabilities. See discussion of the fair value of Securitized Debt, collateralized by Loans Held for Investment at fair value below.

As the more observable financial liabilities are considered level 3 in the fair value hierarchy, the Loans collateralized by jumbo, prime residential mortgages are also level 3 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.

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, 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.

After the review for the period ended March 31, 2021, there were no pricing differences in excess of the predetermined thresholds between the model generated prices and third party prices. At December 31, 2020, two securitized debt positions with an internally developed fair value of $209 million had a difference between the model generated prices and third-party prices provided in excess of the derived predetermined threshold for the period. The internally developed prices were $17 million higher than the third-party prices provided of $192 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 December 31, 2020 in excess of the derived predetermined threshold for the period.

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.

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 March 31, 2021 and December 31, 2020, respectively:

	March 31, 2021		December 31, 2020	
	(dollars in thousands)			
	Unpaid Principal/ Notional	**Fair Value**	**Unpaid Principal/ Notional**	**Fair Value**
Assets:				
Non-Agency RMBS				
Subordinated	631,344	426,013	632,335	416,745
Interest-only	4,850,934	216,762	5,628,240	262,259
Agency RMBS				
Interest-only	1,199,688	86,354	1,262,963	90,738
Agency CMBS				
Project loans	1,116,353	1,248,259	1,413,719	1,592,473
Interest-only	1,114,212	22,187	1,326,665	25,885
Loans held for investment, at fair value	12,222,214	12,808,012	12,640,195	13,112,129
Liabilities:				
Securitized debt at fair value, collateralized by loans held for investment	8,735,556	8,734,372	8,705,200	8,711,677

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 as of March 31, 2021 and 2020, respectively:

	For the Quarter Ended	
	March 31, 2021	March 31, 2020
	(dollars in thousands)	
	Gain/(Loss) on Change in Fair Value	
Assets:		
Non-Agency RMBS		
Senior	—	—
Subordinated	9,264	(80,803)
Interest-only	(25,851)	(48,823)
Agency RMBS		
Pass-through	—	(151,056)
Interest-only	238	(17,665)
Agency CMBS		
Project loans	(40,550)	75,662
Interest-only	(79)	1,143
Loans held for investment, at fair value	84,049	(681,515)
Liabilities:		
Securitized debt at fair value, collateralized by loans held for investment	242,941	642,171

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 fair value of longer term fixed rate secured financing agreements is determined using present value of discounted cash flows based on the imputed market rates. 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.

Long Term Debt

Convertible Senior Notes

Convertible notes include unsecured convertible senior notes that are carried at their unpaid principal balance net of any unamortized deferred issuance costs. The fair value of the convertible notes is determined using quoted prices in generally active markets and classified as Level 2.

Short-term Financial Instruments

The carrying value of cash and cash equivalents, accrued interest receivable, dividends payable, payable for investments purchased, receivable for investments sold 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 March 31, 2021 and December 31, 2020 are presented below.

	March 31, 2021 (dollars in thousands)				
	Level 1	Level 2	Level 3	Counterparty and Cash Collateral, netting	Total
Assets:					
Non-Agency RMBS, at fair value	$ —	$ —	$ 2,013,478	$ —	$ 2,013,478
Agency RMBS, at fair value	—	86,354	—	—	86,354
Agency CMBS, at fair value	—	1,355,289	—	—	1,355,289
Loans held for investment, at fair value	—	—	12,808,012	—	12,808,012
Liabilities:					
Securitized debt at fair value, collateralized by loans held for investment	—	—	8,734,372	—	8,734,372

	December 31, 2020 (dollars in thousands)				
	Level 1	Level 2	Level 3	Counterparty and Cash Collateral, netting	Total
Assets:					
Non-Agency RMBS, at fair value	$ —	$ —	2,150,714	$ —	$ 2,150,714
Agency RMBS, at fair value	—	90,738	—	—	90,738
Agency CMBS, at fair value	—	1,740,368	—	—	1,740,368
Loans held for investment, at fair value	—	—	13,112,129	—	13,112,129
Liabilities:					
Securitized debt at fair value, collateralized by loans held for investment	—	—	8,711,677	—	8,711,677

The table below provides a summary of the changes in the fair value of financial instruments classified as Level 3 at March 31, 2021 and December 31, 2020.

Fair Value Reconciliation, Level 3

	For the Quarter Ended March 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	—	—	—
Purchases of assets/ issuance of debt	—	1,096,528	3,400,687
Principal payments	(63,310)	(564,558)	(455,015)
Sales and Settlements	(32,459)	(904,630)	(2,924,083)
Net accretion (amortization)	12,591	(15,504)	10,091
Gains (losses) included in net income			
(Increase) decrease in provision for credit losses	126	—	—
Realized gains (losses) on sales and settlements	24,060	—	233,954
Net unrealized gains (losses) included in income	(16,586)	84,047	(242,939)
Gains (losses) included in other comprehensive income			
Total unrealized gains (losses) for the period	(61,658)	—	—
Ending balance Level 3	$ 2,013,478	$ 12,808,012	$ 8,734,372

Fair Value Reconciliation, Level 3

	For the Year Ended December 31, 2020 (dollars in thousands)		
	Non-Agency RMBS	Loans held for investment	Securitized Debt
Beginning balance Level 3	$ 2,614,408	$ 14,292,815	$ 8,179,608
Transfers into Level 3	135,118	—	—
Transfers out of Level 3	(135,118)	—	—
Purchases of assets/ issuance of debt	54,811	1,860,998	3,043,252
Principal payments	(261,738)	(1,966,590)	(1,751,903)
Sales and Settlements	(166,786)	(1,053,943)	(783,880)
Net accretion (amortization)	39,246	(85,794)	(22,546)
Gains (losses) included in net income			
Other than temporary credit impairment losses	(180)	—	—
Realized gains (losses) on sales and settlements	12,571	—	(1,031)
Net unrealized gains (losses) included in income	(9,030)	64,643	48,177
Gains (losses) included in other comprehensive income			
Total unrealized gains (losses) for the period	(132,588)	—	—
Ending balance Level 3	$ 2,150,714	$ 13,112,129	$ 8,711,677

There were no transfers in or out from Level 3 during the quarter ended March 31, 2021. During the first quarter of 2020 there were transfers out of Level 3 of $135 million, as prices were based on unadjusted quoted prices on these assets. These investments were transferred into Level 3 during the second quarter of 2020 as unadjusted quoted prices were unavailable and the Company used internal pricing model to value them. 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 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 March 31, 2021 and December 31, 2020 follows. The weighted average discount rates were based on fair value. Previously issued financial statement filings were based on amortized cost. We believe fair value provides an improved presentation of weighted average discount rates.

March 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	2%-10%	3.7%	1%-25%	10.0%	0%-10%	1.9%	26%-74%	40.0%
Subordinated	2%-10%	5.9%	3%-45%	14.1%	0%-6%	1.1%	10%-59%	39.7%
Interest-only	0%-100%	10.2%	6%-50%	26.0%	0%-8%	1.3%	0%-84%	33.1%

December 31, 2020
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	2% -10%	3.3%	1% -25%	9.5%	1% -10%	2.0%	26% -82%	41.5%
Subordinated	2% -10%	6.1%	2% -42%	13.6%	0% -6%	1.3%	10% -77%	39.8%
Interest-only	0% -100%	10.2%	6% -47%	26.3%	0% -8%	1.4%	0% -79%	33.6%

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 March 31, 2021 and December 31, 2020 follows:

March 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	0%-10%	2.5%	4%-40%	10.9%	0%-7%	1.2%	30%-75%	58.5%

December 31, 2020
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% -10%	2.5%	4% - 40%	10.5%	0% - 7%	1.3%	30% - 75%	57.6%

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 primarily of loans collateralized by seasoned reperforming residential mortgages. Additionally, it includes non-conforming, single family, owner occupied, jumbo, prime residential mortgages. The significant unobservable inputs used to estimate the fair value of the Loans held for investment collateralized by seasoned reperforming residential mortgage loans, as of March 31, 2021 and December 31, 2020 include coupon, FICO score at origination, loan-to-value ratios (LTV), owner occupancy status, and property type. A summary of the significant inputs used to estimate the fair value of Loans held for investment collateralized primarily by seasoned reperforming mortgages at fair value as of March 31, 2021 and December 31, 2020 follows:

	March 31, 2021	December 31, 2020
Factor:		
Coupon		
Base Rate	3.4%	3.4%
Actual	6.3%	6.3%
FICO		
Base Rate	640	640
Actual	646	627
Loan-to-value (LTV)		
Base Rate	84%	85%
Actual	86%	86%
Loan Characteristics:		
Occupancy		
Owner Occupied	89%	89%
Investor	2%	2%
Secondary	9%	9%
Property Type		
Single family	85%	84%
Manufactured housing	4%	4%
Multi-family/mixed use/other	11%	12%

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.

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 where 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 March 31, 2021 and December 31, 2020.

	March 31, 2021 (dollars in thousands)		
	Level in Fair Value Hierarchy	Carrying Amount	Fair Value
Secured financing agreements	2	4,045,912	4,050,364
Securitized debt, collateralized by Non-Agency RMBS	3	107,367	89,692
Long Term Debt	2	51,772	101,038

	December 31, 2020 (dollars in thousands)		
	Level in Fair Value Hierarchy	Carrying Amount	Fair Value
Secured financing agreements	2	4,636,847	4,803,256
Securitized debt, collateralized by Non-Agency RMBS	3	113,433	97,097
Long Term Debt	2	51,623	80,750

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 the one-month and three-month LIBOR rates 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 long-term repurchase agreements and secured financing arrangements with an original term of one year or greater which are secured by Non-Agency RMBS pledged as collateral. Maturity dates on these long-term financing agreements range from April 2021 through April 2025. 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 interest rates on the long-term financing agreements are generally indexed to one-month and three-month LIBOR rates.

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 the one-month and three-month LIBOR rates.

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 March 31, 2021, the Company has $1.4 billion of Secured financing agreements which are not subject to additional margin requirements upon a change in the fair value of the collateral pledged. At March 31, 2021, the Company has $225 million 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. $368 million of the long-term financing agreements are secured borrowing arrangements which are subject to the automatic stay provisions of the Bankruptcy Code.

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 March 31, 2021 and December 31, 2020 were:

	March 31, 2021	December 31, 2020
Secured financing agreements outstanding secured by:		
Agency RMBS (in thousands)	$ 64,952	$ 69,180
Agency CMBS (in thousands)	1,076,498	1,333,799
Non-Agency RMBS and Loans held for investment (in thousands)(1)	2,904,462	3,233,868
Total:	$ 4,045,912	$ 4,636,847
MBS pledged as collateral at fair value on Secured financing agreements:		
Agency RMBS (in thousands)	$ 82,001	$ 86,160
Agency CMBS (in thousands)	1,139,218	1,382,783
Non-Agency RMBS and Loans held for investment (in thousands)	4,466,452	5,227,271
Total:	$ 5,687,671	$ 6,696,214
Average balance of Secured financing agreements secured by:		
Agency RMBS (in thousands)	$ 66,951	$ 1,407,713
Agency CMBS (in thousands)	1,236,361	1,818,721
Non-Agency RMBS and Loans held for investment (in thousands)	3,256,745	4,089,911
Total:	$ 4,560,057	$ 7,316,345
Average borrowing rate of Secured financing agreements secured by:		
Agency RMBS (in thousands)	0.85 %	0.90 %
Agency CMBS (in thousands)	0.15 %	0.21 %
Non-Agency RMBS and Loans held for investment (in thousands)	3.67 %	4.78 %
Average remaining maturity of Secured financing agreements secured by:		
Agency RMBS (in thousands)	6 Days	12 days
Agency CMBS (in thousands)	11 Days	11 days
Non-Agency RMBS and Loans held for investment (in thousands)	372 Days	458 days
Average original maturity of Secured financing agreements secured by:		
Agency RMBS (in thousands)	14 Days	14 days
Agency CMBS (in thousands)	29 Days	30 days
Non-Agency RMBS and Loans held for investment (in thousands)	388 Days	492 days

(1) The values for secured financing agreements in the table above is net of $ 4 million and $8 million of deferred financing cost as of March 31, 2021 and December 31, 2020, respectively.

At March 31, 2021 and December 31, 2020, we pledged $11 million and $42 million, respectively, of margin cash collateral to our secured financing agreement counterparties. At March 31, 2021 and December 31, 2020, the secured financing agreements collateralized by MBS and Loans held for investment had the following remaining maturities and borrowing rates.

	March 31, 2021			December 31, 2020		
	(dollars in thousands)					
	Principal [(1)]	Weighted Average Borrowing Rates	Range of Borrowing Rates	Principal [(1)]	Weighted Average Borrowing Rates	Range of Borrowing Rates
Overnight	$ —	NA	NA	$ —	NA	NA
1 to 29 days	1,460,163	1.46%	0.10% - 7.97%	1,521,134	0.38%	0.20% - 2.72%
30 to 59 days	315,543	2.03%	1.95% - 2.44%	481,257	4.35%	2.42% - 6.61%
60 to 89 days	314,203	2.37%	1.15% - 2.61%	352,684	2.78%	1.34% - 6.30%
90 to 119 days	431,222	3.28%	1.76% - 4.50%	301,994	7.97%	7.97% - 7.97%
120 to 180 days	370,538	2.06%	1.60% - 2.40%	595,900	5.29%	2.40% - 6.26%
180 days to 1 year	44,344	2.36%	2.36% - 2.36%	345,204	3.60%	3.25% - 4.50%
1 to 2 years	746,478	4.11%	2.86% - 4.38%	—	NA	NA
2 to 3 years	—	NA	NA	642,696	4.91%	1.65% - 7.00%
Greater than 3 years	363,421	5.56%	5.56% - 5.56%	395,978	5.56%	5.56% - 5.56%
Total	$ 4,045,912	2.69%		$ 4,636,847	3.41%	

(1) The values for secured financing agreements in the table above is net of $ 4 million and $8 million of deferred financing cost as of March 31, 2021 and December 31, 2020, respectively.

Certain of the long-term financing agreements and warehouse credit facilities are subject to certain coverants. 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 $323 million unused uncommitted warehouse credit facilities as of March 31, 2021.

At March 31, 2021 the Company had amounts at risk with Goldman Sachs of18%, of its equity related to the collateral posted on secured financing agreement. The weighted average maturity of the secured financing agreement with Goldman Sachs was 920 days. The amounts at risk with Goldman Sachs was $631 million. There were no other amounts at risk with any other counterparties greater than 10% of the Company’s equity as of March 31, 2021. At December 31, 2020, the Company had amounts at risk with Goldman Sachs and Nomura of 17% and 11%, respectively, of its equity related to the collateral posted on secured financing agreements. The weighted average maturities of the secured financing agreements with Goldman Sachs and Nomura were 938 and 106 days, respectively. The amounts at risk with Goldman Sachs and Nomura were $649 million and $421 million, respectively

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 March 31, 2021 and December 31, 2020, the Company’s securitized debt collateralized by Non-Agency RMBS is carried at amortized cost and had a principal balance of $129 million and $135 million, respectively. At March 31, 2021 and December 31, 2020, the debt carried a weighted average coupon of6.5%. As of March 31, 2021, the maturities of the debt range between the years 2035 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 ended March 31, 2021 and 2020.

The following table presents the estimated principal repayment schedule of the securitized debt collateralized by Non-Agency RMBS at March 31, 2021 and December 31, 2020, 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.

		March 31, 2021		December 31, 2020
		(dollars in thousands)		
Within One Year	$	12,862	$	13,552
One to Three Years		7,644		11,229
Three to Five Years		1,257		1,589
Greater Than Five Years		169		305
Total	$	21,932	$	26,675

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 March 31, 2021 and December 31, 2020, the Company’s securitized debt collateralized by loans held for investment had a principal balance of $8.7 billion. At March 31, 2021 and December 31, 2020, the total securitized debt collateralized by loans held for investment carried a weighted average coupon equal to 2.6% and 3.4%, respectively. As of March 31, 2021, the maturities of the debt range between the years 2023 and 2067.

During the quarter ended March 31, 2021, the Company acquired securitized debt collateralized by loans held for investment with an amortized cost balance of $2.7 billion for $2.9 billion. This transaction resulted in net loss on extinguishment of debt of $234 million. The Company did not acquire any securitized debt collateralized by loans held for investments during the quarter ended March 31, 2020.

The following table presents the estimated principal repayment schedule of the securitized debt collateralized by loans held for investment at March 31, 2021 and December 31, 2020, 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.

		March 31, 2021		December 31, 2020
		(dollars in thousands)		
Within One Year	$	1,754,446	$	1,837,055
One to Three Years		2,748,528		2,819,646
Three to Five Years		1,944,367		1,774,273
Greater Than Five Years		2,242,497		2,170,253
Total	$	8,689,838	$	8,601,227

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 March 31, 2021.

March 31, 2021		
(dollars in thousands)		
Year	Principal	
Currently callable		714,629
2021		1,023,125
2022		1,651,992
2023		1,195,493
2024		—
2025		3,022,209
Total	$	7,607,448

8. Long Term Debt

Convertible Senior Notes

In April 2020, the Company completed its registered underwritten public offering of $374 million (including exercise of the underwriters' overallotment option) aggregate principal amount of 7.0% convertible senior notes due 2023 (the "Notes" or "Note Offering"). These Notes require semi-annual interest payments at a fixed coupon rate of 7.0% until maturity or conversion, which will be no later than April 1, 2023. After deducting the underwriting discount and offering costs, the Company received $362 million. At completion of the offering, these notes were convertible at the option of the holder at a conversion rate of 153.8461 common shares per $1,000 principal amount of convertible senior notes (equivalent to a conversion price of $6.50 per common share). Upon conversion of these notes by a holder, the holder will receive shares of our common stock.

As of March 31, 2021, approximately $321 million of senior notes have been converted into approximately 49 million common stock of the Company. At March 31, 2021 and December 31, 2020, the outstanding principal amount of these notes was $53 million and there was $0 million and $1 million of accrued interest payable. At March 31, 2021 and December 31, 2020, the unamortized deferred debt issuance cost was $1 million. The net interest expense for the quarter ended March 31, 2021 was $1 million. The unamortized deferred debt issuance costs will be amortized until maturity or conversion, which will be no later than April 1, 2023.

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 ended March 31, 2021 and 2020, the Company securitized and consolidated approximately $4.1 billion and $883 million, respectively, unpaid principal balance of seasoned residential subprime 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 March 31, 2021 and December 31, 2020.

	March 31, 2021	December 31, 2020
	(dollars in thousands)	
Assets:		
Non-Agency RMBS, at fair value[1]	$ 478,542	$ 505,479
Loans held for investment, at fair value	11,190,754	11,591,598
Accrued interest receivable	51,737	53,804
Other assets	15,489	14,136
Total Assets:	$ 11,736,522	$ 12,165,017
Liabilities:		
Securitized debt, collateralized by Non-Agency RMBS	$ 107,367	$ 113,433
Securitized debt at fair value, collateralized by loans held for investment	7,985,029	7,923,523
Accrued interest payable	18,575	23,677
Other liabilities	2,277	2,477
Total Liabilities:	8,113,248	8,063,110

(1) The March 31, 20201 and December 31, 2020 balance includes allowance for credit losses of $ 0 thousand and $117 thousand, respectively.

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	
	March 31, 2021	March 31, 2020
	(dollars in thousands)	
Interest income, Assets of consolidated VIEs	$ 158,100	$ 174,681
Interest expense, Non-recourse liabilities of VIEs	65,205	64,629
Net interest income	$ 92,895	$ 110,052
(Increase) decrease in provision for credit losses	$ 117	$ (141)
Servicing fees	$ 6,977	$ 8,238

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 March 31, 2021, ranged from less than $1 million to $196 million, with an aggregate amount of $1.5 billion. The fair value of the Company's investments in each unconsolidated VIEs at December 31, 2020, ranged from less than $1 million to $190 million, with an aggregate amount of $1.6 billion. The Company's maximum exposure to loss from these unconsolidated VIEs was $1.3 billion at March 31, 2021 and December 31, 2020, 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 hedges 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. 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 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.

The Company did not have any derivative instruments as of March 31, 2021 and December 31, 2020.

The effect of the Company's derivatives on the Consolidated Statements of Operations is presented below.

		Net gains (losses) on derivatives for the quarters ended	
Derivative Instruments	**Location on Consolidated Statements of Operations and Comprehensive Income**	**March 31, 2021**	**March 31, 2020**
		(dollars in thousands)	
Interest Rate Swaps	Net unrealized gains (losses) on derivatives	$ —	$ 204,611
Interest Rate Swaps	Net realized gains (losses) on derivatives (1)	—	(470,352)
Treasury Futures	Net unrealized gains (losses) on derivatives	—	(3,611)
Treasury Futures	Net realized gains (losses) on derivatives	—	(34,700)
Swaptions	Net unrealized gains (losses) on derivatives	—	—
Swaptions	Net realized gains (losses) on derivatives	—	—
Total		$ —	$ (304,052)

(1) Includes loss on termination of interest rate swaps of $ 464 million during the quarter ended March 31, 2020.

There were no swap terminations during the quarter ended March 31, 2021. The company paid $464 million to terminate interest rate swaps with a notional value of $4.1 billion during the quarter ended March 31, 2020. The terminated swaps had original maturities from 2023 to 2048.

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. Certain of the Company's interest rate swaps are cleared through a registered commodities exchange. Each of the Company's International Swaps and Derivative Association, or ISDA, and clearing exchange agreements contains provisions under which the Company is required to fully collateralize its obligations under the interest rate swap agreements if at any point the fair value of the swap represents a liability greater than the minimum transfer amount contained within the agreements. The Company is also required to post initial collateral upon execution of certain of its swap transactions. 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. The Company uses clearing exchange market prices to determine the fair value of its interest rate swaps.

11. Capital Stock

Preferred Stock

The Company declared dividends to Series A preferred stockholders of $3 million, or $0.50 per preferred share during the quarters ended March 31, 2021 and 2020, respectively.

The Company declared dividends to Series B preferred stockholders of $7 million, or $0.50 per preferred share during the quarters ended March 31, 2021 and 2020, respectively.

The Company declared dividends to Series C preferred stockholders of $5 million, or $0.484375 per preferred share during the quarters ended March 31, 2021 and 2020, respectively.

The Company declared dividends to Series D preferred stockholders of $4 million, or $0.50 per preferred share during the quarters ended March 31, 2021 and 2020, respectively.

Common Stock

In February 2021, our Board of Directors increased our authorization of our share repurchase program to $250 million under our share repurchase program, 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 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 Securities Exchange Act of 1934, as amended, or 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, the Company intends 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, 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 161 thousand shares of its common stock at an average price of $11.39 per share for a total of $2 million during the quarter ended March 31, 2021. The Company repurchased approximately 1.4 million shares of its common stock at an average price of $15.34 per share for a total of $22 million during the quarter ended March 31, 2020. The approximate dollar value of shares that may yet be purchased under the Repurchase Program is $226 million as of March 31, 2021.

The Company declared dividends to common shareholders of $70 million, or $0.30, per share and $93 million, or $0.50, per share during the quarters ended March 31, 2021 and March 31, 2020, respectively.

Warrants

During the quarter ended March 31, 2021, the Company settled the $400 million financed under the senior secured, non-mark-to market credit agreement in full and the Warrant Shares became exercisable. The Company then settled the exercise of 20 million Warrant Shares in cash at a price of 90% of fair market value of the Company's common stock for $220 million.

Earnings per share for the quarters ended March 31, 2021 and 2020 respectively, are computed as follows:

	For the Quarters Ended	
	March 31, 2021	**March 31, 2020**
	(dollars in thousands)	
Numerator:		
Net income (loss) available to common shareholders - Basic	$ 139,153	$ (389,193)
Effect of dilutive securities:		
Interest expense attributable to convertible notes	1,076	—
Net income (loss) available to common shareholders - Diluted	$ 140,229	$ (389,193)
Denominator:		
Weighted average basic shares	230,567,231	187,018,602
Effect of dilutive securities	30,867,850	—
Weighted average dilutive shares	261,435,081	187,018,602
Net income (loss) per average share attributable to common stockholders - Basic	$ 0.60	$ (2.08)
Net income (loss) per average share attributable to common stockholders - Diluted	$ 0.54	$ (2.08)

For the quarter ended March 31, 2021 and 2020 potentially dilutive securities of242 thousand and 1.3 million, respectively, were excluded from the computation of fully diluted EPS because their effect would have been anti-dilutive. Anti-dilutive securities for the quarter ended March 31, 2021 and 2020 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 quarters ended March 31, 2021 and 2020:

	March 31, 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	(38,652)	(38,652)
Amounts reclassified from AOCI	(25,793)	(25,793)
Net current period OCI	(64,445)	(64,445)
Balance as of March 31, 2021	$ 493,651	$ 493,651

	March 31, 2020 (dollars in thousands)	
	Unrealized gains (losses) on available-for-sale securities, net	Total Accumulated OCI Balance
Balance as of December 31, 2019	$ 708,336	$ 708,336
OCI before reclassifications	(199,204)	(199,204)
Amounts reclassified from AOCI	(6,641)	(6,641)
Net current period OCI	(205,845)	(205,845)
Balance as of March 31, 2020	$ 502,491	$ 502,491

The amounts reclassified from accumulated OCI balance comprised of $26 million and $7 million net unrealized gains on available-for-sale securities sold for the quarter ended March 31, 2021 and March 31, 2020, respectively.

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. During the vesting period, these shares may not be sold. There were approximately 2 million shares available for future grants under the Incentive Plan as of March 31, 2021.

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 Equity 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.

Grants of Restricted Stock Units or, RSUs

During the quarters ended March 31, 2021 and 2020, the Company granted RSU awards to senior management. These RSU awards are designed to reward senior management 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 182 thousand RSU awards during the quarter ended March 31, 2021, with a grant date fair value of $2 million for the 2021 performance year. The Company granted 135 thousand RSU awards during the quarter ended March 31, 2020, with a grant date fair value of $3 million for the 2020 performance year.

In addition, 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 quarters ended March 31, 2021 and 2020, include a three-year performance period ending on December 31, 2023 and December 31, 2022, 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 which will vest. During the quarter ended March 31, 2021, the Company granted 182 thousand PSU awards to senior management with a grant date fair value of $2 million. During the quarter ended March 31, 2020, the Company granted 202 thousand PSU awards to senior management with a grant date fair value of $4 million.

The Company recognized stock based compensation expenses of $5 million and $4 million, respectively, for the quarters ended March 31, 2021 and 2020.

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 March 31, 2021, employees may contribute, through payroll deductions, up to $19,500 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 ended March 31, 2021 and 2020, were $126 thousand and $148 thousand, respectively.

14. Income Taxes

For the quarter ended March 31, 2021 and the year ended December 31, 2020, 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 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 $4 million for the quarter ended March 31, 2021. There were no significant income tax expenses for the quarter ended March 31, 2020.

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, 2017 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 loans, 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.

Our secured financing agreements and 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 our consolidated statements of financial condition. As of March 31, 2021, the Company is not a party to any derivative instrument and not subject to this risk.

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 March 31, 2021 and December 31, 2020.

March 31, 2021

(dollars in thousands)

				Gross Amounts Not Offset with Financial Assets (Liabilities) in the Consolidated Statements of Financial Position		
	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	Financial Instruments	Cash Collateral (Received) Pledged [(1)]	Net Amount
Secured Financing Agreements	$ (4,045,912)	$ —	$ (4,045,912)	$ 5,687,671	$ 11,058	$ 1,652,817
Total	$ (4,045,912)	$ —	$ (4,045,912)	$ 5,687,671	$ 11,058	$ 1,652,817

(1) Included in other assets

December 31, 2020

(dollars in thousands)

				Gross Amounts Not Offset with Financial Assets (Liabilities) in the Consolidated Statements of Financial Position		
	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	Financial Instruments	Cash Collateral (Received) Pledged [(1)]	Net Amount
Secured Financing Agreements	$ (4,636,847)	$ —	$ (4,636,847)	$ 6,696,214	$ 41,871	$ 2,101,238
Total	$ (4,636,847)	$ —	$ (4,636,847)	$ 6,696,214	$ 41,871	$ 2,101,238

(1) Included in other assets

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

Subsequent to March 31, 2021, the Company exercised its call option to retire securitized debt, collateralized by loans held for investment with an unpaid principal amount of $682 million at par.

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 interest rates and mortgage prepayment rates;
- prepayments of the mortgage and other loans underlying our mortgage-backed securities, or RMBS, 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 effect 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

Because there have been no comparable recent global pandemics that resulted in similar impact, we do not yet know the full extent of COVID-19’s effects on our business, operations, personnel, or the U.S. economy as a whole. Any future developments in this regard will be highly uncertain and cannot 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.

These 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. Some of these factors are described under the caption ''Risk Factors'' in our Form 10-K for fiscal year ended December 31, 2020. 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 to deliver shareholder value 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 March 31, 2021, based on the fair value of our interest earning assets, approximately 79% of our investment portfolio was residential mortgage loans, 12% of our investment portfolio was Non-Agency RMBS, and 9% of our investment portfolio was Agency MBS. At December 31, 2020, based on the fair value of our interest earning assets, approximately 77% of our investment portfolio was residential mortgage loans, 13% of our investment portfolio was Non-Agency RMBS, and 10% of our investment portfolio was Agency MBS.

We use leverage to increase returns and to finance the acquisition of our assets. We expect to finance our investments using a variety of financing sources including, when available, securitizations, warehouse facilities, repurchase agreements, structured asset financing and offerings of our securities. We may manage our debt and interest rate risk by utilizing interest rate hedges, such as interest rate swaps, caps, options, swaptions and futures to reduce the effect of interest rate fluctuations related to our financing sources. As of March 31, 2021, we did not own any interest rate hedges.

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

Market Conditions and our Strategy

The first quarter of 2021 marked a continued recovery in financial markets since the pandemic started approximately one year ago. Unemployment continued to trend down from the peaks experienced in 2020 and housing fundamentals remained strong buoyed by historically low mortgage rates, home price appreciation and ballooning household formation. Additional government stimulus and positive vaccination news added to market confidence. A rising U.S. 10 year treasury yield, inflation fears, lower labor participation rates and the specter of higher taxes were not enough to temper market trends. Given a low yield environment, we experienced asset appreciation in our loan portfolio which was partially offset by mark downs in our Agency and Non-Agency portfolios. We took advantage of a low rate environment and demand for securitized debt to call and terminate six loan securitizations and issue four new loan securitizations at lower rates, which significantly reduced our cost of funding. In February 2021, we sponsored CIM 2021-R1, a $2.1 billion securitization of seasoned reperforming residential mortgage loans, and CIM 2021-NR1, a $233 million securitization of seasoned residential mortgage loans. We estimate that the February deals will save approximately 300 basis points compared to the prior securitizations that were collapsed. In March, we sponsored CIM 2021-R2, a $1.5 billion securitization of seasoned reperforming residential mortgage loans, and CIM 2021-NR2, a $240 million securitization of seasoned residential mortgage loans. We estimate that the March deals will save approximately 200 basis points compared to the prior securitizations that were collapsed. In addition to lower financing costs, these deals added to our liquidity as the advance rates provided by the buyer of the senior debt is higher. We were able to use some of the additional liquidity to pay down secured financing further reducing our rate risk and exposure to mark to market financing.

Despite improving conditions, there is still significant uncertainty and risks related to COVID-19 and economic conditions. See “Form 10-K Part I. Item 1A Risk Factors” for additional details on COVID pandemic's impact on our business. In particular, our residential mortgage loans and Non-Agency MBS are subject to significant credit risk, and it is unclear how the conditions created by the COVID-19 pandemic may impact the credit quality of these assets over time.

We have been working remotely since March 2020 and expect that to continue. We have the technology in place for all employees to work remotely with limited change in normal working patterns. We have exercised our business continuity plans effectively to date, with limited operational impact. Our book value per common share was $11.44 as of March 31, 2021, down from $12.36 as of December 31, 2020 based on a number of factors including settlement of warrants. Our book value is based on March 31, 2021 issued and outstanding common shares.

Business Operations

Net Income Summary

The table below presents our net income on a GAAP basis for the quarters ended March 31, 2021 and 2020.

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

	For the Quarters Ended	
	March 31, 2021	**March 31, 2020**
Net interest income:		
Interest income [(1)]	$ 243,127	$ 300,266
Interest expense [(2)]	108,066	142,083
Net interest income	135,061	158,183
Increase (decrease) in provision for credit losses	(126)	6,314
Other investment gains (losses):		
Net unrealized gains (losses) on derivatives	—	201,000
Realized gains (losses) on terminations of interest rate swaps	—	(463,966)
Net realized gains (losses) on derivatives	—	(41,086)
Net gains (losses) on derivatives	—	(304,052)
Net unrealized gains (losses) on financial instruments at fair value	270,012	(260,887)
Net realized gains (losses) on sales of investments	37,796	75,854
Gains (losses) on extinguishment of debt	(237,137)	—
Total other gains (losses)	70,671	(489,085)
Other expenses:		
Compensation and benefits	13,439	12,934
General and administrative expenses	5,198	5,137
Servicing and asset manager fees	9,281	10,530
Transaction expenses	16,437	4,906
Total other expenses	44,355	33,507
Income (loss) before income taxes	161,503	(370,723)
Income taxes	3,912	32
Net income (loss)	$ 157,591	$ (370,755)
Dividends on preferred stock	18,438	18,438
Net income (loss) available to common shareholders	$ 139,153	$ (389,193)
Net income (loss) per share available to common shareholders:		
Basic	$ 0.60	$ (2.08)
Diluted	$ 0.54	$ (2.08)
Weighted average number of common shares outstanding:		
Basic	230,567,231	187,018,602
Diluted	261,435,081	187,018,602
Dividends declared per share of common stock	$ 0.30	$ 0.50

(1) Includes interest income of consolidated VIEs of $158,100 and $174,681 for the quarters ended March 31, 2021 and 2020, respectively. See Note 9 to consolidated financial statements for further discussion.
(2) Includes interest expense of consolidated VIEs of $65,205 and $64,629 for the quarters ended March 31, 2021 and 2020, respectively. See Note 9 to consolidated financial statements for further discussion.

Results of Operations for the Quarters Ended March 31, 2021 and 2020

The financial markets and mortgage REIT industry showed a recovering trend from the disruptions created by the global COVID-19 pandemic during the quarter ended March 31, 2021. Because of the size and breadth of the COVID-19 pandemic, all of the direct and indirect consequences of COVID-19 are not yet known and may not emerge for some time. There were signs of liquidity coming back in secured financing agreements and credit spread narrowing while interest rates have slightly increased but remained at historic lower levels. These trends have improved the asset pricing on our portfolio, and low interest rates have allowed us to call our higher rate debt and issue new securitized debt at lower rates, resulting in decreasing our cost of funding.

Our primary source of income is interest income earned on our assets, net of interest expense paid on our financing liabilities.
For the quarter ended March 31, 2021, our net income available to common shareholders was $139 million, or $0.60 per average basic common share, compared to a net loss of $389 million, or $2.08 per average basic common share, for the same period in 2020. The higher net income available to common shareholders for the quarter ended March 31, 2021 was primarily due to increasing asset prices in our portfolio because of the continuing recovery in financial markets as compared to the illiquidity and volatility in financial markets related to the COVID-19 pandemic in 2020. We had unrealized gains on financial instruments at fair value of $270 million, and net interest income of $135 million, partially offset by losses on extinguishment of debt of $237 million during the quarter ended March 31, 2021. We had net losses on derivatives of $304 million and unrealized losses on financial instruments at fair value of $261 million, which was partially offset by the net interest income of $158 million and gains on sales of investments of $76 million during the quarter ended March 31, 2020.

Interest Income

The changes in our interest income for the quarter ended March 31, 2021, as compared to the same period in 2020, were primarily driven by the selling of our Agency RMBS portfolio and reducing our Agency CMBS and Loans held for investment portfolios during 2020.

Interest income decreased by $57 million, or 19%, to $243 million for the quarter ended March 31, 2021, as compared to $300 million for the same period in 2020. We reduced our average interest earning asset balances by $7.2 billion to $15.3 billion as compared to $22.5 billion from the same period of 2020 to respond to market conditions driven by COVID-19 disruptions. The sale of the Agency RMBS portfolio and reduction in our Loans portfolio reduced our interest income earned on Agency RMBS by $42 million, and interest income earned on Loans held for investment by $14 million for the quarter ended March 31, 2021, as compared to the same period in 2020. This decrease was partially offset by an increase of $6 million in interest income earned on Agency CMBS portfolio primarily due to prepayment penalties received during quarter ended March 31, 2021.

Interest Expense

Interest expense decreased by $34 million, or 24%, to $108 million for the quarter ended March 31, 2021, as compared to $142 million for the same period in 2020. The decline in interest expense for the quarter ended March 31, 2021, as compared to the same period in 2020, was primarily driven by our de-levering efforts by reducing secured financing agreements collateralized by Agency MBS and Loans held for investments, and lower borrowing rates on secured financing agreements collateralized by Agency MBS. We reduced our average interest bearing liability balances by $6.7 billion to $13.1 billion as compared to $19.8 billion from the same period of 2020. During the quarter ended March 31, 2021 interest expense on secured financing agreements collateralized by Agency RMBS, Agency CMBS and Loans held for investments decreased by $27 million, $12 million and $9 million, respectively as compared to the same period of 2020 due to factors discussed above. While balances declined as leverage was reduced and secured financing rates on borrowings collateralized by Agency securities fell, rates on borrowings collateralized by Non-Agency securities increased due to limited liquidity and implied risk, as many of the Non-Agency securities we own are in the first loss tranche and the future value for these securities is uncertain given COVID-19 impacts, modification, deferral and forbearance programs.

Interest expense for GAAP reporting does not include the periodic costs of our derivatives, which are reported separately in our GAAP financial statements.

Economic Net Interest Income

Our Economic net interest income is a non-GAAP financial measure that equals GAAP net interest income adjusted for net realized gains or losses on interest rate swaps, interest expense on long term debt and any interest earned on cash. Realized gains or losses on our interest rate swaps are the periodic net settlement payments made or received. 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. 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 interest rate swaps, is referred to as Economic interest expense.

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

	GAAP Interest Income	GAAP Interest Expense	Net Realized (Gains) Losses on Interest Rate Swaps	Interest Expense on Long Term Debt	Economic Interest Expense	GAAP Net Interest Income	Net Realized Gains (Losses) on Interest Rate Swaps	Other [1]	Economic Net Interest Income
For the Quarter Ended March 31, 2021	$ 243,127	$ 108,066	$ —	$ (1,076)	$ 106,990	$ 135,061	$ —	$ 1,065	$ 136,126
For the Quarter Ended December 31, 2020	$ 236,156	$ 120,285	$ —	$ (1,197)	$ 119,088	$ 115,871	$ —	$ 1,177	$ 117,048
For the Quarter Ended September 30, 2020	$ 247,905	$ 124,557	$ —	$ (1,495)	$ 123,062	$ 123,348	$ —	$ 1,487	$ 124,835
For the Quarter Ended June 30, 2020	$ 245,922	$ 129,256	$ —	$ (4,391)	$ 124,865	$ 116,666	$ —	$ 4,358	$ 121,024
For the Quarter Ended March 31, 2020	$ 300,266	$ 142,083	$ 6,385	$ —	$ 148,468	$ 158,183	$ (6,385)	$ (1,266)	$ 150,532

(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					
	March 31, 2021 (dollars in thousands)			March 31, 2020 (dollars in thousands)		
	Average Balance	**Interest**	**Average Yield/Cost**	**Average Balance**	**Interest**	**Average Yield/Cost**
Assets:						
Interest-earning assets [1]:						
Agency RMBS	$ 116,517	$ 317	1.1 %	$ 4,652,843	$ 42,663	3.7 %
Agency CMBS	1,360,895	26,607	7.8 %	2,204,435	20,698	3.8 %
Non-Agency RMBS	1,577,137	55,800	14.2 %	1,883,781	61,014	13.0 %
Loans held for investment	12,253,034	160,392	5.2 %	13,716,833	174,625	5.1 %
Total	$ 15,307,583	$ 243,116	6.4 %	$ 22,457,892	$ 299,000	5.3 %
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Secured financing agreements collateralized by:						
Agency RMBS	$ 66,951	$ 149	0.9 %	$ 4,406,106	$ 27,114	2.5 %
Agency CMBS	1,236,361	580	0.2 %	2,112,244	12,361	2.3 %
Non-Agency RMBS	1,002,935	12,479	5.0 %	1,384,095	9,666	2.8 %
Loans held for investment	2,253,811	24,216	4.3 %	3,852,347	32,890	3.4 %
Securitized debt	8,588,423	69,566	3.2 %	8,079,597	66,437	3.3 %
Total	$ 13,148,481	$ 106,990	3.3 %	$ 19,834,389	$ 148,468	3.0 %
Economic net interest income/net interest rate spread		$ 136,126	3.1 %		$ 150,532	2.3 %
Net interest-earning assets/net interest margin	$ 2,159,102		3.6 %	$ 2,623,503		2.7 %
Ratio of interest-earning assets to interest bearing liabilities	1.16			1.13		

(1) Interest-earning assets at amortized cost

(2) Interest includes net cash paid/received on swaps

Economic Net Interest Income and the Average Earning Assets

Our Economic net interest income (which is a non-GAAP measure, see "Economic net interest income" discussion earlier for details) decreased by $14 million to $136 million for the quarter ended March 31, 2021 from $151 million for the same period of 2020. Our net interest rate spread, which equals the yield on our average interest-earning assets less the economic average cost of funds, increased by 80 basis points for the quarter ended March 31, 2021, as compared to the same period of 2020. 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, increased by 90 basis points for the quarter ended March 31, 2021, as compared to the same period of 2020. Our Average net interest-earning assets decreased by $464 million to $2.2 billion for the quarter ended March 31, 2021, compared to $2.6 billion for the same period of 2020. The increase in our net interest rate spread and net interest margin is primarily due to the change in our portfolio composition and prepayment penalties received on our Agency CMBS portfolio during quarter ended March 31, 2021. We sold lower yielding Agency assets and retained higher yielding Non-Agency RMBS and Loans. Following the sale of our Agency RMBS portfolio and reduction in our Agency CMBS and Loans held for investments, we have worked to replace higher cost funding with more efficient and lower cost financing during first quarter of 2021.

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 (1)	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 March 31, 2021	$ 13,148,481	$ 106,990	3.25 %	0.12 %	0.20 %	(0.08)%
For The Quarter Ended December 31, 2020	$ 13,296,177	$ 119,088	3.58 %	0.15 %	0.22 %	(0.07)%
For The Quarter Ended September 30, 2020	$ 13,981,065	$ 123,062	3.52 %	0.16 %	0.25 %	(0.09)%
For The Quarter Ended June 30, 2020	$ 14,995,904	$ 124,865	3.33 %	0.35 %	0.60 %	(0.25)%
For The Quarter Ended March 31, 2020	$ 19,834,389	$ 148,468	2.99 %	1.40 %	1.53 %	(0.13)%

(1) Includes effect of realized losses on interest rate swaps.

Average interest-bearing liabilities decreased by $6.7 billion for the quarter ended March 31, 2021, as compared to the same period of 2020. Economic interest expense decreased by $41 million for the quarter ended March 31, 2021, as compared to the same period of 2020. The decrease in average interest-bearing liabilities and Economic interest expense is a result of the decrease in the amount of our secured financing agreements collateralized by Agency MBS, the decrease in average one-month and three-month LIBOR, and the sale of our Agency RMBS portfolio during first quarter of 2020. While we may use interest rate hedges to mitigate changes in interest rate risks, the hedges may not fully offset interest expense movements.

Provision for Credit Losses

For the quarter ended March 31, 2021, we recorded a decrease in allowance for credit losses of $126 thousand as compared to an increase in allowance for credit losses of $6 million the same period of 2020. The change in provision for credit losses was primarily driven by reduction in expected losses and delinquencies during the quarter ended March 31, 2021 as compared to the same period of 2020.

Net Gains (losses) on derivatives

We did not have any derivative positions during the quarter ended March 31, 2021. Our interest rate swaps are primarily used to economically hedge the effects of changes in interest rates on our portfolio, specifically our secured financing agreements. Therefore, we included the periodic interest costs of the interest rate swaps for the quarter ended March 31, 2020 on these economic hedges in our presentation of economic net interest income and our net interest spreads. As we do not account for these as hedges for GAAP presentation, we present these gains and losses separately in the Consolidated Statements of Operations.

The table below shows a summary of our net gains (losses) on derivative instruments, for the quarters ended March 31, 2021 and 2020.

	For the Quarter Ended	
	March 31, 2021	**March 31, 2020**
	(dollars in thousands)	
Periodic interest income (expense) on interest rate swaps, net	$ —	$ (6,386)
Realized gains (losses) on derivative instruments, net:		
Swaps Terminations	—	(463,966)
Treasury Futures	—	(34,700)
Total realized gains (losses) on derivative instruments, net	—	(498,666)
Unrealized gains (losses) on derivative instruments, net:		
Interest Rate Swaps	—	204,611
Treasury Futures	—	(3,611)
Total unrealized gains (losses) on derivative instruments, net:	—	201,000
Total gains (losses) on derivative instruments, net	$ —	$ (304,052)

The net gains and losses on our derivatives include both unrealized and realized gains and losses. Realized gains and losses include the net cash paid and received on our interest rate swaps during the period as well as sales and settlements of our Treasury Futures and swaptions. All of our interest rate swaps pay a fixed rate of interest and receive a floating rate of interest. Therefore, as the floating rate leg of the swap declines, the fair value of the interest rate swaps also declines.

Unrealized gains and losses include the change in market value, period over period, on our derivatives portfolio, including reversals of any mark-to-market losses taken on derivatives in prior periods upon settlement. During the quarter ended March 31, 2020, we recognized total net losses on derivatives of $304 million. This was primarily driven by realized losses on swap terminations and changes to the yield curve which resulted in realized and unrealized losses on interest rate swaps in 2020. We paid $464 million to terminate interest rate swaps with a notional value of $4.1 billion during the quarter ended March 31, 2020. The terminated swaps had original maturities from 2023 to 2048. We closed our short Treasury futures positions during the first quarter of 2020. We had net realized losses of $35 million on our short Treasury futures positions for the quarter ended March 31, 2020. The realized loss on Treasury futures was driven by the declines in interest rates which reduces the value of our short Treasury futures. Treasury futures are not included in our economic interest expense and economic net interest income.

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

The continued recovery of financial markets from the disruptions of COVID-19 pandemic helped asset pricing on our loan portfolio which was partially offset by mark downs in our Agency and Non-Agency portfolios. We recorded Net unrealized gains on financial instruments at fair value of $270 million for the quarter ended March 31, 2021, as compared to the Net unrealized losses of $261 million for the quarter ended March 31, 2020.

Gains and Losses on Sales of Assets and Extinguishment of Securitized Debt

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, 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.

In response to the disruptions in the financial market and to strengthen our liquidity position, we sold all of our Agency RMBS portfolio during the first quarter of 2020. Additionally, we sold some of our Agency CMBS and Non-Agency RMBS investments during the first quarter of 2021. We had net realized gains on sales of investments of $38 million and $76 million during the quarters ended March 31, 2021 and 2020, respectively.

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 March 31, 2021 and 2020, respectively.

During the quarter ended March 31, 2021, we acquired securitized debt collateralized by loans held for investment with an amortized cost balance of $2.7 billion for $2.9 billion. This transaction resulted in net loss on extinguishment of debt of $234 million. We did not acquire any securitized debt collateralized by loans held for investments during the quarter ended March 31, 2020.

Long Term Debt Expense

During second quarter of 2020, we issued $374 million aggregate principal amount of 7.00% convertible senior notes due 2023 that pays semi-annual interest. As of March 31, 2021, approximately $321 million of senior notes were converted into approximately 49 million shares of our common stock. At March 31, 2021 and December 31, 2020, the outstanding principal amount of these notes was $53 million and there was $0 million and $1 million of accrued interest payable. At March 31, 2021 and December 31, 2020, the unamortized deferred debt issuance cost was $1 million. The net interest expense for the quarter ended March 31, 2021 was $1 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 March 31, 2021	$ 35,074	0.82 %	3.82 %
For The Quarter Ended December 31, 2020	$ 20,741	0.47 %	2.22 %
For The Quarter Ended September 30, 2020	$ 18,147	0.40 %	2.05 %
For The Quarter Ended June 30, 2020	$ 20,928	0.44 %	2.52 %
For The Quarter Ended March 31, 2020	$ 22,975	0.40 %	2.55 %

Compensation and benefit costs were approximately $13 million for the quarters ended March 31, 2021 and 2020 and remained relatively unchanged.

G&A expenses were approximately $5 million for the quarters ended March 31, 2021 and 2020 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 $16 million and $5 million for the quarters ended March 31, 2021 and 2020, respectively. The increase in transaction expenses for the quarter ended March 31, 2021 is driven by higher call and securitization activity during the quarter ended March 31, 2021 as compared to the same period of 2020.

Servicing and Asset Manager Fees

Servicing fees and asset manager expenses were $9 million and $11 million for the quarters ended March 31, 2021 and 2020, 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.

Core earnings

Core earnings is a non-GAAP measure and is defined as GAAP net income excluding unrealized gains on the aggregate portfolio, provision for credit losses, interest expense on long term debt, impairment losses, realized gains on sales of investments, realized gains or losses on futures, realized gains or losses on swap terminations, gain on deconsolidation, extinguishment of debt and expenses incurred in relation to securitizations. 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, core earnings include interest income and expense, as well as periodic cash settlements on interest rate swaps used to hedge interest rate risk and other expenses. Core earnings is inclusive of preferred dividend charges, compensation and benefits (adjusted for awards to retirement eligible employees), general and administrative expenses, servicing fees, as well as income tax expenses incurred during the period. Management believes that the presentation of core earnings provides investors with a useful measure but has important limitations. We believe core earnings as described above helps us evaluate our financial performance period over period without the impact of certain transactions but is of limited usefulness as an analytical tool. Therefore, core earnings 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 core earnings may differ from the methodologies employed by other REITs to calculate the same or similar supplemental performance measures, and accordingly, our reported core earnings may not be comparable to the core earnings 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 core earnings and related per average diluted common share amounts. Core earnings 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				
	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020
	(dollars in thousands, except per share data)				
GAAP Net income available to common stockholders	$ 139,153	$ 128,797	$ 348,891	$ (73,393)	$ (389,193)
Adjustments:					
Interest expense on long term debt	1,076	1,197	1,495	4,391	—
Increase (decrease) in provision for credit losses	(126)	13	(1,650)	(4,497)	6,314
Net unrealized (gains) losses on derivatives	—	—	—	—	(201,000)
Net unrealized (gains) losses on financial instruments at fair value	(270,012)	(61,379)	(260,766)	171,921	260,887
Net realized (gains) losses on sales of investments	(37,796)	329	(65,041)	(26,380)	(75,854)
(Gains) losses on extinguishment of debt	237,137	(919)	55,794	(459)	—
Realized (gains) losses on terminations of interest rate swaps	—	—	—	—	463,966
Net realized (gains) losses on Futures (1)	—	—	—	—	34,700
Transaction expenses	16,437	3,827	1,624	4,710	4,906
Stock Compensation expense for retirement eligible awards	661	(225)	(275)	(273)	1,189
Core Earnings	$ 86,530	$ 71,640	$ 80,072	$ 76,020	$ 105,915
GAAP net income per diluted common share	$ 0.54	$ 0.49	$ 1.32	$ (0.37)	$ (2.08)
Core earnings per adjusted diluted common share (2)	$ 0.36	$ 0.29	$ 0.33	$ 0.32	$ 0.56

(1) Included in net realized gains (losses) on derivatives in the Consolidated Statements of Operations.
(2) We note that core and taxable earnings will typically differ, and may materially differ, due to differences on realized gains and losses on investments and related hedges, credit loss recognition, timing differences in premium amortization, accretion of discounts, equity compensation and other items.

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

	For the Quarters Ended				
	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020
Weighted Average diluted shares - GAAP	261,435,081	264,882,701	265,346,359	199,282,790	187,018,602
Conversions from Convertible Debt	—	—	—	42,910,191	—
Non-participating Warrants	(20,282,173)	(20,278,970)	(20,277,134)	(4,901,962)	—
Weighted Average diluted shares - Core earnings	241,152,908	244,603,731	245,069,225	237,291,019	187,018,602

Our core earnings for the quarter ended March 31, 2021 were $87 million, or $0.36 per average diluted common share, and declined by $19 million, or $0.20 per average diluted common share, as compared to $106 million, or $0.56 per average diluted common share, for the quarter ended March 31, 2020. The decline in core earnings was driven by decline in interest income driven by reduction in our average interest earning assets, primarily driven by sales in our Agency RMBS and Agency CMBS portfolios and a higher diluted common shares denominator due to conversions of convertible debt into common shares.

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 Core Earnings 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 Core Earnings are non-GAAP measures as defined in previous sections.

	Return on Average Equity	Economic Net Interest Income/Average Equity *	Core Earnings/Average Common Equity
		(Ratios have been annualized)	
For the Quarter Ended March 31, 2021	17.16 %	14.82 %	12.62 %
For the Quarter Ended December 31, 2020	15.76 %	12.53 %	10.21 %
For the Quarter Ended September 30, 2020	41.43 %	14.08 %	12.24 %
For the Quarter Ended June 30, 2020	(6.62)%	14.58 %	12.72 %
For the Quarter Ended March 31, 2020	(41.21)%	16.73 %	15.88 %

* Includes effect of realized losses on interest rate swaps and excludes long term debt expense.

Return on average equity increased by 5,837 basis points for the quarter ended March 31, 2021, as compared to the same period of 2020. This increase is driven primarily my unrealized asset pricing gains on our financial instruments during quarter ended March 31, 2021, as compared to unrealized losses on financial instruments and losses on derivatives driven by COVID-19 disruptions during quarter ended March 31, 2020. Economic net interest income as a percentage of average equity decreased by 191 basis points for the quarter ended March 31, 2021 compared to the quarter ended March 31, 2020. Core earnings as a percentage of average common equity decreased by 326 basis points for the quarter ended March 31, 2021 compared to the same period of 2020. This decrease was primarily driven by decline in interest income due to the sale of our Agency RMBS portfolio and reduction in other interest earning assets.

Financial Condition

Portfolio Review

During the first quarter of 2021, the financial markets showed signs of improvement from the disruptions driven by the COVID-19 pandemic during previous year. We focused our efforts on reducing the cost of funding by calling and resecuritizing certain of our higher rate debt with lower rates available in the financing markets. During the quarter ended March 31, 2021, on an aggregate basis, we purchased $1.1 billion of investments, sold $1.1 billion of investments and received $776 million in principal payments related to our Agency MBS, Non-Agency RMBS and Loans held for investments portfolio.

The following table summarizes certain characteristics of our portfolio at March 31, 2021 and December 31, 2020.

	March 31, 2021	**December 31, 2020**
Interest earning assets at period-end (1)	$ 16,263,133	$ 17,093,949
Interest bearing liabilities at period-end	$ 12,939,423	$ 13,513,580
GAAP Leverage at period-end	3.6:1	3.6:1
GAAP Leverage at period-end (recourse)	1.1:1	1.2:1

(1) Excludes cash and cash equivalents.

Portfolio Composition	March 31, 2021	December 31, 2020	March 31, 2021	December 31, 2020
	Amortized Cost		Fair Value	
Non-Agency RMBS	10.3 %	10.2 %	12.4 %	12.6 %
Senior	5.0 %	5.0 %	7.4 %	7.5 %
Subordinated	3.8 %	3.6 %	3.7 %	3.6 %
Interest-only	1.5 %	1.6 %	1.3 %	1.5 %
Agency RMBS	0.8 %	0.7 %	0.5 %	0.5 %
Pass-through	— %	— %	— %	— %
Interest-only	0.8 %	0.7 %	0.5 %	0.5 %
Agency CMBS	8.2 %	10.0 %	8.3 %	10.2 %
Project loans	8.1 %	9.9 %	8.2 %	10.0 %
Interest-only	0.1 %	0.1 %	0.1 %	0.2 %
Loans held for investment	80.7 %	79.1 %	78.8 %	76.7 %
Fixed-rate percentage of portfolio	95.0 %	94.9 %	93.6 %	93.2 %
Adjustable-rate percentage of portfolio	5.0 %	5.1 %	6.4 %	6.8 %

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 March 31, 2021 and December 31, 2020. 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.

	March 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	$ 1,498,212	$ 50.29	$ 80.26	4.5 %	17.1 %	12.3 %	12.0 %	2.1 %	2.5 %	42.4 %	2.8 %
Subordinated	$ 857,925	$ 65.62	$ 69.26	3.8 %	6.5 %	17.3 %	14.0 %	1.3 %	0.8 %	23.0 %	3.5 %
Interest-only	$ 4,850,934	$ 4.74	$ 4.47	1.6 %	14.7 %	28.0 %	24.3 %	2.8 %	2.1 %	24.7 %	— %
Agency RMBS											
Interest-only	$ 1,199,688	$ 9.52	$ 7.20	1.6 %	1.1 %	20.4 %	21.4 %	N/A	N/A	N/A	N/A
Agency CMBS											
Project loans	$ 1,196,682	$ 101.72	$ 111.40	4.2 %	4.1 %	7.1 %	— %	N/A	N/A	N/A	N/A
Interest-only	$ 1,114,212	$ 1.79	$ 1.99	0.6 %	7.8 %	17.9 %	11.8 %	N/A	N/A	N/A	N/A
Loans held for investment	$ 12,222,214	$ 98.90	$ 104.92	5.6 %	5.3 %	10.7 %	8.6 %	0.4 %	0.6 %	23.3 %	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, 2020										
	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	$ 1,560,136	$ 50.65	$ 81.90	4.5 %	16.9 %	13.4 %	11.0 %	2.8 %	2.9 %	47.2 %	2.8 %
Subordinated	$ 905,674	$ 62.46	$ 67.43	3.8 %	6.3 %	16.0 %	12.5 %	0.8 %	0.7 %	22.1 %	3.3 %
Interest-only	$ 5,628,240	$ 4.43	$ 4.66	1.5 %	16.2 %	27.3 %	23.0 %	2.1 %	1.8 %	27.8 %	— %
Agency RMBS											
Interest-only	$ 1,262,963	$ 9.41	$ 7.18	1.7 %	1.6 %	23.8 %	20.6 %	N/A	N/A	N/A	N/A
Agency CMBS											
Project loans	$ 1,527,621	$ 101.81	$ 112.23	4.1 %	3.8 %	— %	— %	N/A	N/A	N/A	N/A
Interest-only	$ 1,326,665	$ 1.78	$ 1.95	0.6 %	8.4 %	10.0 %	8.0 %	N/A	N/A	N/A	N/A
Loans held for investment	$ 12,640,195	$ 98.69	$ 103.85	5.6 %	5.2 %	11.9 %	9.7 %	0.9 %	1.2 %	39.6 %	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 IOs, during the previous five quarters.

	For the Quarters Ended (dollars in thousands)				
Accretable Discount (Net of Premiums)	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020
Balance, beginning of period	$ 409,690	$ 422,981	$ 410,447	$ 438,232	$ 494,255
Accretion of discount	(24,023)	(21,281)	(20,045)	(22,508)	(24,784)
Purchases	—	758	2,096	—	(4,336)
Sales and deconsolidation	(41,651)	98	—	(23,425)	438
Transfers from/(to) credit reserve, net	14,546	7,134	30,483	18,148	(27,341)
Balance, end of period	$ 358,562	$ 409,690	$ 422,981	$ 410,447	$ 438,232

We invest a significant majority of the Company's 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 represent a favorable change in expected credit losses. An increase (positive balance) in the "Increase/(decrease)" line item in the tables below represent an unfavorable change in expected credit losses.

Non-Agency RMBS	For the Quarters Ended (dollars in thousands) March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020
Balance, beginning of period	$ 157,527	$ 163,369	$ 181,865	$ 204,831	$ 168,570
Realized losses	(3,927)	(4,984)	(7,060)	(7,110)	(7,986)
Accretion	4,152	4,242	4,865	5,823	4,450
Purchased losses	—	4,007	1,338	—	9,258
Sold losses	(733)	(2,928)	—	(6,144)	—
Increase/(decrease)	(23,412)	(6,179)	(17,639)	(15,535)	30,539
Balance, end of period	$ 133,607	$ 157,527	$ 163,369	$ 181,865	$ 204,831

Loans held for investments	For the Quarters Ended (dollars in thousands) March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020
Balance, beginning of period	$ 511,190	$ 536,016	$ 603,195	$ 672,632	$ 486,509
Realized losses	(8,512)	(14,373)	(20,501)	(22,362)	(29,329)
Accretion	3,420	5,702	6,608	7,248	6,230
Increase/(decrease) (1)	(57,335)	(16,155)	(53,286)	(54,323)	209,222
Balance, end of period	$ 448,763	$ 511,190	$ 536,016	$ 603,195	$ 672,632

(1) Increase/(decrease) includes any additional losses from acquisitions of loan pools during the quarter.

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 throughout this Quarterly Report on Form 10-Q, the financial markets have started to show some improvements from the COVID-19 pandemic driven disruptions in the real estate and financial markets which negatively affected our liquidity during 2020. During the quarter ended March 31, 2021, we have observed a price appreciation in our Loans held for investment portfolio and a mark-down of our Agency MBS and Non-Agency RMBS portfolio. Despite improving conditions, there is still significant uncertainty and risks related to COVID-19 and economic conditions. If they become more pronounced like earlier in the pandemic, will have a negative adverse impact on our liquidity. 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” for more information on how COVID-19 may impact our liquidity and capital resources. As discussed in greater detail above in “Part I. Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Market Conditions and our Strategy,” we have sought longer-term, more durable financing since 2020 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 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/or 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 $317 million and $269 million at March 31, 2021 and December 31, 2020, respectively. As a result of our operating, investing and financing activities described below, our cash position increased by $48 million from December 31, 2020 to March 31, 2021.

Our operating activities provided net cash of approximately $122 million and used net cash of $419 million for the quarters ended March 31, 2021 and 2020, respectively. The cash flows from operations were primarily driven by interest received in excess of interest paid of $145 million during the quarter ended March 31, 2021. The cash used for the quarter ended March 31, 2020 was primarily driven by payments on swap terminations of $464 million. This cash used was partially offset by interest received in excess of interest paid of $181 million during the quarter ended March 31, 2020.

Our investing activities provided cash of $814 million and $6.6 billion for the quarters ended March 31, 2021 and 2020, respectively. During the quarter ended March 31, 2021, we received cash from sale of investments of $1.1 billion primarily consisting of Loans held for investments of $903 million, and principal repayments on our Agency MBS, Non-Agency RMBS, and Loans held for investments of $776 million. This cash provided was offset in part by cash used on investment purchases of $1.1 billion, primarily consisting of Loans held for investments. During the quarter ended March 31, 2020, we received cash for sale of primarily Agency RMBS investments of $6.3 billion, and principal repayments on our Agency MBS, Non-Agency RMBS, and Loans held for investments of $1.1 billion. This cash provided was offset in part by cash used on investment purchases of $756 million, consisting of $576 million in purchases of Loans held for investments, $161 million in Agency CMBS fundings, and $20 million in Non-Agency RMBS purchases.

Our financing activities used cash of $888 million and $6.1 billion for the quarters ended March 31, 2021 and 2020, respectively. During the quarter ended March 31, 2021, our financing efforts were focused on taking advantage of a low interest rate environment to collapse and securitize debt borrowings that significantly reduce our cost of funding. During the quarter ended March 31, 2021, we used cash for repayment of principal on our securitized debt of $3.4 billion, net payments on our secured financing agreements of $594 million, settlement of warrants of $220 million, and paid common and preferred dividends of $88 million. This cash paid was offset in part by cash received for securitized debt collateralized by loans issuance of $3.4 billion. During the quarter ended March 31, 2020 our financing activities were driven by de-levering of our financial position by reducing our secured financing agreement obligations. During the quarter ended March 31, 2020, we used cash for net payments on our repurchase agreements of $6.3 billion, repayment of principal on our securitized debt of $391 million, and paid common and preferred dividends of $112 million. This cash paid was offset in part by cash received for debt issuance of $731 million.

Our recourse leverage was 1.1:1 and 1.2:1 at March 31, 2021 and at December 31, 2020, respectively. The reduction in recourse leverage was a result of our continuing efforts to de-lever our financial position reducing our secured financing agreements liability. 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 March 31, 2021 and December 31, 2020, the remaining maturities and borrowing rates on our RMBS and loan secured financing agreements were as follows.

	March 31, 2021			December 31, 2020		
	(dollars in thousands)					
	Principal (1)	Weighted Average Borrowing Rates	Range of Borrowing Rates	Principal (1)	Weighted Average Borrowing Rates	Range of Borrowing Rates
Overnight	$ —	NA	NA	$ —	NA	NA
1 to 29 days	1,460,163	1.46%	0.10% - 7.97%	1,521,134	0.38%	0.20% - 2.72%
30 to 59 days	315,543	2.03%	1.95% - 2.44%	481,257	4.35%	2.42% - 6.61%
60 to 89 days	314,203	2.37%	1.15% - 2.61%	352,684	2.78%	1.34% - 6.30%
90 to 119 days	431,222	3.28%	1.76% - 4.50%	301,994	7.97%	7.97% - 7.97%
120 to 180 days	370,538	2.06%	1.60% - 2.40%	595,900	5.29%	2.40% - 6.26%
180 days to 1 year	44,344	2.36%	2.36% - 2.36%	345,204	3.60%	3.25% - 4.50%
1 to 2 years	746,478	4.11%	2.86% - 4.38%	—	NA	NA
2 to 3 years	—	NA	NA	642,696	4.91%	1.65% - 7.00%
Greater than 3 years	363,421	5.56%	5.56% - 5.56%	395,978	5.56%	5.56% - 5.56%
Total	$ 4,045,912	2.69%		$ 4,636,847	3.41%	

(1) The values for secured financing agreements in the table above is net of $4 million and $8 million of deferred financing cost as of March 31, 2021 and December 31, 2020, respectively.

Average remaining maturity of Secured financing agreements secured by:

	March 31, 2021	December 31, 2020
Agency RMBS (in thousands)	6 days	12 days
Agency CMBS (in thousands)	11 days	11 days
Non-Agency RMBS and Loans held for investment (in thousands)	372 days	458 days

We collateralize the secured financing agreements we use to finance our operations with our MBS investments. 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. Due to the market disruptions and volatile market pricing trends driven by COVID-19, our counterparties have negotiated higher haircuts relative to historical trends. At March 31, 2021 and December 31, 2020, the weighted average haircut on our remaining secured financing agreements collateralized by Agency RMBS IOs was 25.0%, Agency CMBS was 5.2% and Non-Agency RMBS and Loans held for investments was 31.3% and 31.8%, respectively. At March 31, 2021, the weighted average borrowing rates for our secured financing agreements collateralized by Agency RMBS IOs was 0.9%, Agency CMBS was 0.1% and Non-Agency MBS and Loans held for investment was 3.7%. At December 31, 2020, the weighted average borrowing rates for our secured financing agreements collateralized by Agency RMBS was 0.9%, Agency CMBS was 0.2%, and Non-Agency MBS and Loans held for investment was 4.8%, respectively.

As 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. 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.

The table below presents our average daily repurchase balance and the repurchase 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 Repurchase Balance		Repurchase Balance at Period End
Quarter End March 31, 2021	$	4,560,057	$	4,045,912
Quarter End December 31, 2020	$	4,665,324	$	4,636,847
Quarter End September 30, 2020	$	5,269,553	$	4,700,037
Quarter End June 30, 2020	$	6,536,264	$	5,944,201
Quarter End March 31, 2020	$	11,754,793	$	7,146,996

We are not required 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 March 31, 2021 and December 31, 2020, the carrying value of our total interest-bearing debt was approximately $12.9 billion and $13.5 billion, respectively, which represented a leverage ratio for both periods of approximately 3.6:1 . We include our secured financing agreements and securitized debt in the numerator of our leverage ratio and stockholders' equity as the denominator.

At March 31, 2021, we had secured financing agreements with 15 counterparties. All of our secured financing agreements are secured by Agency MBS, Non-Agency RMBS and Loans held for investments 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 March 31, 2021, and December 31, 2020, we had $5.7 billion and $6.7 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 around 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 March 31, 2021:

	March 31, 2021				
Country	Number of Counterparties		Secured Financing Agreement		Exposure (1)
	(dollars in thousands)				
United States	10		2,474,406		1,147,947
Japan	1		936,274		301,330
Canada	1		272,555		89,029
Switzerland	1		197,786		93,192
South Korea	1		101,825		4,013
Netherlands	1		63,066		2,999
Total	15	$	4,045,912	$	1,638,510

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

At March 31, 2021, 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 our authorization of our 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 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.

Pursuant to our Repurchase Program, during the quarter ended March 31, 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 quarter ended March 31, 2020 we repurchased approximately 1.4 million shares of our common stock at an average price of $15.34 per share for a total of $22 million. We did not issue any common stock upon conversion of convertible senior notes during the quarter ended March 31, 2021. During the year ended December 31, 2020, we issued approximately 49 million shares of our common stock upon conversion of the $321 million convertible senior notes. Additionally, we issued shares of our common stock as discussed below under “Restricted Stock Grants,” and a de minimis amount under our Dividend Reinvestment Plan.

We declared dividends to common shareholders of $70 million, or $0.30 per share, and $93 million, or $0.50 per share, during the quarters ended March 31, 2021 and March 31, 2020, respectively.

We declared dividends to Series A preferred stockholders of $3 million, or $0.50 per preferred share, during the quarters ended March 31, 2021 and 2020, respectively.

We declared dividends to Series B preferred stockholders of $7 million, or $0.50 per preferred share, during the quarters ended March 31, 2021 and 2020, respectively.

We declared dividends to Series C preferred stockholders of $5 million, or $0.484375 per preferred share, during the quarters ended March 31, 2021 and 2020, respectively.

We declared dividends to Series D preferred stockholders of $4 million, or $0.50 per preferred share, during the quarters ended March 31, 2021 and 2020, respectively.

Warrants

During the quarter ended March 31, 2021, we settled 20 million Warrant Shares in cash at a price of 90% of fair market value of the our common stock for $220 million.

Restricted Stock Unit and Performance Share Unit Grants

Grants of Restricted Stock Units or, RSUs

During the quarters ended March 31, 2021 and 2020, we granted RSU awards to senior management. These RSU awards are designed to reward our senior management 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 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 182 thousand RSU awards during the quarter ended March 31, 2021, with a grant date fair value of $2 million for the 2021 performance year. We granted 135 thousand RSU awards during the quarter ended March 31, 2020, with a grant date fair value of $3 million for the 2020 performance year.

In addition, 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 quarters ended March 31, 2021 and 2020 include a three-year performance period ending on December 31, 2023 and December 31, 2022, 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 Company 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 which will vest. During the quarter ended March 31, 2021, we granted 182 thousand PSU awards to senior management with a grant date fair value of $2 million. During the quarter ended March 31, 2020, we granted 202 thousand PSU awards to senior management with a grant date fair value of $4 million.

At March 31, 2021 and December 31, 2020, there were approximately 3.3 million and 2.1 million unvested shares of restricted and performance stock units issued to our employees, respectively.

Contractual Obligations and Commitments

The following tables summarize our contractual obligations at March 31, 2021 and December 31, 2020. 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.

March 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	$ 2,936,013	$ 746,478	$ 363,421	$ —	$ 4,045,912
Securitized debt, collateralized by Non-Agency RMBS	12,862	7,644	1,257	169	21,932
Securitized debt at fair value, collateralized by loans held for investment	1,754,446	2,748,528	1,944,367	2,242,497	8,689,838
Interest expense on MBS secured financing agreements(1)	10,025	2,710	1,572	—	14,307
Interest expense on securitized debt (1)	216,368	312,482	196,033	197,804	922,687
Total	$ 4,929,714	$ 3,817,842	$ 2,506,650	$ 2,440,470	$ 13,694,676

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

December 31, 2020
(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	$ 3,598,173	$ 642,696	$ 395,978	$ —	$ 4,636,847
Securitized debt, collateralized by Non-Agency RMBS	13,552	11,229	1,589	305	26,675
Securitized debt at fair value, collateralized by loans held for investment	1,837,055	2,819,646	1,774,273	2,170,253	8,601,227
Interest expense on MBS secured financing agreements(1)	19,177	2,743	2,018	—	23,938
Interest expense on securitized debt(1)	265,516	364,443	217,727	270,046	1,117,732
Total	$ 5,733,473	$ 3,840,757	$ 2,391,585	$ 2,440,604	$ 14,406,419

(1) Interest is based on variable rates in effect as of December 31, 2020.

Not included in the table above are the unfunded construction loan commitments of $77 million and $106 million as of March 31, 2021 and December 31, 2020, 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.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed any obligations of unconsolidated entities nor do we have any commitment or intent to provide funding to any such entities.

Capital Expenditure Requirements

At March 31, 2021 and December 31, 2020, 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.

Inflation

A significant portion of our assets and liabilities are interest rate sensitive in nature. As a result, interest rates and other factors influence our performance far more so than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our consolidated financial statements are prepared in accordance with GAAP and our distributions will be determined by our Board of Directors consistent with our obligation to distribute to our stockholders at least 90% of our REIT taxable income (subject to certain adjustments) on an annual basis in order to maintain our REIT qualification; in each case, our activities and financial condition are measured with reference to historical cost or fair market value without considering inflation.

Critical Accounting Policies and Estimates

We prepare our financial statements in accordance with accounting principles generally accepted in the United States, or GAAP, which requires the use of estimates and assumptions. Management has discussed and reviewed the development, selection, and disclosure of critical accounting estimates with the Company's Audit Committee. Management believes that the most critical accounting policies and estimates, since these estimates require significant judgment, are interest income, provision for credit losses on Agency MBS, Non-Agency RMBS and residential mortgage loans, the determination of the appropriate accounting model for Non-Agency RMBS and the impact of default and prepayment assumptions on RMBS, fair value measurements. Financial results could be materially different if other methodologies were used or if management modified its assumptions.

For a discussion of our critical accounting policies and estimates, see "Critical Accounting Policies and Estimates" in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the year ended December 31, 2020.

Recent Accounting Pronouncements

Refer to Note 2 in the Notes to Consolidated Financial Statements for a discussion of accounting guidance recently adopted by the Company or expected to be adopted by the Company 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, 2020 for additional information on effect of COVID-19 pandemic risk.

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 which 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 performs 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 COVID-19 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 COVID-19 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 "Part II. Other Information - Item 1A. Risk Factors" for more information on how COVID-19 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 COVID-19. In March 2020, the Federal Reserve lowered the target range for the federal funds rate to a range from 0 to 0.25 percent, citing concerns about the impact of COVID-19 on markets and stress in the energy sector. 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 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.

We do not currently have any hedges in place to mitigate the risk of rising interest rates.

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. 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.

Significant government programs, stimulus plans as well as government purchase and finance programs have had and will continue to have an impact on rates and fair values of fixed income assets. It is unclear the impacts of these actions and how long they will continue to drive the interest rate environment.

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

The interest rates on our secured financing agreements, as well as adjustable-rate mortgage loans in our securitizations, are generally based on LIBOR, which is subject to recent national, international, and other regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past or have other consequences which cannot be predicted.

Currently, it is not possible to predict the effect of any such changes, any establishment of alternative reference rates or any other reforms to LIBOR that may be implemented. Uncertainty as to the nature of such potential changes, alternative reference rates or other reforms may adversely affect the rates on our secured financing facilities, securitizations or residential loans held for longer-term investment. If LIBOR is discontinued or is no longer quoted, the applicable base rate used to calculate interest on our repurchase agreements will be determined using alternative methods. In the U.S., efforts to identify a set of U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee of the Federal Reserve Board and the Federal Reserve Bank of New York. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, is considering replacing U.S. dollar LIBOR with the Secured Overnight Funding Rate, or SOFR.

It is possible that not all of our assets and liabilities will transition away from LIBOR at the same time, and it is possible that not all of our assets and liabilities will transition to the same alternative reference rate, in each case increasing the difficulty of hedging. We and other market participants have less experience understanding and modeling SOFR-based assets and liabilities than LIBOR-based assets and liabilities, increasing the difficulty of investing, hedging, and risk management. The process of transition involves operational risks. It is also possible that no transition will occur for many financial instruments.

Any additional changes announced by the regulators or any other successor governance or oversight body, or future changes adopted by such body, in the method pursuant to which reference rates are determined may result in a sudden or prolonged increase or decrease in the reported reference rates. If that were to occur, the level of interest payments we incur may change. Although certain of our LIBOR based obligations provide for alternative methods of calculating the interest rate payable on certain of our obligations if LIBOR is not reported, which include requesting certain rates from major reference banks in London or New York, or alternatively using LIBOR for the immediately preceding interest period or using the initial interest rate, as applicable, uncertainty as to the extent and manner of future changes may result.

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 our acquisitions of RMBS 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 RMBS. 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.

We have entered into agreements for long term, non mark-to-market financing facilities at rates that are higher than short term secured financing agreements. Having non-mark-to-market 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, 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 March 31, 2021 and various estimates regarding prepayment and all activities are made at each level of rate change. Actual results could differ significantly from these estimates.

	March 31, 2021	
Change in Interest Rate	Projected Percentage Change in Net Interest Income [1]	Projected Percentage Change in Market Value [2]
-100 Basis Points	0.97 %	6.98 %
-50 Basis Points	0.96 %	3.42 %
Base Interest Rate	—	—
+50 Basis Points	(3.37) %	(3.27) %
+100 Basis Points	(7.33) %	(6.39) %

(1) Change in annual economic net interest income. Includes interest expense on interest rate swaps.
(2) 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.

Given the combination of low interest rates, government stimulus and higher unemployment, and other disruptions related to COVID-19, it has become more difficult to predict prepayment level for the securities in our portfolio. Actual prepayment results may be materially different than the assumptions we use.

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 available-for-sale securities 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 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 March 31, 2021. 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. The interest rate sensitivity of our assets and liabilities in the table could vary substantially based on actual prepayments.

March 31, 2021
(dollars in thousands)

	Within 3 Months	3-12 Months	1 Year to 3 Years	Greater than 3 Years	Total
Rate sensitive assets	$ 231,721	$ 554,254	$ 85,792	$ 15,406,856	$ 16,278,623
Cash equivalents	317,489	—	—	—	317,489
Total rate sensitive assets	$ 549,210	$ 554,254	$ 85,792	$ 15,406,856	$ 16,596,112
Rate sensitive liabilities	6,038,154	6,227,978	514,145	—	12,780,277
Interest rate sensitivity gap	$ (5,488,944)	$ (5,673,724)	$ (428,353)	$ 15,406,856	$ 3,815,835
Cumulative rate sensitivity gap	$ (5,488,944)	$ (11,162,668)	$ (11,591,021)	$ 3,815,835	
Cumulative interest rate sensitivity gap as a percentage of total rate sensitive assets	(33)%	(67)%	(70)%	23 %	

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 controls including technology hardware and software solutions as well as regular training sessions on cybersecurity risks and mitigation strategies. We have established an incident response 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. 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.

The company has been operating remotely since the middle of March 2020. While we feel our remote work environment is secure, cybersecurity attacks may increase to 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 vigilant about 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 and the Chief Financial Officer. Based on that evaluation, the Company's management, including the Chief Executive Officer and the Chief Financial 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 Exchange Act, the Company's management, including its Chief Executive Officer and Chief Financial 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 first quarter of 2021.

PART II. Other Information

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

Under "Part I — Item 1A — Risk Factors" of our 2020 Form 10-K 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, 2020. 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, 2020.

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

In February 2021, our Board of Directors increased our authorization of our 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.

Pursuant to our Repurchase Program, we repurchased in open market transactions 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 first quarter of 2021. The approximate dollar value of shares that may yet be purchased under the Repurchase Program is $226 million as of March 31, 2021.

	Total Number of Common Shares Repurchased	Average Price Paid per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	Approximate Dollar Value of the Purchase	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs
2/1/2021 - 2/28/2021	160,540	$ 11.39	160,540	$ 1,827,872	$ 226,106,175
	160,540	$ 11.39	160,540	$ 1,827,872	$ 226,106,175

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	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)
3.8	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).
3.9	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)
3.10	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)
3.11	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).
4.7	Form of 7.00% Convertible Senior Notes Due 2023 of the Company (attached as Exhibit A to the First Supplemental Indenture filed as Exhibit 4.2 to the Company’s Current Report on Form 8-K on April 13, 2020 and incorporated herein by reference).
4.8	Indenture, dated April 13, 2020, between the Company and Wilmington Trust, National Association, as trustee (filed as Exhibit 4.1 to the Company’s Current Report on Form 8-K on April 13, 2020 and incorporated herein by reference).
4.9	First Supplemental Indenture, dated April 13, 2020, between the Company and Wilmington Trust, National Association, as trustee (filed as Exhibit 4.2 to the Company’s Current Report on Form 8-K on April 13, 2020 and incorporated herein by reference).
4.10	Form of Warrant, dated June 8, 2020 (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K on June 10, 2020 and incorporated herein by reference).
4.11	Form of Registration Rights Agreement, dated June 8, 2020, by and among the Company and certain affiliates of the Lenders named therein (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K on June 10, 2020 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 Rob Colligan, 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 Rob Colligan, Chief Financial 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.
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 and duly authorized officer of the registrant)
Date: May 6, 2021		
	By:	/s/ Rob Colligan
		Rob Colligan (Chief Financial Officer and principal financial officer of the registrant)
Date: May 6, 2021		

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: May 6, 2021
/s/ Mohit Marria

Mohit Marria
Chief Executive Officer and Chief Investment Officer (Principal Executive Officer)

CERTIFICATIONS

Exhibit 31.2

I, Rob Colligan, 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: May 6, 2021
/s/ Rob Colligan

Rob Colligan
Chief Financial Officer (Principal Financial Officer)

Exhibit 32.1

CHIMERA INVESTMENT CORPORATION
520 MADISON AVE 32nd FLOOR
NEW YORK, NEW YORK 10022

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 March 31, 2021 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 and Chief Investment Officer
Date: May 6, 2021

Exhibit 32.2

CHIMERA INVESTMENT CORPORATION
520 MADISON AVE 32nd FLOOR
NEW YORK, NEW YORK 10022

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 March 31, 2021 to be filed with Securities and Exchange Commission on or about the date hereof (the "Report"), I, Rob Colligan, 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/ Rob Colligan
Rob Colligan
Chief Financial Officer
Date: May 6, 2021