**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the quarterly period ended March 31, 2020**

**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: 1-13991**

# MFA FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

| **Maryland** | **13-3974868** |
|---|---|
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. Employer Identification No.)* |
| **350 Park Avenue, 20th Floor** | |
| **New York New York** | **10022** |
| *(Address of principal executive offices)* | *(Zip Code)* |

**(212) 207-6400**
(Registrant's telephone number, including area code)

**Not Applicable**
(Former name, former address and former fiscal year, if changed since last period)

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 | MFA | New York Stock Exchange |
| 7.50% Series B Cumulative Redeemable Preferred Stock, par value $0.01 per share | MFA/PB | New York Stock Exchange |
| 6.50% Series C Cumulative Redeemable Preferred Stock, par value $0.01 per share | MFA/PC | New York Stock Exchange |
| 8.00% Senior Notes due 2042 | MFO | 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 x No o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No o

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

| | | | |
|---|---|---|---|
| Large accelerated filer | x | 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. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No x

453,242,244 shares of the registrant's common stock, $0.01 par value, were outstanding as of June 10, 2020.

**Explanatory Note**

On May 6, 2020, MFA Financial, Inc. (the "Company") furnished information in a Current Report on Form 8-K (the "Form 8-K") pursuant to the Order (Release No. 34-88465) of the U.S. Securities and Exchange Commission (the "SEC"), dated March 25, 2020 (the "Order"). The Order provides registrants, including the Company, with the ability to extend the dates by which certain filings are required to be made with the SEC, in light of operational challenges presented by the COVID-19 pandemic. In the Form 8-K, the Company disclosed that, while it had fully implemented its business continuity plan and had transitioned to a remote work environment in response to the operational and health risks associated with the COVID-19 pandemic, the disruption and volatility in the financial markets triggered in large part by the pandemic had a significant impact on the Company's operations and financial position. As a result, the Company's management had to devote significant time and attention to address such matters, which had diverted management resources from completing tasks necessary to timely file this Quarterly Report on Form 10-Q for the three months ended March 31, 2020 (the "Quarterly Report") on or before the original filing deadline of May 11, 2020. In light of the foregoing circumstances, and in reliance on the Order, the Company disclosed in the Form 8-K that it did not intend to file the Quarterly Report by May 11, 2020. The Company, in reliance on and as permitted by the Order, is hereby timely filing this Quarterly Report within 45 days from the original filing deadline.

**MFA FINANCIAL, INC.**

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**MFA FINANCIAL, INC.**
**CONSOLIDATED BALANCE SHEETS**

| (In Thousands Except Per Share Amounts) | March 31, 2020 | December 31, 2019 |
|---|---|---|
| | (Unaudited) | |
| **Assets:** | | |
| Residential whole loans: | | |
| Residential whole loans, at carrying value ($5,055,177 and $4,847,782 pledged as collateral, respectively) *(1) (2)* | $ 5,934,042 | $ 6,069,370 |
| Residential whole loans, at fair value ($718,343 and $794,684 pledged as collateral, respectively) *(1)* | 1,243,792 | 1,381,583 |
| Allowance for credit and valuation losses on residential whole loans held at carrying value and held-for-sale | (218,011) | (3,025) |
| Total residential whole loans, net | 6,959,823 | 7,447,928 |
| Residential mortgage securities: | | |
| Non-Agency MBS, at fair value ($1,331,674 and $2,055,802 pledged as collateral, respectively) | 1,119,940 | 2,063,529 |
| Agency MBS, at fair value ($568,704 and $1,658,614 pledged as collateral, respectively) | 553,413 | 1,664,582 |
| Credit Risk Transfer (“CRT”) securities, at fair value ($263,225 and $252,175 pledged as collateral, respectively) | 254,101 | 255,408 |
| Mortgage servicing rights (“MSR”) related assets ($877,204 and $1,217,002 pledged as collateral, respectively) | 738,054 | 1,217,002 |
| Cash and cash equivalents | 116,465 | 70,629 |
| Restricted cash | 216,902 | 64,035 |
| Other assets | 1,171,639 | 784,251 |
| Total Assets | $ 11,130,337 | $ 13,567,364 |
| | | |
| **Liabilities:** | | |
| Repurchase agreements | $ 7,768,180 | $ 9,139,821 |
| Other liabilities | 921,482 | 1,043,591 |
| Total Liabilities | $ 8,689,662 | $ 10,183,412 |
| | | |
| Commitments and contingencies (See Note 10) | | |
| | | |
| **Stockholders’ Equity:** | | |
| Preferred stock, $.01 par value; 7.50% Series B cumulative redeemable; 8,050 shares authorized; 8,000 shares issued and outstanding ($200,000 aggregate liquidation preference) | $ 80 | $ 80 |
| Preferred stock, $.01 par value; 6.50% Series C fixed-to-floating rate cumulative redeemable; 12,650 shares authorized; 11,000 shares issued and outstanding ($275,000 aggregate liquidation preference) | 110 | — |
| Common stock, $.01 par value; 874,300 and 886,950 shares authorized; 453,138 and 452,369 shares issued and outstanding, respectively | 4,531 | 4,524 |
| Additional paid-in capital, in excess of par | 3,906,613 | 3,640,341 |
| Accumulated deficit | (1,548,361) | (631,040) |
| Accumulated other comprehensive income | 77,702 | 370,047 |
| Total Stockholders’ Equity | $ 2,440,675 | $ 3,383,952 |
| Total Liabilities and Stockholders’ Equity | $ 11,130,337 | $ 13,567,364 |

*(1) Includes approximately $185.9 million and $186.4 million of Residential whole loans, at carrying value and $516.4 million and $567.4 million of Residential whole loans, at fair value transferred to consolidated variable interest entities (“VIEs”) at March 31, 2020 and December 31, 2019, respectively. Such assets can be used only to settle the obligations of each respective VIE.*
*(2) Includes Non-QM loans held-for-sale with an amortized cost of $965.5 million and a net carrying value of $895.3 million at March 31, 2020.*

The accompanying notes are an integral part of the consolidated financial statements.

**MFA FINANCIAL, INC.**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
**(UNAUDITED)**

| (In Thousands, Except Per Share Amounts) | Three Months Ended March 31, 2020 | Three Months Ended March 31, 2019 |
|---|---|---|
| **Interest Income:** | | |
| Residential whole loans held at carrying value | $ 83,486 | $ 49,620 |
| Non-Agency MBS | 32,551 | 54,001 |
| Agency MBS | 8,861 | 18,441 |
| CRT securities | 2,962 | 6,200 |
| MSR-related assets | 14,207 | 10,620 |
| Cash and cash equivalent investments | 486 | 764 |
| Other interest-earning assets | 2,907 | 1,306 |
| **Interest Income** | $ 145,460 | $ 140,952 |
| **Interest Expense:** | | |
| Repurchase agreements | $ 72,698 | $ 70,809 |
| Other interest expense | 11,061 | 8,217 |
| **Interest Expense** | $ 83,759 | $ 79,026 |
| **Net Interest Income** | $ 61,701 | $ 61,926 |
| **Provision for credit and valuation losses on residential whole loans and other financial instruments** | $ (150,827) | $ (805) |
| **Net Interest Income after Provision for Credit and Valuation Losses** | $ (89,126) | $ 61,121 |
| **Other Income, net:** | | |
| Impairment and other losses on securities available-for-sale and other assets | $ (419,651) | $ — |
| Net realized (loss)/gain on sales of residential mortgage securities and residential whole loans | (238,380) | 24,609 |
| Net unrealized (loss)/gain on residential mortgage securities measured at fair value through earnings | (77,961) | 8,672 |
| Net (loss)/gain on residential whole loans measured at fair value through earnings | (52,760) | 25,267 |
| Net loss on Swaps not designated as hedges for accounting purposes | (4,239) | (8,944) |
| Other, net | 2,228 | 1,565 |
| **Other (Loss)/Income, net** | $ (790,763) | $ 51,169 |
| **Operating and Other Expense:** | | |
| Compensation and benefits | $ 8,899 | $ 8,554 |
| Other general and administrative expense | 4,575 | 4,645 |
| Loan servicing and other related operating expenses | 11,164 | 10,234 |
| Costs associated with restructuring/forbearance agreement | 4,468 | — |
| **Operating and Other Expense** | $ 29,106 | $ 23,433 |
| **Net (Loss)/Income** | $ (908,995) | $ 88,857 |
| Less Preferred Stock Dividend Requirement | $ 5,215 | $ 3,750 |
| **Net (Loss)/Income Available to Common Stock and Participating Securities** | $ (914,210) | $ 85,107 |
| **Basic (Loss)/Earnings per Common Share** | $ (2.02) | $ 0.19 |
| **Diluted (Loss)/Earnings per Common Share** | $ (2.02) | $ 0.19 |

The accompanying notes are an integral part of the consolidated financial statements.

**MFA FINANCIAL, INC.**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)**
**(UNAUDITED)**

| | Three Months Ended March 31, | |
|---|---|---|
| **(In Thousands)** | **2020** | **2019** |
| Net (loss)/income | $ (908,995) | $ 88,857 |
| Other Comprehensive Income/(Loss): | | |
| Unrealized gains on securities available-for-sale | 124,410 | 22,103 |
| Reclassification adjustment for MBS sales included in net income | (23,953) | (17,009) |
| Reclassification adjustment for impairments included in net income | (344,269) | — |
| Derivative hedging instrument fair value changes, net | (50,127) | (10,445) |
| Amortization of de-designated hedging instruments, net | 1,594 | (341) |
| Other Comprehensive Income/(Loss) | (292,345) | (5,692) |
| Comprehensive income before preferred stock dividends | $ (1,201,340) | $ 83,165 |
| Dividends required on preferred stock | (5,215) | (3,750) |
| Comprehensive Income Available to Common Stock and Participating Securities | $ (1,206,555) | $ 79,415 |

The accompanying notes are an integral part of the consolidated financial statements.

# MFA FINANCIAL, INC.
## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
## (UNAUDITED)

| | Three Months Ended March 31, 2020 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Preferred Stock 6.50% Series C Fixed-to-Floating Rate Cumulative Redeemable - Liquidation Preference $25.00 per Share | | Preferred Stock 7.50% Series B Cumulative Redeemable - Liquidation Preference $25.00 per Share | | Common Stock | | | | | |
| (In Thousands, Except Per Share Amounts) | Shares | Amount | Shares | Amount | Shares | Amount | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Income | Total |
| Balance at December 31, 2019 | — | $ — | 8,000 | $ 80 | 452,369 | $ 4,524 | $ 3,640,341 | $ (631,040) | $ 370,047 | $ 3,383,952 |
| Cumulative effect adjustment on adoption of new accounting standard ASU 2016-13 | — | — | — | — | — | — | — | (8,326) | — | (8,326) |
| Net loss | — | — | — | — | — | — | — | (908,995) | — | (908,995) |
| Issuance of Series C Preferred Stock, net of expenses | 11,000 | 110 | — | — | — | — | 265,919 | — | — | 266,029 |
| Issuance of common stock, net of expenses | — | — | — | — | 1,106 | 7 | 680 | — | — | 687 |
| Repurchase of shares of common stock *(1)* | — | — | — | — | (337) | — | (2,652) | — | — | (2,652) |
| Equity based compensation expense | — | — | — | — | — | — | 1,266 | — | — | 1,266 |
| Accrued dividends attributable to stock-based awards | — | — | — | — | — | — | 1,059 | — | — | 1,059 |
| Change in unrealized gains on MBS, net | — | — | — | — | — | — | — | — | (243,812) | (243,812) |
| Derivative hedging instrument fair value changes and amortization, net | — | — | — | — | — | — | — | — | (48,533) | (48,533) |
| Balance at March 31, 2020 | 11,000 | $ 110 | 8,000 | $ 80 | 453,138 | $ 4,531 | $ 3,906,613 | $ (1,548,361) | $ 77,702 | $ 2,440,675 |

*(1) For the three months ended March 31, 2020 includes approximately $2.7 million (337,026 shares) surrendered for tax purposes related to equity-based compensation awards.*

The accompanying notes are an integral part of the consolidated financial statements.

# MFA FINANCIAL, INC.
## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
## (UNAUDITED)

| | Three Months Ended March 31, 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Preferred Stock 7.50% Series B Cumulative Redeemable - Liquidation Preference $25.00 per Share | | Common Stock | | | | | |
| (In Thousands, Except Per Share Amounts) | Shares | Amount | Shares | Amount | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Income | Total |
| Balance at December 31, 2018 | 8,000 | $ 80 | 449,787 | $ 4,498 | $ 3,623,275 | $ (632,040) | $ 420,288 | $ 3,416,101 |
| Net income | — | — | — | — | — | 88,857 | — | 88,857 |
| Issuance of common stock, net of expenses | — | — | 1,066 | 7 | 544 | — | — | 551 |
| Repurchase of shares of common stock *(1)* | — | — | (370) | — | (2,610) | — | — | (2,610) |
| Equity based compensation expense | — | — | — | — | 992 | — | — | 992 |
| Accrued dividends attributable to stock-based awards | — | — | — | — | 435 | — | — | 435 |
| Dividends declared on common stock ($0.20 per share) | — | — | — | — | — | (90,097) | — | (90,097) |
| Dividends declared on preferred stock ($0.46875 per share) | — | — | — | — | — | (3,750) | — | (3,750) |
| Dividends attributable to dividend equivalents | — | — | — | — | — | (256) | — | (256) |
| Change in unrealized losses on MBS, net | — | — | — | — | — | — | 5,094 | 5,094 |
| Derivative hedging instruments fair value changes, net | — | — | — | — | — | — | (10,786) | (10,786) |
| Balance at March 31, 2019 | 8,000 | $ 80 | 450,483 | $ 4,505 | $ 3,622,636 | $ (637,286) | $ 414,596 | $ 3,404,531 |

*(1) For the three months ended March 31, 2019, includes approximately $2.6 million (370,244 shares) surrendered for tax purposes related to equity-based compensation awards.*

The accompanying notes are an integral part of the consolidated financial statements.

# MFA FINANCIAL, INC.
## CONSOLIDATED STATEMENTS OF CASH FLOWS
## (UNAUDITED)

| (In Thousands) | Three Months Ended March 31, 2020 | 2019 |
|---|---|---|
| **Cash Flows From Operating Activities:** | | |
| Net (loss)/income | $ (908,995) | $ 88,857 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Loss on sales of residential whole loans at carrying value | 145,791 | — |
| Loss/(gain) on sales of residential mortgage securities and MSR-related assets | 92,589 | (24,609) |
| Gain on sales of real estate owned | (3,107) | (1,398) |
| Gain on liquidation of residential whole loans | (1,105) | (4,684) |
| Impairment and other losses on securities available-for-sale and other assets | 419,651 | — |
| Accretion of purchase discounts on residential mortgage securities, residential whole loans and MSR-related assets | (12,114) | (15,915) |
| Amortization of purchase premiums on residential mortgage securities and residential whole loans, and amortization of terminated hedging instruments | 15,266 | 7,620 |
| Depreciation and amortization on real estate, fixed assets and other assets | 3,582 | 432 |
| Equity-based compensation expense | 1,273 | 998 |
| Unrealized losses on residential whole loans at fair value | 74,556 | 1,060 |
| Provision for credit and valuation losses on residential whole loans and other financial instruments | 150,827 | — |
| Unrealized losses on residential mortgage securities and interest rate swap agreements (“Swaps”) and other | 82,464 | 200 |
| Increase in other assets | (37,811) | (8,770) |
| Decrease in other liabilities | (9,653) | (6,709) |
| Net cash provided by operating activities | $ 13,214 | $ 37,082 |
| **Cash Flows From Investing Activities:** | | |
| Purchases of residential whole loans, loan related investments and capitalized advances | $ (1,119,464) | $ (1,021,557) |
| Principal payments on residential whole loans | 508,855 | 233,724 |
| Principal payments on residential mortgage securities and MSR-related assets | 539,882 | 391,641 |
| Proceeds from sales of residential mortgage securities | 1,009,316 | 208,306 |
| Purchases of residential mortgage securities and MSR-related assets | (162,607) | (327,221) |
| Proceeds from sales of real estate owned | 52,042 | 23,963 |
| Purchases of real estate owned and capital improvements | (5,606) | (5,923) |
| Additions to leasehold improvements, furniture and fixtures | (176) | (391) |
| Net cash provided by/(used in) investing activities | $ 822,242 | $ (497,458) |
| **Cash Flows From Financing Activities:** | | |
| Principal payments on repurchase agreements | $ (12,903,818) | $ (18,879,173) |
| Proceeds from borrowings under repurchase agreements | 12,216,862 | 19,509,794 |
| Principal payments on securitized debt | (37,418) | (25,501) |
| Payments made for settlements and unwinds of Swaps | (88,405) | (21,478) |
| Proceeds from issuance of Series C Preferred Stock | 275,000 | — |
| Payments made for costs related to Series C Preferred Stock issuance | (8,912) | — |
| Proceeds from issuances of common stock | 687 | 551 |
| Dividends paid on preferred stock | — | (3,750) |
| Dividends paid on common stock and dividend equivalents | (90,749) | (90,198) |
| Net cash (used in)/provided by financing activities | $ (636,753) | $ 490,245 |
| Net increase in cash, cash equivalents and restricted cash | $ 198,703 | $ 29,869 |
| Cash, cash equivalents and restricted cash at beginning of period | $ 134,664 | $ 88,709 |
| Cash, cash equivalents and restricted cash at end of period | $ 333,367 | $ 118,578 |
| **Supplemental Disclosure of Cash Flow Information** | | |
| Interest Paid | $ 80,158 | $ 81,435 |
| **Non-cash Investing and Financing Activities:** | | |
| Transfer from residential whole loans to real estate owned | $ 50,693 | $ 65,160 |
| Dividends and dividend equivalents declared and unpaid | $ — | $ 90,353 |
| Receivable for unsettled MBS, MSR-related asset, and residential whole loan sales | $ 419,583 | $ — |

The accompanying notes are an integral part of the consolidated financial statements.

**MFA FINANCIAL, INC.**
**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**
**MARCH 31, 2020**

## 1. Organization

MFA Financial, Inc. (the "Company") was incorporated in Maryland on July 24, 1997 and began operations on April 10, 1998. The Company has elected to be treated as a real estate investment trust ("REIT") for U.S. federal income tax purposes. In order to maintain its qualification as a REIT, the Company must comply with a number of requirements under federal tax law, including that it must distribute at least 90% of its annual REIT taxable income to its stockholders. The Company has elected to treat certain of its subsidiaries as taxable REIT subsidiaries ("TRS"). 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. (See Note 2(n))

## 2. Summary of Significant Accounting Policies

### *(a) Basis of Presentation and Consolidation*

The interim unaudited consolidated financial statements of the Company have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted in accordance with these SEC rules and regulations. Management believes that the disclosures included in these interim unaudited consolidated financial statements are adequate to make the information presented not misleading. The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2019. In the opinion of management, all normal and recurring adjustments necessary to present fairly the financial condition of the Company at March 31, 2020 and results of operations for all periods presented have been made. The results of operations for the three months ended March 31, 2020 should not be construed as indicative of the results to be expected for the full year.

The accompanying consolidated financial statements of the Company have been prepared on the accrual basis of accounting in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although 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 differ from those estimates, which could materially impact the Company's results of operations and its financial condition. Management has made significant estimates in several areas, including impairment, valuation allowances and loss allowances on residential whole loans (See Note 3), mortgage-backed securities ("MBS") (See Note 4) and Other Assets (See Note 5), valuation of MBS, CRT securities and MSR-related assets (See Notes 4 and 14), income recognition and valuation of residential whole loans (See Notes 3 and 14), valuation of derivative instruments (See Notes 5(c) and 14) and income recognition on certain Non-Agency MBS (defined below) purchased at a discount. (See Note 4) In addition, estimates are used in the determination of taxable income used in the assessment of REIT compliance and contingent liabilities for related taxes, penalties and interest. (See Note 2(n)) Actual results could differ from those estimates.

The Company has one reportable segment since it manages its business and analyzes and reports its results of operations on the basis of one operating segment: investing, on a leveraged basis, in residential mortgage assets.

The consolidated financial statements of the Company include the accounts of all subsidiaries. All intercompany accounts and transactions have been eliminated. In addition, the Company consolidates entities established to facilitate transactions related to the acquisition and securitization of residential whole loans completed in prior years. Certain prior period amounts have been reclassified to conform to the current period presentation.

***(b) Residential Whole Loans (including Residential Whole Loans transferred to consolidated VIEs)***

Residential whole loans included in the Company's consolidated balance sheets are primarily comprised of pools of fixed- and adjustable-rate residential mortgage loans acquired through consolidated trusts in secondary market transactions. The accounting model utilized by the Company is determined at the time each loan package is initially acquired and is generally based on the delinquency status of the majority of the underlying borrowers in the package at acquisition. The accounting model described below for Purchased Credit Deteriorated Loans that are held at carrying value is typically utilized by the Company for Purchased Credit Deteriorated Loans where the underlying borrower has a delinquency status of less than 60 days at the acquisition date. The Company also acquires Purchased Performing Loans that are typically held at carrying value, but the accounting methods for income recognition and determination and measurement of any required credit loss reserves (as discussed below) differ from those used for Purchased Credit Deteriorated Loans held at carrying value. The accounting model described below for residential whole loans held at fair value is typically utilized by the Company for loans where the underlying borrower has a delinquency status of 60 days or more at the acquisition date. The accounting model initially applied is not subsequently changed.

The Company's residential whole loans pledged as collateral against repurchase agreements are included in the consolidated balance sheets with amounts pledged disclosed parenthetically. Purchases and sales of residential whole loans that are subject to an extended period of due diligence that crosses a reporting date are recorded in our balance sheet at amounts reflecting management's current estimate of assets that will be acquired or disposed at the closing of the transaction. This estimate is subject to revision at the closing of the transaction, pending the outcome of due diligence performed prior to closing. Residential whole loans purchased under flow arrangements with loan origination partners are generally recorded at the transaction settlement date. Recorded amounts of residential whole loans for which the closing of the purchase transaction is yet to occur are not eligible to be pledged as collateral against any repurchase agreement financing until the closing of the purchase transaction. Interest income, credit related losses and changes in the fair value of loans held at fair value are recorded post settlement for acquired loans and until transaction settlement for sold loans. (See Notes 3, 6, 7, 14 and 15)

*Residential Whole Loans at Carrying Value*

Purchased Performing Loans

Acquisitions of Purchased Performing Loans to date have been primarily comprised of: (i) loans to finance (or refinance) one-to-four family residential properties that are not considered to meet the definition of a "Qualified Mortgage" in accordance with guidelines adopted by the Consumer Financial Protection Bureau ("Non-QM loans"), (ii) short-term business purpose loans collateralized by residential properties made to non-occupant borrowers who intend to rehabilitate and sell the property for a profit ("Rehabilitation loans" or "Fix and Flip loans"), (iii) loans to finance (or refinance) non-owner occupied one-to four-family residential properties that are rented to one or more tenants ("Single-family rental loans"), and (iv) previously originated loans secured by residential real estate that is generally owner occupied ("Seasoned performing loans"). Purchased Performing Loans are initially recorded at their purchase price. Interest income on Purchased Performing Loans acquired at par is accrued based on each loan's current interest bearing balance and current interest rate, net of related servicing costs. Interest income on such loans purchased at a premium/discount to par is recorded each period based on the contractual coupon net of any amortization of premium or accretion of discount, adjusted for actual prepayment activity. For loans acquired with related servicing rights retained by the seller, interest income is reported net of related serving costs.

An allowance for credit losses is recorded at acquisition, and maintained on an ongoing basis, for all losses expected to be incurred over the life of the respective loan. Any required credit loss allowance would reduce the net carrying value of the loan with a corresponding charge to earnings, and may increase or decrease over time. Significant judgments are required in determining any allowance for credit loss, including assumptions regarding the loan cash flows expected to be collected, the value of the underlying collateral and the ability of the Company to collect on any other forms of security, such as a personal guaranty provided either by the borrower or an affiliate of the borrower. Income recognition is suspended for loans at the earlier of the date at which payments become 90 days past due or when, in the opinion of management, a full recovery of income and principal becomes doubtful (i.e., such loans are placed on nonaccrual status). For nonaccrual loans other than Fix and Flip loans, all payments are applied to principal under the cost recovery method. For nonaccrual Fix and Flip loans, interest income is recorded under the cash basis method as interest payments are received. Interest accruals are resumed when the loan becomes contractually current and performance is demonstrated to be resumed. A loan is written off when it is no longer realizable and/or it is legally discharged. Modified loans are considered "troubled debt restructurings" if the Company grants a concession to a borrower who is experiencing financial difficulty (including the interpretation of this definition set forth in OCC Bulletin 2020-35).

The aggregate allowance for credit losses is equal to the sum of the losses expected to be incurred over the life of each respective loan. These losses were estimated by projecting each loan's expected cash flows based on their contractual terms, expected prepayments, and estimated default and loss severity rates. The default and severity rates were estimated based on the following steps: (i) obtained the Company's historical experience through an entire economic cycle for each loan type or, to the extent the Company did not have sufficient historical loss experience for a given loan type, publicly available data derived from the historical loss experience of certain banks, which data the Company believes is generally representative of its portfolio, (ii) obtained historical economic data (U.S. unemployment rates and home price appreciation) over the same period, and (iii) estimated default and severity rates during three distinct future periods based on historical default and severity rates during periods when economic conditions similar to those forecasted were experienced. The three periods were as follows: (i) a one-year forecast of economic conditions based on U.S. unemployment rates and home price appreciation, followed by (ii) a two-year "reversion" period during which economic conditions (U.S. unemployment rates and home price appreciation) are projected to revert to historical averages on a straight line basis, followed by (iii) the remaining life of each loan, during which period economic conditions (U.S. unemployment rates and home price appreciation) are projected to equal historical averages. In addition, a liability is established (and recorded in Other Liabilities) each period using a similar methodology for committed but undrawn loan amounts. This methodology has not changed from the calculation of the allowance for credit losses on January 1, 2020 pursuant to the transition to ASU 2016-13 as described below under "New Accounting Standards and Interpretations," other than a change in the reversion period from one year to two years to reflect the expected ongoing impact of current conditions. (See Note 3)

Purchased Credit Deteriorated Loans

The Company has elected to account for these loans as credit impaired as they have experienced a more-than-insignificant deterioration in credit quality since origination and were acquired at discounted prices that reflect, in part, the impaired credit history of the borrower. Substantially all of these loans have previously experienced payment delinquencies and the amount owed may exceed the value of the property pledged as collateral. Consequently, these loans generally have a higher likelihood of default than newly originated mortgage loans with LTVs of 80% or less to creditworthy borrowers. The Company believes that amounts paid to acquire these loans represent fair market value at the date of acquisition. Loans considered credit impaired are initially recorded at the purchase price on a net basis, after establishing an initial allowance for credit losses (their initial cost basis is equal to their purchase price plus the initial allowance for credit losses). Subsequent to acquisition, the gross recorded amount for these loans reflects the initial cost basis, plus accretion of interest income, less principal and interest cash flows received. These loans are presented on the Company's consolidated balance sheets at carrying value, which reflects the recorded cost basis reduced by any allowance for credit losses. Interest income on such loans purchased is recorded each period based on the contractual coupon net of amortization of the difference between their cost basis and unpaid principal balance ("UPB"), subject to the Company's nonaccrual policy.

Residential Whole Loans Held-for-Sale

The Company's residential whole loans held-for-sale are presented on the Company's consolidated balance sheets at the lower of the current carrying amount or fair value less estimated selling costs. Interest income on the Company's residential whole loans held-for-sale is included in Residential whole loans held at carrying value on the Company's consolidated statements of operations.

*Residential Whole Loans at Fair Value*

Certain of the Company's residential whole loans are presented at fair value on its consolidated balance sheets as a result of a fair value election made at the time of acquisition. For the majority of these loans, there is significant uncertainty associated with estimating the timing of and amount of cash flows that will be collected. Further, the cash flows ultimately collected may be dependent on the value of the property securing the loan. Consequently, the Company considers that accounting for these loans at fair value should result in a better reflection over time of the economic returns for the majority of these loans. The Company determines the fair value of its residential whole loans held at fair value after considering portfolio valuations obtained from a third-party that specializes in providing valuations of residential mortgage loans and trading activity observed in the market place. Subsequent changes in fair value are reported in current period earnings and presented in Net (loss)/gain on residential whole loans measured at fair value through earnings on the Company's consolidated statements of operations.

Cash received representing coupon interest payments on residential whole loans held at fair value is not included in Interest Income, but rather is included in Net (loss)/gain on residential whole loans measured at fair value through earnings on the Company's

consolidated statements of operations. Cash outflows associated with loan-related advances made by the Company on behalf of the borrower are included in the basis of the loan and are reflected in unrealized gains or losses reported each period.

***(c) Residential Mortgage Securities***

The Company has investments in residential MBS that are issued or guaranteed as to principal and/or interest by a federally chartered corporation, such as the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac"), or an agency of the U.S. Government, such as the Government National Mortgage Association ("Ginnie Mae") (collectively, "Agency MBS"), and residential MBS that are not guaranteed by any agency of the U.S. Government or any federally chartered corporation ("Non-Agency MBS"). In addition, the Company has investments in CRT securities that are issued by or sponsored by Fannie Mae and Freddie Mac. The coupon payments on CRT securities are paid by the issuer and the principal payments received are dependent on the performance of loans in either a reference pool or an actual pool of loans. As the loans in the underlying pool are paid, the principal balance of the CRT securities is paid. As an investor in a CRT security, the Company may incur a principal loss if the performance of the actual or reference pool loans results in either an actual or calculated loss that exceeds the credit enhancement of the security owned by the Company.

*Designation*

MBS that the Company generally intends to hold until maturity, but that it may sell from time to time as part of the overall management of its business, are designated as "available-for-sale" ("AFS"). Such MBS are carried at their fair value with unrealized gains and losses excluded from earnings (except when an allowance for losses is recognized, as discussed below) and reported in Accumulated other comprehensive income/(loss) ("AOCI"), a component of Stockholders' Equity.

Upon the sale of an AFS security, any unrealized gain or loss is reclassified out of AOCI to earnings as a realized gain or loss using the specific identification method.

The Company has elected the fair value option for certain of its Agency MBS that it does not intend to hold to maturity. These securities are carried at their fair value with changes in fair value included in earnings for the period and reported in Other Income, net on the Company's consolidated statements of operations.

The Company has elected the fair value option for certain of its CRT securities as it considers this method of accounting to more appropriately reflect the risk-sharing structure of these securities. Such securities are carried at their fair value with changes in fair value included in earnings for the period and reported in Other Income, net on the Company's consolidated statements of operations.

*Revenue Recognition, Premium Amortization and Discount Accretion*

Interest income on securities is accrued based on their outstanding principal balance and their contractual terms. Premiums and discounts associated with Agency MBS and Non-Agency MBS assessed as high credit quality at the time of purchase are amortized into interest income over the life of such securities using the effective yield method. Adjustments to premium amortization are made for actual prepayment activity.

Interest income on Non-Agency MBS that were purchased at a discount to par value and/or are considered to be of less than high credit quality is recognized based on the security's effective interest rate which is the security's internal rate of return ("IRR"). The IRR is determined using management's estimate of the projected cash flows for each security, which are based on the Company's observation of current information and events and include assumptions related to fluctuations in interest rates, prepayment speeds and the timing and amount of credit losses. On at least a quarterly basis, the Company reviews and, if appropriate, makes adjustments to its cash flow projections based on input and analysis received from external sources, internal models, and its judgment about interest rates, prepayment rates, the timing and amount of credit losses, and other factors. Changes in cash flows from those originally projected, or from those estimated at the last evaluation, may result in a prospective change in the IRR/ interest income recognized on these securities or in the recognition of a change in the loss allowance. (See Note 4)

*Determination of Fair Value for Residential Mortgage Securities*

In determining the fair value of the Company's residential mortgage securities, management considers a number of observable market data points, including prices obtained from pricing services, brokers and repurchase agreement counterparties, dialogue with market participants, as well as management's observations of market activity. (See Note 14)

*Allowance for credit losses*

When the fair value of an AFS security is less than its amortized cost at the balance sheet date, the security is considered impaired. The Company assesses its impaired securities, as well as securities for which a credit loss allowance had been previously recorded, on at least a quarterly basis and determines whether any changes to the allowance for credit losses are required. If the Company intends to sell an impaired security, or it is more likely than not that it will be required to sell the impaired security before its anticipated recovery, then the Company must recognize a write-down through charges to earnings equal to the entire difference between the investment's amortized cost and its fair value at the balance sheet date. If the Company does not expect to sell an impaired security, only the portion of the impairment related to credit losses is recognized through a loss allowance charged to earnings with the remainder recognized through AOCI on the Company's consolidated balance sheets. Impairments recognized through other comprehensive income/(loss) ("OCI") do not impact earnings. Credit loss allowances are subject to reversal through earnings resulting from improvements in expected cash flows. The determination as to whether to record (or reverse) a credit loss allowance is subjective, as such determinations are based on factual information available at the time of assessment as well as the Company's estimates of future performance and cash flow projections. As a result, the timing and amount of losses constitute material estimates that are susceptible to significant change. (See Note 4)

Non-Agency MBS that are assessed to be of less than high credit quality and on which impairments are recognized have experienced, or are expected to experience, credit-related adverse cash flow changes. The Company's estimate of cash flows for its Non-Agency MBS is based on its review of the underlying mortgage loans securing the MBS. The Company considers information available about the past and expected future performance of underlying mortgage loans, including timing of expected future cash flows, prepayment rates, default rates, loss severities, delinquency rates, percentage of non-performing loans, year of origination, loan-to-value ratios ("LTVs"), geographic concentrations and dialogue with market participants. As a result, significant judgment is used in the Company's analysis to determine the expected cash flows for its Non-Agency MBS. In determining the allowance related to credit losses for securities that were purchased at significant discounts to par and/or are considered to be of less than high credit quality, the Company compares the present value of the remaining cash flows expected to be collected at the purchase date (or last date previously revised) against the present value of the cash flows expected to be collected at the current financial reporting date. The discount rate used to calculate the present value of expected future cash flows is the current yield used for income recognition purposes. Impairment assessment for Non-Agency MBS that were purchased at prices close to par and/or are otherwise considered to be of high credit quality involves comparing the present value of the remaining cash flows expected to be collected against the amortized cost of the security at the assessment date. The discount rate used to calculate the present value of the expected future cash flows is based on the instrument's IRR.

*Balance Sheet Presentation*

The Company's residential mortgage securities pledged as collateral against repurchase agreements and Swaps are included on the consolidated balance sheets with the fair value of the securities pledged disclosed parenthetically. Purchases and sales of securities are recorded on the trade date.

***(d) MSR-Related Assets***

The Company has investments in financial instruments whose cash flows are considered to be largely dependent on underlying MSRs that either directly or indirectly act as collateral for the investment. These financial instruments, which are referred to as MSR-related assets, are discussed in more detail below. The Company's MSR-related assets pledged as collateral against repurchase agreements are included in the consolidated balance sheets with the amounts pledged disclosed parenthetically. Purchases and sales of MSR-related assets are recorded on the trade date. (See Notes 4, 6, 7 and 14)

*Term Notes Backed by MSR-Related Collateral*

The Company has invested in term notes that are issued by special purpose vehicles ("SPV") that have acquired rights to receive cash flows representing the servicing fees and/or excess servicing spread associated with certain MSRs. The Company

considers payment of principal and interest on these term notes to be largely dependent on the cash flows generated by the underlying MSRs as this impacts the cash flows available to the SPV that issued the term notes. Credit risk borne by the holders of the term notes is also mitigated by structural credit support in the form of over-collateralization. Credit support is also provided by a corporate guarantee from the ultimate parent or sponsor of the SPV that is intended to provide for payment of interest and principal to the holders of the term notes should cash flows generated by the underlying MSRs be insufficient.

The Company's term notes backed by MSR-related collateral are treated as AFS securities and reported at fair value on the Company's consolidated balance sheets with unrealized gains and losses excluded from earnings and reported in AOCI, subject to impairment and loss allowances. Interest income is recognized on an accrual basis on the Company's consolidated statements of operations. The Company's valuation process for such notes is similar to that used for residential mortgage securities and considers a number of observable market data points, including prices obtained from pricing services, brokers and repurchase agreement counterparties, dialogue with market participants, as well as management's observations of market activity. Other factors taken into consideration include estimated changes in fair value of the related underlying MSR collateral, as applicable, and the financial performance of the ultimate parent or sponsoring entity of the issuer, which has provided a guarantee that is intended to provide for payment of interest and principal to the holders of the term notes should cash flows generated by the related underlying MSR collateral be insufficient.

*Corporate Loans*

The Company has made or participated in loans to provide financing to entities that originate residential mortgage loans and own the related MSRs. These corporate loans are generally secured by certain MSRs, as well as certain other unencumbered assets owned by the borrower.

Corporate loans are recorded on the Company's consolidated balance sheets at the drawn amount, on which interest income is recognized on an accrual basis on the Company's consolidated statements of operations, subject to loss allowances. Commitment fees received on the undrawn amount are deferred and recognized as interest income over the remaining loan term at the time of draw. At the end of the commitment period, any remaining deferred commitment fees are recorded as Other Income on the Company's consolidated statements of operations. The Company evaluates the recoverability of its corporate loans on a quarterly basis considering various factors, including the current status of the loan, changes in the fair value of the MSRs that secure the loan and the recent financial performance of the borrower.

***(e) Cash and Cash Equivalents***

Cash and cash equivalents include cash on deposit with financial institutions and investments in money market funds, all of which have original maturities of three months or less. Cash and cash equivalents may also include cash pledged as collateral to the Company by its repurchase agreement counterparties as a result of reverse margin calls (i.e., margin calls made by the Company). The Company did not hold any cash pledged by its counterparties at March 31, 2020 and December 31, 2019. At March 31, 2020 and December 31, 2019, the Company had cash and cash equivalents of $116.5 million and $70.6 million, respectively. At March 31, 2020, the Company had no investments in overnight money market funds, which are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation ("FDIC") or any other government agency. As of December 31, 2019, the Company had $39.6 million worth of investments in overnight money market funds. In addition, deposits in FDIC insured accounts generally exceed insured limits. (See Notes 7 and 14)

***(f) Restricted Cash***

Restricted cash represents the Company's cash held by its counterparties in connection with certain of the Company's Swaps and/or repurchase agreements that is not available to the Company for general corporate purposes. Restricted cash may be applied against amounts due to repurchase agreement and/or Swap counterparties, or may be returned to the Company when the related collateral requirements are exceeded or at the maturity of the Swap and/or repurchase agreements. The Company had aggregate restricted cash held as collateral or otherwise in connection with its repurchase agreements and/or Swaps of $216.9 million and $64.0 million at March 31, 2020 and December 31, 2019, respectively. (See Notes 5(c), 6, 7 and 14)

***(g) Real Estate Owned ("REO")***

REO represents real estate acquired by the Company, including through foreclosure, deed in lieu of foreclosure, or purchased in connection with the acquisition of residential whole loans. REO acquired through foreclosure or deed in lieu of foreclosure is initially recorded at fair value less estimated selling costs. REO acquired in connection with the acquisition of residential whole loans is initially recorded at its purchase price. Subsequent to acquisition, REO is reported, at each reporting date, at the lower of the current carrying amount or fair value less estimated selling costs and for presentation purposes is included in Other assets on the Company's consolidated balance sheets. Changes in fair value that result in an adjustment to the reported amount of an REO property that has a fair value at or below its carrying amount are reported in Other Income, net on the Company's consolidated statements of operations. The Company has acquired certain properties that it holds for investment purposes, including rentals to third parties. These properties are held at their historical basis less depreciation, and are subject to impairment. Related rental income and expenses are recorded in Other Income, net. (See Note 5)

***(h) Depreciation***

*Leasehold Improvements, Real estate and Other Depreciable Assets*

Depreciation is computed on the straight-line method over the estimated useful life of the related assets or, in the case of leasehold improvements, over the shorter of the useful life or the lease term. Furniture, fixtures, computers and related hardware have estimated useful lives ranging from five to eight years at the time of purchase. The building component of real estate held-for-investment is depreciated over 27.5 years.

***(i) Loan Securitization and Other Debt Issuance Costs***

Loan securitization related costs are costs associated with the issuance of beneficial interests by consolidated VIEs and incurred by the Company in connection with various financing transactions completed by the Company. Other debt issuance and related costs include costs incurred by the Company in connection with issuing its 6.25% Convertible Senior Notes due 2024 ("Convertible Senior Notes"), 8% Senior Notes due 2042 ("Senior Notes") and certain other repurchase agreement financings. These costs may include underwriting, rating agency, legal, accounting and other fees. Such costs, which reflect deferred charges, are included on the Company's consolidated balance sheets as a direct deduction from the corresponding debt liability. These deferred charges are amortized as an adjustment to interest expense using the effective interest method. For the Convertible Senior Notes, Senior Notes and other repurchase agreement financings, such costs are amortized over the shorter of the period to the expected or stated legal maturity of the debt instruments. The Company periodically reviews the recoverability of these deferred costs and, in the event an impairment charge is required, such amount will be included in Operating and Other Expense on the Company's consolidated statements of operations.

***(j) Repurchase Agreements***

The Company finances the holdings of a significant portion of its residential mortgage assets with repurchase agreements. Under repurchase agreements, the Company sells assets to a lender and agrees to repurchase the same assets in the future for a price that is higher than the original sale price. The difference between the sale price that the Company receives and the repurchase price that the Company pays represents interest paid to the lender. Although legally structured as sale and repurchase transactions, the Company accounts for repurchase agreements as secured borrowings. Under its repurchase agreements, the Company pledges its assets as collateral to secure the borrowing, in an amount which is equal to a specified percentage of the fair value of the pledged collateral, while the Company retains beneficial ownership of the pledged collateral. At the maturity of a repurchase financing, unless the repurchase financing is renewed with the same counterparty, the Company is required to repay the loan including any accrued interest and concurrently receives back its pledged collateral from the lender. With the consent of the lender, the Company may renew a repurchase financing at the then prevailing financing terms. Margin calls, whereby a lender requires that the Company pledge additional assets or cash as collateral to secure borrowings under its repurchase financing with such lender, are routinely experienced by the Company when the value of the assets pledged as collateral declines as a result of principal amortization and prepayments or due to changes in market interest rates, spreads or other market conditions. The Company also may make margin calls on counterparties when collateral values increase.

The Company's repurchase financings collateralized by residential mortgage securities and MSR-related assets typically have terms ranging from one month to six months at inception, while a significant amount of our repurchase financings collateralized by residential whole loans have terms ranging from three months to twelve months or longer. Should a counterparty decide not

to renew a repurchase financing at maturity, the Company must either refinance elsewhere or be in a position to satisfy the obligation. If, during the term of a repurchase financing, a lender should default on its obligation, the Company might experience difficulty recovering its pledged assets which could result in an unsecured claim against the lender for the difference between the amount loaned to the Company plus interest due to the counterparty and the fair value of the collateral pledged by the Company to such lender, including accrued interest receivable on such collateral. (See Notes 6, 7 and 14)

***(k) Equity-Based Compensation***

Compensation expense for equity-based awards that are subject to vesting conditions, is recognized ratably over the vesting period of such awards, based upon the fair value of such awards at the grant date.

The Company has made annual grants of restricted stock units ("RSUs") certain of which cliff vest after a three-year period, subject only to continued employment, and others of which cliff vest after a three-year period, subject to both continued employment and the achievement of certain performance criteria based on a formula tied to the Company's achievement of average total shareholder return during that three-year period, as well as the total shareholder return ("TSR") of the Company relative to the TSR of a group of peer companies (over the three-year period) selected by the Compensation Committee of the Company's Board of Directors (the "Compensation Committee") at the date of grant. The features in these awards related to the attainment of total shareholder return over a specified period constitute a "market condition" which impacts the amount of compensation expense recognized for these awards. Specifically, the uncertainty regarding the achievement of the market condition was reflected in the grant date fair valuation of the RSUs, which is recognized as compensation expense over the relevant vesting period. The amount of compensation expense recognized is not dependent on whether the market condition was or will be achieved.

The Company makes dividend equivalent payments in connection with certain of its equity-based awards. A dividend equivalent is a right to receive a distribution equal to the dividend distributions that would be paid on a share of the Company's common stock. Dividend equivalents may be granted as a separate instrument or may be a right associated with the grant of another award (e.g., an RSU) under the Company's Equity Compensation Plan (the "Equity Plan"), and they are paid in cash or other consideration at such times and in accordance with such rules, terms and conditions, as the Compensation Committee may determine in its discretion. Payments pursuant to dividend equivalents are generally charged to Stockholders' Equity to the extent that the attached equity awards are expected to vest. Compensation expense is recognized for payments made for dividend equivalents to the extent that the attached equity awards (i) do not or are not expected to vest and (ii) grantees are not required to return payments of dividends or dividend equivalents to the Company. (See Notes 2(l) and 13)

***(l) Earnings per Common Share ("EPS")***

Basic EPS is computed using the two-class method, which includes the weighted-average number of shares of common stock outstanding during the period and an estimate of other securities that participate in dividends, such as the Company's unvested restricted stock and RSUs that have non-forfeitable rights to dividends and dividend equivalents attached to/associated with RSUs and vested stock options to arrive at total common equivalent shares. In applying the two-class method, earnings are allocated to both shares of common stock and estimated securities that participate in dividends based on their respective weighted-average shares outstanding for the period. For the diluted EPS calculation, common equivalent shares are further adjusted for the effect of RSUs outstanding that are unvested and have dividends that are subject to forfeiture using the treasury stock method. Under the treasury stock method, common equivalent shares are calculated assuming that all dilutive common stock equivalents are exercised and the proceeds, along with future compensation expenses associated with such instruments, are used to repurchase shares of the Company's outstanding common stock at the average market price during the reported period. In addition, the Company's Convertible Senior Notes are included in the calculation of diluted EPS if the assumed conversion into common shares is dilutive, using the "if-converted" method. This involves adding back the periodic interest expense associated with the Convertible Senior Notes to the numerator and by adding the shares that would be issued in an assumed conversion (regardless of whether the conversion option is in or out of the money) to the denominator for the purposes of calculating diluted EPS. (See Note 12)

***(m) Comprehensive Income/(Loss)***

The Company's comprehensive income/(loss) available to common stock and participating securities includes net income, the change in net unrealized gains/(losses) on its AFS securities and derivative hedging instruments (to the extent that such changes are not recorded in earnings), adjusted by realized net gains/(losses) reclassified out of AOCI for sold AFS securities and is reduced by dividends declared on the Company's preferred stock and issuance costs of redeemed preferred stock.

***(n) U.S. Federal Income Taxes***

The Company has elected to be taxed as a REIT under the provisions of the Internal Revenue Code of 1986, as amended, (the "Code"), and the corresponding provisions of state law. The Company expects to operate in a manner that will enable it to satisfy the various requirements to maintain its status as a REIT for federal income tax purposes. In order to maintain its status as a REIT, the Company must, among other things, distribute at least 90% of its REIT taxable income (excluding net long-term capital gains) to stockholders in the timeframe permitted by the Code. As long as the Company maintains its status as a REIT, the Company will not be subject to regular federal income tax to the extent that it distributes 100% of its REIT taxable income (including net long-term capital gains) to its stockholders within the permitted timeframe. Should this not occur, the Company would be subject to federal taxes at prevailing corporate tax rates on the difference between its REIT taxable income and the amounts deemed to be distributed for that tax year. As the Company's objective is to distribute 100% of its REIT taxable income to its stockholders within the permitted timeframe, no provision for current or deferred income taxes has been made in the accompanying consolidated financial statements. Should the Company incur a liability for corporate income tax, such amounts would be recorded as REIT income tax expense on the Company's consolidated statements of operations. Furthermore, if the Company fails to distribute during each calendar year, or by the end of January following the calendar year in the case of distributions with declaration and record dates falling in the last three months of the calendar year, at least the sum of (i) 85% of its REIT ordinary income for such year, (ii) 95% of its REIT capital gain income for such year, and (iii) any undistributed taxable income from prior periods, the Company would be subject to a 4% nondeductible excise tax on the excess of the required distribution over the amounts actually distributed. To the extent that the Company incurs interest, penalties or related excise taxes in connection with its tax obligations, including as a result of its assessment of uncertain tax positions, such amounts will be included in Operating and Other Expense on the Company's consolidated statements of operations.

In addition, the Company has elected to treat certain of its subsidiaries as TRS. 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. Generally, a domestic TRS is subject to U.S. federal, state and local corporate income taxes. Since a portion of the Company's business is conducted through one or more TRS, the net taxable income earned by its domestic TRS, if any, is subject to corporate income taxation. To maintain the Company's REIT election, no more than 20% of the value of the Company's assets at the end of each calendar quarter may consist of stock or securities in TRS. For purposes of the determination of U.S. federal and state income taxes, the Company's subsidiaries that elected to be treated as TRS record current or deferred income taxes based on differences (both permanent and timing) between the determination of their taxable income and net income under GAAP. No net deferred tax benefit was recorded by the Company for the three months ended March 31, 2020 and 2019, related to the net taxable losses in the TRS, since a valuation allowance for the full amount of the associated deferred tax asset of approximately $73.5 million was recognized as its recovery is not considered more likely than not. The related net operating loss carryforwards generated prior to 2018 will begin to expire in 2034; those generated in 2020, 2019 and 2018 can be carried back to each of the five taxable years preceding the taxable year of such loss and thereafter can be carried forward and do not expire.

Based on its analysis of any potentially uncertain tax positions, the Company concluded that it does not have any material uncertain tax positions that meet the relevant recognition or measurement criteria as of March 31, 2020, December 31, 2019, or March 31, 2019. As of the date of this filing the Company's tax returns for tax years 2016 through 2018 are open to examination.

***(o) Derivative Financial Instruments***

The Company may use a variety of derivative instruments to economically hedge a portion of its exposure to market risks, including interest rate risk and prepayment risk. The objective of the Company's risk management strategy is to reduce fluctuations in net book value over a range of interest rate scenarios. In particular, the Company attempts to mitigate the risk of the cost of its variable rate liabilities increasing during a period of rising interest rates. The Company's derivative instruments have generally been comprised of Swaps, the majority of which were designated as cash flow hedges against the interest rate risk associated with its borrowings.

*Swaps*

The Company documents its risk-management policies, including objectives and strategies, as they relate to its hedging activities and the relationship between the hedging instrument and the hedged liability for all Swaps designated as hedging transactions. The Company assesses, both at the inception of a hedge and on a quarterly basis thereafter, whether or not the hedge is "highly effective."

Swaps are carried on the Company's consolidated balance sheets at fair value, in Other assets, if their fair value is positive, or in Other liabilities, if their fair value is negative. Since January 2017, variation margin payments on the Company's Swaps that have been novated to a clearing house have been treated as a legal settlement of the exposure under the Swap contract. Previously such payments were treated as collateral pledged against the exposure under the related Swap contract. The effect of this change is to reduce what would have otherwise been reported as the fair value of the Swap. All of the Company's Swaps were novated to a central clearing house. Changes in the fair value of the Company's Swaps designated in hedging transactions are recorded in OCI provided that the hedge remains effective. Periodic payments accrued in connection with Swaps designated as hedges are included in interest expense and are treated as an operating cash flow.

The Company discontinues hedge accounting on a prospective basis and recognizes changes in fair value through earnings when: (i) it is determined that the derivative is no longer effective in offsetting cash flows of a hedged item (including forecasted transactions); (ii) it is no longer probable that the forecasted transaction will occur; or (iii) it is determined that designating the derivative as a hedge is no longer appropriate. (See Notes 5(c), 7 and 14)

Changes in the fair value of the Company's Swaps not designated in hedging transactions are recorded in Other income, net on the Company's consolidated statements of operations.

***(p) Fair Value Measurements and the Fair Value Option for Financial Assets and Financial Liabilities***

The Company's presentation of fair value for its financial assets and liabilities is determined within a framework that stipulates that the fair value of a financial asset or liability is an exchange price in an orderly transaction between market participants to sell the asset or transfer the liability in the market in which the reporting entity would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability. The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the asset or owes the liability. This definition of fair value focuses on exit price and prioritizes the use of market-based inputs over entity-specific inputs when determining fair value. In addition, the framework for measuring fair value establishes a three-level hierarchy for fair value measurements based upon the observability of inputs to the valuation of an asset or liability as of the measurement date.

In addition to the financial instruments that it is required to report at fair value, the Company has elected the fair value option for certain of its residential whole loans, Agency MBS and CRT securities at the time of acquisition. Subsequent changes in the fair value of these financial instruments are reported in Other income, net, in the Company's consolidated statements of operations. A decision to elect the fair value option for an eligible financial instrument, which may be made on an instrument by instrument basis, is irrevocable. (See Notes 2(c), 2(b), 4, 3 and 14)

***(q) Variable Interest Entities***

An entity is referred to as a VIE if it meets at least one of the following criteria: (i) the entity has equity that is insufficient to permit the entity to finance its activities without the additional subordinated financial support of other parties; or (ii) as a group, the holders of the equity investment at risk lack (a) the power to direct the activities of an entity that most significantly impact the entity's economic performance; (b) the obligation to absorb the expected losses; or (c) the right to receive the expected residual returns; or (iii) the holders of the equity investment at risk have disproportional voting rights and the entity's activities are conducted on behalf of the investor that has disproportionately few voting rights.

The Company consolidates a VIE when it has both the power to direct the activities that most significantly impact the economic performance of the VIE and a right to receive benefits or absorb losses of the entity that could be potentially significant to the VIE. The Company is required to reconsider its evaluation of whether to consolidate a VIE each reporting period, based upon changes in the facts and circumstances pertaining to the VIE.

The Company has entered into several financing transactions which resulted in the Company forming entities to facilitate these transactions. In determining the accounting treatment to be applied to these transactions, the Company concluded that the entities used to facilitate these transactions are VIEs and that they should be consolidated. If the Company had determined that consolidation was not required, it would have then assessed whether the transfers of the underlying assets would qualify as sales or should be accounted for as secured financings under GAAP. (See Note 15)

The Company also includes on its consolidated balance sheets certain financial assets and liabilities that are acquired/issued by trusts and/or other special purpose entities that have been evaluated as being required to be consolidated by the Company under the applicable accounting guidance.

***(r) Offering Costs Related to Issuance and Redemption of Preferred Stock***

Offering costs related to the issuance of preferred stock are recorded as a reduction in Additional paid-in capital, a component of Stockholders' Equity, at the time such preferred stock is issued. On redemption of preferred stock, any excess of the fair value of the consideration transferred to the holders of the preferred stock over the carrying amount of the preferred stock in the Company's consolidated balance sheets is included in the determination of Net Income Available to Common Stock and Participating Securities in the calculation of EPS.

***(s) New Accounting Standards and Interpretations***

Accounting Standards Adopted in 2020

*Financial Instruments - Credit Losses - Measurement of Credit Losses on Financial Instruments*

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU" 2016-13, Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"), which has subsequently been amended by ASUs 2019-11, Codification Improvements to Topic 326, Financial Instruments - Credit Losses, 2019-05, Financial Instruments - Credit Losses (Topic 326): Targeted Transition Relief, 2019-04, Codification Improvements to Topic 326, Financial Instruments - Credit Losses, 2018-19, Codification Improvements to Topic 326, Financial Instruments - Credit Losses, 2020-02 Financial Instruments-Credit Losses (Topic 326)-Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date (SEC Update), and 2020-03 Codification Improvements to Financial Instruments. The amendments in ASU 2016-13 require entities to measure all expected credit losses (rather than incurred losses) for financial assets held at the reporting date, based on historical experience, current conditions and reasonable and supportable forecasts. ASU 2016-13 also requires enhanced financial statement disclosures to help financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. The amendments in this ASU were required to be applied by recording a cumulative-effect adjustment to equity as of the beginning of the first reporting period in which the guidance is effective. A prospective transition approach is required for debt securities for which an OTTI had been recognized before the effective date. The Company adopted the new ASU on January 1, 2020. The impact of adoption was that the allowance for credit losses on Purchased Performing Loans increased by approximately $8.3 million. This transition adjustment was recorded as an increase in the Company's allowance for credit losses and an adjustment to decrease retained earnings as of the adoption date. In addition, for Purchased Credit Deteriorated Loans, the carrying value of the portfolio was adjusted on transition to include an estimate of the allowance for credit losses as required by the new standard. For financial statement reporting purposes, this adjusted carrying value is presented net of the estimated allowance for credit losses. Consequently, the adjustments recorded on transition for Purchased Credit Deteriorated Loans do not result in any adjustment to retained earnings as of the adoption date. The Company does not consider these transition adjustments to be material to its financial position or previously reported GAAP or economic book value.

Under ASU 2016-13, credit losses for available-for-sale debt securities are measured in a manner similar to prior GAAP. However, the amendments in this ASU require that credit losses be recorded through an allowance for credit losses, which will allow subsequent reversals in credit loss estimates to be recognized in current income. In addition, the allowance on available-for-sale debt securities will be limited to the extent that the fair value is less than the amortized cost. Under prior GAAP, credit impairment losses were generally required to be recorded as "other than temporary" impairment, which directly reduced the carrying amount of impaired securities, and was recorded in earnings and was not reversed if expected cash flows subsequently recovered. Under the new guidance, credit impairments on such securities (other than those related to expected sales) are recorded as an allowance for credit losses that is also recorded in earnings, but the allowance can be reversed through earnings in a subsequent period if expected cash flows subsequently recover. Transition to the new available-for-sale debt securities guidance did not result in a change to our retained earnings.

*Reference Rate Reform - Facilitation of the Effects of Reference Rate Reform on Financial Reporting*

In March 2020, the FASB issued ASU 2020-04, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting* (“ASU 2020-04”). The amendments in this ASU provide temporary optional expedients to ease the financial reporting burden of the expected transition from the London Interbank Offered Rate (“LIBOR”) to an alternative reference rate such as the Secured Overnight Financing Rate (“SOFR”). The amendments in the ASU are elective and apply to all entities, subject to meeting certain criteria, that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments in ASU 2020-04 were effective for all entities as of March 12, 2020 and will generally no longer be available to apply after December 31, 2022. The Company adopted this ASU as of the effective date and will utilize the optional expedients to the extent that they apply to the Company.

## 3. Residential Whole Loans

Included on the Company's consolidated balance sheets at March 31, 2020 and December 31, 2019 are approximately $7.0 billion and $7.4 billion, respectively, of residential whole loans arising from the Company's interests in certain trusts established to acquire the loans and certain entities established in connection with its loan securitization transactions. The Company has assessed that these entities are required to be consolidated for financial reporting purposes.

*Residential Whole Loans, at Carrying Value*

The following table presents the components of the Company's Residential whole loans, at carrying value at March 31, 2020 and December 31, 2019:

| (Dollars In Thousands) | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Purchased Performing Loans: | | |
| Non-QM loans *(1)* | $ 3,538,725 | $ 3,707,245 |
| Rehabilitation loans | 978,965 | 1,026,097 |
| Single-family rental loans | 506,352 | 460,742 |
| Seasoned performing loans | 165,592 | 176,569 |
| Total Purchased Performing Loans | 5,189,634 | 5,370,653 |
| Purchased Credit Deteriorated Loans *(2)* | 744,408 | 698,717 |
| Total Residential whole loans, at carrying value | $ 5,934,042 | $ 6,069,370 |
| Allowance for credit and valuation losses on residential whole loans held at carrying value and held-for-sale | (218,011) | (3,025) |
| Total Residential whole loans at carrying value, net | $ 5,716,031 | $ 6,066,345 |
| | | |
| Number of loans | 16,999 | 17,082 |

*(1) Includes Non-QM loans held-for-sale with an amortized cost of $965.5 million and a net carrying value of $895.3 million at March 31, 2020.*
*(2) The amortized cost basis of Purchased Credit Deteriorated Loans was increased by $62.6 million on January 1, 2020 in connection with the adoption of ASU 2016-13.*

The following table presents the components of interest income on the Company's Residential whole loans, at carrying value and held-for-sale for the three months ended March 31, 2020 and 2019:

| | Three Months Ended March 31, | |
|---|---|---|
| (In Thousands) | 2020 | 2019 |
| Purchased Performing Loans: | | |
| Non-QM loans *(1)* | $ 49,070 | $ 22,414 |
| Rehabilitation loans | 15,327 | 9,933 |
| Single-family rental loans | 7,343 | 2,701 |
| Seasoned performing loans | 2,600 | 3,173 |
| Total Purchased Performing Loans | 74,340 | 38,221 |
| Purchased Credit Deteriorated Loans | 9,146 | 11,399 |
| Total Residential whole loans, at carrying value | $ 83,486 | $ 49,620 |

*(1) Includes interest income on Non-QM loans held-for-sale at March 31, 2020.*

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The following table presents additional information regarding the Company's Residential whole loans, at carrying value and held-for-sale at March 31, 2020:

**March 31, 2020**

| | | | | | | | | Aging by Amortized Cost Basis | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | Past Due Days | | |
| (Dollars In Thousands) | Carrying Value | Amortized Cost Basis | Unpaid Principal Balance ("UPB") | Weighted Average Coupon *(1)* | Weighted Average Term to Maturity (Months) | Weighted Average LTV Ratio *(2)* | Weighted Average Original FICO *(3)* | Current | 30-59 | 60-89 | 90+ |
| Purchased Performing Loans: | | | | | | | | | | | |
| Non-QM loans *(4)(5)* | $ 3,434,894 | $ 3,538,725 | $ 3,424,646 | 5.84% | 363 | 66% | 717 | $ 3,450,648 | $ 50,584 | $ 13,058 | $ 24,435 |
| Rehabilitation loans *(4)* | 943,332 | 978,965 | 978,965 | 7.24 | 7 | 64 | 720 | 806,413 | 61,723 | 20,973 | 89,856 |
| Single-family rental loans *(4)* | 498,921 | 506,352 | 501,925 | 6.28 | 322 | 70 | 734 | 482,499 | 17,536 | 2,009 | 4,308 |
| Seasoned performing loans *(4)* | 165,343 | 165,592 | 180,421 | 4.11 | 178 | 42 | 723 | 160,944 | 1,670 | 1,099 | 1,879 |
| Purchased Credit Deteriorated Loans *(4)(6)* | 673,541 | 744,408 | 858,122 | 4.46 | 292 | 80 | N/A | N/M | N/M | N/M | 87,179 |
| Residential whole loans, at carrying value, total or weighted average | $ 5,716,031 | $ 5,934,042 | $ 5,944,079 | 5.88% | 285 | | | | | | |

**December 31, 2019**

| | | | | | | | | Aging by UPB | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | Past Due Days | | |
| (Dollars In Thousands) | Carrying Value | Amortized Cost Basis | Unpaid Principal Balance ("UPB") | Weighted Average Coupon *(1)* | Weighted Average Term to Maturity (Months) | Weighted Average LTV Ratio *(2)* | Weighted Average Original FICO *(3)* | Current | 30-59 | 60-89 | 90+ |
| Purchased Performing Loans: | | | | | | | | | | | |
| Non-QM loans *(4)* | $ 3,706,857 | $ 3,707,245 | $ 3,592,701 | 5.96% | 368 | 67% | 716 | $ 3,492,533 | $ 59,963 | $ 19,605 | $ 20,600 |
| Rehabilitation loans *(4)* | 1,023,766 | 1,026,097 | 1,026,097 | 7.30 | 8 | 64 | 717 | 868,281 | 67,747 | 27,437 | 62,632 |
| Single-family rental loans *(4)* | 460,679 | 460,741 | 457,146 | 6.29 | 324 | 70 | 734 | 432,936 | 15,948 | 2,047 | 6,215 |
| Seasoned performing loans | 176,569 | 176,569 | 192,151 | 4.24 | 181 | 46 | 723 | 187,683 | 2,164 | 430 | 1,874 |
| Purchased Credit Impaired Loans *(6)* | 698,474 | 698,718 | 873,326 | 4.46 | 294 | 81 | N/A | N/M | N/M | N/M | 108,998 |
| Residential whole loans, at carrying value, total or weighted average | $ 6,066,345 | $ 6,069,370 | $ 6,141,421 | 5.96% | 288 | | | | | | |

*(1) Weighted average is calculated based on the interest bearing principal balance of each loan within the related category. For loans acquired with servicing rights released by the seller, interest rates included in the calculation do not reflect loan servicing fees. For loans acquired with servicing rights retained by the seller, interest rates included in the calculation are net of servicing fees.*

*(2) LTV represents the ratio of the total unpaid principal balance of the loan to the estimated value of the collateral securing the related loan as of the most recent date available, which may be the origination date. For Rehabilitation loans, the LTV presented is the ratio of the maximum unpaid principal balance of the loan, including unfunded commitments, to the estimated "after repaired" value of the collateral securing the related loan, where available. For certain Rehabilitation loans, totaling $259.4 million and $269.2 million at March 31, 2020 and December 31, 2019, respectively, an after repaired valuation was not obtained and the loan was underwritten based on an "as is" valuation. The weighted average LTV of these loans based on the current unpaid principal balance and the valuation obtained during underwriting, is 68% and 69% at March 31, 2020 and December 31, 2019, respectively. Excluded from the calculation of weighted average LTV are certain low value loans secured by vacant lots, for which the LTV ratio is not meaningful.*

*(3) Excludes loans for which no Fair Isaac Corporation ("FICO") score is available.*

*(4) At March 31, 2020 and December 31, 2019 the difference between the Carrying Value and Amortized Cost Basis represents the related allowance for credit losses.*

*(5) Includes Non-QM loans held-for-sale with a net carrying value of $895.3 million at March 31, 2020.*

*(6) Purchased Credit Deteriorated Loans tend to be characterized by varying performance of the underlying borrowers over time, including loans where multiple months of payments are received in a period to bring the loan to current status, followed by months where no payments are received. Accordingly, delinquency information is presented for loans that are more than 90 days past due that are considered to be seriously delinquent.*

During three months ended March 31, 2020, $659.9 million of Non-QM loans were sold, realizing losses of $145.8 million.

*Allowance for Credit Losses*

The following table presents a roll-forward of the allowance for credit losses on the Company's Residential Whole Loans, at Carrying Value:

| | Three Months Ended March 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| (Dollars In Thousands) | Non-QM Loans *(1)* | Rehabilitation Loans *(2)(3)* | Single-family Rental Loans | Seasoned Performing Loans | Purchased Credit Deteriorated Loans *(4)* | Totals |
| Allowance for credit losses at beginning of period | $ 388 | $ 2,331 | $ 62 | $ — | $ 244 | $ 3,025 |
| Transition adjustment on adoption of ASU 2016-13 *(5)* | 6,904 | 517 | 754 | 19 | 62,361 | 70,555 |
| Current provision | 26,358 | 33,213 | 6,615 | 230 | 8,481 | 74,897 |
| Write-offs | — | (428) | — | — | (219) | (647) |
| Valuation adjustment on loans held for sale | 70,181 | — | — | — | — | 70,181 |
| Allowance for credit and valuation losses at end of period | $ 103,831 | $ 35,633 | $ 7,431 | $ 249 | $ 70,867 | $ 218,011 |

| | Three Months Ended March 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| (Dollars In Thousands) | Non-QM Loans | Rehabilitation Loans | Single-family Rental Loans | Seasoned Performing Loans | Purchased Credit Deteriorated Loans | Totals |
| Allowance for credit losses at beginning of period | $ — | $ — | $ — | $ — | $ 968 | $ 968 |
| Current provision | 388 | 2,843 | 62 | — | (724) | 2,569 |
| Write-offs | — | (512) | — | — | — | (512) |
| Allowance for credit losses at end of period | $ 388 | $ 2,331 | $ 62 | $ — | $ 244 | $ 3,025 |

*(1) Includes Non-QM loans held-for-sale with a net carrying value of $895.3 million* at *March 31, 2020.*
*(2) In connection with purchased Rehabilitation loans, the Company had unfunded commitments of $123.1 million, with an allowance for credit losses of $3.5 million at March 31, 2020. Such allowance is included in "Other liabilities" on the Company's Balance Sheet (see Note 9)*
*(3) Includes $110.8 million of loans that were assessed for credit losses based on a collateral dependent methodology.*
*(4) Includes $74.5 million of loans that were assessed for credit losses based on a collateral dependent methodology.*
*(5) Of the $70.6 million of reserves recorded on adoption of ASU 2016-13, $8.3 million was recorded as an adjustment to stockholders' equity and $62.4 million was recorded as a "gross up" of the amortized cost basis of Purchased Credit Deteriorated Loans.*

The Company adopted ASU 2016-13 ("CECL") on January 1, 2020. (See Note 2) The anticipated impact of the COVID-19 pandemic on expected economic conditions, including forecasted unemployment, home price appreciation, and prepayment rates, for the short to medium term has resulted in significantly increased estimates of credit losses recorded under CECL for the first quarter of 2020 for residential whole loans held at carrying value. As of March 31, 2020, the Company expects relatively high rates of unemployment and other deteriorated market conditions to continue for an extended period, resulting in increased delinquencies and defaults. Estimates of credit losses under CECL are highly sensitive to changes in assumptions and current economic conditions have increased the difficulty of accurately forecasting future conditions. In addition, a valuation allowance to reduce the carrying value of Non-QM loans designated as held-for-sale at quarter-end of $70.2 million was recorded.

The amortized cost basis of Purchased Performing Loans on nonaccrual status as of March 31, 2020 and December 31, 2019 was $134.4 million and $99.9 million, respectively. The amortized cost basis of Purchased Credit Deteriorated Loans on nonaccrual status as of March 31, 2020 was $99.0 million. Because Purchase Credit Deteriorated Loans were previously accounted for in pools, there were no such loans on nonaccrual status as of December 31, 2019. No material interest income was recognized from loans on nonaccrual status during the three months ended March 31, 2020. At March 31, 2020, there were no loans on nonaccrual status that did not have an associated allowance for credit losses.

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The following table presents certain additional credit-related information regarding our residential whole loans, at carrying value:

| | Amortized Cost Basis by Origination Year and LTV Bands | | | | | | |
|---|---|---|---|---|---|---|---|
| **(Dollars In Thousands)** | **2020** | **2019** | **2018** | **2017** | **2016** | **Prior** | **Total** |
| **Non-QM loans *(1)*** | | | | | | | |
| LTV < 80% *(2)* | $ 252,458 | $ 1,331,053 | $ 790,056 | $ 92,314 | $ 9,055 | $ — | $ 2,474,936 |
| LTV >= 80% *(2)* | 23,015 | 33,783 | 31,888 | 9,494 | 150 | — | 98,330 |
| Total Non-QM loans | $ 275,473 | $ 1,364,836 | $ 821,944 | $ 101,808 | $ 9,205 | $ — | $ 2,573,266 |
| Three Months Ended March 31, 2020 Gross write-offs | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Three Months Ended March 31, 2020 Recoveries | — | — | — | — | — | — | — |
| Three Months Ended March 31, 2020 Net write-offs | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| | | | | | | | |
| **Rehabilitation loans** | | | | | | | |
| LTV < 80% *(2)* | $ 48,534 | $ 735,912 | $ 160,334 | $ 8,243 | $ — | $ — | $ 953,023 |
| LTV >= 80% *(2)* | 4,984 | 17,470 | 1,788 | 1,700 | — | — | 25,942 |
| Total Rehabilitation loans | $ 53,518 | $ 753,382 | $ 162,122 | $ 9,943 | $ — | $ — | $ 978,965 |
| Three Months Ended March 31, 2020 Gross write-offs | $ — | $ — | $ 334 | $ — | $ — | $ 94 | $ 428 |
| Three Months Ended March 31, 2020 Recoveries | — | — | — | — | — | — | — |
| Three Months Ended March 31, 2020 Net write-offs | $ — | $ — | $ 334 | $ — | $ — | $ 94 | $ 428 |
| | | | | | | | |
| **Single family rental loans** | | | | | | | |
| LTV < 80% *(2)* | $ 21,623 | $ 305,098 | $ 149,270 | $ 14,060 | $ — | $ — | $ 490,051 |
| LTV >= 80% *(2)* | 2,576 | 13,514 | 211 | — | — | — | 16,301 |
| Total Single family rental loans | $ 24,199 | $ 318,612 | $ 149,481 | $ 14,060 | $ — | $ — | $ 506,352 |
| Three Months Ended March 31, 2020 Gross write-offs | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Three Months Ended March 31, 2020 Recoveries | — | — | — | — | — | — | — |
| Three Months Ended March 31, 2020 Net write-offs | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| | | | | | | | |
| **Seasoned performing loans** | | | | | | | |
| LTV < 80% *(2)* | $ — | $ — | $ — | $ — | $ 81 | $ 156,733 | $ 156,814 |
| LTV >= 80% *(2)* | — | — | — | — | — | 8,778 | 8,778 |
| Total Seasoned performing loans | $ — | $ — | $ — | $ — | $ 81 | $ 165,511 | $ 165,592 |
| Three Months Ended March 31, 2020 Gross write-offs | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Three Months Ended March 31, 2020 Recoveries | — | — | — | — | — | — | — |
| Three Months Ended March 31, 2020 Net write-offs | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| | | | | | | | |
| **Purchased credit deteriorated loans** | | | | | | | |
| LTV < 80% *(2)* | $ — | $ — | $ — | $ 634 | $ 3,214 | $ 430,659 | $ 434,507 |
| LTV >= 80% *(2)* | — | — | — | — | 3,773 | 306,128 | 309,901 |
| Total Purchased credit deteriorated loans | $ — | $ — | $ — | $ 634 | $ 6,987 | $ 736,787 | $ 744,408 |
| Three Months Ended March 31, 2020 Gross write-offs | $ — | $ — | $ — | $ — | $ — | $ 219 | $ 219 |
| Three Months Ended March 31, 2020 Recoveries | — | — | — | — | — | — | — |
| Three Months Ended March 31, 2020 Net write-offs | $ — | $ — | $ — | $ — | $ — | $ 219 | $ 219 |
| | | | | | | | |
| **Total LTV < 80% *(2)*** | $ 322,615 | $ 2,372,063 | $ 1,099,660 | $ 115,251 | $ 12,350 | $ 587,392 | $ 4,509,331 |
| **Total LTV >= 80% *(2)*** | 30,575 | 64,767 | 33,887 | 11,194 | 3,923 | 314,906 | 459,252 |
| **Total residential whole loans, at carrying value** | $ 353,190 | $ 2,436,830 | $ 1,133,547 | $ 126,445 | $ 16,273 | $ 902,298 | $ 4,968,583 |
| **Total Gross write-offs** | $ — | $ — | $ 334 | $ — | $ — | $ 313 | $ 647 |
| **Total Recoveries** | — | — | — | — | — | — | — |
| **Total Net write-offs** | $ — | $ — | $ 334 | $ — | $ — | $ 313 | $ 647 |

*(1) Excludes Non-QM loans held-for-sale with an amortized cost of $965.5 million at March 31, 2020.*
*(2) LTV represents the ratio of the total unpaid principal balance of the loan to the estimated value of the collateral securing the related loan as of the most recent date available, which may be the origination date. For Rehabilitation loans, the LTV presented is the ratio of the maximum unpaid principal balance of the loan, including unfunded commitments, to the estimated "after repaired" value of the collateral securing the related loan, where available. For certain Rehabilitation loans, totaling $259.4 million at March 31, 2020, an after repaired valuation was not obtained and the loan was underwritten based on an "as is" valuation. The weighted average LTV of these loans based on the current unpaid principal balance and the valuation obtained during underwriting, is 68% at March 31, 2020. Certain low value loans secured by vacant lots are categorized as LTV >= 80%.*

*Residential Whole Loans, at Fair Value*

Certain of the Company's residential whole loans are presented at fair value on its consolidated balance sheets as a result of a fair value election made at the time of acquisition. Subsequent changes in fair value are reported in current period earnings and presented in Net gain on residential whole loans measured at fair value through earnings on the Company's consolidated statements of operations.

The following table presents information regarding the Company's residential whole loans held at fair value at March 31, 2020 and December 31, 2019:

| (Dollars in Thousands) | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Less than 60 Days Past Due: | | |
| Outstanding principal balance | $ 664,362 | $ 666,026 |
| Aggregate fair value | $ 593,037 | $ 641,616 |
| Weighted Average LTV Ratio *(1)* | 75.27% | 76.69% |
| Number of loans | 3,186 | 3,159 |
| 60 Days to 89 Days Past Due: | | |
| Outstanding principal balance | $ 60,720 | $ 58,160 |
| Aggregate fair value | $ 50,999 | $ 53,485 |
| Weighted Average LTV Ratio *(1)* | 85.06% | 79.48% |
| Number of loans | 279 | 313 |
| 90 Days or More Past Due: | | |
| Outstanding principal balance | $ 693,380 | $ 767,320 |
| Aggregate fair value | $ 599,756 | $ 686,482 |
| Weighted Average LTV Ratio *(1)* | 88.12% | 89.69% |
| Number of loans | 2,685 | 2,983 |
| Total Residential whole loans, at fair value | $ 1,243,792 | $ 1,381,583 |

*(1) LTV represents the ratio of the total unpaid principal balance of the loan, to the estimated value of the collateral securing the related loan. Excluded from the calculation of weighted average LTV are certain low value loans secured by vacant lots, for which the LTV ratio is not meaningful.*

The following table presents the components of Net (loss)/gain on residential whole loans measured at fair value through earnings for the three months ended March 31, 2020 and 2019:

| | Three Months Ended March 31, | |
|---|---|---|
| (In Thousands) | 2020 | 2019 |
| Coupon payments, realized gains, and other income received *(1)* | $ 19,036 | $ 21,756 |
| Net unrealized losses | (74,556) | (1,060) |
| Net gain on transfers to REO | 2,760 | 4,571 |
| Total | $ (52,760) | $ 25,267 |

*(1) Primarily includes gains on liquidation of non-performing loans, including the recovery of delinquent interest payments, recurring coupon interest payments received on mortgage loans that are contractually current, and cash payments received from private mortgage insurance on liquidated loans.*

## 4. Residential Mortgage Securities and MSR-Related Assets

***Agency and Non-Agency MBS***

The Company's MBS are comprised of Agency MBS and Non-Agency MBS which include MBS issued prior to 2008 ("Legacy Non-Agency MBS"). These MBS are secured by: (i) hybrid mortgages ("Hybrids"), which have interest rates that are fixed for a specified period of time and, thereafter, generally adjust annually to an increment over a specified interest rate index; (ii) adjustable-rate mortgages ("ARMs"), which have interest rates that reset annually or more frequently (collectively, "ARM-MBS"); and (iii) 15 and 30 year fixed-rate mortgages for Agency MBS and, for Non-Agency MBS, 30-year and longer-term fixed rate mortgages. In addition, the Company's MBS are also comprised of MBS backed by securitized re-performing/non-performing loans ("RPL/NPL MBS"), where the cash flows of the bond may not reflect the contractual cash flows of the underlying collateral. The Company's RPL/NPL MBS are generally structured with a contractual coupon step-up feature where the coupon increases from 300 - 400 basis points at 36 - 48 months from issuance or sooner. The Company pledges a significant portion of its MBS as collateral against its borrowings under repurchase agreements and Swaps. (See Note 7)

***Agency MBS:*** Agency MBS are guaranteed as to principal and/or interest by a federally chartered corporation, such as Fannie Mae or Freddie Mac, or an agency of the U.S. Government, such as Ginnie Mae. The payment of principal and/or interest on Ginnie Mae MBS is explicitly backed by the full faith and credit of the U.S. Government. Since the third quarter of 2008, Fannie Mae and Freddie Mac have been under the conservatorship of the Federal Housing Finance Agency, which significantly strengthened the backing for these government-sponsored entities.

***Non-Agency MBS:*** The Company's Non-Agency MBS are primarily secured by pools of residential mortgages, which are not guaranteed by an agency of the U.S. Government or any federally chartered corporation. Credit risk associated with Non-Agency MBS is regularly assessed as new information regarding the underlying collateral becomes available and based on updated estimates of cash flows generated by the underlying collateral.

***CRT Securities***

CRT securities are debt obligations issued by or sponsored by Fannie Mae and Freddie Mac. The coupon payments on CRT securities are paid by the issuer and the principal payments received are dependent on the performance of loans in either a reference pool or an actual pool of loans. As an investor in a CRT security, the Company may incur a principal loss if the performance of the actual or reference pool loans results in either an actual or calculated loss that exceeds the credit enhancement of the security owned by the Company. The Company assesses the credit risk associated with its investments in CRT securities by assessing the current and expected future performance of the associated loan pool. The Company pledges a portion of its CRT securities as collateral against its borrowings under repurchase agreements. (See Note 7)

**MFA FINANCIAL, INC.**
**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**
**MARCH 31, 2020**

The following tables present certain information about the Company's residential mortgage securities at March 31, 2020 and December 31, 2019:

**March 31, 2020**

| (In Thousands) | Principal/ Current Face | Purchase Premiums | Accretable Purchase Discounts | Discount Designated as Credit Reserve *(1)* | Gross Amortized Cost *(2)* | Gross Unrealized Gains | Gross Unrealized Losses | Net Unrealized Gain/(Loss) | Fair Value |
|---|---|---|---|---|---|---|---|---|---|
| Agency MBS: (3) | | | | | | | | | |
| Fannie Mae | $ 433,397 | $ 15,384 | $ (18) | $ (4,747) | $ 444,016 | $ 4,242 | $ — | $ 4,242 | $ 448,258 |
| Freddie Mac | 95,759 | 3,468 | — | (121) | 99,622 | 1,655 | — | 1,655 | 101,277 |
| Ginnie Mae | 3,749 | 69 | — | — | 3,818 | 60 | — | 60 | 3,878 |
| Total Agency MBS | 532,905 | 18,921 | (18) | (4,868) | 547,456 | 5,957 | — | 5,957 | 553,413 |
| Non-Agency MBS: | | | | | | | | | |
| Expected to Recover Par (4)(5) | 150,181 | — | (13,191) | — | 136,990 | 6,175 | (21,643) | (15,468) | 121,522 |
| Expected to Recover Less than Par (4) | 1,305,667 | — | (77,777) | (389,472) | 838,418 | 160,000 | — | 160,000 | 998,418 |
| Total Non-Agency MBS (6) | 1,455,848 | — | (90,968) | (389,472) | 975,408 | 166,175 | (21,643) | 144,532 | 1,119,940 |
| Total MBS | 1,988,753 | 18,921 | (90,986) | (394,340) | 1,522,864 | 172,132 | (21,643) | 150,489 | 1,673,353 |
| CRT securities (7) | 365,762 | 3,263 | (42) | (47,137) | 321,846 | — | (67,745) | (67,745) | 254,101 |
| Total MBS and CRT securities | $ 2,354,515 | $ 22,184 | $ (91,028) | $ (441,477) | $ 1,844,710 | $ 172,132 | $ (89,388) | $ 82,744 | $ 1,927,454 |

**December 31, 2019**

| (In Thousands) | Principal/ Current Face | Purchase Premiums | Accretable Purchase Discounts | Discount Designated as Credit Reserve *(1)* | Gross Amortized Cost *(2)* | Gross Unrealized Gains | Gross Unrealized Losses | Net Unrealized Gain/(Loss) | Fair Value |
|---|---|---|---|---|---|---|---|---|---|
| Agency MBS: *(3)* | | | | | | | | | |
| Fannie Mae | $ 1,119,708 | $ 43,249 | $ (22) | $ — | $ 1,162,935 | $ 9,799 | $ (14,741) | $ (4,942) | $ 1,157,993 |
| Freddie Mac | 480,879 | 19,468 | — | — | 500,961 | 5,475 | (3,968) | 1,507 | 502,468 |
| Ginnie Mae | 3,996 | 73 | — | — | 4,069 | 52 | — | 52 | 4,121 |
| Total Agency MBS | 1,604,583 | 62,790 | (22) | — | 1,667,965 | 15,326 | (18,709) | (3,383) | 1,664,582 |
| Non-Agency MBS: | | | | | | | | | |
| Expected to Recover Par *(4)(5)* | 722,477 | — | (16,661) | — | 705,816 | 19,861 | (9) | 19,852 | 725,668 |
| Expected to Recover Less than Par *(4)* | 1,472,826 | — | (73,956) | (436,598) | 962,272 | 375,598 | (9) | 375,589 | 1,337,861 |
| Total Non-Agency MBS *(6)* | 2,195,303 | — | (90,617) | (436,598) | 1,668,088 | 395,459 | (18) | 395,441 | 2,063,529 |
| Total MBS | 3,799,886 | 62,790 | (90,639) | (436,598) | 3,336,053 | 410,785 | (18,727) | 392,058 | 3,728,111 |
| CRT securities *(7)* | 244,932 | 4,318 | (55) | — | 249,195 | 6,304 | (91) | 6,213 | 255,408 |
| Total MBS and CRT securities | $ 4,044,818 | $ 67,108 | $ (90,694) | $ (436,598) | $ 3,585,248 | $ 417,089 | $ (18,818) | $ 398,271 | $ 3,983,519 |

*(1) Discount designated as Credit Reserve is generally not expected to be accreted into interest income.*
*(2) Includes principal payments receivable of $516,000 and $614,000 at March 31, 2020 and December 31, 2019, respectively, which are not included in the Principal/Current Face.*
*(3) Amounts disclosed at March 31, 2020 and December 31, 2019 include Agency MBS with a fair value of $14.5 million and $280.3 million, respectively, for which the fair value option has been elected. Such securities had $499,000 unrealized gains and no gross unrealized losses at March 31, 2020, and $4.5 million unrealized gains and no gross unrealized losses at December 31, 2019, respectively.*
*(4) Based on management's current estimates of future principal cash flows expected to be received.*
*(5) Includes RPL/NPL MBS, which at March 31, 2020 had an $101.4 million Principal/Current face, $101.1 million amortized cost and $79.5 million fair value. At December 31, 2019, RPL/NPL MBS had a $632.3 million Principal/Current face, $631.8 million amortized cost and $635.0 million fair value.*
*(6) At March 31, 2020 and December 31, 2019, the Company expected to recover approximately 73% and 80% of the then-current face amount of Non-Agency MBS, respectively.*
*(7) Amounts disclosed at March 31, 2020 includes CRT securities with a fair value of $188.6 million for which the fair value option has been elected. Such securities had no gross unrealized gains and gross unrealized losses of approximately $67.7 million at March 31, 2020. Amounts disclosed at December 31, 2019 includes CRT securities with a fair value of $255.4 million for which the fair value option has been elected. Such securities had gross unrealized gains of approximately $6.3 million and gross unrealized losses of approximately $91,000 at December 31, 2019.*

*Sales of Residential Mortgage Securities*

The following table presents information about the Company's sales of its residential mortgage securities for the three months ended March 31, 2020 and 2019. The Company has no continuing involvement with any of the sold MBS.

| | Three Months Ended March 31, 2020 | | Three Months Ended March 31, 2019 | |
|---|---|---|---|---|
| (In Thousands) | Sales Proceeds | Gains/(Losses) | Sales Proceeds | Gains/(Losses) |
| Agency MBS | $ 965,132 | $ (22,854) | $ — | $ — |
| Non-Agency MBS | 264,385 | (43,124) | 126,094 | 18,153 |
| CRT Securities | 35,645 | (2,017) | 83,368 | 6,456 |
| Total | $ 1,265,162 | $ (67,995) | $ 209,462 | $ 24,609 |

*Unrealized Losses on Residential Mortgage Securities*

The following table presents information about the Company's residential mortgage securities that were in an unrealized loss position at March 31, 2020, with respect to which no allowance for credit losses has been recorded:

**Unrealized Loss Position For:**

| | Less than 12 Months | | | 12 Months or more | | | Total | |
|---|---|---|---|---|---|---|---|---|
| (Dollars in Thousands) | Fair Value | Unrealized Losses | Number of Securities | Fair Value | Unrealized Losses | Number of Securities | Fair Value | Unrealized Losses |
| Agency MBS: | | | | | | | | |
| Fannie Mae | $ — | $ — | — | $ — | $ — | — | $ — | $ — |
| Freddie Mac | — | — | — | — | — | — | — | — |
| Ginnie Mae | — | — | — | — | — | — | — | — |
| Total Agency MBS | — | — | — | — | — | — | — | — |
| Non-Agency MBS: | | | | | | | | |
| Expected to Recover Par *(1)* | 79,464 | 21,643 | 7 | — | — | — | 79,464 | 21,643 |
| Expected to Recover Less than Par *(1)* | — | — | — | — | — | — | — | — |
| Total Non-Agency MBS | 79,464 | 21,643 | 7 | — | — | — | 79,464 | 21,643 |
| Total MBS | 79,464 | 21,643 | 7 | — | — | — | 79,464 | 21,643 |
| CRT securities *(2)* | 188,560 | 67,745 | 47 | — | — | — | 188,560 | 67,745 |
| Total MBS and CRT securities | $ 268,024 | $ 89,388 | 54 | $ — | $ — | — | $ 268,024 | $ 89,388 |

*(1) Based on management's current estimates of future principal cash flows expected to be received.*
*(2) Amounts disclosed at March 31, 2020 include CRT securities with a fair value of $188.6 million for which the fair value option has been elected. Such securities had unrealized losses of $67.7 million at March 31, 2020.*

At March 31, 2020, as a result of the COVID-19 pandemic and its impact on the Company's liquidity (see Note 6), the Company determined that it intended to sell, or was "more likely than not" going to be required to sell, the majority of its residential mortgage securities that were in an unrealized loss position, before recovery of their amortized cost basis. As a result, those securities were written down to fair value through earnings and a new amortized cost basis was established. The write-down recorded in earnings aggregated $63.5 million for the three months ended March 31, 2020 and was included in "Impairment and other losses on securities available-for-sale and other assets" on the Consolidated Statement of Operations.

Subsequent to these write-downs, there were no gross unrealized losses on the Company's Agency MBS at March 31, 2020. Agency MBS are issued by Government Sponsored Entities ("GSEs") and enjoy either the implicit or explicit backing of the full faith and credit of the U.S. Government. While the Company's Agency MBS are not rated by any rating agency, they are currently perceived by market participants to be of high credit quality, with risk of default limited to the unlikely event that the U.S.

Government would not continue to support the GSEs. Based on these analyses, the Company determined that at March 31, 2020 no allowance for credit losses was required on its Agency MBS.

Gross unrealized losses on the Company's Non-Agency MBS were $21.6 million at March 31, 2020. Based upon the most recent evaluation, the Company does not consider these unrealized losses to require an allowance for credit losses and does not believe that these unrealized losses are credit related, but are rather a reflection of current market yields and/or marketplace bid-ask spreads. The Company has reviewed its Non-Agency MBS that are in an unrealized loss position to identify those securities that require an allowance for credit losses based on an assessment of changes in expected cash flows for such securities, which considers recent bond performance and, where possible, expected future performance of the underlying collateral.

The Company did not recognize an allowance for credit losses (or other than temporary impairment in prior periods) through earnings related to its Non-Agency MBS during the three months ended March 31, 2020 and 2019. Non-Agency MBS on which credit losses were recognized have experienced, or are expected to experience, credit-related adverse cash flow changes. The Company's estimate of cash flows for these Non-Agency MBS is based on its review of the underlying mortgage loans securing these MBS. The Company considers information available about the structure of the securitization, including structural credit enhancement, if any, and the past and expected future performance of underlying mortgage loans, including timing of expected future cash flows, prepayment rates, default rates, loss severities, delinquency rates, percentage of non-performing loans, year of origination, LTVs, geographic concentrations, and dialogue with market participants. Changes in the Company's evaluation of each of these factors impacts the cash flows expected to be collected at the assessment date.

The following table presents a roll-forward of the allowance for credit losses on the Company's Residential mortgage securities and MSR-related assets:

| | Three Months Ended March 31, | |
|---|---|---|
| **(Dollars In Thousands)** | **2020** | **2019** |
| Allowance for credit losses at beginning of period | $ — | $ — |
| Current provision: | — | — |
| Securities with no prior loss allowance | 332,756 | — |
| Securities with a prior loss allowance | — | — |
| Write-offs, including allowance related to securities we intend to sell | (332,756) | — |
| Allowance for credit losses at end of period | $ — | $ — |

*Purchase Discounts on Non-Agency MBS*

The following table presents the changes in the components of the Company's purchase discount on its Non-Agency MBS between purchase discount designated as Credit Reserve and accretable purchase discount for the three months ended March 31, 2020 and 2019:

| | Three Months Ended March 31, 2020 | | Three Months Ended March 31, 2019 | |
|---|---|---|---|---|
| (In Thousands) | Discount Designated as Credit Reserve | Accretable Discount *(1)* | Discount Designated as Credit Reserve | Accretable Discount *(1)* |
| Balance at beginning of period | $ (436,598) | $ (90,617) | $ (516,116) | $ (155,025) |
| Impact of RMBS Issuer Settlement *(2)* | — | — | — | (855) |
| Accretion of discount | — | 9,889 | — | 13,307 |
| Realized credit losses | 4,459 | — | 7,504 | — |
| Purchases | — | — | — | (118) |
| Sales/Redemptions | 49,491 | (5,551) | 3,191 | 16,346 |
| Net impairment losses recognized in earnings | (11,513) | — | — | — |
| Transfers/release of credit reserve | 4,689 | (4,689) | 3,802 | (3,802) |
| Balance at end of period | $ (389,472) | $ (90,968) | $ (501,619) | $ (130,147) |

*(1) Together with coupon interest, accretable purchase discount is recognized as interest income over the life of the security.*
*(2) Includes the impact of $855,000 of cash proceeds (a one-time payment) received by the Company during the three months ended March 31, 2019 in connection with the settlement of litigation related to certain residential mortgage backed securitization trusts that were sponsored by JP Morgan Chase & Co. and affiliated entities.*

***MSR-Related Assets***

*(a) Term Notes Backed by MSR-Related Collateral*

At March 31, 2020 and December 31, 2019, the Company had $706.6 million and $1.2 billion, respectively, of term notes issued by SPVs that have acquired rights to receive cash flows representing the servicing fees and/or excess servicing spread associated with certain MSRs. Payment of principal and interest on these term notes is considered to be largely dependent on cash flows generated by the underlying MSRs, as this impacts the cash flows available to the SPV that issued the term notes.

At March 31, 2020, these term notes had an amortized cost and fair value of $706.6 million, a weighted average yield of 4.74% and a weighted average term to maturity of 5.1 years. During three months ended March 31, 2020, the Company sold certain term notes for $136.8 million, realizing losses of $24.6 million. During the three months ended March 31, 2020, the Company recognized an impairment loss related to its term notes of $280.8 million based on its intent to sell, or the likelihood it will be required to sell, such notes. At December 31, 2019, the term notes had an amortized cost of $1.2 billion, gross unrealized gains of $5.2 million, a weighted average yield of 4.75% and a weighted average term to maturity of 5.3 years.

*(b) Corporate Loans*

The Company has made or participated in loans to provide financing to entities that originate residential mortgage loans and own the related MSRs. These corporate loans are secured by MSRs, as well as certain other unencumbered assets owned by the borrower.

During the year ended December 31, 2018, the Company participated in a loan where the Company committed to lend $100.0 million of which approximately $33.8 million was drawn at March 31, 2020. At March 31, 2020, the coupon paid by the borrower on the drawn amount is 3.93%, the remaining term associated with the loan is 5 months and the remaining commitment period on any undrawn amount is 5 months. During the remaining commitment period, the Company receives a commitment fee between 0.25% and 1.0% based on the undrawn amount of the loan.

***Impact of AFS Securities on AOCI***

The following table presents the impact of the Company's AFS securities on its AOCI for the three months ended March 31, 2020 and 2019:

| | Three Months Ended March 31, | |
|---|---|---|
| **(In Thousands)** | **2020** | **2019** |
| AOCI from AFS securities: | | |
| Unrealized gain on AFS securities at beginning of period | $ 392,722 | $ 417,167 |
| Unrealized gain on Agency MBS, net | 4,876 | 9,315 |
| Unrealized gain on Non-Agency MBS, net | 124,700 | 12,276 |
| Unrealized (loss)/gain on MSR term notes, net | (5,166) | 512 |
| Reclassification adjustment for MBS sales included in net income | (23,953) | (17,009) |
| Reclassification adjustment for impairment included in net income | (344,269) | — |
| Change in AOCI from AFS securities | (243,812) | 5,094 |
| Balance at end of period | $ 148,910 | $ 422,261 |

***Interest Income on Residential Mortgage Securities and MSR-Related Assets***

The following table presents the components of interest income on the Company's residential mortgage securities and MSR- related assets for the three months ended March 31, 2020 and 2019:

| (In Thousands) | Three Months Ended March 31, 2020 | Three Months Ended March 31, 2019 |
|---|---|---|
| Agency MBS | | |
| Coupon interest | $ 13,636 | $ 24,628 |
| Effective yield adjustment *(1)* | (4,775) | (6,187) |
| Interest income | $ 8,861 | $ 18,441 |
| Legacy Non-Agency MBS | | |
| Coupon interest | $ 17,282 | $ 24,272 |
| Effective yield adjustment *(2)* | 9,406 | 13,144 |
| Interest income | $ 26,688 | $ 37,416 |
| RPL/NPL MBS | | |
| Coupon interest | $ 5,583 | $ 16,443 |
| Effective yield adjustment *(1)(3)* | 280 | 142 |
| Interest income | $ 5,863 | $ 16,585 |
| CRT securities | | |
| Coupon interest | $ 3,485 | $ 6,118 |
| Effective yield adjustment *(2)* | (523) | 82 |
| Interest income | $ 2,962 | $ 6,200 |
| MSR-related assets | | |
| Coupon interest | $ 14,207 | $ 10,619 |
| Effective yield adjustment *(1)* | — | 1 |
| Interest income | $ 14,207 | $ 10,620 |

*(1) Includes amortization of premium paid net of accretion of purchase discount. For Agency MBS, RPL/NPL MBS and the corporate loan secured by MSRs, interest income is recorded at an effective yield, which reflects net premium amortization/accretion based on actual prepayment activity.*

*(2) The effective yield adjustment is the difference between the net income calculated using the net yield, which is based on management's estimates of the amount and timing of future cash flows, less the current coupon yield.*

*(3) Includes accretion income recognized due to the impact of redemptions of certain securities that had been previously purchased at a discount of approximately $277,000 and $148,000 during the three months ended March 31, 2020 and 2019, respectively.*

## 5. Other Assets

The following table presents the components of the Company's Other assets at March 31, 2020 and December 31, 2019:

| (In Thousands) | March 31, 2020 | December 31, 2019 |
|---|---|---|
| REO *(1)* | $ 411,473 | $ 411,659 |
| Receivable for unsettled MBS sales | 392,597 | — |
| Capital contributions made to loan origination partners | 113,923 | 147,992 |
| Other interest-earning assets | 73,443 | 70,468 |
| Interest receivable | 65,977 | 70,986 |
| Other MBS and loan related receivables | 55,789 | 43,842 |
| Other | 58,437 | 39,304 |
| Total Other Assets | $ 1,171,639 | $ 784,251 |

*(1) Includes $39.5 million and $27.3 million of REO that is held-for-investment at March 31, 2020 and December 31, 2019, respectively.*

### *(a) Real Estate Owned*

At March 31, 2020, the Company had 1,622 REO properties with an aggregate carrying value of $411.5 million. At December 31, 2019, the Company had 1,652 REO properties with an aggregate carrying value of $411.7 million.

At March 31, 2020, $406.9 million of residential real estate property was held by the Company that was acquired either through a completed foreclosure proceeding or from completion of a deed-in-lieu of foreclosure or similar legal agreement. In addition, excluding unsettled residential whole loans, formal foreclosure proceedings were in process with respect to $98.2 million of residential whole loans held at carrying value and $514.4 million of residential whole loans held at fair value at March 31, 2020.

The following table presents the activity in the Company's REO for the three months ended March 31, 2020 and 2019:

| | Three Months Ended March 31, | |
|---|---|---|
| (In Thousands) | 2020 | 2019 |
| Balance at beginning of period | $ 411,659 | $ 249,413 |
| Adjustments to record at lower of cost or fair value | (4,750) | (4,072) |
| Transfer from residential whole loans *(1)* | 50,693 | 65,160 |
| Purchases and capital improvements, net | 5,606 | 5,923 |
| Disposals *(2)* | (51,735) | (25,837) |
| Balance at end of period | $ 411,473 | $ 290,587 |
| | | |
| Number of properties | 1,622 | 1,233 |

*(1) Includes net gain recorded on transfer of approximately $3.0 million and $4.6 million for the three months ended March 31, 2020 and 2019, respectively.*
*(2) During the three months ended March 31, 2020 and 2019, the Company sold 249 and 137 REO properties for consideration of $54.8 million and $27.8 million, realizing net gains of approximately $3.1 million and $1.4 million, respectively. These amounts are included in Other Income, net on the Company's consolidated statements of operations.*

### *(b) Capital Contributions Made to Loan Origination Partners*

The Company has made investments in several loan originators as part of its strategy to be a reliable source of capital to select partners from whom it sources residential mortgage loans through both flow arrangements and bulk purchases. To date, such contributions of capital have included the acquisition of approximately $28.5 million of common equity, $69.4 million of preferred

equity and $75.0 million of convertible notes. In addition, for certain partners, options or warrants may have also been acquired that provide the Company the ability to increase the level of its investment if certain conditions are met. At the end of each reporting period, or earlier if circumstances warrant, the Company evaluates whether the nature of its interests and other involvement with the investee entity requires the Company to apply equity method accounting or consolidate the results of the investee entity with the Company's financial results. To date, the nature of the Company's interests and/or involvement with investee companies has not resulted in consolidation. Further, to the extent that the nature of the Company's interests has resulted in the need for the Company to apply equity method accounting, the impact of such accounting on the Company's results for periods subsequent to that in which the Company was determined to have significant influence over the investee company was not material for any period. As the interests acquired to date by the Company generally do not have a readily determinable fair value, the Company accounts for its non-equity method interests (including any acquired options and warrants) in loan originators initially at cost. The carrying value of these investments will be adjusted if it is determined that an impairment has occurred or if there has been a subsequent observable transaction in either the investee company's equity securities or a similar security that provides evidence to support an adjustment to the carrying value. Following an evaluation of the anticipated impact of the COVID-19 pandemic on economic conditions for the short to medium term, the Company recorded impairment charges of $58.1 million on investments in certain loan origination partners during the three months ended March 31, 2020, which was included in "Impairment and other losses on securities available-for-sale and other assets" on the consolidated statements of operations. At March 31, 2020, approximately $2.0 billion of the Company's Residential whole loans, at carrying value were serviced by entities in which the Company has an investment.

***(c) Derivative Instruments***

The Company's derivative instruments have generally been comprised of Swaps, the majority of which are designated as cash flow hedges against the interest rate risk associated with its borrowings. In addition, in connection with managing risks associated with purchases of longer duration Agency MBS, the Company has also entered into Swaps that are not designated as hedges for accounting purposes.

In response to the turmoil in the financial markets resulting from the COVID-19 pandemic experienced during the three months ended March 31, 2020 and given that management no longer considered these transactions to be effective hedges in the prevailing interest rate environment, the Company unwound all of its approximately $4.1 billion of Swap hedging transactions late in the first quarter in order to recover previously posted margin. At March 31, 2020, losses of $71.2 million on unwound Swaps previously designated as hedges for accounting purposes continue to be included in AOCI. As the underlying hedged financing transactions are still considered probable of occurring, these losses will be amortized to interest expense over the remaining lives of the associated Swaps, which averaged 20 months at March 31, 2020.

The following table presents the fair value of the Company's derivative instruments at March 31, 2020 and December 31, 2019:

| | | March 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|---|
| **Derivative Instrument *(1)*** | **Designation** | **Notional Amount** | **Fair Value** | **Notional Amount** | **Fair Value** |
| **(In Thousands)** | | | | | |
| Swaps | Hedging | $ — | $ — | $ 2,942,000 | $ — |
| Swaps | Non-Hedging | $ — | $ — | $ 230,000 | $ — |

*(1) Represents Swaps executed bilaterally with a counterparty in the over-the-counter market but then novated to a central clearing house, whereby the central clearing house becomes the counterparty to both of the original counterparties.*

*Swaps*

The following table presents the assets pledged as collateral against the Company's Swap contracts at March 31, 2020 and December 31, 2019:

| **(In Thousands)** | **March 31, 2020** | **December 31, 2019** |
|---|---|---|
| Agency MBS, at fair value | $ — | $ 2,241 |
| Restricted cash | — | 16,777 |
| Total assets pledged against Swaps | $ — | $ 19,018 |

Swaps designated as hedges, or a portion thereof, could become ineffective in the future if the associated repurchase agreements that such derivatives hedge fail to exist or if expected payments under the Swaps fail to adequately offset expected payments under the repurchase agreements.

The Company's Swaps designated as hedging transactions have the effect of modifying the repricing characteristics of the Company's repurchase agreements and cash flows for such liabilities. To date, no cost has been incurred at the inception of a Swap (except for certain transaction fees related to entering into Swaps cleared though a central clearing house), pursuant to which the Company agrees to pay a fixed rate of interest and receive a variable interest rate, generally based on one-month or three-month LIBOR, on the notional amount of the Swap. During the three months ended March 31, 2019, the Company de-designated and re-designated any Swaps previously designated as a hedge in order to benefit from the simplified assessment requirements under ASU 2017-12. This de-designation and re-designation had no net impact on the Company's financial condition or results of operations.

The following table presents information about the Company's Swaps at March 31, 2020 and December 31, 2019:

| | March 31, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| Maturity *(1)* | Notional Amount | Weighted Average Fixed-Pay Interest Rate | Weighted Average Variable Interest Rate *(2)* | Notional Amount | Weighted Average Fixed-Pay Interest Rate | Weighted Average Variable Interest Rate *(2)* |
| (Dollars in Thousands) | | | | | | |
| Over 3 months to 6 months | $ — | —% | —% | $ 200,000 | 2.05% | 1.70% |
| Over 6 months to 12 months | — | — | — | 1,430,000 | 2.30 | 1.77 |
| Over 12 months to 24 months | — | — | — | 1,300,000 | 2.11 | 1.86 |
| Over 24 months to 36 months | — | — | — | 20,000 | 1.38 | 1.90 |
| Over 36 months to 48 months | — | — | — | 222,000 | 2.88 | 1.84 |
| Total Swaps | $ — | —% | —% | $ 3,172,000 | 2.24% | 1.81% |

*(1) Each maturity category reflects contractual amortization and/or maturity of notional amounts.*
*(2) Reflects the benchmark variable rate due from the counterparty at the date presented, which rate adjusts monthly or quarterly based on one-month or three-month LIBOR, respectively.*

The following table presents the net impact of the Company's derivative hedging instruments on its net interest expense and the weighted average interest rate paid and received for such Swaps for the three months ended March 31, 2020 and 2019:

| | Three Months Ended March 31, | |
|---|---|---|
| (Dollars in Thousands) | 2020 | 2019 |
| Interest (expense)/income attributable to Swaps | $ (3,359) | $ 1,191 |
| Weighted average Swap rate paid | 2.09% | 2.31% |
| Weighted average Swap rate received | 1.65% | 2.49% |

During the three months ended March 31, 2020 and 2019, the Company recorded net losses on Swaps not designated in hedging relationships of approximately $4.3 million and $8.9 million, respectively, which included $9.4 million and $7.8 million of losses realized on the unwind of certain Swaps. These amounts are included in Other income, net on the Company's consolidated statements of operations.

*Impact of Derivative Hedging Instruments on AOCI*

The following table presents the impact of the Company's derivative hedging instruments on its AOCI for the three months ended March 31, 2020 and 2019:

| | Three Months Ended March 31, | |
|---|---|---|
| (In Thousands) | 2020 | 2019 |
| AOCI from derivative hedging instruments: | | |
| Balance at beginning of period | $ (22,675) | $ 3,121 |
| Net loss on Swaps | (50,127) | (10,445) |
| Amortization of de-designated hedging instruments, net | 1,594 | (341) |
| Balance at end of period | $ (71,208) | $ (7,665) |

The estimated net amount of the existing losses that are reported in AOCI as of March 31, 2020 that are expected to be reclassified into earnings within the next 12 months is $44.5 million.

**6. Repurchase Agreements**

The Company's repurchase agreements are accounted for as secured borrowings and bear interest that is generally LIBOR-based. (See Notes 2(j) and 7) At March 31, 2020, the Company's borrowings under repurchase agreements had a weighted average remaining term-to-interest rate reset of 28 days and an effective repricing period of 11 months. Late in the first quarter, due to the severe market volatility and price dislocations resulting from concerns driven by the COVID-19 pandemic, the Company was unable to meet all of it margin call obligations with respect to its repurchase obligations, which effectively triggered a default under the numerous repurchase agreements it has with its counterparties. The Company initiated discussions with its counterparties regarding entering into a forbearance agreement that would provide the Company relief from compliance with certain of the requirements of these agreements, including the need to make margin calls, for an agreed period. Subsequent to quarter end, the Company entered into a forbearance agreement with the majority of its repurchase agreement counterparties and eliminated the amounts outstanding with other repurchase agreement counterparties with whom it did not enter into a forbearance agreement. See Note 16 "Subsequent Events" for further details. At December 31, 2019, the Company's borrowings under repurchase agreements had a weighted average remaining term-to-interest rate reset of 40 days and an effective repricing period of 10 months, including the impact of related Swaps.

The following table presents information with respect to the Company's borrowings under repurchase agreements and associated assets pledged as collateral at March 31, 2020 and December 31, 2019:

| (Dollars in Thousands) | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Repurchase agreements secured by residential whole loans *(1)* | $ 4,700,931 | $ 4,743,094 |
| Fair value of residential whole loans pledged as collateral under repurchase agreements *(2)(3)* | $ 5,665,277 | $ 5,986,267 |
| Weighted average haircut on residential whole loans *(4)* | 19.17% | 20.07% |
| Repurchase agreement borrowings secured by Agency MBS | $ 522,209 | $ 1,557,675 |
| Fair value of Agency MBS pledged as collateral under repurchase agreements | $ 568,704 | $ 1,656,373 |
| Weighted average haircut on Agency MBS *(4)* | 4.99% | 4.46% |
| Repurchase agreement borrowings secured by Legacy Non-Agency MBS | $ 1,003,122 | $ 1,121,802 |
| Fair value of Legacy Non-Agency MBS pledged as collateral under repurchase agreements | $ 1,088,549 | $ 1,420,797 |
| Weighted average haircut on Legacy Non-Agency MBS *(4)* | 21.60% | 20.27% |
| Repurchase agreement borrowings secured by RPL/NPL MBS | $ 255,409 | $ 495,091 |
| Fair value of RPL/NPL MBS pledged as collateral under repurchase agreements | $ 243,125 | $ 635,005 |
| Weighted average haircut on RPL/NPL MBS *(4)* | 20.30% | 21.52% |
| Repurchase agreements secured by CRT securities | $ 297,628 | $ 203,569 |
| Fair value of CRT securities pledged as collateral under repurchase agreements | $ 263,225 | $ 252,175 |
| Weighted average haircut on CRT securities *(4)* | 20.89% | 18.84% |
| Repurchase agreements secured by MSR-related assets | $ 929,915 | $ 962,515 |
| Fair value of MSR-related assets pledged as collateral under repurchase agreements | $ 877,204 | $ 1,217,002 |
| Weighted average haircut on MSR-related assets *(4)* | 22.11% | 21.18% |
| Repurchase agreements secured by other interest-earning assets | $ 59,777 | $ 57,198 |
| Fair value of other interest-earning assets pledged as collateral under repurchase agreements | $ 71,837 | $ 61,708 |
| Weighted average haircut on other interest-earning assets *(4)* | 21.88% | 22.01% |

*(1) Excludes $811,000 and $1.1 million of unamortized debt issuance costs at March 31, 2020 and December 31, 2019, respectively.*

*(2) At March 31, 2020 and December 31, 2019, includes RPL/NPL MBS with an aggregate fair value of $193.9 million and $238.8 million, respectively, obtained in connection with the Company's loan securitization transactions that are eliminated in consolidation.*

*(3) At March 31, 2020 and December 31, 2019, includes residential whole loans held at carrying value with an aggregate fair value of $4.8 billion and $5.0 billion and aggregate amortized cost of $5.1 billion and $4.8 billion, respectively and residential whole loans held at fair value with an aggregate fair value and amortized cost of $718.3 million and $794.7 million, respectively.*

*(4) Haircut represents the percentage amount by which the collateral value is contractually required to exceed the loan amount.*

In addition, the Company had cash pledged as collateral in connection with its repurchase agreements of $213.1 million and $25.2 million at March 31, 2020 and December 31, 2019, respectively.

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The following table presents repricing information about the Company's borrowings under repurchase agreements, which does not reflect the impact of associated derivative hedging instruments, at March 31, 2020 and December 31, 2019:

| | March 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| **Time Until Interest Rate Reset** | **Balance** | **Weighted Average Interest Rate** | **Balance** | **Weighted Average Interest Rate** |
| **(Dollars in Thousands)** | | | | |
| Within 30 days | $ 2,504,628 | 1.96% | $ 4,472,120 | 2.55% |
| Over 30 days to 3 months | 2,993,905 | 2.96 | 2,746,384 | 3.43 |
| Over 3 months to 12 months | 1,392,318 | 4.06 | 1,014,441 | 3.36 |
| Over 12 months | 878,140 | 5.65 | 907,999 | 3.44 |
| Total repurchase agreements | $ 7,768,991 | 3.14% | $ 9,140,944 | 2.99% |
| Less debt issuance costs | 811 | | 1,123 | |
| Total repurchase agreements less debt issuance costs | $ 7,768,180 | | $ 9,139,821 | |

*Undrawn Financing Commitment*

In connection with the financing of MSR-related assets, the Company has obtained a financing commitment of up to $75.0 million, of which $25.4 million was utilized and was outstanding as of March 31, 2020. The Company pays a commitment fee ranging from 0.125% to 0.5% of the undrawn amount, depending on the amount of financing utilized.

The Company had repurchase agreement borrowings with 26 and 28 counterparties at March 31, 2020 and December 31, 2019, respectively. The following table presents information with respect to each counterparty under repurchase agreements for which the Company had greater than 5% of stockholders' equity at risk in the aggregate at March 31, 2020:

| | March 31, 2020 | | | |
|---|---|---|---|---|
| **Counterparty** | **Counterparty Rating *(1)*** | **Amount at Risk *(2)*** | **Weighted Average Months to Maturity for Repurchase Agreements *(3)*** | **Percent of Stockholders' Equity** |
| **(Dollars in Thousands)** | | | | |
| Credit Suisse *(4)* | BBB+/Baa2/A- | $ 421,642 | 2 | 17.3% |
| Barclays Bank | BBB/Aa3/A | 386,620 | 2 | 15.8 |
| Goldman Sachs *(5)* | BBB+/A3/A | 256,550 | 5 | 10.5 |
| Wells Fargo *(6)* | A+/Aa2/AA- | 246,865 | 16 | 10.1 |

*(1) As rated at March 31, 2020 by S&P, Moody's and Fitch, Inc., respectively. The counterparty rating presented is the lowest published for these entities.*
*(2) The amount at risk reflects the difference between (a) the amount loaned to the Company through repurchase agreements, including interest payable, and (b) the cash and the fair value of the securities pledged by the Company as collateral, including accrued interest receivable on such securities.*
*(3) See Note 16 "Subsequent Events" for details regarding the Company's Forbearance Agreements, which impacts the maturity dates of the Company's repurchase agreement financings.*
*(4) Includes $369.0 million at risk with Credit Suisse and $52.6 million at risk with Credit Suisse Cayman.*
*(5) Includes $118.1 million at risk with Goldman Sachs Lending Partners and $138.4 million at risk with Goldman Sachs Bank USA.*
*(6) Includes $240.9 million at risk with Wells Fargo Bank, NA and approximately $6.0 million at risk with Wells Fargo Securities LLC.*

## 7. Collateral Positions

The Company pledges securities or cash as collateral to its counterparties pursuant to its borrowings under repurchase agreements and for initial margin payments on centrally cleared Swaps. In addition, the Company receives securities or cash as collateral pursuant to financing provided under reverse repurchase agreements. The Company exchanges collateral with its

counterparties based on changes in the fair value, notional amount and term of the associated repurchase agreements and Swap contracts, as applicable. In connection with these margining practices, either the Company or its counterparty may be required to pledge cash or securities as collateral. When the Company's pledged collateral exceeds the required margin, the Company may initiate a reverse margin call, at which time the counterparty may either return the excess collateral or provide collateral to the Company in the form of cash or equivalent securities.

The Company's assets pledged as collateral are described in Notes 2(f) - Restricted Cash, 5(c) - Derivative Instruments and 6 - Repurchase Agreements. The total fair value of assets pledged as collateral with respect to the Company's borrowings under repurchase agreements and/or derivative hedging instruments was $9.0 billion and $11.3 billion at March 31, 2020 and December 31, 2019, respectively. An aggregate of $56.0 million and $57.2 million of accrued interest on those assets had also been pledged as of March 31, 2020 and December 31, 2019, respectively.

**8. Offsetting Assets and Liabilities**

Certain of the Company's repurchase agreement and derivative transactions are governed by underlying agreements that generally provide for a right of setoff in the event of default or in the event of a bankruptcy of either party to the transaction. In the Company's consolidated balance sheets, all balances associated with repurchase agreements are presented on a gross basis.

The fair value of financial instruments pledged against the Company's repurchase agreements was $8.8 billion and $11.2 billion at March 31, 2020 and December 31, 2019, respectively. Since January 2017, variation margin payments on the Company's cleared Swaps have been treated as a legal settlement of the exposure under the Swap contract. Previously such payments were treated as collateral pledged against the exposure under the related Swap contract. The effect of this change is to reduce what would have otherwise been reported as fair value of the Swap. As previously discussed, in response to the turmoil in the financial markets resulting from the COVID-19 pandemic experienced during the three months ended March 31, 2020, the Company unwound all of its Swaps late in the quarter. The fair value of financial instruments pledged against the Company's Swaps at December 31, 2019 was $2.2 million. In addition, cash that has been pledged as collateral against repurchase agreements and Swaps is reported as Restricted cash on the Company's consolidated balance sheets. (See Notes 2(f), 5(c) and 6). See Note 6 regarding the Company's inability to meet its margin requirements at March 31, 2020.

**9. Other Liabilities**

The following table presents the components of the Company's Other liabilities at March 31, 2020 and December 31, 2019:

| (In Thousands) | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Securitized debt *(1)* | $ 533,733 | $ 570,952 |
| Convertible Senior Notes | 224,264 | 223,971 |
| Senior Notes | 96,874 | 96,862 |
| Dividends and dividend equivalents payable | — | 90,749 |
| Accrued interest payable | 21,840 | 18,238 |
| Accrued expenses and other | 44,771 | 42,819 |
| Total Other Liabilities | $ 921,482 | $ 1,043,591 |

*(1) Securitized debt represents third-party liabilities of consolidated VIEs and excludes liabilities of the VIEs acquired by the Company that are eliminated in consolidation. The third-party beneficial interest holders in the VIEs have no recourse to the general credit of the Company. (See Notes 10 and 15 for further discussion.)*

***(a) Convertible Senior Notes***

On June 3, 2019, the Company issued $230.0 million in aggregate principal amount of its Convertible Senior Notes in an underwritten public offering, including an additional $30.0 million issued pursuant to the exercise of the underwriters' option to purchase additional Convertible Senior Notes. The total net proceeds the Company received from the offering were approximately $223.3 million, after deducting offering expenses and the underwriting discount. The Convertible Senior Notes bear interest at a fixed rate of 6.25% per year, paid semiannually on June 15 and December 15 of each year commencing December 15, 2019 and

will mature on June 15, 2024, unless earlier converted, redeemed or repurchased in accordance with their terms. The Convertible Senior Notes are convertible at the option of the holders at any time until the close of business on the business day immediately preceding the maturity date into shares of the Company's common stock based on an initial conversion rate of 125.7387 shares of the Company's common stock for each $1,000 principal amount of the Convertible Senior Notes, which is equivalent to an initial conversion price of approximately $7.95 per share of common stock. The Convertible Senior Notes have an effective interest rate, including the impact of amortization to interest expense of debt issuance costs, of 6.94%. The Company does not have the right to redeem the Convertible Senior Notes prior to maturity, except to the extent necessary to preserve its status as a REIT, in which case the Company may redeem the Convertible Senior Notes, in whole or in part, at a redemption price equal to the principal amount redeemed plus accrued and unpaid interest.

The Convertible Senior Notes are the Company's senior unsecured obligations and are effectively junior to all of the Company's secured indebtedness, which includes the Company's repurchase agreements and other financing arrangements, to the extent of the value of the collateral securing such indebtedness and equal in right of payment to the Company's existing and future senior unsecured obligations, including the Senior Notes.

***(b) Senior Notes***

On April 11, 2012, the Company issued $100.0 million in aggregate principal amount of its Senior Notes in an underwritten public offering. The total net proceeds the Company received from the offering of the Senior Notes were approximately $96.6 million, after deducting offering expenses and the underwriting discount. The Senior Notes bear interest at a fixed rate of 8.00% per year, paid quarterly in arrears on January 15, April 15, July 15 and October 15 of each year and will mature on April 15, 2042. The Senior Notes have an effective interest rate, including the impact of amortization to interest expense of debt issuance costs, of 8.31%. The Company may redeem the Senior Notes, in whole or in part, at any time, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest.

The Senior Notes are the Company's senior unsecured obligations and are effectively junior to all of the Company's secured indebtedness, which includes the Company's repurchase agreements and other financing arrangements, to the extent of the value of the collateral securing such indebtedness and equal in right of payment to the Company's existing and future senior unsecured obligations, including the Convertible Senior Notes.

## 10. Commitments and Contingencies

***(a) Lease Commitments***

The Company pays monthly rent pursuant to three office leases. In November 2018, the Company amended the lease for its corporate headquarters in New York, New York, under the same terms and conditions, to extend the expiration date for the lease by up to one year, through June 30, 2021, with a mutual option to terminate in February 2021. For the three months ended March 31, 2020, the Company recorded expense of approximately $666,000 in connection with the lease for its current corporate headquarters.

In addition, in November 2018, the Company executed a lease agreement on new office space in New York, New York. The Company plans to relocate its corporate headquarters to this new office space upon the substantial completion of the building. The lease term specified in the agreement is fifteen years with an option to renew for an additional five years. The Company's current estimate of annual lease rental expense under the new lease, excluding escalation charges which at this point are unknown, is approximately $4.6 million. The Company currently expects to relocate to the space in the fourth quarter of 2020, but this timing, as well as when it is required to begin making payments and recognize rental and other expenses under the new lease, is dependent on when the space is actually available for use.

***(b) Representations and Warranties in Connection with Loan Securitization Transactions***

In connection with the loan securitization transactions entered into by the Company, the Company has the obligation under certain circumstances to repurchase assets previously transferred to securitization vehicles upon breach of certain representations and warranties. As of March 31, 2020, the Company had no reserve established for repurchases of loans and was not aware of any material unsettled repurchase claims that would require the establishment of such a reserve. (See Note 15)

***(c) Corporate Loans***

The Company has participated in loans to provide financing to entities that originate loans and own MSRs, as well as certain other unencumbered assets owned by the borrower. Under the terms of the respective lending agreements, the Company has committed to lend $150.0 million of which approximately $108.8 million was drawn at March 31, 2020. (See Note 4)

***(d) Rehabilitation Loan Commitments***

At March 31, 2020, the Company had unfunded commitments of $123.1 million in connection with its purchased Rehabilitation loans. (See Note 3)

## 11. Stockholders' Equity

***(a) Preferred Stock***

*7.50% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock")*

On April 15, 2013, the Company completed the issuance of 8.0 million shares of its Series B Preferred Stock with a par value of $0.01 per share, and a liquidation preference of $25.00 per share plus accrued and unpaid dividends, in an underwritten public offering. The Company's Series B Preferred Stock is entitled to receive a dividend at a rate of 7.50% per year on the $25.00 liquidation preference before the Company's common stock is paid any dividends and is senior to the Company's common stock with respect to distributions upon liquidation, dissolution or winding up. Dividends on the Series B Preferred Stock are payable quarterly in arrears on or about March 31, June 30, September 30 and December 31 of each year. The Series B Preferred Stock is redeemable at $25.00 per share plus accrued and unpaid dividends (whether or not authorized or declared) exclusively at the Company's option.

The Series B Preferred Stock generally does not have any voting rights, subject to an exception in the event the Company fails to pay dividends on such stock for six or more quarterly periods (whether or not consecutive). Under such circumstances, the Series B Preferred Stock will be entitled to vote to elect two additional directors to the Company's Board of Directors (the "Board"), until all unpaid dividends have been paid or declared and set apart for payment. In addition, certain material and adverse changes to the terms of the Series B Preferred Stock cannot be made without the affirmative vote of holders of at least 66 2/3% of the outstanding shares of Series B Preferred Stock.

As a result of the turmoil in the financial markets resulting from the spread of the novel coronavirus and the global COVID-19 pandemic, and in order to preserve liquidity, on March 25, 2020, the Company revoked the previously announced first quarter 2020 quarterly cash dividends on each of the Company's common stock and Series B Preferred Stock. The Series B Preferred Stock dividend of $0.46875 per share had been declared on February 14, 2020, and was to be paid on March 31, 2020, to stockholders of record as of the close of business March 2, 2020. Unpaid dividends on the Company's Series B Preferred Stock will accrue without interest. No dividends may be paid or set apart on shares of the Company's common stock unless full cumulative dividends on the Series B Preferred Stock for all past dividend periods that have ended have been or contemporaneously are paid in cash, or a sum sufficient for such payment is set apart for payment. In addition, pursuant to the forbearance agreements that the Company entered into subsequent to quarter end, the Company is prohibited from paying dividends on its Series B Preferred Stock during the forbearance period (see Note 16). The Company will continue to monitor market conditions and the potential impact the ongoing volatility and uncertainty may have on its business. Related thereto, the Company's Board of Directors will continue to evaluate liquidity and the payment of dividends as market conditions evolve.

At March 31, 2020, the unpaid cumulative dividends in arrears on the Company's Series B Preferred Stock were $3.8 million ($0.46875 per share).

*Issuance of 6.50% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock ("Series C Preferred Stock")*

On February 28, 2020, the Company amended its charter through the filing of articles supplementary to reclassify 12,650,000 shares of the Company's authorized but unissued common stock as shares of the Company's Series C Preferred Stock. On March 2, 2020, the Company completed the issuance of 11.0 million shares of its Series C Preferred Stock with a par value of $0.01 per share, and a liquidation preference of $25.00 per share plus accrued and unpaid dividends, in an underwritten public offering. The total net proceeds the Company received from the offering were approximately $266.0 million, after deducting offering expenses and the underwriting discount.

The Company's Series C Preferred Stock is entitled to receive dividends (i) from and including the original issue date to, but excluding, March 31, 2025, at a fixed rate of 6.50% per year on the $25.00 liquidation preference and (ii) from and including March 31, 2025, at a floating rate equal to three-month LIBOR plus a spread of 5.345% per year of the $25.00 per share liquidation preference before the Company's common stock is paid any dividends, and is senior to the Company's common stock with respect to distributions upon liquidation, dissolution or winding up. Dividends on the Series C Preferred Stock are payable quarterly in arrears on or about March 31, June 30, September 30 and December 31 of each year. The Series C Preferred Stock is not redeemable by the Company prior to March 31, 2025, except under circumstances where it is necessary to preserve the Company's qualification as a REIT for U.S. federal income tax purposes and upon the occurrence of certain specified change in control transactions. On or after March 31, 2025, the Company may, at its option, subject to certain procedural requirements, redeem any or all of the shares of the Series C Preferred Stock for cash at a redemption price of $25.00 per share, plus any accrued and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the redemption date.

The Series C Preferred Stock generally does not have any voting rights, subject to an exception in the event the Company fails to pay dividends on such stock for six or more quarterly periods (whether or not consecutive). Under such circumstances, the Series Preferred Stock will be entitled to vote to elect two additional directors to the Company's Board, until all unpaid dividends have been paid or declared and set apart for payment. In addition, certain material and adverse changes to the terms of the Series C Preferred Stock cannot be made without the affirmative vote of holders of at least 66 2/3 of the outstanding shares of Series C Preferred Stock.

At March 31, 2020, the unpaid cumulative dividends in arrears on the Company's Series C Preferred Stock were $1.4 million ($0.12639 per share). Pursuant to the forbearance agreements that the Company entered into subsequent to quarter end, the Company is prohibited from paying dividends on its Series C Preferred Stock during the forbearance period (see Note 16).

***(b) Dividends on Common Stock***

As discussed above, on March 25, 2020, the Company revoked its previously announced first quarter 2020 quarterly cash dividends on each of the Company's common stock and Series B Preferred Stock. The quarterly cash dividend of $0.20 per share on the Company's common stock had been declared on March 11, 2020, and was to be paid on April 30, 2020, to all stockholders of record as of the close of business March 31, 2020. No dividends may be paid or set apart on shares of the Company's common stock unless full cumulative dividends on the Series B Preferred Stock and Series C Preferred Stock for all past dividend periods that have ended have been or contemporaneously are paid in cash, or a sum sufficient for such payment is set apart for payment. In addition, pursuant to the forbearance agreements that the Company entered into subsequent to quarter end, the Company is prohibited from paying dividends on its common stock during the forbearance period (see Note 16).

***(c) Discount Waiver, Direct Stock Purchase and Dividend Reinvestment Plan ("DRSPP")***

On October 15, 2019, the Company filed a shelf registration statement on Form S-3 with the SEC under the Securities Act of 1933, as amended (the "1933 Act"), for the purpose of registering additional common stock for sale through its DRSPP. Pursuant to Rule 462(e) under the 1933 Act, this shelf registration statement became effective automatically upon filing with the SEC and, when combined with the unused portion of the Company's previous DRSPP shelf registration statements, registered an aggregate of 9.0 million shares of common stock. The Company's DRSPP is designed to provide existing stockholders and new investors with a convenient and economical way to purchase shares of common stock through the automatic reinvestment of dividends and/or optional cash investments. At March 31, 2020, approximately 8.8 million shares of common stock remained available for issuance pursuant to the DRSPP shelf registration statement.

During the three months ended March 31, 2020, the Company issued 106,949 shares of common stock through the DRSPP, raising net proceeds of approximately $691,979. Since the inception of the DRSPP in September 2003 through March 31, 2020, the Company issued 34,485,717 shares pursuant to the DRSPP, raising net proceeds of $287.3 million.

***(d) At-the-Market Offering Program***

On August 16, 2019 the Company entered into a distribution agreement under the terms of which the Company may offer and sell shares of its common stock having an aggregate gross sales price of up to $400.0 million (the "ATM Shares"), from time to time, through various sales agents, pursuant to an at-the-market equity offering program (the "ATM Program"). Sales of the ATM Shares, if any, may be made in negotiated transactions or by transactions that are deemed to be "at-the-market" offerings, as defined in Rule 415 under the 1933 Act, including sales made directly on the New York Stock Exchange ("NYSE") or sales made to or through a market maker other than an exchange. The sales agents are entitled to compensation of up to two percent of the gross sales price per share for any shares of common stock sold under the distribution agreement.

During the three months ended March 31, 2020, the Company did not sell any shares of common stock through the ATM Program. At March 31, 2020, approximately $390.0 million remained outstanding for future offerings under this program.

***(e) Stock Repurchase Program***

As previously disclosed, in August 2005, the Company's Board authorized a stock repurchase program (the "Repurchase Program") to repurchase up to 4.0 million shares of its outstanding common stock. The Board reaffirmed such authorization in May 2010. In December 2013, the Board increased the number of shares authorized under the Repurchase Program to an aggregate of 10.0 million. Such authorization does not have an expiration date and, at present, there is no intention to modify or otherwise rescind such authorization. Subject to applicable securities laws, repurchases of common stock under the Repurchase Program are made at times and in amounts as the Company deems appropriate (including, in our discretion, through the use of one or more plans adopted under Rule 10b5-1 promulgated under the Securities Exchange Act of 1934, as amended (the "1934 Act")) using available cash resources. Shares of common stock repurchased by the Company under the Repurchase Program are cancelled and, until reissued by the Company, are deemed to be authorized but unissued shares of the Company's common stock. The Repurchase Program may be suspended or discontinued by the Company at any time and without prior notice. The Company did not repurchase any shares of its common stock during the three months ended March 31, 2020. At March 31, 2020, 6,616,355 shares remained authorized for repurchase under the Repurchase Program.

***(f) Accumulated Other Comprehensive Income/(Loss)***

The following table presents changes in the balances of each component of the Company's AOCI for the three months ended March 31, 2020:

| | Three Months Ended March 31, 2020 | | |
|---|---|---|---|
| **(In Thousands)** | **Net Unrealized Gain/(Loss) on AFS Securities** | **Net (Loss) on Swaps** | **Total AOCI** |
| Balance at beginning of period | $ 392,722 | $ (22,675) | $ 370,047 |
| OCI before reclassifications | 124,410 | (50,127) | 74,283 |
| Amounts reclassified from AOCI *(1)* | (368,222) | 1,594 | (366,628) |
| Net OCI during the period *(2)* | (243,812) | (48,533) | (292,345) |
| Balance at end of period | $ 148,910 | $ (71,208) | $ 77,702 |

*(1) See separate table below for details about these reclassifications.*
*(2) For further information regarding changes in OCI, see the Company's consolidated statements of comprehensive income/(loss).*

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The following table presents changes in the balances of each component of the Company's AOCI for the three months ended March 31, 2019:

| | Three Months Ended March 31, 2019 | | |
|---|---|---|---|
| **(In Thousands)** | **Net Unrealized Gain/(Loss) on AFS Securities** | **Net Gain on Swaps** | **Total AOCI** |
| Balance at beginning of period | $ 417,167 | $ 3,121 | $ 420,288 |
| OCI before reclassifications | 22,103 | (10,445) | 11,658 |
| Amounts reclassified from AOCI *(1)* | (17,009) | (341) | (17,350) |
| Net OCI during the period *(2)* | 5,094 | (10,786) | (5,692) |
| Balance at end of period | $ 422,261 | $ (7,665) | $ 414,596 |

*(1) See separate table below for details about these reclassifications.*
*(2) For further information regarding changes in OCI, see the Company's consolidated statements of comprehensive income/(loss).*

The following table presents information about the significant amounts reclassified out of the Company's AOCI for the three months ended March 31, 2020:

| **Details about AOCI Components** | **Three Months Ended March 31, 2020**<br>**Amounts Reclassified from AOCI** | **Affected Line Item in the Statement Where Net Income is Presented** |
|---|---|---|
| **(In Thousands)** | | |
| AFS Securities: | | |
| Realized gain on sale of securities | $ (23,953) | Net realized (loss)/gain on sales of residential mortgage securities and residential whole loans |
| Impairment recognized in earnings | (344,269) | Other, net |
| Total AFS Securities | $ (368,222) | |
| Swaps designated as cash flow hedges: | | |
| Amortization of de-designated hedging instruments | 1,594 | Other, net |
| Total Swaps designated as cash flow hedges | $ 1,594 | |
| Total reclassifications for period | $ (366,628) | |

The following table presents information about the significant amounts reclassified out of the Company's AOCI for the three months ended March 31, 2019:

| **Details about AOCI Components** | **Three Months Ended March 31, 2019**<br>**Amounts Reclassified from AOCI** | **Affected Line Item in the Statement Where Net Income is Presented** |
|---|---|---|
| **(In Thousands)** | | |
| AFS Securities: | | |
| Realized gain on sale of securities | $ (17,009) | Net realized (loss)/gain on sales of residential mortgage securities and residential whole loans |
| Total AFS Securities | $ (17,009) | |
| Amortization of de-designated hedging instruments | (341) | |
| Total reclassifications for period | $ (17,350) | |

## 12. EPS Calculation

The following table presents a reconciliation of the (loss)/earnings and shares used in calculating basic and diluted (loss)/earnings per share for the three months ended March 31, 2020 and 2019:

| | Three Months Ended March 31, | |
|---|---|---|
| **(In Thousands, Except Per Share Amounts)** | **2020** | **2019** |
| **Basic (Loss)/Earnings per Share:** | | |
| Net (loss)/income to common stockholders | $ (908,995) | $ 88,857 |
| Dividends declared on preferred stock | (5,215) | (3,750) |
| Dividends, dividend equivalents and undistributed earnings allocated to participating securities | — | (256) |
| Net (loss)/income to common stockholders - basic | $ (914,210) | $ 84,851 |
| Basic weighted average common shares outstanding | 452,979 | 450,358 |
| Basic (Loss)/ Earnings per Share | $ (2.02) | $ 0.19 |
| | | |
| **Diluted (Loss)/Earnings per Share:** | | |
| Net (loss)/income to common stockholders - basic | $ (914,210) | $ 84,851 |
| Interest expense on Convertible Senior Notes | — | — |
| Net (loss)/income to common stockholders - diluted | $ (914,210) | $ 84,851 |
| Basic weighted average common shares outstanding | 452,979 | 450,358 |
| Effect of assumed Convertible Senior Notes conversion to common shares | — | — |
| Diluted weighted average common shares outstanding *(1)* | 452,979 | 450,358 |
| Diluted (Loss)/Earnings per Share | $ (2.02) | $ 0.19 |

*(1) At March 31, 2020, the Company had approximately 2.3 million equity instruments outstanding that were not included in the calculation of diluted EPS for the three months ended March 31, 2020, as their inclusion would have been anti-dilutive. These equity instruments reflect RSUs (based on current estimate of expected share settlement amount) with a weighted average grant date fair value of $7.73. These equity instruments may have a dilutive impact on future EPS.*

During the three months ended March 31, 2020, the Convertible Senior Notes were determined to be anti-dilutive and were not included in the calculation of diluted EPS under the "if-converted" method. Under this method, the periodic interest expense for dilutive notes is added back to the numerator and the weighted average number of shares that the notes are entitled to (if converted, regardless of whether the conversion option is in or out of the money) is included in the denominator for the purpose of calculating diluted EPS. The Convertible Senior Notes may have a dilutive impact on future EPS.

## 13. Equity Compensation, Employment Agreements and Other Benefit Plans

### *(a) Equity Compensation Plan*

In accordance with the terms of the Company's Equity Plan, which was adopted by the Company's stockholders on May 21, 2015 (and which amended and restated the Company's 2010 Equity Compensation Plan), directors, officers and employees of the Company and any of its subsidiaries and other persons expected to provide significant services for the Company and any of its subsidiaries are eligible to receive grants of stock options ("Options"), restricted stock, RSUs, dividend equivalent rights and other stock-based awards under the Equity Plan.

Subject to certain exceptions, stock-based awards relating to a maximum of 12.0 million shares of common stock may be granted under the Equity Plan; forfeitures and/or awards that expire unexercised do not count toward this limit. At March 31, 2020, approximately 2.0 million shares of common stock remained available for grant in connection with stock-based awards under the Equity Plan. A participant may generally not receive stock-based awards in excess of 1.5 million shares of common stock in any one year and no award may be granted to any person who, assuming exercise of all Options and payment of all awards

held by such person, would own or be deemed to own more than 9.8% of the outstanding shares of the Company's common stock. Unless previously terminated by the Board, awards may be granted under the Equity Plan until May 20, 2025.

*Restricted Stock Units*

Under the terms of the Equity Plan, RSUs are instruments that provide the holder with the right to receive, subject to the satisfaction of conditions set by the Compensation Committee at the time of grant, a payment of a specified value, which may be a share of the Company's common stock, the fair market value of a share of the Company's common stock, or such fair market value to the extent in excess of an established base value, on the applicable settlement date. Although the Equity Plan permits the Company to issue RSUs that can settle in cash, all of the Company's outstanding RSUs as of March 31, 2020 are designated to be settled in shares of the Company's common stock. The Company granted 1,204,713 and 752,500 RSUs during the three months ended March 31, 2020 and 2019, respectively. There were no RSUs forfeited during the three months ended March 31, 2020 and 20,000 RSUs forfeited during the three months ended March 31, 2019. All RSUs outstanding at March 31, 2020 may be entitled to receive dividend equivalent payments depending on the terms and conditions of the award either in cash at the time dividends are paid by the Company, or for certain performance-based RSU awards, as a grant of stock at the time such awards are settled. At March 31, 2020 and December 31, 2019, the Company had unrecognized compensation expense of $11.8 million and $5.5 million, respectively, related to RSUs. The unrecognized compensation expense at March 31, 2020 is expected to be recognized over a weighted average period of 2.3 years.

*Restricted Stock*

The Company did not award any shares of restricted common stock during the three months ended March 31, 2020 and 2019. At March 31, 2020, the Company did not have any unvested shares of restricted common stock outstanding.

*Dividend Equivalents*

A dividend equivalent is a right to receive a distribution equal to the dividend distributions that would be paid on a share of the Company's common stock. Dividend equivalents may be granted as a separate instrument or may be a right associated with the grant of another award (e.g., an RSU) under the Equity Plan, and they are paid in cash or other consideration at such times and in accordance with such rules as the Compensation Committee of the Board shall determine in its discretion. Payments made on the Company's outstanding dividend equivalent rights are generally charged to Stockholders' Equity when common stock dividends are declared to the extent that such equivalents are expected to vest. The Company made dividend equivalent payments of approximately $276,000 and $241,000 during the three months ended March 31, 2020 and 2019, respectively.

*Expense Recognized for Equity-Based Compensation Instruments*

The following table presents the Company's expenses related to its equity-based compensation instruments for the three months ended March 31, 2020 and 2019:

| | Three Months Ended March 31, | |
|---|---|---|
| **(In Thousands)** | **2020** | **2019** |
| RSUs | $ 1,273 | $ 998 |
| Total | $ 1,273 | $ 998 |

***(b) Employment Agreements***

At March 31, 2020, the Company had employment agreements with four of its officers, with varying terms that provide for, among other things, base salary, bonus and change-in-control payments upon the occurrence of certain triggering events.

***(c) Deferred Compensation Plans***

The Company administers deferred compensation plans for its senior officers and non-employee directors (collectively, the "Deferred Plans"), pursuant to which participants may elect to defer up to 100% of certain cash compensation. The Deferred Plans are designed to align participants' interests with those of the Company's stockholders.

Amounts deferred under the Deferred Plans are considered to be converted into "stock units" of the Company. Stock units do not represent stock of the Company, but rather are a liability of the Company that changes in value as would equivalent shares of the Company's common stock. Deferred compensation liabilities are settled in cash at the termination of the deferral period, based on the value of the stock units at that time. The Deferred Plans are non-qualified plans under the Employee Retirement Income Security Act of 1974 and, as such, are not funded. Prior to the time that the deferred accounts are settled, participants are unsecured creditors of the Company.

The Company's liability for stock units in the Deferred Plans is based on the market price of the Company's common stock at the measurement date. The following table presents the Company's expenses related to its Deferred Plans for the three months ended March 31, 2020 and 2019:

| (In Thousands) | Three Months Ended March 31, 2020 | Three Months Ended March 31, 2019 |
|---|---|---|
| Non-employee directors | $ (1,906) | $ 286 |
| Total | $ (1,906) | $ 286 |

The following table presents the aggregate amount of income deferred by participants of the Deferred Plans through March 31, 2020 and December 31, 2019 that had not been distributed and the Company's associated liability for such deferrals at March 31, 2020 and December 31, 2019:

| | March 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| (In Thousands) | Undistributed Income Deferred *(1)* | Liability Under Deferred Plans | Undistributed Income Deferred *(1)* | Liability Under Deferred Plans |
| Non-employee directors | $ 1,881 | $ 498 | $ 2,349 | $ 3,071 |
| Total | $ 1,881 | $ 498 | $ 2,349 | $ 3,071 |

*(1) Represents the cumulative amounts that were deferred by participants through March 31, 2020 and December 31, 2019, which had not been distributed through such respective date.*

***(d) Savings Plan***

The Company sponsors a tax-qualified employee savings plan (the "Savings Plan") in accordance with Section 401(k) of the Code. Subject to certain restrictions, all of the Company's employees are eligible to make tax-deferred contributions to the Savings Plan subject to limitations under applicable law. Participant's accounts are self-directed and the Company bears the costs of administering the Savings Plan. The Company matches 100% of the first 3% of eligible compensation deferred by employees and 50% of the next 2%, subject to a maximum as provided by the Code. The Company has elected to operate the Savings Plan under the applicable safe harbor provisions of the Code, whereby among other things, the Company must make contributions for all participating employees and all matches contributed by the Company immediately vest 100%. For the three months ended March 31, 2020 and 2019, the Company recognized expenses for matching contributions of $120,000 and $104,000.

## 14. Fair Value of Financial Instruments

GAAP requires the categorization of fair value measurements into three broad levels that form a hierarchy. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of valuation hierarchy are defined as follows:

*Level 1* — Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or 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 the fair value measurement.

The following describes the valuation methodologies used for the Company's financial instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy.

*Residential Whole Loans, at Fair Value*

The Company determines the fair value of its residential whole loans held at fair value after considering valuations obtained from a third-party that specializes in providing valuations of residential mortgage loans. The valuation approach applied generally depends on whether the loan is considered performing or non-performing at the date the valuation is performed. For performing loans, estimates of fair value are derived using a discounted cash flow approach, where estimates of cash flows are determined from the scheduled payments, adjusted using forecasted prepayment, default and loss given default rates. For non-performing loans, asset liquidation cash flows are derived based on the estimated time to liquidate the loan, the estimated value of the collateral, expected costs and estimated home price appreciation. Estimated cash flows for both performing and non-performing loans are discounted at yields considered appropriate to arrive at a reasonable exit price for the asset. Indications of loan value such as actual trades, bids, offers and generic market color may be used in determining the appropriate discount yield. The Company's residential whole loans held at fair value are classified as Level 3 in the fair value hierarchy.

*Residential Mortgage Securities*

The Company determines the fair value of its Agency MBS based upon prices obtained from third-party pricing services, which are indicative of market activity, and repurchase agreement counterparties.

For Agency MBS, the valuation methodology of the Company's third-party pricing services incorporate commonly used market pricing methods, trading activity observed in the marketplace and other data inputs. The methodology also considers the underlying characteristics of each security, which are also observable inputs, including: collateral vintage, coupon, maturity date, loan age, reset date, collateral type, periodic and life cap, geography, and prepayment speeds. Management analyzes pricing data received from third-party pricing services and compares it to other indications of fair value including data received from repurchase agreement counterparties and its own observations of trading activity observed in the marketplace. The Company's Agency MBS are classified as Level 2 in the fair value hierarchy.

In determining the fair value of the Company's Non-Agency MBS and CRT securities, management considers a number of observable market data points, including prices obtained from pricing services and brokers as well as dialogue with market participants. In valuing Non-Agency MBS, the Company understands that pricing services use observable inputs that include, in addition to trading activity observed in the marketplace, loan delinquency data, credit enhancement levels and vintage, which are taken into account to assign pricing factors such as spread and prepayment assumptions. For tranches of Legacy Non-Agency MBS that are cross-collateralized, performance of all collateral groups involved in the tranche are considered. The Company collects and considers current market intelligence on all major markets, including benchmark security evaluations and bid-lists from various sources, when available.

The Company's Legacy Non-Agency MBS, RPL/NPL MBS and CRT securities are valued using various market data points as described above, which management considers directly or indirectly observable parameters. Accordingly, these securities are classified as Level 2 in the fair value hierarchy.

*Term Notes Backed by MSR-Related Collateral*

The Company's valuation process for term notes backed by MSR-related collateral is similar to that used for residential mortgage securities and considers a number of observable market data points, including prices obtained from pricing services, brokers and repurchase agreement counterparties, dialogue with market participants, as well as management's observations of market activity. Other factors taken into consideration include estimated changes in fair value of the related underlying MSR collateral and, as applicable, the financial performance of the ultimate parent or sponsoring entity of the issuer, which has provided a guarantee that is intended to provide for payment of interest and principal to the holders of the term notes should cash flows generated by the related underlying MSR collateral be insufficient. Based on its evaluation of the observability of the data used in its fair value estimation process, these assets are classified as Level 2 in the fair value hierarchy.

*Swaps*

All of the Company’s Swaps are cleared by a central clearing house. Valuations provided by the clearing house are used for purposes of determining the fair value of the Company’s Swaps. Such valuations obtained are tested with internally developed models that apply readily observable market parameters. As the Company’s Swaps are subject to the clearing house’s margin requirements, no credit valuation adjustment was considered necessary in determining the fair value of such instruments. Since January 2017, variation margin payments on the Company’s cleared Swaps have been treated as a legal settlement of the exposure under the related Swap contract. Previously such payments were treated as collateral pledged against the exposure under the related Swap contract. The effect of this change is to reduce what would have otherwise been reported as the fair value of the Swap. Swaps are classified as Level 2 in the fair value hierarchy.

Changes to the valuation methodologies used with respect to the Company’s financial instruments are reviewed by management to ensure any such changes result in appropriate exit price valuations. The Company will refine its valuation methodologies as markets and products develop and pricing methodologies evolve. The methods described above may produce fair value estimates that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with those used by market participants, the use of 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 reviews the classification of its financial instruments within the fair value hierarchy on a quarterly basis, and management may conclude that its financial instruments should be reclassified to a different level in the future.

The following tables present the Company’s financial instruments carried at fair value on a recurring basis as of March 31, 2020 and December 31, 2019, on the consolidated balance sheets by the valuation hierarchy, as previously described:

**Fair Value at March 31, 2020**

| (In Thousands) | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets:** | | | | |
| Residential whole loans, at fair value | $ — | $ — | $ 1,243,792 | $ 1,243,792 |
| Non-Agency MBS | — | 1,119,940 | — | 1,119,940 |
| Agency MBS | — | 553,413 | — | 553,413 |
| CRT securities | — | 254,101 | — | 254,101 |
| Term notes backed by MSR-related collateral | — | 706,608 | — | 706,608 |
| Total assets carried at fair value | $ — | $ 2,634,062 | $ 1,243,792 | $ 3,877,854 |

**Fair Value at December 31, 2019**

| (In Thousands) | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets:** | | | | |
| Residential whole loans, at fair value | $ — | $ — | $ 1,381,583 | $ 1,381,583 |
| Non-Agency MBS | — | 2,063,529 | — | 2,063,529 |
| Agency MBS | — | 1,664,582 | — | 1,664,582 |
| CRT securities | — | 255,408 | — | 255,408 |
| Term notes backed by MSR-related collateral | — | 1,157,463 | — | 1,157,463 |
| Total assets carried at fair value | $ — | $ 5,140,982 | $ 1,381,583 | $ 6,522,565 |

## Changes in Level 3 Assets Measured at Fair Value on a Recurring Basis

The following table presents additional information for the three months ended March 31, 2020 and 2019 about the Company's Residential whole loans, at fair value, which are classified as Level 3 and measured at fair value on a recurring basis:

| | Residential Whole Loans, at Fair Value | |
|---|---|---|
| | Three Months Ended March 31, | |
| (In Thousands) | 2020 | 2019 |
| Balance at beginning of period | $ 1,381,583 | $ 1,471,263 |
| Purchases and capitalized advances *(1)* | 3,520 | 130,089 |
| Changes in fair value recorded in Net gain on residential whole loans measured at fair value through earnings | (74,556) | (1,060) |
| Collection of principal, net of liquidation gains/(losses) | (23,805) | (31,751) |
| Repurchases | (305) | (318) |
| Transfer to REO | (42,645) | (55,886) |
| Balance at end of period | $ 1,243,792 | $ 1,512,337 |

*(1) Included in the activity presented for the three months ended March 31, 2019 is an adjustment of $70.6 million for loans the Company committed to purchase during the three months ended December 31, 2018, but for which the closing of the purchase transaction occurred during the three months ended March 31, 2019. The adjustment was required following the finalization of due diligence performed prior to the closing of the purchase transaction and resulted in a downward revision to the prior estimate of the loan purchase amount.*

The following table presents additional information for the three months ended March 31, 2019 about the Company's investments in term notes backed by MSR-related collateral, which were classified as Level 3 prior to September 30, 2019 and measured at fair value on a recurring basis:

| | Term Notes Backed by MSR-Related Collateral |
|---|---|
| | Three Months Ended March 31, |
| (In Thousands) | 2019 |
| Balance at beginning of period | $ 538,499 |
| Purchases | 219,166 |
| Sales | — |
| Collection of principal | (4,584) |
| Changes in unrealized gain/(losses) | 513 |
| Transfer to Level 2 | — |
| Balance at end of period | $ 753,594 |

The Company did not transfer any assets or liabilities from one level to another during the three months ended March 31, 2020 or 2019.

**Fair Value Methodology for Level 3 Financial Instruments**

*Residential Whole Loans, at Fair Value*

The following tables present a summary of quantitative information about the significant unobservable inputs used in the fair value measurement of the Company's residential whole loans held at fair value for which it has utilized Level 3 inputs to determine fair value as of March 31, 2020 and December 31, 2019:

| | March 31, 2020 | | | | |
|---|---|---|---|---|---|
| **(Dollars in Thousands)** | **Fair Value *(1)*** | **Valuation Technique** | **Unobservable Input** | **Weighted Average *(2)*** | **Range** |
| Residential whole loans, at fair value | $ 745,726 | Discounted cash flow | Discount rate | 5.6% | 5.1-9.7% |
| | | | Prepayment rate | 5.2% | 0.1-19.9% |
| | | | Default rate | 3.9% | 0.0-23.5% |
| | | | Loss severity | 13.0% | 0.0-100.0% |
| | $ 497,816 | Liquidation model | Discount rate | 8.6% | 6.2-50.0% |
| | | | Annual change in home prices | 2.5% | (0.5)-6.9% |
| | | | Liquidation timeline (in years) | 1.9 | 0.1-4.8 |
| | | | Current value of underlying properties *(3)* | $ 709 | $5-$4,500 |
| Total | $ 1,243,542 | | | | |

| | December 31, 2019 | | | | |
|---|---|---|---|---|---|
| **(Dollars in Thousands)** | **Fair Value *(1)*** | **Valuation Technique** | **Unobservable Input** | **Weighted Average *(2)*** | **Range** |
| Residential whole loans, at fair value | $ 829,842 | Discounted cash flow | Discount rate | 4.2% | 3.8-8.0% |
| | | | Prepayment rate | 4.5% | 0.7-18.0% |
| | | | Default rate | 4.0% | 0.0-23.0% |
| | | | Loss severity | 12.9% | 0.0-100.0% |
| | $ 551,271 | Liquidation model | Discount rate | 8.0% | 6.2-50.0% |
| | | | Annual change in home prices | 3.7% | 2.4-8.0% |
| | | | Liquidation timeline (in years) | 1.8 | 0.1-4.5 |
| | | | Current value of underlying properties *(3)* | $ 684 | $10-$4,500 |
| Total | $ 1,381,113 | | | | |

*(1) Excludes approximately $250,000 and $470,000 of loans for which management considers the purchase price continues to reflect the fair value of such loans at March 31, 2020 and December 31, 2019, respectively.*
*(2) Amounts are weighted based on the fair value of the underlying loan.*
*(3) The simple average value of the properties underlying residential whole loans held at fair value valued via a liquidation model was approximately $368,000 and $365,000 as of March 31, 2020 and December 31, 2019, respectively.*

Changes in market conditions, as well as changes in the assumptions or methodology used to determine fair value, could result in a significant increase or decrease in the fair value of residential whole loans. Loans valued using a discounted cash flow

model are most sensitive to changes in the discount rate assumption, while loans valued using the liquidation model technique are most sensitive to changes in the current value of the underlying properties and the liquidation timeline. Increases in discount rates, default rates, loss severities, or liquidation timelines, either in isolation or collectively, would generally result in a lower fair value measurement, whereas increases in the current or expected value of the underlying properties, in isolation, would result in a higher fair value measurement. In practice, changes in valuation assumptions may not occur in isolation and the changes in any particular assumption may result in changes in other assumptions, which could offset or amplify the impact on the overall valuation.

The following table presents the carrying values and estimated fair values of the Company's financial instruments at March 31, 2020 and December 31, 2019:

| | March 31, 2020 | March 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|---|
| (In Thousands) | Level in Fair Value Hierarchy | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| **Financial Assets:** | | | | | |
| Residential whole loans, at carrying value *(1)* | 3 | $ 5,716,031 | $ 5,602,536 | $ 6,069,370 | $ 6,248,745 |
| Residential whole loans, at fair value | 3 | 1,243,792 | 1,243,792 | 1,381,583 | 1,381,583 |
| Non-Agency MBS | 2 | 1,119,940 | 1,119,940 | 2,063,529 | 2,063,529 |
| Agency MBS | 2 | 553,413 | 553,413 | 1,664,582 | 1,664,582 |
| CRT securities | 2 | 254,101 | 254,101 | 255,408 | 255,408 |
| MSR-related assets *(2)* | 2 and 3 | 738,054 | 738,054 | 1,217,002 | 1,217,002 |
| Cash and cash equivalents | 1 | 116,465 | 116,465 | 70,629 | 70,629 |
| Restricted cash | 1 | 216,902 | 216,902 | 64,035 | 64,035 |
| **Financial Liabilities *(3)*:** | | | | | |
| Repurchase agreements | 2 | 7,768,180 | 7,786,911 | 9,139,821 | 9,156,209 |
| Securitized debt | 2 | 533,733 | 481,808 | 570,952 | 575,353 |
| Convertible Senior Notes | 2 | 224,264 | 135,700 | 223,971 | 244,088 |
| Senior Notes | 1 | 96,874 | 46,551 | 96,862 | 103,231 |

*(1) Includes Non-QM loans held-for-sale with a net carrying value of $895.3 million at March 31, 2020.*
*(2) Includes $31.4 million and $59.5 million of MSR-related assets that are measured at fair value on a non-recurring basis that are classified as Level 3 in the fair value hierarchy at March 31, 2020 and December 31, 2019, respectively.*
*(3) Carrying value of securitized debt, Convertible Senior Notes, Senior Notes and certain repurchase agreements is net of associated debt issuance costs.*

*Other Assets Measured at Fair Value on a Nonrecurring Basis*

The Company holds its Residential whole loans, held-for-sale at the lower of current carrying amount or fair value less estimated selling costs. At March 31, 2020, the Company had Non-QM loans held-for-sale with a net carrying value of $895.3 million.

The Company holds REO at the lower of the current carrying amount or fair value less estimated selling costs. During the three months ended March 31, 2020 and 2019, the Company recorded REO with an aggregate estimated fair value, less estimated cost to sell, of $50.7 million and $65.2 million, respectively, at the time of foreclosure. The Company classifies fair value measurements of REO as Level 3 in the fair value hierarchy.

## 15. Use of Special Purpose Entities and Variable Interest Entities

A Special Purpose Entity ("SPE") is an entity designed to fulfill a specific limited need of the company that organized it. SPEs are often used to facilitate transactions that involve securitizing financial assets or resecuritizing previously securitized financial assets. The objective of such transactions may include obtaining non-recourse financing, obtaining liquidity or refinancing the underlying financial assets on improved terms. Securitization involves transferring assets to a SPE to convert all or a portion of those assets into cash before they would have been realized in the normal course of business, through the SPE's issuance of debt or equity instruments. Investors in a SPE usually have recourse only to the assets in the SPE and, depending on the overall structure of the transaction, may benefit from various forms of credit enhancement such as over-collateralization in the form of excess assets in the SPE, priority with respect to receipt of cash flows relative to holders of other debt or equity instruments issued by the SPE, or a line of credit or other form of liquidity agreement that is designed with the objective of ensuring that investors receive principal and/or interest cash flow on the investment in accordance with the terms of their investment agreement.

The Company has entered into several financing transactions that resulted in the Company consolidating as VIEs the SPEs that were created to facilitate these transactions. See Note 2(q) for a discussion of the accounting policies applied to the consolidation of VIEs and transfers of financial assets in connection with financing transactions.

The Company has engaged in loan securitizations primarily for the purpose of obtaining improved overall financing terms as well as non-recourse financing on a portion of its residential whole loan portfolio. Notwithstanding the Company's participation in these transactions, the risks facing the Company are largely unchanged as the Company remains economically exposed to the first loss position on the underlying assets transferred to the VIEs.

*Loan Securitization Transactions*

The following table summarizes the key details of the Company's loan securitization transactions as of March 31, 2020 and December 31, 2019:

| (Dollars in Thousands) | March 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| Aggregate unpaid principal balance of residential whole loans sold | $ 1,290,029 | | $ 1,290,029 | |
| Face amount of Senior Bonds issued by the VIE and purchased by third-party investors | $ 802,817 | | $ 802,817 | |
| Outstanding amount of Senior Bonds | $ 533,733 | *(1)* | $ 570,952 | *(1)* |
| Weighted average fixed rate for Senior Bonds issued | 3.68% | *(2)* | 3.68% | *(2)* |
| Weighted average contractual maturity of Senior Bonds | 29 years | *(2)* | 30 years | *(2)* |
| Face amount of Senior Support Certificates received by the Company *(3)* | $ 275,174 | | $ 275,174 | |
| Cash received | $ 802,815 | | $ 802,815 | |

*(1) Net of $2.7 million and $2.9 million of deferred financing costs at March 31, 2020 and December 31, 2019, respectively.*
*(2) At March 31, 2020 and December 31, 2019, $459.6 million and $493.2 million, respectively, of Senior Bonds sold in securitization transactions contained a contractual coupon step-up feature whereby the coupon increases by 300 basis points at 36 months from issuance if the bond is not redeemed before such date.*
*(3) Provides credit support to the Senior Bonds sold to third-party investors in the securitization transactions.*

As of March 31, 2020 and December 31, 2019, as a result of the transactions described above, securitized loans with a carrying value of approximately $185.9 million and $186.4 million are included in "Residential whole loans, at carrying value," securitized loans with a fair value of approximately $516.4 million and $567.4 million are included in "Residential whole loans, at fair value," and REO with a carrying value approximately $129.1 million and $137.8 million are included in "Other assets" on the Company's consolidated balance sheets, respectively. As of March 31, 2020 and December 31, 2019, the aggregate carrying value of Senior Bonds issued by consolidated VIEs was $533.7 million and $571.0 million, respectively. These Senior Bonds are disclosed as "Securitized debt" and are included in Other liabilities on the Company's consolidated balance sheets. The holders of the securitized debt have no recourse to the general credit of the Company, but the Company does have the obligation, under certain circumstances to repurchase assets from the VIE upon the breach of certain representations and warranties with respect to the residential whole loans sold to the VIE. In the absence of such a breach, the Company has no obligation to provide any other explicit or implicit support to any VIE.

The Company concluded that the entities created to facilitate the loan securitization transactions are VIEs. The Company then completed an analysis of whether each VIE created to facilitate the securitization transactions should be consolidated by the Company, based on consideration of its involvement in each VIE, including the design and purpose of the SPE, and whether its involvement reflected a controlling financial interest that resulted in the Company being deemed the primary beneficiary of each VIE. In determining whether the Company would be considered the primary beneficiary, the following factors were assessed:

- whether the Company has both the power to direct the activities that most significantly impact the economic performance of the VIE; and
- whether the Company has a right to receive benefits or absorb losses of the entity that could be potentially significant to the VIE.

Based on its evaluation of the factors discussed above, including its involvement in the purpose and design of the entity, the Company determined that it was required to consolidate each VIE created to facilitate the loan securitization transactions.

*Residential Whole Loans and REO (including Residential Whole Loans and REO transferred to consolidated VIEs)*

Included on the Company's consolidated balance sheets as of March 31, 2020 and December 31, 2019 are a total of $7.0 billion and $7.4 billion, respectively, of residential whole loans, of which approximately $5.7 billion and $6.1 billion, respectively, are reported at carrying value and $1.2 billion and $1.4 billion, respectively, are reported at fair value. These assets, and certain of the Company's REO assets, are directly owned by certain trusts established by the Company to acquire the loans and entities established in connection with the Company's loan securitization transactions. The Company has assessed that these entities are required to be consolidated. (See Notes 3 and 5(a))

**16. Subsequent Events**

***Forbearance Agreements***

On March 24, 2020, the Company announced that due to turmoil in the financial markets resulting from the spread of the novel coronavirus and the global COVID-19 pandemic, the Company and its subsidiaries had received an unusually high number of margin calls starting approximately in mid-March. The Company's announcement indicated that on March 23, 2020, the Company did not meet its margin calls and had notified its financing counterparties that it did not expect to be in a position to fund the anticipated volume of margin calls under its financing arrangements in the near term. In its announcement the Company also indicated that it was engaged in discussions with its financing counterparties with regard to entering into forbearance agreements pursuant to which each counterparty would agree to forbear from exercising its rights and remedies with respect to an event of default under its applicable financing arrangement(s) with the Company for an agreed upon period, including refraining from selling collateral to enforce margin calls. At the time of this announcement the Company's obligations under its repurchase agreement financing arrangements were approximately $9.5 billion.

On April 10, 2020, the Company announced that it had entered into a Forbearance Agreement ("Initial FBA") with repurchase agreement counterparties holding a significant majority of its outstanding repurchase obligations. At the date of that announcement, the Company's obligations under its repurchase agreement financing arrangements had decreased to approximately $5.8 billion.

Significant details regarding the Initial FBA were as follows:

- Participating counterparties to the Initial FBA represented repurchase obligations of an aggregate of $4.8 billion, or 83% of repurchase agreement obligations outstanding as of the date of the Initial FBA;

- In connection with the Initial FBA, the Company also granted the participating counterparties a security interest in Company assets that were unencumbered prior to the Initial FBA, including residential whole loans, real estate owned (REO), unrestricted cash and other assets, with an estimated aggregate market value as of the date of the Initial FBA of approximately $1.3 billion; and

- Counterparties agreed to forbear from exercising any rights or remedies through the close of business on April 27, 2020s (unless terminated sooner upon the occurrence of certain events) under their respective repurchase agreements, including refraining from selling collateral to enforce margin calls.

***Extended Forbearance Agreement ("Second FBA")***

On April 27, 2020, the Company entered into a Second FBA with certain counterparties holding a significant majority of its outstanding repurchase obligations. Similar to the Initial FBA, the counterparties that were party to the Second FBA agreed to forbear from exercising any rights or remedies under their respective repurchase agreements with the Company, including refraining from selling collateral to enforce margin calls, through June 1, 2020 (unless terminated sooner upon the occurrence of certain events). The Second FBA essentially extended the forbearance period agreed to under the Initial FBA.

Significant details regarding the Second FBA are as follows:

- The terms and conditions of the Second FBA were substantially similar to those under the Initial FBA.

- Participating counterparties to the Second FBA represented repurchase obligations of an aggregate of $4.4 billion, which represented approximately 84% of the Company's $5.3 billion repurchase obligations outstanding as of April 24, 2020.

- Under the terms of the Second FBA, the Company also agreed to make a cash payment to the participating counterparties of $150 million, which was applied to reduce the Company's outstanding repurchase obligation balances with counterparties participating in the Second FBA.

### *Additional Extended Forbearance Agreement (“Third FBA”)*

On June 1, 2020, the Company entered into the Third FBA with counterparties to its repurchase agreement financings, further extending the period of forbearance. Under the Third FBA, the Company’s repurchase agreement counterparties continued to forbear from exercising any rights or remedies under their respective repurchase agreements with the Company, including refraining from selling collateral to enforce margin calls, through June 26, 2020 (unless terminated sooner upon the occurrence of certain events). All of the Company’s remaining repurchase agreement counterparties agreed to participate in the Third FBA.

### *Agreement to enter into a senior secured term loan and commitment to enter into an asset level debt facility*

On June 15, 2020, the Company and certain of its wholly owned subsidiaries entered into a credit agreement for a $500 million senior secured term loan facility (the “Term Loan Facility”) to be funded by certain funds and accounts managed by subsidiaries of Apollo Global Management, Inc. (together with such funds and accounts, “Apollo”), including subsidiaries of Athene Holding Ltd. (“Athene”), to which Apollo provides asset management and advisory services. The loans under the Term Loan Facility are expected to be funded on or about June 26, 2020 (the “Funding Date”). The term loans will be issued with original issue discount of 1%. Interest on the outstanding principal amount of the term loans will accrue at a rate of 11% per annum until the third anniversary of the Funding Date. Prior to the third anniversary of the Funding Date, a portion of such interest, in an amount equal to up to 3% per annum, may be capitalized, compounded and added to the unpaid principal amount of the term loans. The interest rate on the term loans will increase by 1% per annum on the third anniversary of the Funding Date and by an additional 1% per annum on each subsequent anniversary of the Funding Date. Upon the occurrence and during the continuance of an event of default under the Term Loan Facility, the principal amount of all loans outstanding and, to the extent permitted by applicable law, any interest payments on such term loans or any fees or other amounts owing under the Term Loan Facility that, in either case, are then overdue, would thereafter bear interest at a rate that is 2% per annum in excess of the interest rate otherwise payable on the term loans.

Under the Term Loan Facility, the Company will be permitted to voluntarily prepay the term loans without premium or penalty at any time; provided, however, that the Company may prepay the term loans in part on only one occasion prior to the maturity date of the Term Loan Facility and in an amount of not less than $250 million. Installment payments of principal equal to 3.75% of the initial principal amount for the first three years of the Term Loan Facility and 4.50% of the initial principal amount thereafter, together with accrued and unpaid interest on such principal amount, will be required to be made on the last business day of each March, June, September and December beginning on September 30, 2020. Mandatory prepayments of the term loans will be required to be made from net cash proceeds received in connection with certain events, that are set out in the credit agreement. Upon the event of a change in control as defined in the credit agreement, the Company is also required to make an offer to repay the loan at par, plus unpaid accrued interest, plus a specified redemption premium. In addition, the Company will be required to comply with certain affirmative and negative covenants as specified in the credit agreement that, among other things, impose certain limitations on the Company to incur liens or indebtedness, to make certain non-permitted investments or enter into new businesses, to modify or waive terms on certain of the Company’s existing debt or to prepay such debt, or to pay dividends in certain circumstances. The Company must also maintain a minimum level of liquidity as defined in the agreement.

In connection with, and conditioned on, the funding of the Term Loan Facility, the Company also executed on June 15, 2020, a letter with Barclays and affiliates of Athene (the “Asset Level Lenders”), pursuant to which the Asset Level Lenders have committed, subject to satisfaction of customary conditions precedent, to a non-mark-to-market term loan facility with one or more subsidiaries of the Company to provide, severally and not jointly, financing in an aggregate amount of up to $1,650,000,000 (the “Asset Level Debt Facility”). The Company’s borrowing subsidiaries will pledge, as collateral security for the Asset Level Debt Facility, certain of their residential whole loans, as well as the equity in subsidiaries that own the loans. The Asset Level Debt Facility is also expected to close on or about June 26, 2020.

In connection with these transactions, the Company also entered into an Investment Agreement with Apollo and Athene (together the “Purchasers”), under which. the Company agreed to issue to the Purchasers warrants (the “Warrants”) to purchase, in the aggregate, 37,039,106 shares (subject to adjustment in accordance with their terms) of the Company’s common stock. In addition, the Purchasers or one or more of their affiliates have agreed to purchase, prior to the first anniversary date of the Investment Agreement, in one or a series of open market or privately negotiated transactions, a number of shares of the Company’s common stock equal to the lesser of (a) such number of shares representing 4.9% of the outstanding shares of common stock as of the Funding Date or (b) such number of shares as the Purchasers may purchase for an aggregate gross purchase price of $50 million. The issuance of the Warrants is subject to satisfaction of certain terms and conditions set forth in the Investment Agreement, but is expected to occur on the Funding Date.

The completion of the transactions contemplated by the Term Loan Facility, the Asset Level Debt Facility and the Investment Agreement are subject to and conditioned on, among other things, the completion of definitive documentation relating to the Asset Level Debt Facility, completion of documentation relating to the Company's exit from the Third FBA and other customary closing conditions.

### *Portfolio sales and composition changes and impact on Company liquidity*

Since the end of the first quarter through May 31, 2020, the Company has taken further steps to reduce the leverage on its portfolio, generate liquidity and reduce repurchase agreement balances with its counterparties. Actions taken by the Company include the sale of residential mortgage assets, generating proceeds of approximately $3.2 billion, which along with portfolio run-off and other payments to counterparties has resulted in an overall reduction in repurchase agreement balances of approximately $3.9 billion. Details of sales that have occurred in the second quarter through May 31, 2020 include:

- The Company has disposed of approximately $2.4 billion of residential mortgage securities, including $533.1 million of Agency MBS, $1.1 billion of Non-Agency MBS and $207.4 million of CRT securities. In addition, the Company sold $574.9 million of term notes backed by MSR-related collateral and $15.6 million of other interest earning assets. Improvement in market pricing since the end of the first quarter resulted in the Company recording realized gains of approximately $177.5 million to date in the second quarter. In addition, the Company has recorded $57.0 million of unrealized gains on securities (primarily CRT securities) on which it had previously elected the fair value option.

- The Company also disposed of approximately $845.2 million of residential whole loans, resulting in realized losses of approximately $128.4 million. However, after the reversal of the valuation allowance associated with loans that were designated as held-for-sale at the end of the first quarter, the net impact on second quarter results is a loss of approximately $58.2 million.

The Company has now sold substantially all of its Agency MBS and Legacy Non-Agency MBS portfolios and greatly reduced its holdings of MSR-related assets and CRT securities. As of May 31, 2020, the Company's $6.6 billion residential mortgage asset portfolio was comprised of $6.2 billion of residential whole loans and REO, approximately $235.4 million of MSR-related assets and $136.4 million of residential mortgage securities. These investments are financed with approximately $3.8 billion of repurchase agreements. Total debt was approximately 1.9 times stockholders' equity at May 31, 2020.

As of June 19, 2020, the Company had total cash balances of $343.6 million, including cash on deposit with repurchase agreement counterparties totaling $103.5 million. Since entering into forbearance agreements with its lenders in April, unpaid margins calls have been substantially reduced and were $29.1 million as of June 19, 2020.

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

*In this Quarterly Report on Form 10-Q, we refer to MFA Financial, Inc. and its subsidiaries as "the Company," "MFA," "we," "us," or "our," unless we specifically state otherwise or the context otherwise indicates.*

The following discussion should be read in conjunction with our financial statements and accompanying notes included in Item 1 of this Quarterly Report on Form 10-Q as well as our Annual Report on Form 10-K for the year ended December 31, 2019.

### Forward Looking Statements

When used in this Quarterly Report on Form 10-Q, in future filings with the SEC or in press releases or other written or oral communications, statements which are not historical in nature, including those containing words such as "will," "believe," "expect," "anticipate," "estimate," "plan," "continue," "intend," "should," "could," "would," "may," the negative of these words or similar expressions, are intended to identify "forward-looking statements" within the meaning of Section 27A of the 1933 Act and Section 21E of the 1934 Act and, as such, may involve known and unknown risks, uncertainties and assumptions.

These forward-looking statements include information about possible or assumed future results with respect to our business, financial condition, liquidity, results of operations, plans and objectives. Statements regarding the following subjects, among others, may be forward-looking: risks related to the ongoing spread of the novel coronavirus and the COVID-19 pandemic, including its effects on the general economy and our business, financial position and results of operations; uncertainties related to our recently-announced financing arrangements, including without limitation uncertainties regarding the closing and funding of such arrangements and the anticipated benefits and uses of the proceeds therefrom; our ability to meet our ongoing obligations under our current forbearance agreement with our repurchase agreement counterparties and our expectations with respect to any exit from forbearance or the ability to extend such forbearance if needed; our ability to accurately estimate information related to our operations and financial condition subsequent to the end of the first quarter (particularly in light of the highly volatile and uncertain market conditions); payments of future dividends, including payments of accumulated but unpaid dividends on our Series B Preferred Stock and Series C Preferred Stock; changes in interest rates and the market (i.e., fair) value of our residential whole loans, MBS and other assets; changes in the prepayment rates on residential mortgage assets, an increase of which could result in a reduction of the yield on certain investments in its portfolio and could require us to reinvest the proceeds received by it as a result of such prepayments in investments with lower coupons, while a decrease in which could result in an increase in the interest rate duration of certain investments in our portfolio making their valuation more sensitive to changes in interest rates and could result in lower forecasted cash flows ; credit risks underlying our assets, including changes in the default rates and management's assumptions regarding default rates on the mortgage loans in our residential whole loan portfolio; our ability to borrow to finance our assets and the terms, including the cost, maturity and other terms, of any such borrowings; implementation of or changes in government regulations or programs affecting our business; our estimates regarding taxable income the actual amount of which is dependent on a number of factors, including, but not limited to, changes in the amount of interest income and financing costs, the method elected by us to accrete the market discount on residential whole loans and the extent of prepayments, realized losses and changes in the composition of our residential whole loan portfolios that may occur during the applicable tax period, including gain or loss on any MBS disposals and whole loan modifications, foreclosures and liquidations; the timing and amount of distributions to stockholders, which are declared and paid at the discretion of our Board and will depend on, among other things, our taxable income, our financial results and overall financial condition and liquidity, maintenance of our REIT qualification and such other factors as the Board deems relevant; our ability to maintain our qualification as a REIT for federal income tax purposes; our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended (or the Investment Company Act), including statements regarding the concept release issued by the SEC relating to interpretive issues under the Investment Company Act with respect to the status under the Investment Company Act of certain companies that are engaged in the business of acquiring mortgages and mortgage-related interests; our ability to continue growing our residential whole loan portfolio, which is dependent on, among other things, the supply of loans offered for sale in the market; expected returns on our investments in nonperforming residential whole loans (or NPLs), which are affected by, among other things, the length of time required to foreclose upon, sell, liquidate or otherwise reach a resolution of the property underlying the NPL, home price values, amounts advanced to carry the asset (e.g., taxes, insurance, maintenance expenses, etc. on the underlying property) and the amount ultimately realized upon resolution of the asset; targeted or expected returns on our investments in recently-originated loans, the performance of which is, similar to our other mortgage loan investments, subject to, among other things, differences in prepayment risk, credit risk and financing cost associated with such investments; risks associated with our investments in MSR-related assets, including servicing, regulatory and economic risks, and risks associated with investing in real estate assets, including changes in business conditions and the general economy. These and other risks, uncertainties and factors, including those described in the annual, quarterly and current reports that we file with the SEC, could cause our actual results to differ materially from those projected in any forward-looking statements we make. All forward-looking statements are based on beliefs, assumptions and

expectations of our future performance, taking into account all information currently available. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. New risks and uncertainties arise over time and it is not possible 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.

**Business/General**

We are an internally-managed REIT primarily engaged in the business of investing, on a leveraged basis, in residential mortgage assets, including residential whole loans, residential mortgage securities and MSR-related assets. 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.

As discussed below under “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Portfolio sales and composition changes and impact on our liquidity” and in Note 16 to our consolidated financial statements, since the end of the first quarter we have engaged in asset sales and taken other actions that significantly changed our asset composition subsequent to March 31, 2020. In particular, subsequent to the end of the first quarter, we sold the vast majority of our remaining Agency MBS and Legacy Non-Agency MBS portfolios, and substantially reduced our investments in MSR-related assets and CRT securities. As a result of these actions, our primary investment asset as of the date hereof is our residential whole loan portfolio. Any discussion herein of our assets at March 31, 2020 should be read in conjunction with the description of these asset sales and other actions.

At March 31, 2020, we had total assets of approximately $11.1 billion, of which $7.0 billion, or 63%, represented residential whole loans acquired through interests in certain trusts established to acquire the loans. Our Purchased Performing Loans, which as of March 31, 2020 comprised approximately 72% of our residential whole loans, include: (i) loans to finance (or refinance) one-to-four family residential properties that are not considered to meet the definition of a “Qualified Mortgage” in accordance with guidelines adopted by the Consumer Financial Protection Bureau (or Non-QM loans), (ii) short-term business purpose loans collateralized by residential properties made to non-occupant borrowers who intend to rehabilitate and sell the property for a profit (or Rehabilitation loans or Fix and Flip loans), (iii) loans to finance (or refinance) non-owner occupied one-to-four family residential properties that are rented to one or more tenants (or Single-family rental loans), and (iv) previously originated loans secured by residential real estate that is generally owner occupied (or Seasoned performing loans). In addition, at March 31, 2020, we had approximately $1.9 billion in investments in residential mortgage securities, which represented approximately 17% of our total assets. At such date, our portfolio includes $553.4 million of Agency MBS, $1.1 billion of Non-Agency MBS and $254.1 million of CRT securities. Non-Agency MBS is comprised of $1.0 billion of Legacy Non-Agency MBS and $79.5 million of RPL/NPL MBS. These RPL/NPL MBS are backed by securitized re-performing and non-performing loans and are generally structured with a contractual coupon step-up feature where the coupon increases from 300 - 400 basis points at 36 - 48 months from issuance or sooner. At March 31, 2020, our investments in MSR-related assets were $738.1 million, or 7% of our total assets. Our MSR-related assets include term notes whose cash flows are considered to be largely dependent on MSR collateral and loan participations to provide financing to mortgage originators that own MSRs. Our remaining investment-related assets, which represent approximately 6% of our total assets at March 31, 2020, were primarily comprised of REO, capital contributions made to loan origination partners, other interest-earning assets and MBS and loan-related receivables.

The results of our business operations are affected by a number of factors, many of which are beyond our control, and primarily depend on, among other things, the level of our net interest income and the market value of our assets, which is driven by numerous factors, including the supply and demand for residential mortgage assets in the marketplace, the terms and availability of adequate financing, general economic and real estate conditions (both on a national and local level), the impact of government actions in the real estate and mortgage sector, and the credit performance of our credit sensitive residential mortgage assets. Changes in these factors, or uncertainty in the market regarding the potential for changes in these factors, can result in significant changes in the value and/or performance of our investment portfolio. Further, our GAAP results may be impacted by market volatility, resulting in changes in market values of certain financial instruments for which changes in fair value are recorded in net income each period, such as CRT securities, certain residential whole loans, Agency MBS, and Swaps not designated as hedges. Our net interest income varies primarily as a result of changes in interest rates, the slope of the yield curve (i.e., the differential between long-term and short-term interest rates), borrowing costs (i.e., our interest expense) and prepayment speeds, the behavior of which involves various risks and uncertainties. Interest rates and conditional prepayment rates (or CPRs) (which measure the amount of unscheduled principal prepayment on an asset as a percentage of the asset balance), vary according to the type of investment, conditions in the financial markets, competition and other factors, none of which can be predicted with any certainty. With the adoption in January 2020 of new accounting standards for the measurement and recognition of credit losses, and given

the extent of current and anticipated future investments in residential whole loans, our financial results are impacted by estimates of credit losses that are required to be recorded when loans that are not accounted for at fair value through net income are acquired or originated, as well as changes in these credit loss estimates that will be required to be made periodically.

With respect to our business operations, increases in interest rates, in general, may over time cause: (i) the interest expense associated with our borrowings to increase; (ii) the value of certain of our residential mortgage assets and, correspondingly, our stockholders' equity to decline; (iii) coupons on our adjustable-rate assets to reset, on a delayed basis, to higher interest rates; (iv) prepayments on our assets to decline, thereby slowing the amortization of purchase premiums and the accretion of our purchase discounts, and slowing our ability to redeploy capital to generally higher yielding investments; and (v) the value of our derivative hedging instruments and, correspondingly, our stockholders' equity to increase. Conversely, decreases in interest rates, in general, may over time cause: (i) the interest expense associated with our borrowings to decrease; (ii) the value of certain of our residential mortgage assets and, correspondingly, our stockholders' equity to increase; (iii) coupons on our adjustable-rate assets, on a delayed basis, to lower interest rates; (iv) prepayments on our assets to increase, thereby accelerating the amortization of purchase premiums and the accretion of our purchase discounts, and accelerating the redeployment of our capital to generally lower yielding investments; and (v) the value of our derivative hedging instruments and, correspondingly, our stockholders' equity to decrease. In addition, our borrowing costs and credit lines are further affected by the type of collateral we pledge and general conditions in the credit market.

Our investments in residential mortgage assets, particularly investments in residential mortgage loans and Non-Agency MBS, expose us to credit risk, meaning that we are generally subject to credit losses due to the risk of delinquency, default and foreclosure on the underlying real estate collateral. Our investment process for credit sensitive assets focuses primarily on quantifying and pricing credit risk. With respect to investments in Purchased Performing Loans, we believe that sound underwriting standards, including low LTVs at origination, significantly mitigate our risk of loss. Further, we believe the discounted purchase prices paid on certain non performing and Purchased Credit Deteriorated Loans mitigate our risk of loss in the event that, as we expect on most such investments, we receive less than 100% of the par value of these investments.

Premiums arise when we acquire an MBS at a price in excess of the aggregate principal balance of the mortgages securing the MBS (i.e., par value) or when we acquire residential whole loans at a price in excess of their aggregate principal balance. Conversely, discounts arise when we acquire an MBS at a price below the aggregate principal balance of the mortgages securing the MBS or when we acquire residential whole loans at a price below their aggregate principal balance. Accretable purchase discounts on these investments are accreted to interest income. Purchase premiums, which are primarily carried on our Agency MBS, certain CRT securities and Non-QM loans, are amortized against interest income over the life of the investment using the effective yield method, adjusted for actual prepayment activity. An increase in the prepayment rate, as measured by the CPR, will typically accelerate the amortization of purchase premiums, thereby reducing the interest income earned on these assets.

CPR levels are impacted by, among other things, conditions in the housing market, new regulations, government and private sector initiatives, interest rates, availability of credit to home borrowers, underwriting standards and the economy in general. In particular, CPR reflects the conditional repayment rate (or CRR), which measures voluntary prepayments of a loan, and the conditional default rate (or CDR), which measures involuntary prepayments resulting from defaults. CPRs on our residential mortgage securities and whole loans may differ significantly. For the three months ended March 31, 2020, our Agency MBS portfolio experienced a weighted average CPR of 12.6%, and our Legacy Non-Agency MBS portfolio experienced a weighted average CPR of 13.6%. Over the last consecutive eight quarters, ending with March 31, 2020, the monthly weighted average CPR on our Agency and Legacy Non-Agency MBS portfolios ranged from a high of 18.6% experienced during the month ended September 30, 2019 to a low of 8.8%, experienced during the month ended March 31, 2020, with an average CPR over such quarters of 15.4%. In addition, for the three months ended March 31, 2020, the weighted average CPR on our Non-QM loan portfolio was 22.2%.

Our method of accounting for Non-Agency MBS purchased at significant discounts to par value requires us to make assumptions with respect to each security. These assumptions include, but are not limited to, future interest rates, voluntary prepayment rates, default rates, mortgage modifications and loss severities. As part of our Non-Agency MBS surveillance process, we track and compare each security's actual performance over time to the performance expected at the time of purchase or, if we have modified our original purchase assumptions, to our revised performance expectations. To the extent that actual performance or our expectation of future performance of our Non-Agency MBS deviates materially from our expected performance parameters, we may revise our performance expectations, so that the amount of purchase discount that reflects principal that is not expected to be collected may increase or decrease over time, which could require us to record (or reverse) loss allowances. Credit losses greater than those anticipated or in excess of the recorded purchase discount could occur, which could materially adversely impact our operating results.

It is generally our business strategy to hold our residential mortgage assets as long-term investments. On at least a quarterly basis, excluding investments for which the fair value option has been elected or for which specialized loan accounting is otherwise applied, we assess our ability and intent to continue to hold each asset and, as part of this process, we monitor our residential mortgage securities and MSR-related assets that are designated as AFS for impairment. A change in our ability and/or intent to continue to hold any of these securities that are in an unrealized loss position, or a deterioration in the underlying characteristics of these securities, could result in our recognizing future impairment charges or a loss upon the sale of any such security. At March 31, 2020, we had net unrealized gains on our Non-Agency MBS of $144.5 million, comprised of gross unrealized gains of $166.2 million and gross unrealized losses of $21.6 million and gross unrealized gains of $6.0 million on our Agency MBS.

We rely heavily on borrowings under repurchase agreements to finance our residential mortgage assets, although, as discussed below, we entered into agreements to obtain significant non-repurchase agreement financing in June 2020. Our residential mortgage investments have longer-term contractual maturities than our borrowings under repurchase agreements. Even though the majority of our investments have interest rates that adjust over time based on short-term changes in corresponding interest rate indices (typically following an initial fixed-rate period for our Hybrids), the interest rates we pay on our borrowings will typically change at a faster pace than the interest rates we earn on our investments. In order to reduce this interest rate risk exposure, we may enter into derivative instruments, which have generally been comprised of Swaps. The majority of our Swap derivative instruments have generally been designated as cash-flow hedges against a portion of our then current and forecasted LIBOR-based repurchase agreements. While these Swaps did not extend the maturities of the associated repurchase agreements being hedged, they did, however, lock in a fixed rate of interest over their term (while they were outstanding) for the notional amount of the Swap corresponding to the hedged item. Following the significant interest rate decreases that occurred late in the first quarter of 2020, we did not consider that these Swaps continued to be an effective economic hedge of our portfolio. Consequently, we unwound all of our Swap transactions at the end of the quarter.

**Recent Market Conditions and Our Strategy**

***COVID-19 impact on first quarter 2020 Portfolio Activity and impact on financial results:***

At March 31, 2020, our residential mortgage asset portfolio, which includes residential whole loans and REO, residential mortgage securities and MSR-related assets, was approximately $10.0 billion compared to $13.1 billion at December 31, 2019. Beginning in mid-March 2020, conditions related to the COVID-19 pandemic created unprecedented market volatility, widening of spreads and related liquidity pressure as counterparties sought higher margin requirements. As a result, and as pricing dislocations in markets for residential mortgage assets accelerated in the last two weeks of March 2020, we sold approximately $2.1 billion of residential mortgage securities and residential whole loans to generate liquidity, satisfy margin calls and reduce our financial leverage, which resulted in realized losses of $238.4 million for the three months ended March 31, 2020. In addition, overall asset prices declined materially during this period, resulting in significant unrealized losses and impairment charges in the amount of $496.9 million for the quarter relating to investments in residential mortgage securities and residential whole loans. Prior to the onset of the COVID-19 pandemic, we had acquired approximately $1.0 billion of residential whole loans during the quarter.

The following table presents the activity for our residential mortgage asset portfolio for the three months ended March 31, 2020*:

| (In Millions) | December 31, 2019 | Runoff *(1)* | Acquisitions | Sales | Other *(2)* | March 31, 2020 | Change |
|---|---|---|---|---|---|---|---|
| Residential whole loans and REO *(3)* | $ 7,860 | $ (541) | $ 1,091 | $ (806) | $ (233) | $ 7,371 | $ (489) |
| RPL/NPL MBS | 635 | (320) | — | (211) | (24) | 80 | (555) |
| MSR-related assets | 1,217 | (33) | 4 | (161) | (289) | 738 | (479) |
| CRT securities | 255 | (1) | 159 | (38) | (121) | 254 | (1) |
| Legacy Non-Agency MBS | 1,429 | (68) | — | (96) | (225) | 1,040 | (389) |
| Agency MBS | 1,665 | (123) | — | (988) | (1) | 553 | (1,112) |
| **Totals** | $ 13,061 | $ (1,086) | $ 1,254 | $ (2,300) | $ (893) | $ 10,036 | $ (3,025) |

* As discussed below under "Management's Discussion and Analysis of Financial Condition and Results of Operations - Portfolio sales and composition changes and impact on our liquidity" and in Note 16 to our consolidated financial statements, since the end of the first quarter, we have engaged in asset sales and taken other actions that have significantly changed the asset composition of our balance sheet. In particular, subsequent to the end of the first quarter, we sold the vast majority of our remaining Agency MBS and Legacy Non-Agency MBS portfolios and substantially reduced our investments in MSR-related assets and CRT securities. As a result of these actions, our primary investment asset as of the date hereof is our residential whole loan portfolio. Any discussion herein, including the table above, of our assets at March 31, 2020, should be read in conjunction with the description of these asset sales and other actions.

(1) *Primarily includes principal repayments, cash collections on* Purchased Credit Deteriorated Loans *and sales of REO.*
(2) *Primarily includes changes in fair value, net premium amortization/discount accretion and adjustments to record lower of cost or estimated fair value adjustments on REO and loans held-for-sale.*
(3) *Includes Non-QM loans held-for-sale with a net carrying value of $895.3 million at March 31, 2020.*

At March 31, 2020, our total recorded investment in residential whole loans and REO was $7.4 billion, or 73.4% of our residential mortgage asset portfolio. Of this amount, (i) $5.7 billion is presented as Residential whole loans, at carrying value (of which $5.0 billion were Purchased Performing Loans (including $895.3 million of Non-QM loans that were designated as held-for-sale) and $673.5 million were Purchased Credit Deteriorated Loans, and (ii) $1.2 billion is presented as Residential whole loans, at fair value, in our consolidated balance sheets. For the three months ended March 31, 2020, we recognized approximately $83.5 million of income on Residential whole loans, at carrying value in Interest Income on our consolidated statements of operations, representing an effective yield of 5.07% (excluding servicing costs), with Purchased Performing Loans generating an effective yield of 5.10% and Purchased Credit Impaired Loans generating an effective yield of 4.84%. In addition, we recorded a net loss on residential whole loans measured at fair value through earnings of $52.8 million in Other Income, net in our consolidated statements of operations for the three months ended March 31, 2020. At March 31, 2020 and December 31, 2019, we had REO with an aggregate carrying value of $411.5 million and $411.7 million, respectively, which is included in Other assets on our consolidated balance sheets.

As of March 31, 2020, our Agency MBS portfolio totaled $553.4 million. Following the onset of COVID-19-related market disruptions in March, we sold $965.1 million of Agency MBS, realizing a loss of $22.9 million. The coupon yield on our Agency MBS portfolio decreased to 3.57% for the three months ended March 31, 2020, from 3.69% for the three months ended March 31, 2019, and the net Agency MBS yield decreased to 2.32% for the three months ended March 31, 2020 from 2.77% for the three months ended March 31, 2019. Our Legacy Non-Agency MBS had a face amount of $1.4 billion with an amortized cost of $874.3 million and a net purchase discount of $480.1 million at March 31, 2020. This discount consists of a $389.5 million credit reserve (reflecting principal not expected to be recovered) and a $90.7 million net accretable discount. During the three months ended March 31, 2020, we disposed of approximately $100.7 million of Legacy Non-Agency, MBS, realizing net gains of $4.4 million. The net yield on our Legacy Non-Agency MBS portfolio was 10.55% for the three months ended March 31, 2020, compared to 10.45% for the three months ended March 31, 2019. Subsequent to the end of the first quarter, we sold the vast majority of our remaining Agency MBS and Legacy Non-Agency MBS portfolios.

As of March 31, 2020, our RPL/NPL MBS portfolio totaled $80.0 million. During the three months ended March 31, 2020, we sold $163.7 million of these securities, realizing a loss of $47.5 million. The net yield on our RPL/NPL MBS portfolio was 5.21% for the three months ended March 31, 2020, compared to 4.90% for the three months ended March 31, 2019. The increase in the net yield reflects an increase in the average coupon yield to 4.96% for the three months ended March 31, 2020 from 4.86% for the three months ended March 31, 2019. In addition, our investments in MSR-related assets at March 31, 2020 totaled $738.1 million. During the three months ended March 31, 2020, we sold $136.8 million of term notes backed by MSR-related collateral, realizing a loss of $24.6 million. Our investments in CRT securities totaled $254.1 million at March 31, 2020. During the quarter

we sold $35.6 million of CRT securities, realizing a loss of $2.0 million. Subsequent to the end of the first quarter, we have substantially reduced our investments in MSR-related assets and CRT securities.

Our first quarter results also include impairment and other charges totaling $419.7 million on securities available-for-sale and Other assets. Of this amount, $280.8 million is related to unrealized losses on term notes backed by MSR-related collateral and $63.5 million is related to residential mortgage securities (primarily CRT securities), as a lack of liquidity resulted in pricing dislocations in the markets for these assets in the last two weeks of March. As we had determined at March 31, 2020, that we committed to dispose of our investments in these asset classes, GAAP requires that these unrealized losses be recorded in net income for the period and reduce the amortized cost basis of the associated assets.

We adopted a new accounting standard addressing the measurement of credit losses on financial instruments (CECL) on January 1, 2020. With respect to our residential whole loans held at carrying value, CECL requires that reserves for credit losses be estimated at the reporting date based on life of loan expected cash flows, including anticipated prepayments and reasonable and supportable forecasts of future economic conditions. While the adjustments recorded at the transition date to adopt CECL did not have a material impact on our financial position, in light of the anticipated impact of the COVID-19 pandemic on expected economic conditions for the short- to medium-term, estimates of credit losses recorded under CECL for the first quarter are significantly higher than would have been recorded under prior accounting standards, where reserves for credit losses were recorded only when assessed as being incurred. For the first quarter, a provision for credit losses of $74.9 million was recorded on residential whole loans held at carrying value. In addition, a valuation allowance to reduce the carrying value of Non-QM loans designated as held-for-sale at quarter-end of $70.2 million was recorded. This valuation allowance is included, along with CECL credit loss estimates, in the provision for credit losses in our income statement. The total allowance for credit and valuation losses recorded on residential whole loans held at carrying value at March 31, 2020 was $218.0 million. In addition, as of March 31, 2020, CECL reserves for credit losses totaling approximately $5.9 million were recorded related to undrawn commitments on loans held at carrying value as well as certain other interest earning assets.

In addition, following an evaluation of the anticipated impact of the COVID-19 pandemic on economic conditions for the short- to medium-term, impairment charges of $58.1 million were recorded on investments in certain loan originators. As these investments include equity and debt investments in several private entities for which limited pricing transparency exists, particularly in light of the anticipated economic disruption associated with the COVID-19 pandemic, valuation and associated impairment considerations for these investments require significant judgment. Further, in light of the prevailing market and economic conditions that existed at March 31, 2020, management determined that it was appropriate to record an impairment charge against our goodwill intangible asset of $7.2 million, reducing the carrying value of that asset to zero.

The unprecedented market conditions that affected our first quarter 2020 results are also reflected in our book value per common share. Our GAAP book value per common share decreased to $4.34 as of March 31, 2020 from $7.04 as of December 31, 2019. Economic book value per common share, a non-GAAP financial measure of our financial position that adjusts GAAP book value by the amount of unrealized mark to market gains on our residential whole loans held at carrying value, was $4.09 at March 31, 2020, a decrease from $7.44 as of December 31, 2019. For additional information regarding the calculation of Economic book value per share including a reconciliation to GAAP book value per share, refer to page 82 under the heading “Economic Book Value”.

***Senior Secured Financing and Exit from Forbearance***

On March 24, 2020, we announced that due to turmoil in the financial markets resulting from the spread of the novel coronavirus and the global COVID-19 pandemic, we had received an unusually high number of margin calls starting approximately in mid-March. In our announcement, we stated that, on March 23, 2020, we did not meet our margin calls and had notified our financing counterparties that we did not expect to be in a position to fund the anticipated volume of margin calls under our financing arrangements in the near term. As a result of these events, we initiated forbearance discussions with our financing counterparties with regard to entering into forbearance agreements pursuant to which each counterparty would agree to forbear from exercising its rights and remedies with respect to an event of default under its applicable financing arrangement(s) with the Company for an agreed upon period, including refraining from selling collateral to enforce margin calls. Following these discussions, we entered into a series of Forbearance Agreements: an initial Forbearance Agreement, or Initial FBA, on April 10, 2020; a second Forbearance Agreement on April 27, 2020, or Second FBA, that extended the Initial FBA; and a third Forbearance Agreement on June 1, 2020, or Third FBA, which is set to expire on June 26, 2020. Pursuant to these Forbearance Agreements, which are substantially similar to one another, certain of our repurchase agreement counterparties agreed to forbear from exercising their rights and remedies with respect to an event of default, including refraining from selling collateral to enforce margin calls. The primary purpose of the Forbearance Agreements was to permit us to seek, in an orderly manner, mutually beneficial solutions with our counterparties in light of the liquidity issues we faced following the onset of the COVID-19 pandemic.

During the forbearance period discussed above, we explored other potential transactions to further reduce our obligations under our existing repurchase agreements, source financing that is generally more durable than our existing funding alternatives and raise cash to bolster our liquidity. Following various discussions with potential financing sources, on June 15, 2020, we and certain of our wholly owned subsidiaries entered into a credit agreement for a $500 million senior secured term loan facility (or Term Loan Facility) to be funded by certain funds and accounts managed by subsidiaries of Apollo Global Management, Inc. (together with such funds and accounts, "Apollo"), including subsidiaries of Athene Holding Ltd. ("Athene"), to which Apollo provides asset management and advisory services. In connection with, and conditioned on, the funding of the Term Loan Facility, the Company also executed on June 15, 2020, a letter with Barclays and affiliates of Athene (the "Asset Level Lenders"), pursuant to which the Asset Level Lenders have committed, subject to satisfaction of customary conditions precedent, to a non-mark-to-market term loan facility with one or more subsidiaries of the Company to provide, severally and not jointly, financing in an aggregate amount of up to $1,650,000,000 (the "Asset Level Debt Facility"). Further details related to the Term Loan Facility and the Asset Level Debt Facility are discussed in "Note 16. Subsequent Events" in our interim financial statements as of and for the three months ended March 31, 2020.

In connection with the Term Loan Facility and the Asset Level Debt Facility, the Company also entered into an Investment Agreement with Apollo and Athene (together the "Purchasers"), under which. the Company agreed to issue to the Purchasers warrants (the "Warrants") to purchase, in the aggregate, 37,039,106 shares (subject to adjustment in accordance with their terms) of the Company's common stock. In addition, the Purchasers or one or more of their affiliates have agreed to purchase, prior to the first anniversary date of the Investment Agreement, in one or a series of open market or privately negotiated transactions, a number of shares of the Company's common stock equal to the lesser of (a) such number of shares representing 4.9% of the outstanding shares of common stock as of the Funding Date or (b) such number of shares as the Purchasers may purchase for an aggregate gross purchase price of $50 million. The issuance of the Warrants is subject to satisfaction of certain terms and conditions set forth in the Investment Agreement, but is expected to occur on the Funding Date.

Following the closing and funding of the Term Loan Facility and the Asset Level Debt Facility, we expect to be in position to exit forbearance. This will be facilitated via execution of a reinstatement agreement with all counterparties to the Third FBA, pursuant to which we will exit forbearance and terminate the Third FBA. Under the Reinstatement Agreement, if completed as expected, counterparties will waive any past defaults under the applicable repurchase agreements, terminate the Third FBA, release any security interest in our assets held by the counterparties, and reinstate the repurchase agreements on a go forward basis (subject to certain modifications, that will be agreed with these counterparties).

The completion of the transactions contemplated by the Term Loan Facility, the Asset Level Debt Facility and the Investment Agreement are subject to and conditioned on, among other things, the completion of definitive documentation relating to the Asset Level Debt Facility, completion of documentation relating to the Company's exit from the Third FBA and other customary closing conditions.

Following completion of the transactions discussed above, we expect to be in compliance with the terms and conditions of all of our material financing arrangements, including all of our repurchase agreements, and expect to have resolved all issues with our counterparties related to the events in March 2020, including our failure to satisfy margin calls.

***Portfolio sales and composition changes and impact on our liquidity***

Since the end of the first quarter through May 31, 2020, we have taken further steps to reduce the leverage on our portfolio, generate liquidity and reduce repurchase agreement balances with our counterparties. Actions taken by us include the sale of residential mortgage assets, generating proceeds of approximately $3.2 billion, which along with portfolio run-off and other payments to counterparties has resulted in an overall reduction in repurchase agreement balances of approximately $3.9 billion. Details of sales that have occurred in the second quarter through May 31, 2020 include:

- We have disposed of approximately $2.4 billion of residential mortgage securities, including $533.1 million of Agency MBS, $1.1 billion of Non-Agency MBS and $207.4 million of CRT securities. In addition, we sold $574.9 million of term notes backed by MSR-related collateral and $15.6 million of other interest earning assets. Improvement in market pricing since the end of the first quarter resulted in us recording realized gains of approximately $177.5 million to date in the second quarter. In addition, we recorded $57.0 million of unrealized gains on securities (primarily CRT securities) on which we had previously elected the fair value option.

- We also disposed of approximately $845.2 million of residential whole loans, resulting in realized losses of approximately $128.4 million. However, after the reversal of the valuation allowance associated with loans that were designated as held-for-sale at the end of the first quarter, the net impact on second quarter results is a loss of approximately $58.2 million.

We have now sold substantially all of our Agency MBS and Legacy Non-Agency MBS portfolios and greatly reduced our holdings of MSR-related assets and CRT securities. As of May 31, 2020, our $6.6 billion residential mortgage asset portfolio was comprised of $6.2 billion of residential whole loans and REO, approximately $235.4 million of MSR-related assets and $136.4 million of residential mortgage securities. These investments are financed with approximately $3.8 billion of repurchase agreements. Total debt was approximately 1.9 times stockholders' equity at May 31, 2020.

As of June 19, 2020, the Company had total cash balances of $343.6 million, including cash on deposit with repurchase agreement counterparties totaling $103.5 million. Since entering into forbearance agreements with its lenders in April, unpaid margins calls have been substantially reduced and were $29.1 million as of June 19, 2020.

**Information About Our Assets**

The table below presents certain information about our asset allocation at March 31, 2020:

**ASSET ALLOCATION***

| (Dollars in Millions) | Residential Whole Loans, at Carrying Value *(1)* | Residential Whole Loans, at Fair Value | Agency MBS | Legacy Non-Agency MBS | RPL/NPL MBS *(2)* | Credit Risk Transfer Securities | MSR-Related Assets | Other, net *(3)* | Total |
|---|---|---|---|---|---|---|---|---|---|
| Fair Value/Carrying Value | $ 5,716 | $ 1,244 | $ 553 | $ 1,040 | $ 80 | $ 254 | $ 738 | $ 1,019 | $ 10,644 |
| Plus Receivable for Unsettled Sales | 27 | — | 28 | 53 | 164 | 11 | 137 | — | 420 |
| Less Repurchase Agreements | (4,092) | (609) | (522) | (1,003) | (255) | (298) | (930) | (59) | (7,768) |
| Less Securitized Debt | (123) | (411) | — | — | — | — | — | — | (534) |
| Less Convertible Senior Notes | — | — | — | — | — | — | — | (224) | (224) |
| Less Senior Notes | — | — | — | — | — | — | — | (97) | (97) |
| Net Equity Allocated | $ 1,528 | $ 224 | $ 59 | $ 90 | $ (11) | $ (33) | $ (55) | $ 639 | $ 2,441 |
| Debt/Net Equity Ratio *(4)* | 2.7x | 4.6x | 8.4x | 10.6x | N/M | N/M | N/M | | 3.4x |

* As discussed above under "Management's Discussion and Analysis of Financial Condition and Results of Operations - Portfolio sales and composition changes and impact on our liquidity" and in Note 16 to our consolidated financial statements, since the end of the first quarter we have engaged in asset sales and taken other actions that significantly changed our asset composition subsequent to March 31, 2020. In particular, subsequent to the end of the first quarter, we sold the vast majority of our remaining Agency MBS and Legacy Non-Agency MBS portfolios and substantially reduced our investments in MSR-related assets and CRT securities. As a result of these actions, our primary investment asset as of the date hereof is our residential whole loan portfolio. Any discussion herein, including the table above, of our assets at March 31, 2020 should be read in conjunction with the description of these asset sales and other actions.

*(1) Includes $3.4 billion of Non-QM loans (including $895.3 million held-for-sale), $943.3 million of Rehabilitation loans, $498.9 million of Single-family rental loans, $165.3 million of Seasoned performing loans, and $673.5 million of Purchased Credit Deteriorated Loans. At March 31, 2020, the total fair value of these loans is estimated to be approximately $5.6 billion.*

*(2) RPL/NPL MBS are backed primarily by securitized re-performing and non-performing loans. The securities are generally structured such that the coupon increases from 300 - 400 basis points at 36 - 48 months from issuance or sooner. Included with the balance of Non-Agency MBS reported on our consolidated balance sheets.*

*(3) Includes cash and cash equivalents and restricted cash, other assets and other liabilities.*

*(4) Represents the sum of borrowings under repurchase agreements and securitized debt as a multiple of net equity allocated. The numerator of our Total Debt/Net Equity Ratio also includes Convertible Senior Notes and Senior Notes.*

**Residential Whole Loans**

The following table presents the contractual maturities of our residential whole loan portfolios at March 31, 2020. Amounts presented do not reflect estimates of prepayments or scheduled amortization.

| (In Thousands) | Purchased Performing Loans *(1)* | Purchased Credit Deteriorated Loans *(2)* | Residential Whole Loans, at Fair Value |
|---|---|---|---|
| Amount due: | | | |
| Within one year | $ 780,632 | $ 737 | $ 4,212 |
| After one year: | | | |
| Over one to five years | 239,496 | 4,302 | 5,687 |
| Over five years | 4,169,506 | 739,369 | 1,233,893 |
| Total due after one year | $ 4,409,002 | $ 743,671 | $ 1,239,580 |
| Total residential whole loans | $ 5,189,634 | $ 744,408 | $ 1,243,792 |

*(1) Excludes an allowance for credit and valuation losses of $147.1 million at March 31, 2020.*
*(2) Excludes an allowance for credit losses of $70.9 million at March 31, 2020.*

The following table presents, at March 31, 2020, the dollar amount of certain of our residential whole loans, contractually maturing after one year, and indicates whether the loans have fixed interest rates or adjustable interest rates:

| (In Thousands) | Purchased Performing Loans *(1)(2)* | Purchased Credit Deteriorated Loans *(1)(3)* | Residential Whole Loans, at Fair Value *(1)* |
|---|---|---|---|
| Interest rates: | | | |
| Fixed | $ 1,434,688 | $ 501,139 | $ 879,535 |
| Adjustable | 2,974,314 | 242,532 | 360,045 |
| Total | $ 4,409,002 | $ 743,671 | $ 1,239,580 |

*(1) Includes loans on which borrowers have defaulted and are not making payments of principal and/or interest as of March 31, 2020.*
*(2) Excludes an allowance for credit and valuation losses of $147.1 million at March 31, 2020.*
*(3) Excludes an allowance for credit losses of $70.9 million at March 31, 2020.*

**Agency MBS**

The following tables present certain information regarding the composition of our Agency MBS portfolio as of March 31, 2020 and December 31, 2019. Subsequent to March 31, 2020, we disposed of the vast majority of our investments in Agency MBS:

**March 31, 2020**

| (Dollars in Thousands) | Current Face | Weighted Average Purchase Price | Weighted Average Market Price | Fair Value *(1)* | Weighted Average Loan Age (Months) *(2)* | Weighted Average Coupon *(2)* | 3 Month Average CPR |
|---|---|---|---|---|---|---|---|
| **15-Year Fixed Rate:** | | | | | | | |
| Low Loan Balance *(3)* | $ 125,543 | 103.8% | 105.3% | $ 132,204 | 110 | 3.90% | 8.6% |
| Generic | 36,157 | 104.0 | 105.3 | 38,086 | 113 | 4.10 | 7.2 |
| **Total 15-Year Fixed Rate** | $ 161,700 | 103.8% | 105.3% | $ 170,290 | 111 | 3.95% | 8.3% |
| | | | | | | | |
| **30-Year Fixed Rate:** | | | | | | | |
| Generic | $ 13,461 | 104.0% | 107.7% | $ 14,499 | 21 | 4.50% | 25.1% |
| **Total 30-Year Fixed Rate** | $ 13,461 | 104.0% | 107.7% | $ 14,499 | 21 | 4.50% | 25.1% |
| | | | | | | | |
| **Hybrid** | $ 315,351 | 103.5% | 102.8% | $ 324,197 | 120 | 3.67% | 11.4% |
| **CMO/Other** | $ 42,393 | 102.6% | 103.6% | $ 43,911 | 215 | 4.03% | 13.5% |
| **Total Portfolio** | $ 532,905 | 103.5% | 103.8% | $ 552,897 | 122 | 3.80% | 12.6% |

**December 31, 2019**

| (Dollars in Thousands) | Current Face | Weighted Average Purchase Price | Weighted Average Market Price | Fair Value *(1)* | Weighted Average Loan Age (Months) *(2)* | Weighted Average Coupon *(2)* | 3 Month Average CPR |
|---|---|---|---|---|---|---|---|
| **15-Year Fixed Rate:** | | | | | | | |
| Low Loan Balance *(3)* | $ 460,094 | 104.5% | 102.4% | $ 471,123 | 93 | 3.04% | 10.5% |
| Generic | 100,886 | 104.5 | 103.1 | 104,060 | 99 | 3.45 | 10.7 |
| **Total 15-Year Fixed Rate** | $ 560,980 | 104.5% | 102.5% | $ 575,183 | 94 | 3.11% | 10.6% |
| | | | | | | | |
| **30-Year Fixed Rate:** | | | | | | | |
| Generic | $ 264,760 | 104.2% | 105.9% | $ 280,303 | 18 | 4.50% | 34.4% |
| **Total 30-Year Fixed Rate** | $ 264,760 | 104.2% | 105.9% | $ 280,303 | 18 | 4.50% | 34.4% |
| | | | | | | | |
| **Hybrid** | $ 732,968 | 103.5% | 103.8% | $ 760,836 | 121 | 4.11% | 18.3% |
| **CMO/Other** | $ 45,875 | 102.6% | 103.9% | $ 47,646 | 211 | 4.23% | 11.7% |
| **Total Portfolio** | $ 1,604,583 | 103.9% | 103.7% | $ 1,663,968 | 97 | 3.83% | 18.1% |

*(1) Does not include principal payments receivable of $516,000 and $614,000 at March 31, 2020 and December 31, 2019, respectively.*
*(2) Weighted average is based on MBS current face at March 31, 2020 and December 31, 2019, respectively.*
*(3) Low loan balance represents MBS collateralized by mortgages with an original loan balance of less than or equal to $175,000.*

The following tables present certain information regarding our fixed-rate Agency MBS as of March 31, 2020 and December 31, 2019. Subsequent to March 31, 2020, we disposed of the vast majority of our investments in Agency MBS:

**March 31, 2020**

| Coupon | | Current Face | Weighted Average Purchase Price | Weighted Average Market Price | | Fair Value *(1)* | Weighted Average Loan Age (Months) *(2)* | Weighted Average Loan Rate | Low Loan Balance and/or HARP *(3)* | 3 Month Average CPR |
|---|---|---|---|---|---|---|---|---|---|---|
| (Dollars in Thousands) | | | | | | | | | | |
| **15-Year Fixed Rate:** | | | | | | | | | | |
| 2.5% | $ | 4,319 | 104.8% | 104.1% | $ | 4,497 | 88 | 3.08% | 100% | 6.8% |
| 3.0% | | 8,509 | 105.5 | 104.8 | | 8,919 | 92 | 3.61 | 100 | 6.5 |
| 3.5% | | 2,525 | 103.5 | 105.3 | | 2,658 | 113 | 4.19 | 100 | 15.3 |
| 4.0% | | 131,275 | 103.5 | 105.4 | | 138,325 | 112 | 4.40 | 82 | 12.6 |
| 4.5% | | 15,072 | 105.3 | 105.4 | | 15,891 | 117 | 4.89 | 52 | 9.1 |
| **Total 15-Year Fixed Rate** | $ | 161,700 | 103.8% | 105.3% | $ | 170,290 | 111 | 4.37% | 81% | 8.3% |
| **30-Year Fixed Rate:** | | | | | | | | | | |
| 4.5% | $ | 13,461 | 104.0% | 107.7% | $ | 14,499 | 21 | 4.86% | —% | 25.1% |
| **Total 30-Year Fixed Rate** | $ | 13,461 | 104.0% | 107.7% | $ | 14,499 | 21 | 4.86% | —% | 25.1% |
| **Total Fixed Rate Portfolio** | $ | 175,161 | 103.9% | 105.5% | $ | 184,789 | 104 | 4.41% | 75% | 13.6% |

**December 31, 2019**

| Coupon | | Current Face | Weighted Average Purchase Price | Weighted Average Market Price | | Fair Value *(1)* | Weighted Average Loan Age (Months) *(2)* | Weighted Average Loan Rate | Low Loan Balance and/or HARP *(3)* | 3 Month Average CPR |
|---|---|---|---|---|---|---|---|---|---|---|
| (Dollars in Thousands) | | | | | | | | | | |
| **15-Year Fixed Rate:** | | | | | | | | | | |
| 2.5% | $ | 241,045 | 104.1% | 101.2% | $ | 243,946 | 85 | 3.06% | 100% | 9.3% |
| 3.0% | | 147,665 | 105.9 | 102.6 | | 151,470 | 89 | 3.49 | 100 | 10.0 |
| 3.5% | | 2,761 | 103.5 | 103.6 | | 2,862 | 110 | 4.19 | 100 | 7.5 |
| 4.0% | | 145,910 | 103.5 | 104.3 | | 152,234 | 109 | 4.40 | 81 | 13.0 |
| 4.5% | | 23,599 | 105.3 | 104.5 | | 24,671 | 113 | 4.89 | 36 | 11.2 |
| **Total 15-Year Fixed Rate** | $ | 560,980 | 104.5% | 102.5% | $ | 575,183 | 94 | 3.60% | 92% | 10.6% |
| **30-Year Fixed Rate:** | | | | | | | | | | |
| 4.5% | $ | 264,760 | 104.2% | 105.9% | $ | 280,303 | 18 | 5.16% | —% | 34.4% |
| **Total 30-Year Fixed Rate** | $ | 264,760 | 104.2% | 105.9% | $ | 280,303 | 18 | 5.16% | —% | 34.4% |
| **Total Fixed Rate Portfolio** | $ | 825,740 | 104.4% | 103.6% | $ | 855,486 | 70 | 4.10% | 63% | 18.3% |

*(1) Does not include principal payments receivable of $516,000 and $614,000 at March 31, 2020 and December 31, 2019, respectively.*
*(2) Weighted average is based on MBS current face at March 31, 2020 and December 31, 2019, respectively.*
*(3) Low Loan Balance represents MBS collateralized by mortgages with an original loan balance less than or equal to $175,000. Home Affordable Refinance Program (or HARP) MBS are backed by refinanced loans with LTVs greater than or equal to 80% at origination.*

The following tables present certain information regarding our Hybrid Agency MBS as of March 31, 2020 and December 31, 2019. Subsequent to March 31, 2020, we disposed of the vast majority of our investments in Agency MBS:

**March 31, 2020**

| (Dollars in Thousands) | Current Face | Weighted Average Purchase Price | Weighted Average Market Price | Fair Value *(1)* | Weighted Average Coupon *(2)* | Weighted Average Loan Age (Months) *(2)* | Weighted Average Months to Reset *(3)* | Interest Only *(4)* | 3 Month Average CPR |
|---|---|---|---|---|---|---|---|---|---|
| **Hybrid** | | | | | | | | | |
| Agency 3/1 | $ 43,650 | 102.6% | 103.7% | $ 45,277 | 4.13% | 168 | 5 | —% | 8.0% |
| Agency 5/1 | 70,169 | 102.7 | 102.8 | 72,142 | 4.10 | 140 | 3 | 41 | 11.0 |
| Agency 7/1 | 74,565 | 103.6 | 102.8 | 76,645 | 3.89 | 105 | 9 | 55 | 12.7 |
| Agency 10/1 | 126,967 | 104.2 | 102.5 | 130,133 | 3.12 | 101 | 23 | 61 | 11.6 |
| **Total Hybrids** | $ 315,351 | 103.5% | 102.8% | $ 324,197 | 3.67% | 120 | 13 | 47% | 11.4% |

**December 31, 2019**

| (Dollars in Thousands) | Current Face | Weighted Average Purchase Price | Weighted Average Market Price | Fair Value *(1)* | Weighted Average Coupon *(2)* | Weighted Average Loan Age (Months) *(2)* | Weighted Average Months to Reset *(3)* | Interest Only *(4)* | 3 Month Average CPR |
|---|---|---|---|---|---|---|---|---|---|
| **Hybrid** | | | | | | | | | |
| Agency 3/1 | $ 46,530 | 102.5% | 104.6% | $ 48,686 | 4.28% | 165 | 6 | —% | 16.6% |
| Agency 5/1 | 318,843 | 103.3 | 104.2 | 332,234 | 4.35 | 131 | 5 | 15 | 20.1 |
| Agency 7/1 | 232,565 | 103.5 | 103.9 | 241,552 | 4.29 | 111 | 6 | 20 | 18.6 |
| Agency 10/1 | 135,030 | 104.2 | 102.5 | 138,364 | 3.17 | 98 | 25 | 60 | 14.2 |
| **Total Hybrids** | $ 732,968 | 103.5% | 103.8% | $ 760,836 | 4.11% | 121 | 9 | 24% | 18.3% |

*(1) Does not include principal payments receivable of $516,000 and $614,000 at March 31, 2020 and December 31, 2019, respectively.*
*(2) Weighted average is based on MBS current face at March 31, 2020 and December 31, 2019, respectively.*
*(3) Weighted average months to reset is the number of months remaining before the coupon interest rate resets. At reset, the MBS coupon will adjust based upon the underlying benchmark interest rate index, margin and periodic or lifetime caps. The months to reset do not reflect scheduled amortization or prepayments.*
*(4) Interest only represents MBS backed by mortgages currently in their interest-only period. Percentage is based on MBS current face at March 31, 2020 and December 31, 2019, respectively.*

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**Non-Agency MBS**

The following table presents information with respect to our Non-Agency MBS at March 31, 2020 and December 31, 2019. Subsequent to March 31, 2020, we disposed of the vast majority of our investments in Legacy Non-Agency MBS:

| (In Thousands) | March 31, 2020 | December 31, 2019 |
|---|---|---|
| **Non-Agency MBS** | | |
| Face/Par | $ 1,455,848 | $ 2,195,303 |
| Fair Value | 1,119,940 | 2,063,529 |
| Amortized Cost | 975,408 | 1,668,088 |
| Purchase Discount Designated as Credit Reserve | (389,472) | (436,598) |
| Purchase Discount Designated as Accretable | (90,968) | (90,617) |
| Purchase Premiums | — | — |

*Purchase Discounts on Non-Agency MBS*

The following table presents the changes in the components of purchase discount on our Non-Agency MBS between purchase discount designated as Credit Reserve and accretable purchase discount for the three months ended March 31, 2020 and 2019:

| | Three Months Ended March 31, 2020 | | Three Months Ended March 31, 2019 | |
|---|---|---|---|---|
| (In Thousands) | Discount Designated as Credit Reserve | Accretable Discount *(1)* | Discount Designated as Credit Reserve | Accretable Discount *(1)* |
| Balance at beginning of period | $ (436,598) | $ (90,617) | $ (516,116) | $ (155,025) |
| Impact of RMBS Issuer Settlement *(2)* | — | — | — | (855) |
| Accretion of discount | — | 9,889 | — | 13,307 |
| Realized credit losses | 4,459 | — | 7,504 | — |
| Purchases | — | — | — | (118) |
| Sales/Redemptions | 49,491 | (5,551) | 3,191 | 16,346 |
| Net impairment losses recognized in earnings | (11,513) | — | — | — |
| Transfers/release of credit reserve | 4,689 | (4,689) | 3,802 | (3,802) |
| Balance at end of period | $ (389,472) | $ (90,968) | $ (501,619) | $ (130,147) |

*(1) Together with coupon interest, accretable purchase discount is recognized as interest income over the life of the security.*
*(2) Includes the impact of $855,000 of cash proceeds (a one-time payment) received by the Company during the three months ended March 31, 2019 in connection with the settlement of litigation related to certain residential mortgage backed securitization trusts that were sponsored by JP Morgan Chase & Co. and affiliated entities.*

The following table presents information with respect to the yield components of our Non-Agency MBS for the three months ended March 31, 2020 and 2019. Subsequent to March 31, 2020, we disposed of the vast majority of our investments in Legacy Non-Agency MBS:

| | Three Months Ended March 31, 2020 | | Three Months Ended March 31, 2019 | |
|---|---|---|---|---|
| | Legacy Non-Agency MBS | RPL/NPL MBS | Legacy Non-Agency MBS | RPL/NPL MBS |
| **Non-Agency MBS** | | | | |
| Coupon Yield *(1)* | 6.83% | 4.96% | 6.78% | 4.86% |
| Effective Yield Adjustment *(2)* | 3.72 | 0.25 | 3.67 | 0.04 |
| Net Yield | 10.55% | 5.21% | 10.45% | 4.90% |

*(1) Reflects the annualized coupon interest income divided by the average amortized cost. The discounted purchase price on Legacy Non-Agency MBS causes the coupon yield to be higher than the pass-through coupon interest rate.*
*(2) The effective yield adjustment is the difference between the net yield, calculated utilizing management's estimates of timing and amount of future cash flows for Legacy Non-Agency MBS and RPL/NPL MBS, less the current coupon yield.*

Actual maturities of MBS are generally shorter than stated contractual maturities because actual maturities of MBS are affected by the contractual lives of the underlying mortgage loans, periodic payments of principal and prepayments of principal. The following table presents certain information regarding the amortized costs, weighted average yields and contractual maturities of our MBS at March 31, 2020 and does not reflect the effect of prepayments or scheduled principal amortization on our MBS:

| | Within One Year | | One to Five Years | | Five to Ten Years | | Over Ten Years | | Total MBS | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| (Dollars in Thousands) | Amortized Cost | Weighted Average Yield | Amortized Cost | Weighted Average Yield | Amortized Cost | Weighted Average Yield | Amortized Cost | Weighted Average Yield | Total Amortized Cost | Total Fair Value | Weighted Average Yield |
| Agency MBS: | | | | | | | | | | | |
| Fannie Mae | $ — | —% | $ 5,449 | 1.63% | $ 105,646 | 2.87% | $ 332,921 | 2.77% | $ 444,016 | $ 448,258 | 2.78% |
| Freddie Mac | — | — | 5,903 | — | 54,725 | 2.34 | 38,994 | 3.90 | 99,622 | 101,277 | 2.95 |
| Ginnie Mae | — | — | — | — | 65 | 3.91 | 3,753 | 3.09 | 3,818 | 3,878 | 3.10 |
| Total Agency MBS | $ — | —% | $ 11,352 | 2.00% | $ 160,436 | 2.69% | $ 375,668 | 2.89% | $ 547,456 | $ 553,413 | 2.81% |
| Non-Agency MBS | $ — | —% | $ 50,116 | 4.81% | $ 1,701 | 5.36% | $ 923,591 | 11.09% | $ 975,408 | $ 1,119,940 | 10.76% |
| Total MBS | $ — | —% | $ 61,468 | 4.29% | $ 162,137 | 2.72% | $ 1,299,259 | 8.72% | $ 1,522,864 | $ 1,673,353 | 7.90% |

### CRT Securities

At March 31, 2020, our total investment in CRT securities was $254.1 million, with a gross unrealized losses of $67.7 million, a weighted average yield of 3.86% and a weighted average time to maturity of 14.3 years. At December 31, 2019, our total investment in CRT securities was $255.4 million, with a net unrealized gain of $6.2 million, a weighted average yield of 5.85% and weighted average time to maturity of 11.1 years.

During three months ended March 31, 2020, we sold certain CRT securities for $35.6 million, realizing losses of $2.0 million. The net income impact of these sales, after reversal of previously unrealized gains on CRT securities on which we had elected the fair value option, was a loss of approximately $2.5 million. Subsequent to March 31, 2020 we significantly reduced our holdings of CRT securities.

### MSR-Related Assets

At March 31, 2020 and December 31, 2019, we had $706.6 million and $1.2 billion, respectively, of term notes issued by SPVs that have acquired the rights to receive cash flows representing the servicing fees and/or excess servicing spread associated with certain MSRs. At March 31, 2020, these term notes had an amortized cost and fair value of $706.6 million, a weighted average yield of 4.74% and a weighted average term to maturity of 5.1 years. During three months ended March 31, 2020, we sold certain term notes for $136.8 million, realizing losses of $24.6 million. During the last two weeks in March, market values of our investments in these term notes fell significantly, primarily due to a lack of liquidity driven by concerns related to the impact of the COVID-19 pandemic on economic conditions generally and residential mortgage markets specifically. This resulted in a number of our investments being in an unrealized loss position at quarter end. As we had committed to a plan to sell these investments, we were required to recognize an impairment charge in first quarter 2020 net income of approximately $280.8 million. Subsequent to March 31, 2020 we significantly reduced our holdings of MSR-related assets.

At December 31, 2019, these term notes had an amortized cost of $1.2 billion, gross unrealized losses of approximately $5.2 million, a weighted average yield of 4.75% and a weighted average term to maturity of 5.3 years.

During the year ended December 31, 2019, we participated in a loan where we committed to lend $100.0 million of which approximately $33.8 million was drawn at March 31, 2020. At March 31, 2020, the coupon paid by the borrower on the drawn amount is 3.93%, the remaining term associated with the loan is 5 months and the remaining commitment period on any undrawn amount is 5 months.

## Tax Considerations

*Current period estimated taxable income*

We estimate that for the three months ended March 31, 2020, our taxable income was approximately $47.1 million. We have undistributed taxable income of approximately $64.7 million, or $0.14 per share. We have until the filing of our 2019 tax return (due not later than October 15, 2020) to declare the distribution of any 2019 REIT taxable income not previously distributed.

*Key differences between GAAP net income and REIT Taxable Income for Residential Mortgage Securities and Residential Whole Loans*

Our total Non-Agency MBS portfolio for tax differs from our portfolio reported for GAAP primarily due to the fact that for tax purposes: (i) certain of the MBS contributed to the VIEs used to facilitate MBS resecuritization transactions were deemed to be sold; and (ii) the tax basis of underlying MBS considered to be reacquired in connection with the unwind of such transactions became the fair value of such securities at the time of the unwind. For GAAP reporting purposes the underlying MBS that were included in these MBS resecuritization transactions were not considered to be sold. Similarly, for tax purposes the residential whole loans contributed to the VIE used to facilitate our second quarter 2017 loan securitization transaction were deemed to be sold for tax purposes, but not for GAAP reporting purposes. In addition, for our Non-Agency MBS and residential whole loan tax portfolios, potential timing differences arise with respect to the accretion of discount and amortization of premium into income as well as the recognition of realized losses for tax purposes as compared to GAAP. Further, use of fair value accounting for certain residential mortgage securities and residential whole loans for GAAP, but not for tax, also gives rise to potential timing differences. Consequently, our REIT taxable income calculated in a given period may differ significantly from our GAAP net income.

The determination of taxable income attributable to Non-Agency MBS and residential whole loans is dependent on a number of factors, including principal payments, defaults, loss mitigation efforts and loss severities. In estimating taxable income for Non-Agency MBS and residential whole loans during the year, management considers estimates of the amount of discount expected to be accreted. Such estimates require significant judgment and actual results may differ from these estimates. Moreover, the deductibility of realized losses from Non-Agency MBS and residential whole loans and their effect on discount accretion and premium amortization are analyzed on an asset-by-asset basis and, while they will result in a reduction of taxable income, this reduction tends to occur gradually and, primarily for Non-Agency MBS, in periods after the realized losses are reported. In addition, for securitization and resecuritization transactions that were treated as a sale of the underlying MBS or residential whole loans for tax purposes, taxable gain or loss, if any, resulting from the unwind of such transactions is not recognized in GAAP net income.

*Securitization transactions result in differences between GAAP net income and REIT Taxable Income*

For tax purposes, depending on the transaction structure, a securitization and/or resecuritization transaction may be treated either as a sale or a financing of the underlying collateral. Income recognized from securitization and resecuritization transactions will differ for tax and GAAP purposes. For tax purposes, we own and may in the future acquire interests in securitization and/or resecuritization trusts, in which several of the classes of securities are or will be issued with original issue discount (or OID). As the holder of the retained interests in the trust, we generally will be required to include OID in our current gross interest income over the term of the applicable securities as the OID accrues. The rate at which the OID is recognized into taxable income is calculated using a constant rate of yield to maturity, with realized losses impacting the amount of OID recognized in REIT taxable income once they are actually incurred. For tax purposes, REIT taxable income may be recognized in excess of economic income (i.e., OID) or in advance of the corresponding cash flow from these assets, thereby affecting our dividend distribution requirement to stockholders. In addition, for securitization and/or resecuritization transactions that were treated as a sale of the underlying collateral for tax purposes, the unwinding of any such transaction will likely result in a taxable gain or loss that is likely not recognized in GAAP net income since securitization and resecuritization transactions are typically accounted for as financing transactions for GAAP purposes. The tax basis of underlying residential whole loans or MBS re-acquired in connection with the unwind of such transactions becomes the fair market value of such assets at the time of the unwind.

*Taxable income of consolidated TRS subsidiaries is included in GAAP income, but may not be included in REIT Taxable Income*

Net income generated by our TRS subsidiaries is included in consolidated GAAP net income, but may not be included in REIT taxable income in the same period. Net income of U.S. domiciled TRS subsidiaries is included in REIT taxable income when distributed by the TRS. Net income of foreign domiciled TRS subsidiaries is included in REIT taxable income as if distributed to the REIT in the taxable year it is earned by the foreign domiciled TRS.

**Regulatory Developments**

The U.S. Congress, Federal Reserve, U.S. Treasury, Federal Deposit Insurance Corporation, SEC and other governmental and regulatory bodies have taken and continue to consider additional actions in response to the 2007-2008 financial crisis. In particular, the Dodd-Frank Wall Street Reform and Consumer Protection Act (or the Dodd-Frank Act) created a new regulator, an independent bureau housed within the Federal Reserve System known as the Consumer Financial Protection Bureau (or the CFPB). The CFPB has broad authority over a wide range of consumer financial products and services, including mortgage lending and servicing. One portion of the Dodd-Frank Act, the Mortgage Reform and Anti-Predatory Lending Act (or Mortgage Reform Act), contains underwriting and servicing standards for the mortgage industry, restrictions on compensation for mortgage loan originators, and various other requirements related to mortgage origination and servicing. In addition, the Dodd-Frank Act grants enforcement authority and broad discretionary regulatory authority to the CFPB to prohibit or condition terms, acts or practices relating to residential mortgage loans that the CFPB finds abusive, unfair, deceptive or predatory, as well as to take other actions that the CFPB finds are necessary or proper to ensure responsible affordable mortgage credit remains available to consumers. The Dodd-Frank Act also affects the securitization of mortgages (and other assets) with requirements for risk retention by securitizers and requirements for regulating rating agencies.

Numerous regulations have been issued pursuant to the Dodd-Frank Act, including regulations regarding mortgage loan servicing, underwriting and loan originator compensation and others could be issued in the future. As a result, we are unable to fully predict at this time how the Dodd-Frank Act, as well as other laws or regulations that may be adopted in the future, will affect our business, results of operations and financial condition, or the environment for repurchase financing and other forms of borrowing, the investing environment for Agency MBS, Non-Agency MBS and/or residential mortgage loans, the securitization industry, Swaps and other derivatives. We believe that the Dodd-Frank Act and the regulations promulgated thereunder are likely to continue to increase the economic and compliance costs for participants in the mortgage and securitization industries, including us.

In addition to the regulatory actions being implemented under the Dodd-Frank Act, on August 31, 2011, the SEC issued a concept release under which it is reviewing interpretive issues related to Section 3(c)(5)(C) of the Investment Company Act. Section 3(c)(5)(C) excludes from the definition of “investment company” entities that are primarily engaged in, among other things, “purchasing or otherwise acquiring mortgages and other liens on and interests in real estate.” Many companies that engage in the business of acquiring mortgages and mortgage-related instruments seek to rely on existing interpretations of the SEC Staff with respect to Section 3(c)(5)(C) so as not to be deemed an investment company for the purpose of regulation under the Investment Company Act. In connection with the concept release, the SEC requested comments on, among other things, whether it should reconsider its existing interpretation of Section 3(c)(5)(C). To date the SEC has not taken or otherwise announced any further action in connection with the concept release.

The Federal Housing Finance Agency (or FHFA) and both houses of Congress have discussed and considered separate measures intended to restructure the U.S. housing finance system and the operations of Fannie Mae and Freddie Mac. Congress may continue to consider legislation that would significantly reform the country’s mortgage finance system, including, among other things, eliminating Freddie Mac and Fannie Mae and replacing them with a single new MBS insurance agency. Many details remain unsettled, including the scope and costs of the agencies’ guarantee and their affordable housing mission, some of which could be addressed even in the absence of large-scale reform. On March 27, 2019, President Trump issued a memorandum on federal housing finance reform that directed the Secretary of the Treasury to develop a plan for administrative and legislative reforms as soon as practicable to achieve the following housing reform goals: 1) ending the conservatorships of the Government-sponsored enterprises (or GSEs) upon the completion of specified reforms; 2) facilitating competition in the housing finance market; 3) establishing regulation of the GSEs that safeguards their safety and soundness and minimizes the risks they pose to the financial stability of the United States; and 4) providing that the federal government is properly compensated for any explicit or implicit support it provides to the GSEs or the secondary housing finance market. On September 5, 2019, in response to President Trump’s memorandum, the U.S. Department of the Treasury released a plan, developed in conjunction with the FHFA, the Department of Housing and Urban Development, and other government agencies, which includes legislative and administrative reforms to achieve each of these reform goals. At this point, it remains unclear whether any of these legislative or regulatory reforms will be enacted or implemented. The prospects for passage of any of these plans are uncertain, but the proposals underscore the potential for change to Fannie Mae and Freddie Mac. On May 20, 2020, in connection with its stated intention to responsibly end the conservatorship of the GSEs, the FHFA issued a notice of proposed rulemaking and request for comments (“Proposed Rule”) on a new regulatory capital framework for Fannie Mae and Freddie Mac. The Proposed Rule is a re-proposal of the regulatory capital framework originally proposed in 2018 that would have established new risk-based capital requirements for the GSEs and updated the minimum leverage requirements. The re-proposal contains enhancements to establish a post-conservatorship regulatory capital framework that ensures that each Enterprise operates in a safe and sound manner and is positioned to fulfill its statutory mission to provide stability and ongoing assistance to the secondary mortgage market across the economic cycle, in particular during periods of financial stress. Comments on the Proposed Rule are due 60 days after publication in in the Federal Register.

While the likelihood of enactment of major mortgage finance system reform in the short term remains uncertain, it is possible that the adoption of any such reforms could adversely affect the types of assets we can buy, the costs of these assets and our business operations. As the FHFA and both houses of Congress continue to consider various measures intended to dramatically restructure the U.S. housing finance system and the operations of Fannie Mae and Freddie Mac, we expect debate and discussion on the topic to continue throughout 2020, and we cannot be certain whether alternative plans may be proposed by the Trump Administration, if any housing and/or mortgage-related legislation will emerge from committee or be approved by Congress, or the extent to which administrative reforms may be implemented, and if so, what the effect would be on our business.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was signed into law. Among the provisions in this wide-ranging law are protections for homeowners experiencing financial difficulties due to the COVID-19 pandemic, including forbearance provisions and procedures. Borrowers with federally backed mortgage loans, regardless of delinquency status, may request loan forbearance for a six-month period, which could be extended for another six-month period if necessary. Federally backed mortgage loans are loans secured by first- or subordinate-liens on 1-4 family residential real property, including individual units of condominiums and cooperatives, which are insured or guaranteed pursuant to certain government housing programs, such as by the Federal Housing Administration, Federal Housing Administration, or U.S. Department of Agriculture, or are purchased or securitized by Fannie Mae or Freddie Mac. The CARES Act also includes a temporary 60 day foreclosure moratorium that applies to federally backed mortgage loans, which lasted until May 17, 2020. However, the moratorium has been extended to June 30, 2020 by Fannie Mae, Federal Housing Administration, Federal Housing Administration and the U.S. Department of Agriculture. Some states and local jurisdictions have also implemented moratoriums on foreclosures.

**Results of Operations**

***Quarter Ended March 31, 2020 Compared to the Quarter Ended March 31, 2019***

*General*

Unprecedented disruption in residential mortgage markets, due to concerns related to the COVID-19 pandemic, resulted in us generating a net loss available to our common stock and participating securities for the first quarter of 2020 of $914.2 million, or $2.02 per basic and diluted common share, compared to net income available to common stock and participating securities of $85.1 million, or $0.19 per basic and diluted common share, for the first quarter of 2019. The decrease in net income available to common stock and participating securities primarily reflects lower Other income, which was driven by impairment losses on securities available-for-sale , net realized losses on sales of residential mortgage securities and residential whole loans, unrealized losses on residential mortgage securities measured at fair value through earnings, net losses on our residential whole loans measured at fair value through earnings and impairments charges recorded on certain other assets. In addition, under the new accounting standard for estimating credit losses that we were required to adopt during the first quarter of 2020, we recorded a provision for credit losses on residential whole loans held at carrying value of $74.9 million. We also recorded a valuation allowance of $70.2 million to adjust the carrying value of certain residential whole loans to their estimated fair value as these loans were designated as being held-for-sale at March 31, 2020.

*Net Interest Income*

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends primarily upon the volume of interest-earning assets and interest-bearing liabilities and the corresponding interest rates earned or paid. Our net interest income varies primarily as a result of changes in interest rates, the slope of the yield curve (i.e., the differential between long-term and short-term interest rates), borrowing costs (i.e., our interest expense) and prepayment speeds on our investments. Interest rates and CPRs (which measure the amount of unscheduled principal prepayment on a bond or loan as a percentage of its unpaid balance) vary according to the type of investment, conditions in the financial markets and other factors, none of which can be predicted with any certainty.

The changes in average interest-earning assets and average interest-bearing liabilities and their related yields and costs are discussed in greater detail below under “Interest Income” and “Interest Expense.”

For the first quarter of 2020, our net interest spread and margin were 1.82% and 2.20%, respectively, compared to a net interest spread and margin of 1.98% and 2.41%, respectively, for the first quarter of 2019. Our net interest income of $61.7 million for the first quarter of 2020 was largely unchanged from the first quarter of 2019. For the first quarter of 2020, net interest income for our residential mortgage securities portfolio decreased by approximately $16.9 million compared to the first quarter of 2019, primarily due to lower average amounts invested in these securities due primarily to portfolio runoff and sales, lower yields earned on our Agency MBS and CRT securities, partially offset by lower funding costs and higher yields earned on our RPL/NPL MBS and Legacy Agency MBS portfolios. In addition, we incurred approximately $3.9 million interest expense on our Convertible Senior Notes issued during the first quarter of 2020. The decrease in net interest income was offset by higher net interest income from residential whole loans held at carrying value, MSR-related assets and other interest-earning assets of approximately $19.6 million compared to the first quarter of 2019, primarily due to higher average amounts invested in these assets. In addition, net interest income also includes $9.7 million of interest expense associated with residential whole loans held at fair value, reflecting a $1.2 million decrease in borrowing costs related to these investments compared to the first quarter of 2019. Coupon interest income received from residential whole loans held at fair value is presented as a component of the total income earned on these investments and therefore is included in Other Income, net rather than net interest income.

*Analysis of Net Interest Income*

The following table sets forth certain information about the average balances of our assets and liabilities and their related yields and costs for the three months ended March 31, 2020 and 2019. Average yields are derived by dividing annualized interest income by the average amortized cost of the related assets, and average costs are derived by dividing annualized interest expense by the daily average balance of the related liabilities, for the periods shown. The yields and costs include premium amortization and purchase discount accretion which are considered adjustments to interest rates.

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | | 2019 | | |
| **(Dollars in Thousands)** | **Average Balance** | **Interest** | **Average Yield/Cost** | **Average Balance** | **Interest** | **Average Yield/Cost** |
| **Assets:** | | | | | | |
| Interest-earning assets: | | | | | | |
| Residential whole loans, at carrying value *(1)* | $ 6,584,538 | $ 83,486 | 5.07% | $ 3,369,301 | $ 49,620 | 5.89% |
| Agency MBS *(2)* | 1,527,036 | 8,861 | 2.32 | 2,667,573 | 18,441 | 2.77 |
| Legacy Non-Agency MBS *(2)* | 1,011,810 | 26,688 | 10.55 | 1,432,014 | 37,416 | 10.45 |
| RPL/NPL MBS *(2)* | 449,789 | 5,863 | 5.21 | 1,353,954 | 16,585 | 4.90 |
| Total MBS | 2,988,635 | 41,412 | 5.54 | 5,453,541 | 72,442 | 5.31 |
| CRT securities *(2)* | 300,069 | 2,962 | 3.95 | 441,528 | 6,200 | 5.62 |
| MSR-related assets *(2)* | 1,197,956 | 14,207 | 4.74 | 788,705 | 10,620 | 5.39 |
| Cash and cash equivalents *(3)* | 206,899 | 486 | 0.94 | 156,306 | 764 | 1.96 |
| Other interest-earning assets | 129,947 | 2,907 | 8.95 | 89,648 | 1,306 | 5.83 |
| Total interest-earning assets | 11,408,044 | 145,460 | 5.10 | 10,299,029 | 140,952 | 5.47 |
| Total non-interest-earning assets | 2,277,842 | | | 2,493,634 | | |
| Total assets | $ 13,685,886 | | | $ 12,792,663 | | |
| | | | | | | |
| **Liabilities and stockholders' equity:** | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Total repurchase agreements *(4)* | $ 9,233,808 | $ 72,698 | 3.11% | $ 8,282,621 | $ 70,809 | 3.42% |
| Securitized debt | 558,007 | 5,161 | 3.66 | 675,678 | 6,206 | 3.67 |
| Convertible Senior Notes | 224,071 | 3,888 | 6.94 | — | — | — |
| Senior Notes | 96,866 | 2,012 | 8.31 | 96,819 | 2,011 | 8.31 |
| Total interest-bearing liabilities | 10,112,752 | 83,759 | 3.28 | 9,055,118 | 79,026 | 3.49 |
| Total non-interest-bearing liabilities | 152,941 | | | 320,586 | | |
| Total liabilities | 10,265,693 | | | 9,375,704 | | |
| Stockholders' equity | 3,420,193 | | | 3,416,959 | | |
| Total liabilities and stockholders' equity | $ 13,685,886 | | | $ 12,792,663 | | |
| | | | | | | |
| Net interest income/net interest rate spread *(5)* | | $ 61,701 | 1.82% | | $ 61,926 | 1.98% |
| Net interest-earning assets/net interest margin *(6)* | $ 1,295,292 | | 2.20% | $ 1,243,911 | | 2.41% |

*(1) Excludes residential whole loans held at fair value that are reported as a component of total non-interest-earning assets. Includes Non-QM loans held-for-sale with a net carrying value of $895.3 million at March 31, 2020.*

*(2) Yields presented throughout this Quarterly Report on Form 10-Q are calculated using average amortized cost data for securities which excludes unrealized gains and losses and includes principal payments receivable on securities. For GAAP reporting purposes, purchases and sales are reported on the trade date. Average amortized cost data used to determine yields is calculated based on the settlement date of the associated purchase or sale as interest income is not earned on purchased assets and continues to be earned on sold assets until settlement date.*

*(3) Includes average interest-earning cash, cash equivalents and restricted cash.*

*(4) Average cost of repurchase agreements includes the cost of Swaps allocated based on the proportionate share of the overall estimated weighted average portfolio duration.*

*(5) Net interest rate spread reflects the difference between the yield on average interest-earning assets and average cost of funds.*

*(6) Net interest margin reflects annualized net interest income divided by average interest-earning assets.*

*Rate/Volume Analysis*

The following table presents the extent to which changes in interest rates (yield/cost) and changes in the volume (average balance) of interest-earning assets and interest-bearing liabilities have affected our interest income and interest expense during the periods indicated. Information is provided in each category with respect to: (i) the changes attributable to changes in volume (changes in average balance multiplied by prior rate); (ii) the changes attributable to changes in rate (changes in rate multiplied by prior average balance); and (iii) the net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately, based on absolute values, to the changes due to rate and volume.

| | Three Months Ended March 31, 2020 Compared to Three Months Ended March 31, 2019 | | |
|---|---|---|---|
| | Increase/(Decrease) due to | | Total Net Change in Interest Income/Expense |
| (In Thousands) | Volume | Rate | |
| Interest-earning assets: | | | |
| Residential whole loans, at carrying value *(1)* | $ 41,604 | $ (7,738) | $ 33,866 |
| Agency MBS | (6,960) | (2,620) | (9,580) |
| Legacy Non-Agency MBS | (11,078) | 350 | (10,728) |
| RPL/NPL MBS | (11,712) | 990 | (10,722) |
| CRT securities | (1,680) | (1,558) | (3,238) |
| MSR-related assets | 4,976 | (1,389) | 3,587 |
| Cash and cash equivalents | 198 | (476) | (278) |
| Other interest-earning assets | 730 | 871 | 1,601 |
| Total net change in income from interest-earning assets | $ 16,078 | $ (11,570) | $ 4,508 |
| | | | |
| Interest-bearing liabilities: | | | |
| Residential whole loan at carrying value repurchase agreements | $ 23,874 | $ (4,722) | $ 19,152 |
| Residential whole loan at fair value repurchase agreements | 905 | (1,286) | (381) |
| Agency repurchase agreements | (6,096) | (126) | (6,222) |
| Legacy Non-Agency repurchase agreements | (2,242) | (543) | (2,785) |
| RPL/NPL MBS repurchase agreements | (4,958) | (1,908) | (6,866) |
| CRT securities repurchase agreements | (820) | (721) | (1,541) |
| MSR-related assets repurchase agreements | 2,494 | (1,818) | 676 |
| Other repurchase agreements | (136) | (8) | (144) |
| Securitized debt | (1,021) | (24) | (1,045) |
| Convertible Senior Notes | 3,888 | — | 3,888 |
| Senior Notes | 1 | — | 1 |
| Total net change in expense from interest-bearing liabilities | $ 15,889 | $ (11,156) | $ 4,733 |
| Net change in net interest income | $ 189 | $ (414) | $ (225) |

*(1) Excludes residential whole loans held at fair value which are reported as a component of non-interest-earning assets. Includes Non-QM loans held-for-sale with a net carrying value of $895.3 million at March 31, 2020.*

The following table presents certain quarterly information regarding our net interest spread and net interest margin for the quarterly periods presented:

| | Total Interest-Earning Assets and Interest-Bearing Liabilities | |
|---|---|---|
| **Quarter Ended** | **Net Interest Spread *(1)*** | **Net Interest Margin *(2)*** |
| March 31, 2020 | 1.82% | 2.20% |
| December 31, 2019 | 2.33 | 2.68 |
| September 30, 2019 | 1.82 | 2.19 |
| June 30, 2019 | 1.90 | 2.29 |
| March 31, 2019 | 1.98 | 2.41 |

*(1) Reflects the difference between the yield on average interest-earning assets and average cost of funds.*
*(2) Reflects annualized net interest income divided by average interest-earning assets.*

The following table presents the components of the net interest spread earned on our Residential whole loans, at carrying value for the quarterly periods presented:

| | Purchased Performing Loans | | | Purchased Credit Deteriorated Loans | | | Total Residential Whole Loans, at Carrying Value | | |
|---|---|---|---|---|---|---|---|---|---|
| **Quarter Ended** | **Net Yield *(1)*** | **Cost of Funding *(2)*** | **Net Interest Spread *(3)*** | **Net Yield *(1)*** | **Cost of Funding *(2)*** | **Net Interest Spread *(3)*** | **Net Yield *(1)*** | **Cost of Funding *(2)*** | **Net Interest Spread *(3)*** |
| March 31, 2020 | 5.10% | 3.44% | 1.66% | 4.84% | 3.39% | 1.45% | 5.07% | 3.43% | 1.64% |
| December 31, 2019 | 5.24 | 3.61 | 1.63 | 5.79 | 3.51 | 2.28 | 5.31 | 3.59 | 1.72 |
| September 30, 2019 | 5.55 | 3.92 | 1.63 | 5.76 | 3.79 | 1.97 | 5.58 | 3.90 | 1.68 |
| June 30, 2019 | 5.71 | 4.22 | 1.49 | 5.75 | 3.98 | 1.77 | 5.72 | 4.17 | 1.55 |
| March 31, 2019 | 5.93 | 4.27 | 1.66 | 5.77 | 4.06 | 1.71 | 5.89 | 4.21 | 1.68 |

*(1) Reflects annualized interest income on Residential whole loans, at carrying value divided by average amortized cost of Residential whole loans, at carrying value. Excludes servicing costs.*
*(2) Reflects annualized interest expense divided by average balance of repurchase agreements and securitized debt. Total Residential whole loans, at carrying value cost of funding includes 3, 5, 3, 5, and 6 basis points associated with Swaps to hedge interest rate sensitivity on these assets for the quarters ended March 31, 2020, December 31, 2019, September 30, 2019, June 30, 2019 and March 31, 2019, respectively.*
*(3) Reflects the difference between the net yield on average Residential whole loans, at carrying value and average cost of funds on Residential whole loans, at carrying value.*

The following table presents the components of the net interest spread earned on our Agency MBS, Legacy Non-Agency MBS and RPL/NPL MBS for the quarterly periods presented:

| | Agency MBS | | | Legacy Non-Agency MBS | | | RPL/NPL MBS | | | Total MBS | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Quarter Ended | Net Yield *(1)* | Cost of Funding *(2)* | Net Interest Rate Spread *(3)* | Net Yield *(1)* | Cost of Funding *(2)* | Net Interest Rate Spread *(3)* | Net Yield *(1)* | Cost of Funding *(2)* | Net Interest Rate Spread *(3)* | Net Yield *(1)* | Cost of Funding *(2)* | Net Interest Rate Spread *(3)* |
| March 31, 2020 | 2.32% | 2.51% | (0.19)% | 10.55% | 3.13% | 7.42% | 5.21% | 2.56% | 2.65% | 5.54% | 2.78% | 2.76% |
| December 31, 2019 | 2.38 | 2.33 | 0.05 | 14.76 | 3.18 | 11.58 | 5.17 | 2.78 | 2.39 | 6.76 | 2.70 | 4.06 |
| September 30, 2019 | 2.32 | 2.47 | (0.15) | 10.32 | 3.24 | 7.08 | 5.18 | 3.18 | 2.00 | 5.28 | 2.86 | 2.42 |
| June 30, 2019 | 2.50 | 2.56 | (0.06) | 11.30 | 3.30 | 8.00 | 4.98 | 3.39 | 1.59 | 5.45 | 2.95 | 2.50 |
| March 31, 2019 | 2.77 | 2.53 | 0.24 | 10.45 | 3.30 | 7.15 | 4.90 | 3.43 | 1.47 | 5.31 | 2.95 | 2.36 |

*(1) Reflects annualized interest income on MBS divided by average amortized cost of MBS.*

*(2) Reflects annualized interest expense divided by average balance of repurchase agreements, including the cost of Swaps allocated based on the proportionate share of the overall estimated weighted average portfolio duration and securitized debt. Agency MBS cost of funding includes 78, 36, 1, (9), and (13) basis points and Legacy Non-Agency MBS cost of funding includes 52, 24, 1, (14), and (20) basis points associated with Swaps to hedge interest rate sensitivity on these assets for the quarters ended March 31, 2020, December 31, 2019, September 30, 2019, June 30, 2019 and March 31, 2019, respectively.*

*(3) Reflects the difference between the net yield on average MBS and average cost of funds on MBS.*

*Interest Income*

Interest income on our residential whole loans held at carrying value increased by $33.9 million, or 68.3%, for the first quarter of 2020, to $83.5 million compared to $49.6 million for the first quarter of 2019. This increase primarily reflects a $3.2 billion increase in the average balance of this portfolio to $6.6 billion for the first quarter of 2020 from $3.4 billion for the first quarter of 2019 partially offset by a decrease in the yield (excluding servicing costs) to 5.07% for the first quarter of 2020 from 5.89% for the first quarter of 2019.

Interest income on our Agency MBS for the first quarter of 2020 decreased by $9.6 million, or 51.9%, to $8.9 million from $18.4 million for the first quarter of 2019. This decrease primarily reflects a $1.1 billion decrease in the average amortized cost of our Agency MBS portfolio, due primarily to portfolio sales and run-off, to $1.5 billion for the first quarter of 2020 from $2.7 billion for the first quarter of 2019 and a decrease in the net yield on our Agency MBS to 2.32% for the first quarter of 2020 from 2.77% for the first quarter of 2019. In addition, for the first quarter of 2020, our Agency MBS portfolio experienced a 12.6% CPR and we recognized $4.8 million of net premium amortization compared to a CPR of 13.6% and $6.2 million of net premium amortization for the first quarter of 2019. At March 31, 2020, we had net purchase premiums on our Agency MBS of $18.9 million, or 3.5% of current par value, compared to net purchase premiums of $62.8 million, or 3.9% of par value, at December 31, 2019.

Interest income on our Non-Agency MBS decreased $21.5 million, or 39.7%, for the first quarter of 2020 to $32.6 million compared to $54.0 million for the first quarter of 2019. This decrease is primarily due to portfolio run-off and sales and resulted in a decrease in the average amortized cost of our Non-Agency MBS portfolio of $1.3 billion, or 47.5%, to $1.5 billion for the first quarter of 2020 from $2.8 billion for the first quarter of 2019.

Interest income on our Legacy Non-Agency MBS for the first quarter of 2020 decreased $10.7 million to $26.7 million from $37.4 million for the first quarter of 2019. This decrease primarily reflects a $420.2 million decrease in the average amortized cost of our Legacy Non-Agency MBS portfolio, due primarily to portfolio sales and run-off, to $1.0 billion for the first quarter of 2020 from $1.4 billion for the first quarter of 2019. This decrease more than offset the higher yields generated on our Legacy Non-Agency portfolio, which were 10.55% for the first quarter of 2020 compared to 10.45% for the first quarter of 2019.

Interest income on our RPL/NPL MBS portfolio decreased $10.7 million to $5.9 million for the first quarter of 2020 from $16.6 million for the first quarter of 2019. This decrease primarily reflects a $904.2 million decrease in the average amortized cost of this portfolio, due primarily to portfolio runoff and sales, to $449.8 million for the first quarter of 2020 from $1.4 billion the first quarter of 2019, partially offset by an increase in the net yield on our RPL/NPL MBS portfolio to 5.21% for the first quarter of 2020 compared to 4.90% for the first quarter of 2019. The increase in the net yield primarily reflects an increase in the average coupon yield to 4.96% for the first quarter of 2020 from 4.86% for the first quarter of 2019.

The following table presents the coupon yield and net yields earned on our Agency MBS, Legacy Non-Agency MBS and RPL/NPL MBS and weighted average CPRs experienced for such MBS for the quarterly periods presented:

| | Agency MBS | | | Legacy Non-Agency MBS | | | RPL/NPL MBS | | |
|---|---|---|---|---|---|---|---|---|---|
| **Quarter Ended** | **Coupon Yield *(1)*** | **Net Yield *(2)*** | **3 Month Average CPR *(3)*** | **Coupon Yield *(1)*** | **Net Yield *(2)*** | **3 Month Average CPR *(3)*** | **Coupon Yield *(1)*** | **Net Yield *(2)*** | **3 Month Average Bond CPR *(4)*** |
| March 31, 2020 | 3.57% | 2.32% | 12.6% | 6.83% | 10.55% | 13.6% | 4.96% | 5.21% | 34.4% |
| December 31, 2019 | 3.63 | 2.38 | 18.1 | 6.88 | 14.76 | 16.4 | 5.07 | 5.17 | 18.8 |
| September 30, 2019 | 3.73 | 2.32 | 18.6 | 6.92 | 10.32 | 14.9 | 5.18 | 5.18 | 18.2 |
| June 30, 2019 | 3.76 | 2.50 | 18.3 | 6.91 | 11.30 | 15.7 | 4.98 | 4.98 | 16.1 |
| March 31, 2019 | 3.69 | 2.77 | 13.6 | 6.78 | 10.45 | 12.7 | 4.86 | 4.90 | 11.6 |

*(1) Reflects the annualized coupon interest income divided by the average amortized cost. The discounted purchase price on Legacy Non-Agency MBS causes the coupon yield to be higher than the pass-through coupon interest rate.*
*(2) Reflects annualized interest income on MBS divided by average amortized cost of MBS.*
*(3) 3 month average CPR weighted by positions as of the beginning of each month in the quarter.*
*(4) All principal payments are considered to be prepayments for CPR purposes.*

Interest income on our MSR-related assets increased by $3.6 million to $14.2 million for the first quarter of 2020 compared to $10.6 million for the first quarter of 2019. This increase primarily reflects a $409.3 million increase in the average balance of these investments for the first quarter of 2020 to $1.2 billion compared to $788.7 million for the first quarter of 2019 partially offset by a decrease in the yield to 4.74% for the first quarter of 2020 from 5.39% for the first quarter of 2019.

*Interest Expense*

Our interest expense for the first quarter of 2020 increased by $4.7 million, or 6.0%, to $83.8 million from $79.0 million for the first quarter of 2019. This increase primarily reflects an increase in our average borrowings to finance our residential whole loans held at carrying value and MSR-related assets. In addition we incurred interest expense of $3.9 million on our Convertible Senior Notes issued during the first quarter of 2020. The impact of these items on our interest expense was partially offset by a decrease in our average repurchase agreement borrowings to finance our residential mortgage securities portfolio and a decrease in financing rates on our repurchase agreement financings. The effective interest rate paid on our borrowings decreased to 3.28% for the quarter ended March 31, 2020 from 3.49% for the quarter ended March 31, 2019.

Payments made and/or received on our Swaps designated as hedges for accounting purposes are a component of our borrowing costs and resulted in interest expense of $3.4 million, or 31 basis points, for the first quarter of 2020, as compared to interest income of $1.2 million, or 5 basis points, for the first quarter of 2019. The weighted average fixed-pay rate on our Swaps designated as hedges decreased to 2.09% for the quarter ended March 31, 2020 from 2.31% for the quarter ended and March 31, 2019. The weighted average variable interest rate received on our Swaps designated as hedges decreased to 1.65% for the quarter ended March 31, 2020 from 2.49% for the quarter ended March 31, 2019.

*Provision for Credit and Valuation Losses on Residential Whole Loans Held at Carrying Value and Held-for-Sale*

For the first quarter of 2020, we recorded a provision for credit and valuation losses on residential whole loans held at carrying value and held-for-sale of $150.8 million compared to $805,000 for the first quarter of 2019. As previously discussed, on January 1, 2020, we adopted the new accounting standard addressing the measurement of credit losses on financial instruments (CECL). With respect to our residential whole loans held at carrying value, CECL requires that reserves for credit losses are estimated at the reporting date based on life of loan expected cash flows, including anticipated prepayments and reasonable and supportable forecasts of future economic conditions. While the adjustments recorded at the transition date to adopt CECL did not have a material impact on our financial position, given the anticipated impact of the COVID-19 pandemic on expected economic conditions for the short to medium term, estimates of credit losses recorded under CECL for the first quarter of 2020 are significantly higher than would have been recorded under prior accounting standards, where reserves for credit losses were recorded only when assessed as being incurred. For the first quarter of 2020, a provision for credit losses of $74.9 million was recorded on residential whole loans held at carrying value. In addition, a valuation allowance to reduce the carrying value of Non-QM loans designated as held-for-sale at quarter-end of $70.2 million was recorded. This valuation allowance is included, along with CECL credit loss estimates, in the provision for credit losses in our income statement.

*Other (Loss)/Income, net*

For the first quarter of 2020, Other Loss, net was $790.8 million compared to Other Income, net of $51.2 million for the first quarter of 2019. The components of Other (Loss)/Income, net for the first quarter of 2020 and 2019 are summarized in the table below:

| | Quarter Ended March 31, | |
|---|---|---|
| **(In Thousands)** | **2020** | **2019** |
| Impairment and other losses on securities available-for-sale and other assets | $ (419,651) | $ — |
| Net realized (loss)/gain on sales of residential mortgage securities and residential whole loans | (238,380) | 24,609 |
| Net unrealized (loss)/gain on residential mortgage securities measured at fair value through earnings | (77,961) | 8,672 |
| Net (loss)/gain on residential whole loans measured at fair value through earnings | (52,760) | 25,267 |
| Net loss on Swaps not designated as hedges for accounting purposes | (4,239) | (8,944) |
| Liquidations gains on Purchased Credit Deteriorated Loans and other loan related income | 1,429 | 2,807 |
| Other | 799 | (1,242) |
| Total Other (Loss)/Income, net | $ (790,763) | $ 51,169 |

*Operating and Other Expense*

For the first quarter of 2020, we had compensation and benefits and other general and administrative expenses of $13.5 million, or 1.58% of average equity, compared to $13.2 million, or 1.55% of average equity, for the first quarter of 2019. Compensation and benefits expense increased by approximately $345,000 to $8.9 million for the first quarter of 2020, compared to $8.6 million for the first quarter of 2019, primarily reflecting higher expense in connection with long term incentive awards in the current year period. Our other general and administrative expenses were essentially flat, decreasing by $70,000 to $4.6 million for the quarter ended March 31, 2020. In addition, professional services and other costs of $4.5 million were incurred during the quarter related to negotiating forbearance arrangements with our lenders, which was required due to the impact of the market disruptions caused by concerns associated with the COVID-19 pandemic.

Operating and Other Expense for the first quarter of 2020 also includes $11.2 million of loan servicing and other related operating expenses related to our residential whole loan activities. These expenses increased compared to the prior year period by approximately $930,000, or 9.1%, primarily due to increases in non-recoverable advances related to our REO portfolio, partially offset by lower servicing fees across all of our residential whole loan portfolios.

*Selected Financial Ratios*

The following table presents information regarding certain of our financial ratios at or for the dates presented:

| At or for the Quarter Ended | Return on Average Total Assets *(1)* | Return on Average Total Stockholders' Equity *(2)* | Total Average Stockholders' Equity to Total Average Assets *(3)* | Dividend Payout Ratio *(4)* | Leverage Multiple *(5)* | Book Value per Share of Common Stock *(6)* | Economic Book Value per Share of Common Stock *(7)* |
|---|---|---|---|---|---|---|---|
| March 31, 2020 | (26.72)% | (106.31)% | 24.99% | 0.00 | 3.4 | $ 4.34 | $ 4.09 |
| December 31, 2019 | 2.92 | 11.90 | 25.48 | 0.95 | 3.0 | 7.04 | 7.44 |
| September 30, 2019 | 2.79 | 11.24 | 25.80 | 1.00 | 2.8 | 7.09 | 7.41 |
| June 30, 2019 | 2.74 | 10.91 | 26.13 | 1.00 | 2.8 | 7.11 | 7.40 |
| March 31, 2019 | 2.66 | 10.40 | 26.71 | 1.05 | 2.7 | 7.11 | 7.32 |

*(1) Reflects annualized net income available to common stock and participating securities divided by average total assets.*
*(2) Reflects annualized net income divided by average total stockholders' equity.*
*(3) Reflects total average stockholders' equity divided by total average assets.*
*(4) Reflects dividends declared per share of common stock divided by earnings per share.*
*(5) Represents the sum of borrowings under repurchase agreements, securitized debt, payable for unsettled purchases, Convertible Senior Notes and Senior Notes divided by stockholders' equity.*
*(6) Reflects total stockholders' equity less the preferred stock liquidation preference divided by total shares of common stock outstanding.*
*(7) "Economic book value" is a non-GAAP financial measure of our financial position. To calculate our Economic book value, our portfolios of Residential whole loans at carrying value are adjusted to their fair value, rather than the carrying value that is required to be reported under the GAAP accounting model applied to these loans. For additional information please refer to page 82 under the heading "Economic Book Value".*

**Reconciliation of GAAP and Non-GAAP Financial Measures**

**Economic Book Value**

"Economic book value" is a non-GAAP financial measure of our financial position. To calculate our Economic book value, our portfolios of Residential whole loans at carrying value are adjusted to their fair value, rather than the carrying value that is required to be reported under the GAAP accounting model applied to these loans. This adjustment is also reflected in the table below in our end of period stockholders' equity. Management considers that Economic book value provides investors with a useful supplemental measure to evaluate our financial position as it reflects the impact of fair value changes for all of our residential mortgage investments, irrespective of the accounting model applied for GAAP reporting purposes. Economic book value does not represent and should not be considered as a substitute for Stockholders' Equity, as determined in accordance with GAAP, and our calculation of this measure may not be comparable to similarly titled measures reported by other companies.

The following table provides a reconciliation of our GAAP book value per common share to our non-GAAP Economic book value per common share as of the quarterly periods below:

| (In Thousands, Except Per Share Amounts) | March 31, 2020 | December 31, 2019 | September 30, 2019 | June 30, 2019 | March 31, 2019 |
|---|---|---|---|---|---|
| GAAP Total Stockholders' Equity | $ 2,440.7 | $ 3,384.0 | $ 3,403.4 | $ 3,403.4 | $ 3,404.5 |
| Preferred Stock, liquidation preference | (475.0) | (200.0) | (200.0) | (200.0) | (200.0) |
| GAAP Stockholders' Equity for book value per common share | 1,965.7 | 3,184.0 | 3,203.4 | 3,203.4 | 3,204.5 |
| Adjustments: | | | | | |
| Fair value adjustment to Residential whole loans, at carrying value | (113.5) | 182.4 | 145.8 | 131.2 | 92.1 |
| Stockholders' Equity including fair value adjustment to Residential whole loans, at carrying value (Economic book value) | $ 1,852.2 | $ 3,366.4 | $ 3,349.2 | $ 3,334.6 | $ 3,296.7 |
| GAAP book value per common share | $ 4.34 | $ 7.04 | $ 7.09 | $ 7.11 | $ 7.11 |
| Economic book value per common share | $ 4.09 | $ 7.44 | $ 7.41 | $ 7.40 | $ 7.32 |
| Number of shares of common stock outstanding | 453.1 | 452.4 | 451.7 | 450.6 | 450.5 |

**Liquidity and Capital Resources**

*General*

Our principal sources of cash generally consist of borrowings under repurchase agreements and other collateralized financings, payments of principal and interest we receive on our investment portfolio, cash generated from our operating results and, to the extent such transactions are entered into, proceeds from capital market and structured financing transactions. Our most significant uses of cash are generally to pay principal and interest on our financing transactions, to purchase residential mortgage assets, to make dividend payments on our capital stock, to fund our operations, to meet margin calls and to make other investments that we consider appropriate.

We seek to employ a diverse capital raising strategy under which we may issue capital stock and other types of securities. To the extent we raise additional funds through capital market transactions, we currently anticipate using the net proceeds from such transactions to acquire additional residential mortgage-related assets, consistent with our investment policy, and for working capital, which may include, among other things, the repayment of our financing transactions. There can be no assurance, however, that we will be able to access the capital markets at any particular time or on any particular terms. We have available for issuance an unlimited amount (subject to the terms and limitations of our charter) of common stock, preferred stock, depositary shares representing preferred stock, warrants, debt securities, rights and/or units pursuant to our automatic shelf registration statement and, at March 31, 2020, we had approximately 8.8 million shares of common stock available for issuance pursuant to our DRSPP shelf registration statement. During the three months ended March 31, 2020, we issued 106,949 shares of common stock through our DRSPP, raising net proceeds of approximately $691,979. During the three months ended March 31, 2020, we did not sell any shares of common stock through the ATM Program.

On March 2, 2020, we completed the issuance of 11.0 million shares of our Series C Preferred Stock with a par value of $0.01 per share, and a liquidation preference of $25.00 per share plus accrued and unpaid dividends, in an underwritten public offering. The total net proceeds we received from the offering were approximately $266.0 million, after deducting offering expenses and the underwriting discount.

*Impact of COVID-19 Pandemic; Repurchase Obligations*

As discussed above under "Management's Discussion and Analysis of Financial Condition and Results of Operations - Senior Secured Financing and Exit from Forbearance", due to the severe market volatility and price dislocations resulting from concerns driven by the COVID-19 pandemic, in March 2020 we were unable to meet all of our margin call obligations with respect to our repurchase obligations. As a result of these events, we initiated forbearance discussions with our financing counterparties and entered into a series of Forbearance Agreements (the Initial FBA, the Second FBA and the Third FBA) whereby certain of our counterparties agreed to forbear from exercising their rights and remedies with respect to an event of default under the applicable financing arrangement for an agreed upon period, including selling collateral to enforce margin calls. The Third FBA was set to expire on June 26, 2020. On June 15, 2020, we and certain of our wholly owned subsidiaries entered into a credit agreement for a $500 million Term Loan Facility. In connection with, and conditioned on, the funding of the Term Loan Facility, the Company also executed on June 15, 2020 a commitment letter to enter into a non-mark-to-market term loan facility for an aggregate amount of up to $1,650,000,000 (the "Asset Level Debt Facility"). Further details related to the Term Loan Facility and the Asset Level Debt Facility are discussed in "Note 16. Subsequent Events" in our interim financial statements as of and for the three months ended March 31, 2020. Following closing and funding of these transactions, we expect to execute a Reinstatement Agreement with our repurchase agreement counterparties that will terminate the Third FBA and provide for our exit from forbearance.

Our borrowings under repurchase agreements are uncommitted and renewable at the discretion of our lenders and, as such, our lenders could determine to reduce or terminate our access to future borrowings at virtually any time. The terms of the repurchase transaction borrowings under our master repurchase agreements, as such terms relate to repayment, margin requirements and the segregation of all securities that are the subject of repurchase transactions, generally conform to the terms contained in the standard master repurchase agreement published by the Securities Industry and Financial Markets Association (or SIFMA) or the global master repurchase agreement published by SIFMA and the International Capital Market Association. In addition, each lender typically requires that we include supplemental terms and conditions to the standard master repurchase agreement. Typical supplemental terms and conditions, which differ by lender, may include changes to the margin maintenance requirements, required haircuts (as defined below), purchase price maintenance requirements, requirements that all controversies related to the repurchase agreement be litigated in a particular jurisdiction and cross default and setoff provisions.

With respect to margin maintenance requirements for repurchase agreements secured by harder to value assets, such as residential whole loans, Non-Agency MBS and MSR-related assets, margin calls are typically determined by our counterparties based on their assessment of changes in the fair value of the underlying collateral and in accordance with the agreed upon haircuts specified in the transaction confirmation with the counterparty. We address margin call requests in accordance with the required terms specified in the applicable repurchase agreement and such requests are typically satisfied by posting additional cash or collateral on the same business day. We review margin calls made by counterparties and assess them for reasonableness by comparing the counterparty valuation against our valuation determination. When we believe that a margin call is unnecessary because our assessment of collateral value differs from the counterparty valuation, we typically hold discussions with the counterparty and are able to resolve the matter. In the unlikely event that resolution cannot be reached, we will look to resolve the dispute based on the remedies available to us under the terms of the repurchase agreement, which in some instances may include the engagement of a third-party to review collateral valuations. For certain other agreements that do not include such provisions, we could resolve the matter by substituting collateral as permitted in accordance with the agreement or otherwise request the counterparty to return the collateral in exchange for cash to unwind the financing.

The following tables present information regarding the margin requirements, or the percentage amount by which the collateral value is contractually required to exceed the loan amount (this difference is referred to as the "haircut"), on our repurchase agreements at March 31, 2020 and December 31, 2019:

| At March 31, 2020 | Weighted Average Haircut | Low | High |
|---|---|---|---|
| Repurchase agreement borrowings secured by: | | | |
| Residential whole loans *(1)* | 19.17% | 8.00% | 50.00% |
| Agency MBS | 4.99 | 4.00 | 6.00 |
| Legacy Non-Agency MBS | 21.60 | 15.00 | 50.00 |
| RPL/NPL MBS | 20.30 | 15.00 | 25.00 |
| CRT securities | 20.89 | 12.50 | 35.00 |
| MSR-related assets | 22.11 | 20.00 | 30.00 |
| Other | 21.88 | 20.00 | 35.00 |

| At December 31, 2019 | Weighted Average Haircut | Low | High |
|---|---|---|---|
| Repurchase agreement borrowings secured by: | | | |
| Residential whole loans *(2)* | 20.07% | 8.00% | 50.00% |
| Agency MBS | 4.46 | 3.00 | 5.00 |
| Legacy Non-Agency MBS | 20.27 | 15.00 | 35.00 |
| RPL/NPL MBS | 21.52 | 15.00 | 30.00 |
| CRT securities | 18.84 | 12.50 | 25.00 |
| MSR-related assets | 21.18 | 20.00 | 30.00 |
| Other | 22.01 | 20.00 | 35.00 |

*(1) At March 31, 2020, includes repurchase agreements with an aggregate balance of $146.3 million secured by RPL/NPL MBS obtained in connection with our loan securitization transactions that are eliminated in consolidation. Such repurchase agreements had a weighted average haircut of 29.7%, a minimum haircut of 15.0%, and a maximum haircut of 50.0%.*

*(2) At December 31, 2019, includes repurchase agreements with an aggregate balance of $146.3 million secured by RPL/NPL MBS obtained in connection with our loan securitization transactions that are eliminated in consolidation. Such repurchase agreements had a weighted average haircut of 29.7%, a minimum haircut of 15.0%, and a maximum haircut of 50.0%.*

During the first three months of 2020, the weighted average haircut requirements for the respective underlying collateral types for our repurchase agreements have remained fairly consistent compared to the end of 2019.

Prior to the onset of COVID-19-related market disruptions and entry into the several forbearance agreements with our repurchase agreement counterparties, funding for our residential mortgage investments was available to us at generally attractive market terms from multiple counterparties. Typically, due to the risks inherent in credit sensitive residential mortgage investments, repurchase agreement funding involving such investments is available at terms requiring higher collateralization and higher interest rates than repurchase agreement funding secured by Agency MBS. In connection with our preparing for an exit from forbearance we are currently renegotiating the terms of our financing arrangements with certain of our existing repurchase agreement counterparties. While the final terms of any renegotiated agreements are not yet known and there can be no assurance that we will be able to reach definitive agreements with our counterparties through such ongoing negotiations, the revised terms will likely include changes to terms that exist in our current financing agreements, including increasing the term to maturity, higher haircut levels (and consequently lower advance rates) and higher interest rate charged and changes to the types of collateral accepted and the operation of margin requirements, including collateral mark-to-market provisions.

We expect that we will continue to pledge residential mortgage assets as part of certain of our ongoing financing arrangements. Our current financing agreements, and we anticipate that certain of our future arrangements, will require us to pledge additional collateral in the event the market value of the assets pledged decreases in order maintain the lenders' contractually specified collateral cushion, which is measured as the difference between the loan amount and the market value of the asset pledged as collateral. As we experienced in the first quarter of 2020, when the value of our residential mortgage assets pledged as collateral experienced rapid decreases, margin calls under our repurchase agreement financing arrangements could increase, causing an

adverse change in our liquidity position. Additionally, if one or more of our financing counterparties chose not to provide ongoing funding, our ability to finance our long-maturity assets would decline or otherwise become available on possibly less advantageous terms. Further, when liquidity tightens, our repurchase agreement counterparties may increase their required collateral cushion (or margin) requirements on new financings, including repurchase agreement financings that we roll with the same counterparty, thereby reducing our ability to use leverage. Access to financing may also be negatively impacted by the ongoing volatility in financial markets, thereby potentially adversely impacting our current or future lenders' ability or willingness to provide us with financing. In addition, there is no assurance that favorable market conditions will exist to permit us to consummate additional securitization transactions if we determine to seek that form of financing.

Our ability to meet future margin calls will be affected by our ability to use cash or obtain financing from unpledged collateral, the amount of which can vary based on the market value of such collateral, our cash position and margin requirements. Our cash position fluctuates based on the timing of our operating, investing and financing activities and is managed based on our anticipated cash needs. (See our Consolidated Statements of Cash Flows, included under Item 1 of this Quarterly Report on Form 10-Q and "Interest Rate Risk" included under Item 3 of this Quarterly Report on Form 10-Q.)

At March 31, 2020, we had a total of $8.8 billion of residential whole loans, MBS, CRT securities, MSR-related assets and other interest-earning assets and $216.9 million of restricted cash pledged against our repurchase agreements and/or Swaps. At March 31, 2020, we had access to various sources of liquidity which we estimated exceeded $176.1 million. This amount includes (i) $116.5 million of cash and cash equivalents; (ii) $56.1 million in estimated financing available from unpledged Agency MBS and other Agency MBS collateral that was pledged in excess of contractual requirements; and (iii) $3.5 million in estimated financing available from unpledged Non-Agency MBS and from other Non-Agency MBS and CRT collateral that was pledged in excess of contractual requirements. Our sources of liquidity do not include restricted cash. In addition, we have $682.7 million of unencumbered residential whole loans. We are evaluating potential opportunities to finance our residential whole loans, including loan securitization.

The table below presents certain information about our borrowings under repurchase agreements and securitized debt:

| | Repurchase Agreements | | | Securitized Debt | | |
|---|---|---|---|---|---|---|
| **Quarter Ended *(1)*** | **Quarterly Average Balance** | **End of Period Balance** | **Maximum Balance at Any Month-End** | **Quarterly Average Balance** | **End of Period Balance** | **Maximum Balance at Any Month-End** |
| **(In Thousands)** | | | | | | |
| March 31, 2020 | $ 9,233,808 | $ 7,768,180 | $ 9,486,555 | $ 558,007 | $ 533,733 | $ 562,681 |
| December 31, 2019 | 8,781,646 | 9,139,821 | 9,139,821 | 590,813 | 570,952 | 594,458 |
| September 30, 2019 | 8,654,350 | 8,571,422 | 8,833,159 | 617,689 | 605,712 | 621,071 |
| June 30, 2019 | 8,621,895 | 8,630,642 | 8,639,311 | 645,972 | 627,487 | 649,405 |
| March 31, 2019 | 7,672,309 | 7,879,087 | 7,879,087 | 699,207 | 684,420 | 702,377 |

*(1) The information presented in the table above excludes $230.0 million of Convertible Senior Notes issued in June 2019 and $100.0 million of Senior Notes issued in April 2012. The outstanding balance of both the Convertible Senior Notes and Senior Notes have been unchanged since issuance.*

*Cash Flows and Liquidity for the Three Months Ended March 31, 2020*

Our cash, cash equivalents and restricted cash increased by $198.7 million during the three months ended March 31, 2020, reflecting: $822.2 million provided by our investing activities, $636.8 million used in our financing activities and $13.2 million provided by our operating activities.

At March 31, 2020, our debt-to-equity multiple was 3.4 times compared to 3.0 times at December 31, 2019. At March 31, 2020, we had borrowings under repurchase agreements of $7.8 billion, of which $4.7 billion were secured by residential whole loans, $522.2 million were secured by Agency MBS, $1.0 billion were secured by Legacy Non-Agency MBS, $255.4 million were secured by RPL/NPL MBS, $297.6 million were secured by CRT securities, $929.9 million were secured by MSR-related assets and $59.8 million were secured by other interest-earning assets. In addition, at March 31, 2020, we had securitized debt of $533.7 million in connection with our loan securitization transactions. At December 31, 2019, we had borrowings under repurchase agreements of $9.1 billion, of which $4.7 billion were secured by residential whole loans, $1.6 billion were secured by Agency MBS, $1.1 billion were secured by Legacy Non-Agency MBS, $495.1 million were secured by RPL/NPL MBS, $203.6 million were secured by CRT securities, $962.5 million were secured by MSR-related assets and $57.2 million were secured by other

interest-earning assets. In addition, at December 31, 2019, we had securitized debt of $571.0 million in connection with our loan securitization transactions.

During the three months ended March 31, 2020, $822.2 million was provided by our investing activities. We paid $1.1 billion for purchases of residential whole loans, loan related investments and capitalized advances, and purchased $3.9 million of MSR-related assets and $158.7 million of CRT securities funded with cash and repurchase agreement borrowings. In addition, during the three months ended March 31, 2020, we received cash of $539.9 million from prepayments and scheduled amortization on our MBS, CRT securities and MSR-related assets, of which $122.9 million was attributable to Agency MBS, $383.1 million was from Non-Agency MBS, $33.2 million was attributable to MSR-related assets, and approximately $700,000 was attributable to CRT securities, and we sold certain of our investment securities and MSR-related assets for $1.0 billion, realizing net losses of $92.6 million. While we generally intend to hold our MBS and CRT securities as long-term investments, we may sell certain of our securities in order to manage our interest rate risk and liquidity needs, meet other operating objectives and adapt to market conditions. In particular, subsequent to the end of the first quarter, we sold the vast majority of our remaining Agency MBS and Legacy Non-Agency MBS portfolios and substantially reduced our investments in MSR-related assets and CRT securities. During the three months ended March 31, 2020 we received $508.9 million of principal payments on residential whole loans and $52.0 million of proceeds on sales of REO.

In connection with our repurchase agreement financings and Swaps, we routinely receive margin calls/reverse margin calls from our counterparties and make margin calls to our counterparties. Margin calls and reverse margin calls, which requirements vary over time, may occur daily between us and any of our counterparties when the value of collateral pledged changes from the amount contractually required. The value of securities pledged as collateral fluctuates reflecting changes in: (i) the face (or par) value of our assets; (ii) market interest rates and/or other market conditions; and (iii) the market value of our Swaps. Margin calls/reverse margin calls are satisfied when we pledge/receive additional collateral in the form of additional assets and/or cash.

The table below summarizes our margin activity with respect to our repurchase agreement financings and derivative hedging instruments for the quarterly periods presented:

| | Collateral Pledged to Meet Margin Calls | | | | |
|---|---|---|---|---|---|
| **For the Quarter Ended *(1)*** | **Fair Value of Securities Pledged** | **Cash Pledged** | **Aggregate Assets Pledged For Margin Calls** | **Cash and Securities Received for Reverse Margin Calls** | **Net Assets Received/(Pledged) for Margin Activity** |
| **(In Thousands)** | | | | | |
| March 31, 2020 | $ 30,187 | $ 213,392 | $ 243,579 | $ 67,343 | $ (176,236) |
| December 31, 2019 | — | 26,972 | 26,972 | 18,311 | (8,661) |
| September 30, 2019 | 77,214 | 35,271 | 112,485 | 129,132 | 16,647 |
| June 30, 2019 | 26,037 | 1,019 | 27,056 | 7,295 | (19,761) |
| March 31, 2019 | 49,139 | — | 49,139 | 65,461 | 16,322 |

*(1) Excludes variation margin payments on the Company's cleared Swaps which are treated as a legal settlement of the exposure under the Swap contract.*

We are subject to various financial covenants under our repurchase agreements and derivative contracts, which include minimum net worth requirements, net worth decline limitations and maximum debt-to-equity ratios.

As a result of the turmoil in the financial markets resulting from the spread of the novel coronavirus and the global COVID-19 virus pandemic, on March 25, 2020, in order to preserve liquidity, we revoked the previously announced first quarter 2020 quarterly cash dividends on each of our common stock and Series B Preferred Stock. The quarterly cash dividend of $0.20 per share on our common stock had been declared on March 11, 2020, and was to be paid on April 30, 2020, to stockholders of record as of the close of business March 31, 2020. The Series B Preferred Stock dividend of $0.46875 per share had been declared on February 14, 2020, and was to be paid on March 31, 2020, to stockholders of record as of the close of business March 2, 2020. On June 1, 2020, we announced that we were suspending the second quarter 2020 dividends on the Series B Preferred Stock and on our 6.50% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock. Our payment of dividends is, with limited exceptions, prohibited under the terms of the Forbearance Agreement currently in place with our repurchase agreement counterparties. Unpaid dividends on our Series B Preferred Stock and Series C Preferred Stock will accumulate without interest. No dividends may be paid or set apart on shares of our common stock unless full cumulative dividends on the Series B Preferred

Stock and Series C Preferred Stock for all past dividend periods that have ended have been or contemporaneously are paid in cash, or a sum sufficient for such payment is set apart for payment.

In connection with our anticipated exit from forbearance, we expect to pay all accumulated unpaid dividends on our Series B Preferred Stock and Series C Preferred Stock. We will continue to monitor market conditions and the potential impact the ongoing volatility and uncertainty may have on our business. Related thereto, our Board of Directors will continue to evaluate liquidity and the payment of dividends as market conditions evolve, including as related to dividends on common stock.

**Off-Balance Sheet Arrangements**

We have not participated in transactions that create relationships with unconsolidated entities or financial partnerships which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

**Inflation**

Substantially all of our assets and liabilities are financial in nature. As a result, changes in interest rates and other factors impact our performance far more than does inflation. Our results of operations and reported assets, liabilities and equity are measured with reference to historical cost or fair value without considering inflation.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We seek to manage our risks related to interest rates, liquidity, prepayment speeds, market value and the credit quality of our assets while, at the same time, seeking to provide an opportunity to stockholders to realize attractive total returns through ownership of our capital stock. While we do not seek to avoid risk, we seek, consistent with our investment policies, to: assume risk that can be quantified based on management's judgment and experience and actively manage such risk; earn sufficient returns to justify the taking of such risks; and maintain capital levels consistent with the risks that we undertake.

### Interest Rate Risk

We generally acquire interest-rate sensitive assets and fund them with interest-rate sensitive liabilities, a portion of which are typically hedged with Swaps. We are exposed to interest rate risk on our residential mortgage assets, as well as on our liabilities. Changes in interest rates can affect our net interest income and the fair value of our assets and liabilities. The latter part of the first quarter of 2020 was characterized by volatility in interest rates and pricing dislocations in markets for residential mortgage assets. As our swap hedges did not operate as effective hedges during this turbulent period we unwound all of our Swaps late in the first quarter.

We currently finance the majority of our investments in residential mortgage assets with short-term repurchase agreements. In general, when interest rates change, borrowing costs on such repurchase agreements (net of the impact of Swaps) will change more quickly than the yield on our assets. In a rising interest rate environment, the borrowing costs of our repurchase agreements may increase faster than the interest income on our assets, thereby reducing our net income. In order to mitigate compression in net income based on such interest rate movements, we use Swaps to lock in a portion of the net interest spread between assets and liabilities.

When interest rates change, the fair value of our residential mortgage assets could change at a different rate than the fair value of our liabilities. We measure the sensitivity of our portfolio to changes in interest rates by estimating the duration of our assets and liabilities. Duration is the approximate percentage change in fair value for a 100 basis point parallel shift in the yield curve. In general, our assets have higher duration than our liabilities and in order to reduce this exposure we use Swaps to reduce the gap in duration between our assets and liabilities.

The key factors that impact valuation and interest rate sensitivity of our residential mortgage assets are discussed below. In addition to these factors, as was observed in the first quarter of 2020, broader macro economic conditions can also impact the residential mortgage asset valuations.

The fair value of our re-performing residential whole loans is dependent on the value of the underlying real estate collateral, past and expected delinquency status of the borrower as well as the level of interest rates. For certain residential whole loans that were purchased as re-performing loans, because the borrower is not delinquent on their mortgage payments but is less likely to prepay the loan due to weak credit history and/or high LTV, we believe these loans exhibit positive duration. We estimate the duration of our re-performing residential whole loans using management's assumptions.

The fair value of our Non-QM loans and Single-family rental loans are typically dependent on the value of the underlying real estate collateral, as well as the level of interest rates. Because these loans are primarily newly or recently originated performing loans, we believe these investments exhibit positive duration. Given the short duration of our Rehabilitation loans, we believe the fair value of these loans exhibits little sensitivity to changes in interest rates. We estimate the duration of these Purchased Performing Loans held at carrying value using management's assumptions.

The fair value of our non-performing residential whole loans is typically primarily dependent on the value of the underlying real estate collateral and the time required for collateral liquidation. Since neither the value of the collateral nor the liquidation timeline is generally sensitive to interest rates, we believe their fair value exhibits little sensitivity to interest rates. We estimate the duration of our non-performing residential whole loans using management's assumptions.

In calculating the duration of our Agency MBS we take into account the characteristics of the underlying mortgage loans including whether the underlying loans are fixed rate, adjustable or hybrid; coupon, expected prepayment rates and lifetime and periodic caps. We use third-party financial models, combined with management's assumptions and observed empirical data when estimating the duration of our Agency MBS.

In analyzing the interest rate sensitivity of our Legacy Non-Agency MBS we take into account the characteristics of the underlying mortgage loans, including credit quality and whether the underlying loans are fixed-rate, adjustable or hybrid. We estimate the duration of our Legacy Non-Agency MBS using management's assumptions.

The majority of our RPL/NPL MBS deal structures contain a contractual coupon step-up feature where the coupon increases from 300 - 400 basis points at 36 - 48 months from issuance or sooner. Therefore, we believe their fair value exhibits little sensitivity to changes in interest rates. We estimate the duration of these securities using management's assumptions.

We typically use Swaps as part of our overall interest rate risk management strategy. Such derivative financial instruments are intended to act as a hedge against future interest rate increases on our repurchase agreement financings, which rates are typically highly correlated with LIBOR. While use of such derivatives does not extend the maturities of our borrowings under repurchase agreements, they do, in effect, lock in a fixed rate of interest over their term for a corresponding amount of our repurchase agreement financings that are hedged.

At March 31, 2020, our $1.6 billion of Agency MBS and Legacy Non-Agency MBS were backed by Hybrid, adjustable and fixed-rate mortgages. Additional information about these MBS, including average months to reset and three-month average CPR, is presented below. Subsequent to March 31, 2020, we disposed of the vast majority of our investments in Agency MBS and Legacy Non-Agency MBS:

| | Agency MBS | | | Legacy Non-Agency MBS *(1)* | | | Total *(1)* | | |
|---|---|---|---|---|---|---|---|---|---|
| **Time to Reset** | **Fair Value *(2)*** | **Average Months to Reset *(3)*** | **3 Month Average CPR *(4)*** | **Fair Value** | **Average Months to Reset *(3)*** | **3 Month Average CPR *(4)*** | **Fair Value *(2)*** | **Average Months to Reset *(3)*** | **3 Month Average CPR *(4)*** |
| **(Dollars in Thousands)** | | | | | | | | | |
| < 2 years *(5)* | $ 290,259 | 5 | 11.6% | $ 645,380 | 4 | 13.5% | $ 935,639 | 5 | 12.7% |
| 2-5 years | 76,273 | 33 | 11.8 | — | — | — | 76,273 | 33 | 11.8 |
| > 5 years | 1,576 | 87 | 0.2 | — | — | — | 1,576 | 87 | 0.2 |
| ARM-MBS Total | $ 368,108 | 11 | 11.6% | $ 645,380 | 4 | 13.5% | $ 1,013,488 | 7 | 12.6% |
| 15-year fixed *(6)* | $ 170,290 | | 13.5% | $ 418 | | 12.6% | $ 170,708 | | 13.5% |
| 30-year fixed *(6)* | 14,499 | | 20.6 | 378,228 | | 13.9 | 392,727 | | 14.0 |
| 40-year fixed *(6)* | — | | — | 34,254 | | 12.4 | 34,254 | | 12.4 |
| Fixed-Rate Total | $ 184,789 | | 13.6% | $ 412,900 | | 13.6% | $ 597,689 | | 13.6% |
| MBS Total | $ 552,897 | | 12.6% | $ 1,058,280 | | 13.6% | $ 1,611,177 | | 13.1% |

*(1) Excludes $80.0 million of RPL/NPL MBS. Refer to table below for further information.*
*(2) Does not include principal payments receivable of $516,000.*
*(3) Months to reset is the number of months remaining before the coupon interest rate resets. At reset, the MBS coupon will adjust based upon the underlying benchmark interest rate index, margin and periodic and/or lifetime caps. The months to reset do not reflect scheduled amortization or prepayments.*
*(4) 3 month average CPR weighted by positions as of the beginning of each month in the quarter.*
*(5) Amounts presented are based on origination data. Includes floating-rate MBS that may be collateralized by fixed-rate mortgages. In addition, underlying loans may have been modified to be fixed or step rate.*
*(6) Information presented based on data available at time of loan origination.*

The following table presents certain information about our RPL/NPL MBS portfolio at March 31, 2020:

| **(Dollars in Thousands)** | **Fair Value** | **Net Coupon** | **Months to Step-Up *(1)*** | **3 Month Average Bond CPR *(2)*** |
|---|---|---|---|---|
| Re-Performing loans | $ — | —% | — | —% |
| Non-Performing loans | 79,464 | 4.82 | 27 | 34.4 |
| Total RPL/NPL MBS | $ 79,464 | 4.82% | 27 | 34.4% |

*(1) Months to step-up is the weighted average number of months remaining before the coupon interest rate increases pursuant to the first coupon reset. We anticipate that the securities will be redeemed prior to the step-up date.*
*(2) All principal payments are considered to be prepayments for CPR purposes.*

At March 31, 2020, our CRT securities and MSR-related assets had a fair value of $254.1 million and $738.1 million, respectively, and their coupons reset monthly based on one-month LIBOR. Subsequent to March 31, 2020 we significantly reduced our holdings of CRT securities and MSR-related assets.

The interest rates for the vast majority of our investments, financings and hedging transactions are either explicitly or indirectly based on LIBOR. On July 27, 2017, the United Kingdom Financial Conduct Authority announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. At this time, it is not possible to predict the effect of such change, including the establishment of potential alternative reference rates, on the economy or markets we are active in either currently or in the future, or on any of our assets or liabilities whose interest rates are based on LIBOR. We are in the process of evaluating the potential impact of a discontinuation of LIBOR after 2021 on our portfolio, as well as the related accounting impact. However, we expect that during the remainder of 2020, we will work closely with the Trustee companies and/or other entities that are involved in calculating the interest rates for our residential mortgage securities and securitized debt, our loan servicers for our hybrid and floating rate loans, and with the various counterparties to our financing and hedging transactions in order to determine what changes, if any, are required to made to existing agreements for these transactions.

**Shock Table**

The information presented in the following "Shock Table" projects the potential impact of sudden parallel changes in interest rates on our net interest income and portfolio value over the next 12 months based on the assets in our investment portfolio at March 31, 2020. All changes in income and value are measured as the percentage change from the projected net interest income and portfolio value under the base interest rate scenario at March 31, 2020. It should be noted that as we have disposed of a significant portfolio of our investments in residential mortgage securities and MSR-related assets subsequent to the end of the first quarter of 2020, the interest rate sensitivity of our remaining portfolio may not be reflective of the results implied in the table below.

| Change in Interest Rates | Estimated Value of Assets *(1)* | Estimated Value of Securitized and Other Fixed Rate Debt | Estimated Value of Financial Instruments | Change in Estimated Value | Percentage Change in Net Interest Income | Percentage Change in Portfolio Value |
|---|---|---|---|---|---|---|
| **(Dollars in Thousands)** | | | | | | |
| +100 Basis Point Increase | $ 10,326,036 | $ (41,223) | $ 10,284,813 | $ (218,692) | (19.12)% | (2.08)% |
| + 50 Basis Point Increase | $ 10,451,785 | $ (48,805) | $ 10,402,980 | $ (100,525) | (10.28)% | (0.96)% |
| Actual at March 31, 2020 | $ 10,559,892 | $ (56,387) | $ 10,503,505 | $ — | — % | — % |
| - 50 Basis Point Decrease | $ 10,650,358 | $ (63,969) | $ 10,586,389 | $ 82,884 | 8.35 % | 0.79 % |
| -100 Basis Point Decrease | $ 10,723,183 | $ (71,551) | $ 10,651,632 | $ 148,127 | 16.00 % | 1.41 % |

*(1) Such assets include residential whole loans and REO, MBS and CRT securities, MSR-related assets, cash and cash equivalents and restricted cash.*

Certain assumptions have been made in connection with the calculation of the information set forth in the Shock Table and, as such, there can be no assurance that assumed events will occur or that other events will not occur that would affect the outcomes. The base interest rate scenario assumes interest rates at March 31, 2020. The analysis presented utilizes assumptions and estimates based on management's judgment and experience. Furthermore, while we generally expect to retain the majority of our assets and the associated interest rate risk to maturity, future purchases and sales of assets could materially change our interest rate risk profile. It should be specifically noted that the information set forth in the above table and all related disclosure constitute forward-looking statements within the meaning of Section 27A of the 1933 Act and Section 21E of the 1934 Act. Actual results could differ significantly from those estimated in the Shock Table above.

The Shock Table quantifies the potential changes in net interest income and portfolio value, which includes the value of our securitized and other fixed rate date (which are carried at fair value), should interest rates immediately change (i.e., are shocked). The Shock Table presents the estimated impact of interest rates instantaneously rising 50 and 100 basis points, and falling 50 and 100 basis points. The cash flows associated with our portfolio for each rate shock are calculated based on assumptions, including, but not limited to, prepayment speeds, yield on replacement assets, the slope of the yield curve and composition of our portfolio. Assumptions made with respect to the interest rate sensitive liabilities include anticipated interest rates, collateral requirements as a percent of repurchase agreement financings, and the amounts and terms of borrowing. At March 31, 2020, we applied a floor of 0% for all anticipated interest rates included in our assumptions. Due to this floor, it is anticipated that any hypothetical interest rate shock decrease would have a limited positive impact on our funding costs; however, because prepayments speeds are unaffected by this floor, it is expected that any increase in our prepayment speeds (occurring as a result of any interest rate shock decrease or otherwise) could result in an acceleration of premium amortization on our Agency MBS and discount accretion on our Non-Agency MBS and in the reinvestment of principal repayments in lower yielding assets. As a result, because the presence of this floor limits the positive impact of interest rate decrease on our funding costs, hypothetical interest rate shock decreases could cause a decline in the fair value of our financial instruments and our net interest income.

At March 31, 2020, the impact on portfolio value was approximated using estimated net effective duration (i.e., the price sensitivity to changes in interest rates), including the effect of securitized and other fixed rate debt, of 1.70 which is the weighted average of 2.36 for our Residential whole loans, 1.18 for our Agency MBS, 1.07 for our Non-Agency investments, (1.87) for our securitized debt, and other fixed rate debt, and 0.20 for our Other assets and cash and cash equivalents. Estimated convexity (i.e., the approximate change in duration relative to the change in interest rates) of the portfolio was (0.66), which is the weighted average of (0.90) for our Residential whole loans, (0.61) for our Agency MBS, zero for our securitized and other fixed rate debt, (0.15) for our Non-Agency MBS and zero for our Other assets and cash and cash equivalents. The impact on our net interest income is driven mainly by the difference between portfolio yield and cost of funding of our repurchase agreements. Our asset/liability structure is generally such that an increase in interest rates would be expected to result in a decrease in net interest income, as our borrowings are generally shorter in term than our interest-earning assets. When interest rates are shocked, prepayment assumptions are adjusted based on management's expectations along with the results from the prepayment model.

**Credit Risk**

Although we do not believe that we are exposed to credit risk in our Agency MBS portfolio, we are exposed to credit risk through our credit sensitive residential mortgage investments, in particular residential whole loans, Legacy Non-Agency MBS and CRT securities and to a lesser extent our investments in RPL/NPL MBS and MSR-related assets. As discussed above, since the end of the first quarter we have engaged in asset sales and taken other actions that significantly changed our asset composition subsequent to March 31, 2020. In particular, subsequent to the end of the first quarter, we sold the vast majority of our remaining Agency MBS and Legacy Non-Agency MBS portfolios and substantially reduced our investments in MSR-related assets and CRT securities. As a result, our primary credit risk currently relates to our residential whole loans.

Our exposure to credit risk from our credit sensitive investments is discussed in more detail below:

***Residential Whole Loans***

We are exposed to credit risk from our investments in residential whole loans. Our investment process for non-performing and Purchased Credit Deteriorated Loans is generally similar to that used for Legacy Non-Agency MBS (as discussed below) and is likewise focused on quantifying and pricing credit risk. Non-Performing and Purchased Credit Deteriorated Loans are acquired at purchase prices that are generally discounted to the contractual loan balances based on a number of factors, including the impaired credit history of the borrower and the value of the collateral securing the loan. In addition, as we generally own the mortgage-servicing rights associated with these loans, our process is also focused on selecting a sub-servicer with the appropriate expertise to mitigate losses and maximize our overall return. This involves, among other things, performing due diligence on the sub-servicer prior to their engagement as well as ongoing oversight and surveillance. To the extent that delinquencies and defaults on these loans are higher than our expectation at the time the loans were purchased, the discounted purchase price at which the asset is acquired is intended to provide a level of protection against financial loss.

Credit risk on Purchased Performing Loans is mitigated through our process to underwrite the loan before it is purchased and includes an assessment of the borrower's financial condition and ability to repay the loan, nature of the collateral and relatively low LTV, including after-repair LTV for the majority of our Rehabilitation loans.

The following table presents certain information about our Residential whole loans, at carrying value at March 31, 2020:

| | Purchased Performing Loans | | Purchased Credit Deteriorated Loans | | |
|---|---|---|---|---|---|
| | Loans with an LTV: | | Loans with an LTV: | | |
| (Dollars in Thousands) | 80% or Below | Above 80% | 80% or Below | Above 80% | Total |
| Amortized cost | $ 4,845,142 | $ 344,492 | $ 434,506 | $ 309,901 | $ 5,934,041 |
| Unpaid principal balance (UPB) | $ 4,749,863 | $ 336,094 | $ 477,667 | $ 380,455 | $ 5,944,079 |
| Weighted average coupon *(1)* | 6.1% | 6.3% | 4.5% | 4.4% | 5.9% |
| Weighted average term to maturity (months) | 279 | 349 | 269 | 322 | 285 |
| Weighted average LTV *(2)* | 63.7% | 86.9% | 57.4% | 108.9% | 67.3% |
| Loans 90+ days delinquent (UPB) | $ 115,212 | $ 4,733 | $ 44,426 | $ 62,234 | $ 226,605 |

*(1) Weighted average is calculated based on the interest bearing principal balance of each loan within the related category. For loans acquired with servicing rights released by the seller, interest rates included in the calculation do not reflect loan servicing fees. For loans acquired with servicing rights retained by the seller, interest rates included in the calculation are net of servicing fees.*

*(2) LTV represents the ratio of the total unpaid principal balance of the loan to the estimated value of the collateral securing the related loan as of the most recent date available, which may be the origination date. For Rehabilitation loans, the LTV presented is the ratio of the maximum unpaid principal balance of the loan, including unfunded commitments, to the estimated "after repaired" value of the collateral securing the related loan, where available. For certain Rehabilitation loans, totaling $259.4 million, an after repaired valuation was not obtained and the loan was underwritten based on an "as is" valuation. The LTV of these loans based on the current unpaid principal balance and the valuation obtained during underwriting, is 68%. Excluded from the calculation of weighted average LTV are certain low value loans secured by vacant lots, for which the LTV ratio is not meaningful.*

The following table presents the five largest geographic concentrations by state of our residential whole loan portfolio at March 31, 2020:

| Property Location | Percent of Interest-Bearing Unpaid Principal Balance |
|---|---|
| California | 36.2% |
| Florida | 12.6% |
| New York | 8.0% |
| New Jersey | 5.6% |
| Georgia | 3.2% |

***Legacy Non-Agency MBS***

Our investment process for Legacy Non-Agency MBS involves analysis focused primarily on quantifying and pricing credit risk. When we purchase Legacy Non-Agency MBS, we assign certain assumptions to each of the MBS, including but not limited to, future interest rates, voluntary prepayment rates, mortgage modifications, default rates and loss severities, and generally allocate a portion of the purchase discount as a Credit Reserve which provides credit protection for such securities. As part of our surveillance process, we review our Legacy Non-Agency MBS by tracking their actual performance compared to the securities' expected performance at purchase or, if we have modified our original purchase assumptions, compared to our revised performance expectations. To the extent that actual performance of a Legacy Non-Agency MBS is less favorable than its expected performance, we may revise our performance expectations. As a result, we could reduce the accretable discount on the security and/or recognize impairment charges through earnings, either of which could have a material adverse impact on our operating results.

In evaluating our asset/liability management and Legacy Non-Agency MBS credit performance, we consider the credit characteristics of the mortgage loans underlying our Legacy Non-Agency MBS. Subsequent to March 31, 2020, we disposed of the vast majority of our investments in Legacy Non-Agency MBS.

***RPL/NPL MBS***

These securities are backed by re-performing and non-performing loans, were purchased primarily at prices around par and represent the senior and mezzanine tranches of the related securitizations. The majority of these securities are structured with significant credit enhancement (typically approximately 50%) and the subordinate tranches absorb all credit losses (until those tranches are extinguished) and typically receive no cash flow (interest or principal) until the senior tranche is paid off. Prior to purchase, we analyze the deal structure in order to assess the associated credit risk. Subsequent to purchase, the ongoing credit risk associated with the deal is evaluated by analyzing the extent to which actual credit losses occur that result in a reduction in the amount of subordination enjoyed by our bond.

***CRT Securities***

We are exposed to potential credit losses from our investments in CRT securities issued by or sponsored by Fannie Mae and Freddie Mac. While CRT securities are issued by or sponsored by these GSEs, payment of principal on these securities is not guaranteed. As an investor in a CRT security, we may incur a loss if losses on the mortgage loans in the reference pool exceed the credit enhancement on the underlying CRT security owned by us or if an actual pool of loans experience losses. We assess the credit risk associated with our investments in CRT securities by assessing the current and expected future performance of the associated loan pool. Subsequent to March 31, 2020, we substantially reduced our holdings of CRT securities.

***MSR-Related Assets***

*Term Notes*

We have invested in certain term notes that are issued by SPVs that have acquired rights to receive cash flows representing the servicing fees and/or excess servicing spread associated with certain MSRs. Payment of principal and interest on these term notes is considered by us to be largely dependent on the cash flows generated by the underlying MSRs as this impacts the cash flows available to the SPV that issued the term notes. Credit risk borne by the holders of the term notes is also mitigated by structural credit support in the form of over-collateralization. In addition, credit support is also provided by a corporate guarantee from the ultimate parent or sponsor of the SPV that is intended to provide for payment of interest and principal to the holders of the term notes should cash flows generated by the underlying MSRs be insufficient. Subsequent to March 31, 2020, we have substantially reduced our investments in MSR-related assets.

*Corporate Loan*

We have participated in a loan agreement to provide financing to an entity that originates residential whole loans and owns the related MSRs. We assess the credit risk associated with this loan participation by considering various factors, including the current status of the loan, changes in fair value of the MSRs that secure the loan and the recent financial performance of the borrower.

***Credit Spread Risk***

Credit spreads measure the additional yield demanded by investors in financial instruments based on the credit risk associated with an instrument relative to benchmark interest rates. They are impacted by the available supply and demand for instruments with various levels of credit risk. Widening credit spreads would result in higher yields being required by investors in financial instruments. Credit spread widening generally results in lower values of the financial instruments we hold at that time, but will generally result in a higher yield on future investments with similar credit risk. It is possible that the credit spreads on our assets and liabilities, including hedges, will not always move in tandem. Consequently, changes in credit spreads can result in volatility in our financial results and reported book value.

**Liquidity Risk**

The primary liquidity risk we face arises from financing long-maturity assets with shorter-term borrowings primarily in the form of repurchase agreement financings. This risk was particularly pronounced during the first quarter of 2020, as conditions created by the COVID-19 pandemic resulted in us receiving an usually high number of margin calls, negatively impacting our overall liquidity and ultimately leading to us enter into the Forbearance Agreements. For more information, see Note 16 to our consolidated financial statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Senior Secured Financing and Exit from Forbearance.”

We pledge residential mortgage assets and cash to secure our repurchase agreements and Swaps. Our Repurchase agreements require us to pledge additional collateral in the event the market value of the assets pledged decreases, in order maintain the lenders contractually specified collateral cushion, which is measured as the difference between the loan amount and the market value of the asset pledged as collateral. Should the value of our residential mortgage assets pledged as collateral suddenly decrease, margin calls under our repurchase agreements would likely increase, causing an adverse change in our liquidity position. Additionally, if one or more of our financing counterparties chose not to provide ongoing funding, our ability to finance our long-maturity assets would decline or be available on possibly less advantageous terms. Further, when liquidity tightens, our repurchase agreement counterparties may increase our collateral cushion (or margin) requirements on new financings, including repurchase agreement borrowings that we roll with the same counterparty, reducing our ability to use leverage.

At March 31, 2020, we had access to various sources of liquidity which we estimate to be in excess of $176.1 million, an amount which includes: (i) $116.5 million of cash and cash equivalents, (ii) $56.1 million in estimated financing available from unpledged Agency MBS and other Agency MBS collateral that were pledged in excess of contractual requirements, and (iii) $3.5 million in estimated financing available from then unpledged Non-Agency MBS and from other Non-Agency MBS and CRT collateral that was pledged in excess of contractual requirements. Our sources of liquidity do not include restricted cash. In addition, March 31, 2020 we had $682.7 million of unencumbered residential whole loans.

**Prepayment Risk**

Premiums arise when we acquire an MBS or loan at a price in excess of the aggregate principal balance of the mortgages securing the MBS (i.e., par value) or when we acquire residential whole loans at a price in excess of their aggregate principal balance. Conversely, discounts arise when we acquire an MBS or loan at a price below the aggregate principal balance of the mortgages securing the MBS or when we acquire residential whole loans at a price below their aggregate principal balance. Premiums paid are amortized against interest income and accretable purchase discounts on these investments are accreted to interest income. Purchase premiums, which are primarily carried on our Non-QM loans, Agency MBS, and certain CRT securities, are amortized against interest income over the life of the investment using the effective yield method, adjusted for actual prepayment activity. An increase in the prepayment rate, as measured by the CPR, will typically accelerate the amortization of purchase premiums, thereby reducing the interest income earned on these assets. Generally, if prepayments on Non-Agency MBS and residential whole loans purchased at significant discounts and not accounted for at fair value are less than anticipated, we expect that the income recognized on these assets will be reduced and impairments and/or credit loss reserves may result.

In addition, increased prepayments are generally associated with decreasing market interest rates as borrowers are able to refinance their mortgages at lower rates. Therefore, increased prepayments on our investments may accelerate the redeployment of our capital to generally lower yielding investments. Similarly, decreased prepayments are generally associated with increasing market interest rates and may slow our ability to redeploy capital to generally higher yielding investments.

## Item 4. Controls and Procedures

***(a) Evaluation of Disclosure Controls and Procedures***

Management, under the direction of its Chief Executive Officer and Chief Financial Officer, is responsible for maintaining disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the 1934 Act) that are designed to ensure that information required to be disclosed in reports filed or submitted under the 1934 Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

In connection with the preparation of this Quarterly Report on Form 10-Q, management reviewed and evaluated the Company's disclosure controls and procedures. The evaluation was performed under the direction of the Company's Chief Executive Officer and Chief Financial Officer to determine the effectiveness, as of March 31, 2020, of the design and operation of the Company's disclosure controls and procedures. Based on that review and evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's current disclosure controls and procedures, as designed and implemented, were effective as of March 31, 2020. Notwithstanding the foregoing, a control system, no matter how well designed, implemented and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company's current periodic reports.

***(b) Changes in Internal Control over Financial Reporting***

There have been no changes in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2020 that materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

There are no material pending legal proceedings to which we are a party or any of our assets are subject.

### Item 1A. Risk Factors

For a discussion of the Company's risk factors, see Part 1, Item 1A. "Risk Factors" of the Company's Annual Report on Form 10-K for the year ended December 31, 2019. There are no material changes from the risk factors set forth in such Annual Report on Form 10-K, except as noted below. However, the risks and uncertainties that the Company faces are not limited to those set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2019. Additional risks and uncertainties not currently known to the Company (or that it currently believes to be immaterial) may also adversely affect the Company's business and the trading price of our securities.

The Company is supplementing the risk factors described under "Item 1A. Risk Factors" in its Annual Report on Form 10-K for the year ended December 31, 2019, with the additional risk factors set forth below. These supplemental risk factors should be read in conjunction with the other risk factors described in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

**The term of the Third Forbearance Agreement is limited and may be terminated prior to its expiration upon certain events.**

The term of the current forbearance agreement between the Company and its repurchase agreement counterparties, which was entered into on June 1, 2020, is limited and, unless extended by the parties, will expire on June 26, 2020. Further, the Forbearance Agreement may terminate earlier than June 26, 2020, upon the occurrence of specified triggering events. Therefore, we cannot predict the full length of the forbearance term. Any early termination of the forbearance agreement, our inability to extend, if necessary, the term of the forbearance agreement, or our inability to fully come to an agreement with our counterparties with respect to an exit from forbearance related to our remaining outstanding repurchase agreement obligations could have a material adverse effect on our business.

**The recent global COVID-19 pandemic has adversely affected, and will likely continue to adversely affect, our business, financial condition, liquidity and results of operations.**

We believe the worldwide COVID-19 pandemic has negatively affected our business and is likely to continue to do so. The outbreak has caused significant volatility and disruption in the financial markets both in the United States and globally. If COVID-19, or another highly infectious or contagious disease, continues to spread or the response to contain it is unsuccessful, we could continue to experience material adverse effects on our business, financial condition, liquidity, and results of operations. The extent of such effects will depend on future developments which are highly uncertain and cannot be predicted, including the geographic spread of the novel coronavirus, the overall severity of the disease, the duration of the outbreak, the measures that may be taken by various governmental authorities in response to the outbreak (such as quarantines and travel restrictions) and the possible further impacts on the global economy. The continued spread of COVID-19 could also negatively impact the availability of key personnel who are necessary to conduct our business.

Any significant decrease in economic activity or resulting decline in the housing market could have an adverse effect on our investments in mortgage real estate assets. In addition, as interest rates continue to decline as a result of demand for U.S. Treasury securities and the activities of the Federal Reserve, prepayments on our assets are likely to increase due to refinancing activity, which could have a material adverse effect on our result of operations.

Further, in light of the current environment related to the COVID-19 pandemic on the overall economy, such as rising unemployment levels or changes in consumer behavior related to loans as well as government policies and pronouncements, borrowers may experience difficulties meeting their obligations or seek to forbear payment on or refinance their mortgage loans to avail themselves of lower rates, which may adversely affect our result of operations.

**We cannot predict the effect that government policies, laws and plans adopted in response to the COVID-19 pandemic and global recessionary economic conditions will have on us.**

Governments have adopted, and we expect will continue to adopt, policies, laws and plans intended to address the COVID-19 pandemic and adverse developments in the credit, financial and mortgage markets. We cannot assure you that these programs will be effective, sufficient or otherwise have a positive impact on our business.

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

### Purchases of Equity Securities

As previously disclosed, in August 2005, the Company's Board authorized a Repurchase Program, to repurchase up to 4.0 million shares of the Company's outstanding common stock under the Repurchase Program. The Board reaffirmed such authorization in May 2010. In December, 2013, the Company's Board increased the number of shares authorized for repurchase to an aggregate of 10.0 million shares (under which approximately 6.6 million shares remain available for repurchase). Such authorization does not have an expiration date and, at present, there is no intention to modify or otherwise rescind such authorization. Subject to applicable securities laws, repurchases of common stock under the Repurchase Program are made at times and in amounts as the Company deems appropriate (including, in its discretion, through the use of one or more plans adopted under Rule 10b-5-1 promulgated under the 1934 Act), using available cash resources. Shares of common stock repurchased by the Company under the Repurchase Program are cancelled and, until reissued by the Company, are deemed to be authorized but unissued shares of the Company's common stock. The Repurchase Program may be suspended or discontinued by the Company at any time and without prior notice.

The Company engaged in no share repurchase activity during the first quarter of 2020 pursuant to the Repurchase Program. The Company did, however, withhold restricted shares (under the terms of grants under its Equity Plan) to offset tax withholding obligations that occur upon the vesting and release of restricted stock awards and/or RSUs. The following table presents information with respect to (i) such withheld restricted shares and (ii) eligible shares remaining for repurchase under the Repurchase Program:

| Month | | Total Number of Shares Purchased | Weighted Average Price Paid Per Share *(1)* | Total Number of Shares Repurchased as Part of Publicly Announced Repurchase Program or Employee Plan | Maximum Number of Shares that May Yet be Purchased Under the Repurchase Program or Employee Plan |
|---|---|---|---|---|---|
| **January 1-31, 2020:** | | | | | |
| Repurchase Program | *(2)* | — | $ — | — | 6,616,355 |
| Employee Transactions | *(3)* | 337,026 | 7.87 | N/A | N/A |
| **February 1-29, 2020:** | | | | | |
| Repurchase Program | *(2)* | — | — | — | 6,616,355 |
| Employee Transactions | *(3)* | — | — | N/A | N/A |
| **March 1-31, 2020:** | | | | | |
| Repurchase Program | *(2)* | — | — | — | 6,616,355 |
| Employee Transactions | *(3)* | — | $ — | N/A | N/A |
| **Total Repurchase Program** | *(2)* | — | $ — | — | 6,616,355 |
| **Total Employee Transactions** | *(3)* | 337,026 | $ 7.87 | N/A | N/A |

*(1) Includes brokerage commissions.*
*(2) As of March 31, 2020, the Company had repurchased an aggregate of 3,383,645 shares under the Repurchase Program.*
*(3) The Company's Equity Plan provides that the value of the shares delivered or withheld be based on the price of its common stock on the date the relevant transaction occurs.*

## Item 3. Defaults Upon Senior Securities

As a result of the turmoil in the financial markets resulting from the spread of the novel coronavirus and the global COVID-19 pandemic, on March 25, 2020, in order to preserve liquidity, we revoked our previously announced first quarter 2020 quarterly cash dividends on our Series B Preferred Stock. The Series B Preferred Stock dividend of $0.46875 per share had been declared on February 14, 2020 and was to be paid on March 31, 2020 to stockholders of record as of the close of business March 2, 2020. On June 3, 2020, we announced that we had likewise determined to suspend our second quarter 2020 quarterly cash dividend on the Series B Preferred Stock and on our 6.50% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock. The payment by us of dividends, with limited exceptions, has been prohibited under the terms of each of the three forbearance agreements that we have entered into with our repurchase agreement counterparties since April 10, 2020. Unpaid dividends on our Series B and Series C Preferred Stock accumulate without interest. No dividends may be paid or set apart on shares of our common stock unless full cumulative dividends on the Series B Preferred Stock and Series C Preferred Stock for all past dividend periods that have ended have been or contemporaneously are paid in cash, or a sum sufficient for such payment is set apart for payment.

As of May 31, 2020, the amount of accrued and unpaid dividends on our Series B and Series C Preferred Stock is $6.3 million and $4.4 million, respectively.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

The list of exhibits required to be filed as exhibits to this report are listed on page E-1 hereof, under “Exhibit Index,” which is incorporated herein by reference.

**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.

| Date: June 22, 2020 | MFA FINANCIAL, INC. | |
|---|---|---|
| | (Registrant) | |
| | By: | /s/ Stephen D. Yarad |
| | | Stephen D. Yarad |
| | | Chief Financial Officer |
| | | (Principal Financial Officer) |

**EXHIBIT INDEX**

The following exhibits are filed as part of this Quarterly Report:

| Exhibit | Description |
|---|---|
| 3.1 | Articles Supplementary designating the Registrant's 6.50% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, liquidation preference $25.00 per share (incorporated herein by reference to Exhibit 3.10 to the Company's Registration Statement on Form 8-A, filed February 28, 2020 (Commission File No. 1-13991)). |
| 4.1 | Specimen of certificate representing the 6.50% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (incorporated herein by reference to Exhibit 4.4 to the Company's Registration Statement on Form 8-A, filed February 28, 2020 (Commission File No. 1-13991)). |
| 10.1 | Forbearance Agreement, dated as of April 10, 2020, by and among the Company and the several Participating Counterparties thereto (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K, filed April 13, 2020 (Commission File No. 1-13991)). |
| 10.2 | Second Forbearance Agreement, dated as of April 27, 2020, by and among the Company and the several Secondary Participating Counterparties thereto (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K, filed April 29, 2020 (Commission File No. 1-13991)). |
| 10.3 | Agreement, entered into as of May 6, 2020, by and between the Company and Stephen D. Yarad (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K, filed May 8, 2020 (Commission File No. 1-13991)). |
| 10.4 | Form of Indemnification Agreement (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K, filed May 19, 2020 (Commission File No. 1-13991)). |
| 10.5 | Third Forbearance Agreement, dated as of June 1, 2020, by and among the Company and the several Secondary Participating Counterparties thereto (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K, filed June 3, 2020 (Commission File No. 1-13991)). |
| 31.1 | Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of the Chief Executive Officer, 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 the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | Interactive Data Files pursuant to Rule 405 of Regulation S-T formatted in iXBRL (Inline Extensible Business Reporting Language): (i) our Consolidated Balance Sheets as of March 31, 2020 (Unaudited) and December 31, 2019; (ii) our Consolidated Statements of Operations (Unaudited) for the three months ended March 31, 2020 and 2019; (iii) our Consolidated Statements of Comprehensive Income / (Loss) (Unaudited) for the three months ended March 31, 2020 and 2019; (iv) Consolidated Statements of Changes in Stockholders' Equity (Unaudited) for the three months ended March 31, 2020 and 2019; (v) our Consolidated Statements of Cash Flows (Unaudited) for the three months ended March 31, 2020 and 2019; and (vi) the notes to our Unaudited Consolidated Financial Statements. |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101). |

**Exhibit 31.1**

**CERTIFICATION**

I, Craig L. Knutson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of MFA Financial, Inc. (the “Registrant”);

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 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:

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: June 22, 2020

By: /s/ Craig L. Knutson
Name: Craig L. Knutson
Title: President and Chief Executive Officer

**Exhibit 31.2**

**CERTIFICATION**

I, Stephen D. Yarad, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of MFA Financial, Inc. (the "Registrant");

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 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:

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: June 22, 2020

By: /s/ Stephen D. Yarad
Name: Stephen D. Yarad
Title: Chief Financial Officer

**Exhibit 32.1**

**Certification of Chief Executive Officer**
**Pursuant to 18 U.S.C. Section 1350, as Adopted**
**Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002**

The undersigned, the Chief Executive Officer of MFA Financial, Inc. (the "Company"), hereby certifies on the date hereof, pursuant to 18 U.S.C. 1350(a), as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that, to my knowledge, the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2020 (the "Form 10-Q"), filed herewith by the Company, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Craig L. Knutson — Date: June 22, 2020

Name: Craig L. Knutson
Title: President and Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes—Oxley Act of 2002, and is not being "filed" as part of the Form 10-Q or as a separate disclosure document for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference to any filing under the Securities Act of 1933, as amended, or the Exchange Act except to the extent that this Exhibit 32.1 is expressly and specifically incorporated by reference in any such filing.

A signed original of this statement required by Section 906 had been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**Exhibit 32.2**

**Certification of Chief Financial Officer**
**Pursuant to 18 U.S.C. Section 1350, as Adopted**
**Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002**

The undersigned, the Chief Financial Officer of MFA Financial, Inc. (the “Company”), hereby certifies on the date hereof, pursuant to 18 U.S.C. 1350(a), as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that, to my knowledge, the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2020 (the “Form 10-Q”), filed herewith by the Company, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Stephen D. Yarad        Date: June 22, 2020

Name: Stephen D. Yarad
Title: Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes—Oxley Act of 2002, and is not being “filed” as part of the Form 10-Q or as a separate disclosure document for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference to any filing under the Securities Act of 1933, as amended, or the Exchange Act except to the extent that this Exhibit 32.2 is expressly and specifically incorporated by reference in any such filing.

A signed original of this statement required by Section 906 had been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.