NEW YORK MORTGAGE TRUST INC
Form 10-K
February 25, 2019

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

FORM 10-K

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

For the Fiscal Year Ended December 31, 2018

¨ 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 001-32216
NEW YORK MORTGAGE TRUST, INC.
(Exact name of registrant as specified in its charter)

Maryland	47-0934168
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

275 Madison Avenue, New York, NY 10016
(Address of principal executive office) (Zip Code)
(212) 792-0107
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	NASDAQ Stock Market
7.75% Series B Cumulative Redeemable Preferred Stock, par value $0.01 per share, $25.00 Liquidation Preference	NASDAQ Stock Market
7.875% Series C Cumulative Redeemable Preferred Stock, par value $0.01 per share, $25.00 Liquidation Preference	NASDAQ Stock Market
8.000% Series D Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, par value $0.01 per share, $25.00 Liquidation Preference	NASDAQ Stock Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ¨ No x

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 ¨

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

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 ¨

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2018 was $740,252,950.

The number of shares of the registrant's common stock, par value $.01 per share, outstanding on February 1, 2019 was 170,241,340.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Where Incorporated
	Part III, Items 10-14
1. Portions of the Registrant's Definitive Proxy Statement relating to its 2019 Annual Meeting of Stockholders scheduled for June 2019 to be filed with the Securities and Exchange Commission by no later than April 30, 2019.	

NEW YORK MORTGAGE TRUST, INC.

FORM 10-K

For the Fiscal Year Ended December 31, 2018

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PART I
Item 1. BUSINESS

Certain Defined Terms

In this Annual Report on Form 10-K we refer to New York Mortgage Trust, Inc., together with its consolidated subsidiaries, as “we,” “us,” “Company,” or “our,” unless we specifically state otherwise or the context indicates otherwise, and refer to our wholly-owned taxable REIT subsidiaries as “TRSs” and our wholly-owned qualified REIT subsidiaries as “QRSs.” In addition, the following defines certain of the commonly used terms in this report:

- “Agency ARMs” refers to Agency RMBS comprised of adjustable-rate and hybrid adjustable-rate RMBS;
- "Agency fixed-rate RMBS" refers to Agency RMBS comprised of fixed-rate RMBS;
- “Agency IOs” refers to Agency RMBS comprised of IO RMBS;
- “Agency RMBS” refers to RMBS representing interests in or obligations backed by pools of mortgage loans issued or guaranteed by a government sponsored enterprise (“GSE”), 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”);
- “ARMs” refers to adjustable-rate residential mortgage loans;
- “CDO” refers to collateralized debt obligation;
- “CMBS” refers to commercial mortgage-backed securities comprised of commercial mortgage pass-through securities, as well as PO, IO or mezzanine securities that represent the right to a specific component of the cash flow from a pool of commercial mortgage loans;
- “Consolidated K-Series” refers to certain Freddie Mac-sponsored multi-family loan K-Series securitizations, of which we, or one of our "special purpose entities," or "SPEs," own the first loss POs and certain IOs and mezzanine securities, that we consolidate in our financial statements in accordance with GAAP;
- “Consolidated VIEs” refers to VIEs where the Company is the primary beneficiary, as 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;
- “distressed residential mortgage loans” refers to pools of seasoned re-performing, non-performing, and other delinquent mortgage loans secured by first liens on one- to four-family properties;
- "excess mortgage servicing spread" refers to the difference between the contractual servicing fee with Fannie Mae, Freddie Mac or Ginnie Mae and the base servicing fee that is retained as compensation for servicing or subservicing the related mortgage loans pursuant to the applicable servicing contract;
- "GAAP" refers to generally accepted accounting principles within the United States;
- “IOs” refers collectively to interest only and inverse interest only mortgage-backed securities that represent the right to the interest component of the cash flow from a pool of mortgage loans;

- “IO RMBS” refers to RMBS comprised of IOs;
- “multi-family CMBS” refers to CMBS backed by commercial mortgage loans on multi-family properties;
- “non-Agency RMBS” refers to RMBS that are not guaranteed by any agency of the U.S. Government or any federally chartered corporation;
- “non-QM loans” refers to residential mortgage loans that are not deemed "qualified mortgage," or "QM," loans under the rules of the Consumer Financial Protection Bureau;

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- “POs” refers to mortgage-backed securities that represent the right to the principal component of the cash flow from a pool of mortgage loans;
- “prime ARM loans” and “residential securitized loans” each refer to prime credit quality residential ARMs held in our securitization trusts formed in 2005;
- “RMBS” refers to residential mortgage-backed securities comprised of adjustable-rate, hybrid adjustable-rate, fixed-rate, interest only and inverse interest only, and principal only securities;
- “second mortgages” refers to liens on residential properties that are subordinate to more senior mortgages or loans; and
- “Variable Interest Entity” or “VIE” refers to an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties.

General

We are a real estate investment trust ("REIT") for U.S. federal income tax purposes, in the business of acquiring, investing in, financing and managing mortgage-related and residential housing-related assets. Our objective is to deliver long-term stable distributions to our stockholders over changing economic conditions through a combination of net interest margin and net realized capital gains from a diversified investment portfolio. Our investment portfolio includes credit sensitive assets and investments sourced from distressed markets that create the potential for capital gains, as well as more traditional types of mortgage-related investments that generate interest income.

Our investment portfolio includes (i) structured multi-family property investments such as multi-family CMBS and preferred equity in, and mezzanine loans to, owners of multi-family properties, (ii) residential mortgage loans, including distressed residential mortgage loans, non-QM loans, second mortgages, and other residential mortgage loans, (iii) non-Agency RMBS, (iv) Agency RMBS and (v) certain other mortgage-related and residential housing-related assets. Subject to maintaining our qualification as a REIT and the maintenance of our exclusion from registration as an investment company under the Investment Company Act of 1940, as amended (the “Investment Company Act”), we also may opportunistically acquire and manage various other types of mortgage-related and residential housing-related assets that we believe will compensate us appropriately for the risks associated with them, including, without limitation, collateralized mortgage obligations, excess mortgage servicing spreads and securities issued by newly originated residential securitizations, including credit sensitive securities from these securitizations.

In connection with our growth in recent years, we have taken steps each year since 2016 to internalize the investment management of our various investment portfolios. In May 2016, we acquired our external manager for our structured multi-family property investments. During the first half of 2018, we exited our externally-managed Agency IO strategy and in August 2018, we began the process to internalize the management of our distressed residential loan strategy in order to expand our capabilities in self managing, sourcing and creating single-family residential credit assets. Accordingly, we have added 14 investment professionals to our single-family residential credit investment team and have provided Headlands Asset Management, LLC (“Headlands”), the external manager of our distressed residential loan strategy, notice that we intend to cause our management agreement with them to expire when its term ends in June 2019. We believe that internalization of all our credit investing functions, including both multi-family and single-family residential credit investments, will strengthen our ability to identify and secure future investment opportunities in this key strategic area for our company.

We seek to achieve a balanced and diverse funding mix to finance our assets and operations. We currently rely primarily on a combination of short-term borrowings, such as repurchase agreements with terms typically of 30 days, longer-term repurchase agreement borrowings with terms between one year and 24 months and longer-term financings, such as securitizations and convertible notes, with terms longer than one year.

We have elected to be taxed as a REIT for U.S. federal income tax purposes and have complied, and intend to continue to comply, with the provisions of the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”), with respect thereto. Accordingly, we do not expect to be subject to federal income tax on our REIT taxable income that we currently distribute to our stockholders if certain asset, income, distribution and ownership tests and record keeping requirements are fulfilled. Even if we maintain our qualification as a REIT, we expect to be subject to some federal, state and local taxes on our income generated in our TRSs.

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The financial information requirements required under this Item 1 may be found in our consolidated financial statements beginning on page F-1 of this Annual Report on Form 10-K.

Our Investment Strategy

Our strategy is to construct a portfolio of mortgage-related and residential housing-related assets that include elements of credit risk and interest rate risk. We have sought in recent years, and intend in the future to continue, to focus on expanding our portfolio of “credit sensitive” assets, which we believe will benefit from improving credit metrics. We define “credit sensitive” assets as (i) structured multi-family property investments, (ii) residential mortgage loans, including distressed residential mortgage loans, non-QM loans, second mortgages and other residential mortgage loans, (iii) non-Agency RMBS and (iv) other mortgage-related and residential housing-related assets that contain credit risk. In pursuing credit sensitive assets, we target assets that we believe will provide an attractive total rate of return, as compared to assets that strictly provide net interest margin. We also own and manage a highly-leveraged portfolio of Agency RMBS, primarily comprised of Agency fixed-rate RMBS and Agency ARMs, and we may pursue opportunistic acquisitions of other types of assets that meet our investment criteria.

Prior to deploying capital to any of the assets we target or determining to dispose of any of our investments, our management team will consider, among other things, the availability of suitable investments, the amount and nature of anticipated cash flows from the asset, our ability to finance or borrow against the asset and the terms of such financing, the related capital requirements, the credit risk related to the asset or the underlying collateral, the composition of our investment portfolio, REIT qualification, the maintenance of our exclusion from registration as an investment company under the Investment Company Act and other regulatory requirements and future general market and economic conditions. In periods where we have working capital in excess of our short-term liquidity needs, we may invest the excess in more liquid assets until such time as we are able to re-invest that capital in assets that meet our underwriting requirements. Consistent with our strategy to produce returns through a combination of net interest margin and net realized capital gains, we will seek, from time to time, to sell certain assets within our portfolio when we believe the combination of realized gains on an asset and reinvestment potential for the related sale proceeds are consistent with our long-term return objectives.

Our investment strategy does not, subject to our continued compliance with applicable REIT tax requirements and the maintenance of our exclusion from registration as an investment company under the Investment Company Act, limit the amount of our capital that may be invested in any of these investments or in any particular class or type of assets. Thus, our future investments may include asset types different from the targeted or other assets described in this Annual Report on Form 10-K. Our investment and capital allocation decisions depend on prevailing market conditions, among other factors, and may change over time in response to opportunities available in different economic and capital market environments. As a result, we cannot predict the percentage of our capital that will be invested in any particular investment at any given time.

For more information regarding our portfolio as of December 31, 2018, see Item 7 - “Management’s Discussion and Analysis of Financial Condition and Results of Operations” below.

Investments in Credit Sensitive Assets

Our portfolio of credit sensitive assets is currently comprised of investments in two asset categories: structured multi-family property investments and single-family residential credit investments.

Structured Multi-Family Property Investments

We seek to position our structured multi-family investment platform in the marketplace as a real estate investor focused on debt and equity transactions. We do not seek to be the sole owner or day-to-day manager of properties. Rather, we intend to participate at various levels within the capital structure of the properties, typically (i) as a “capital partner” by lending to or co-investing alongside a project-level sponsor that has already identified an attractive investment opportunity, or (ii) through a subordinated security of a multi-family loan securitization. Our multi-family property investments are not limited to any particular geographic area in the United States. In general terms, we expect that our multi-family investments will principally be in the form of multi-family CMBS, as well as preferred equity investments in, and mezzanine loans to, owners of multi-family apartment properties.

With respect to our preferred equity and mezzanine loan investments where we participate as a capital partner, we generally pursue multi-family properties with unique or compelling attributes that provide an opportunity for value creation and increased returns through the combination of better management or capital improvements that will lead to net cash flow growth and capital gains. Generally, we target investments in multi-family properties that are or have been:

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- located in a particularly dynamic submarket with strong prospects for rental growth;
- located in smaller markets that are underserved and more attractively priced;
- poorly managed by the previous owner, creating an opportunity for overall net income growth through better management practices;
- undercapitalized and may benefit from an investment in physical improvements; or
- highly stable and are suitably positioned to support high-yield preferred equity or mezzanine debt within their capital structure.

As a capital partner, we generally seek experienced property-level operators or real estate entrepreneurs who have the ability to identify and manage strong investment opportunities. We require our operating partners to maintain a material investment in every multi-family property in which we make a preferred equity investment or provide mezzanine financing.

Multi-Family CMBS. Our portfolio of multi-family CMBS is comprised of (i) first loss POs issued by certain multi-family loan K-series securitizations sponsored by Freddie Mac and (ii) certain IOs and mezzanine securities issued by these securitizations. Our investments in these privately placed first loss POs generally represent 7.5% of the overall securitization which typically initially totals approximately $1.0 billion in multi-family loans consisting of 45 to 100 individual properties diversified across a wide geographic footprint in the United States. Our first loss POs are typically backed by fixed rate balloon non-recourse mortgage loans that provide for the payment of principal at maturity date, which is ten to fifteen years from the date the underlying mortgage loans are originated. Moreover, each first loss PO of multi-family CMBS in our portfolio is the most junior of securities issued by the securitization, meaning it will absorb all losses in the securitization prior to other more senior securities being exposed to loss. As a result, each of the first loss POs in our portfolio has been purchased, upon completion of a credit analysis and due diligence, at a sizable discount to its then-current par value, which we believe provides us with adequate protection against projected losses. In addition, as the owner of the first loss PO, the Company has the right to participate in the workout of any distressed property in the securitization. We believe this right provides the Company with an opportunity to mitigate or reduce any possible loss associated with the distressed property. The IOs that we own represent a strip off the entire securitization allowing the Company to receive cash flows over the life of the multi-family loans backing the securitization. These investments range from 10 to 17.5 basis points and the underlying notional amount approximates $1.0 billion each. We also invest in mezzanine securities of multi-family CMBS, the investment in which may involve our use of some form of leverage in order to generate attractive risk-adjusted returns on these securities. With respect to the multi-family CMBS owned by us, all of the loans that back the respective securitizations have been generally underwritten in accordance with Freddie Mac underwriting guidelines and standards; however, the multi-family CMBS we own are not guaranteed by Freddie Mac.

Preferred Equity. We currently own, and expect to originate in the future, preferred equity investments in entities that directly or indirectly own multi-family properties. Preferred equity is not secured, but holders have priority relative to the common equity on cash flow distributions and proceeds from capital events. In addition, as a preferred holder we may seek to enhance our position and protect our equity position with covenants that limit the entity’s activities and grant to the preferred holders the right to control the property upon default under relevant loan agreements or under the terms of our preferred equity investments. Occasionally, the first-mortgage loan on a property prohibits additional liens and a preferred equity structure provides an attractive financing alternative. With preferred equity investments, we may become a special limited partner or member in the ownership entity and may be entitled to take certain actions, or cause a liquidation, upon a default. Under the typical arrangement, the preferred equity investor receives a stated return, and the common equity investor receives all cash flow only after that return has been met. Preferred equity typically has loan-to-value ratios of 70% to 90% when combined with the first-mortgage loan amount. We expect our preferred equity investments will have mandatory redemption dates that will generally be coterminous with the maturity date for the first-mortgage loan on the property, and we expect to hold these investments until the mandatory redemption date.

Mezzanine Loans. We currently own, and anticipate making in the future, mezzanine loans that are senior to the operating partner's equity in, and subordinate to a first-mortgage loan on, a multi-family property. These loans are secured by pledges of ownership interests, in whole or in part, in entities that directly or indirectly own the real property. In addition, we may require other collateral to secure mezzanine loans, including letters of credit, personal guarantees or collateral unrelated to the property.

We may structure our mezzanine loans so that we receive a fixed or variable interest rate on the loan. Our mezzanine loans may also have prepayment lockouts, prepayment penalties, minimum profit hurdles or other mechanisms to protect and enhance returns in the event of premature repayment. We expect these investments will typically have terms from three to ten years. Mezzanine loans typically have loan-to-value ratios between 70% and 90% when combined with the first-mortgage loan amount.

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Joint Venture Equity. We own two joint venture investments in entities that own multi-family properties. Joint venture equity is a direct common equity ownership interest in an entity that owns a property. In this type of investment, the return of capital to us is variable and is made on a pari passu basis between us and the other operating partners. In most cases, we have provided between 77% and 90% of the total equity capital for the joint venture, with our operating partner providing the balance of the equity capital.

Other. We may also acquire investments that are structured with terms that reflect a combination of the investment structures described above. We also may invest, from time to time, based on market conditions, in other multi-family investments, structured investments in other property categories, equity and debt securities issued by entities that invest in residential and commercial real estate or in other mortgage-related assets that enable us to qualify or maintain our qualification as a REIT or otherwise.

Single-Family Residential Credit Investments

We first began acquiring residential mortgage loans in 2010 from select mortgage loan originators and secondary market institutions. We generally seek to acquire pools of single-family residential mortgage loans from select mortgage loan originators and secondary market institutions and contract with originators to acquire residential mortgage loans they newly originate that meet our purchase criteria. We do not directly service the mortgage loans we acquire, and instead contract with fully licensed third-party subservicers to handle substantially all servicing functions.

Distressed Residential Mortgage Loans. The distressed residential mortgage loans consist of seasoned re-performing, non-performing and other delinquent mortgage loans secured by first liens on one- to four-family properties. The loans were purchased at a discount to the aggregate principal amount outstanding, which we believe provides us with downside protection while we work to rehabilitate these loans to performing status.

Performing Residential Mortgage Loans. The performing residential mortgage loans consist of GSE eligible mortgage loans, non-QM mortgage loans that predominantly meet our underwriting guidelines, loans originally underwritten to GSE or another program's guidelines, but are either undeliverable to the GSE or ineligible for a program due to certain underwriting or compliance errors, and investor loans generally underwritten to our program guidelines.

Second Mortgages. During the third quarter of 2015, we announced the expansion of our credit residential strategy through investments in targeted newly originated second mortgages. We purchase second mortgages that have equity in excess of the balance on the combined first and second lien mortgage owed and predominantly meet our underwriting guidelines. We believe this program provides us with attractive risk-adjusted returns by targeting higher credit-quality borrowers that we believe are currently underserved by large financial institutions.

Investments in Non-Agency RMBS. Our non-Agency RMBS are collateralized by residential credit assets. The non-Agency RMBS in our investment portfolio may consist of the senior, mezzanine or subordinate tranches in the securitizations. The underlying collateral of these securitizations are predominantly residential credit assets, which may be exposed to various macroeconomic and asset-specific credit risks. These securities have varying levels of credit enhancement which provides some structural protection from losses within the portfolio. We undertake an in-depth assessment of the underlying collateral and securitization structure when investing in these assets, which may include modeling defaults, prepayments and loss across different scenarios. We believe that non-Agency RMBS provide attractive returns given our assessment of the interest rate and credit risk associated with these securities.

Leveraged Agency RMBS Investments

Our Agency fixed-rate RMBS portfolio consists of pass-through certificates, the principal and interest of which are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae, which are primarily backed by 15-year and 30-year residential fixed-rate mortgage loans.

Our Agency ARMs consist of pass-through certificates, the principal and interest of which are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae, and are backed by ARMs or hybrid ARMs. Our current portfolio of Agency ARMs has interest reset periods ranging from 1 month to 44 months.

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Our Financing Strategy

We strive to maintain and achieve a balanced and diverse funding mix to finance our assets and operations. To achieve this, we rely primarily on a combination of short-term and longer-term repurchase agreement borrowings and structured financings, including securitized debt, CDOs, long-term subordinated debt, and convertible notes. The Company's policy for leverage is based on the type of asset, underlying collateral and overall market conditions, with the intent of obtaining more permanent, longer -term financing for our more illiquid assets. Based on our current portfolio composition, our overall target leverage ratio is approximately 2.4 to 1. This target may be adjusted depending on the composition of our overall portfolio.

As of December 31, 2018, our overall leverage ratio, which represents our total debt divided by our total stockholders' equity, was approximately 2.0 to 1. Our overall leverage ratio does not include the mortgage debt of The Clusters or debt associated with the Multi-family CDOs or the Residential CDOs and other non-recourse debt, for which we have no obligation. Our leverage ratio on our short-term financings or callable debt, which represents our repurchase agreement borrowings divided by our total stockholders' equity, was approximately 1.8 to 1 as of December 31, 2018. We monitor all at risk or short-term borrowings to ensure that we have adequate liquidity to satisfy margin calls and liquidity covenant requirements.

We primarily rely on repurchase agreements to fund the securities we own. These repurchase agreements provide us with borrowings, which have terms ranging from 30 days to 24 months, that bear interest rates that are linked to the London Interbank Offered Rate (“LIBOR”), a short-term market interest rate used to determine short-term loan rates. Pursuant to these repurchase agreements, the financial institution that serves as a counterparty will generally agree to provide us with financing based on the market value of the assets that we pledge as collateral, less a “haircut.” The market value of the collateral represents the price of such collateral obtained from generally recognized sources or most recent closing bid quotation from such source plus accrued income. Our repurchase agreements may require us to deposit additional collateral pursuant to a margin call if the market value of our pledged collateral declines as a result of market conditions or due to principal repayments on the mortgages underlying our pledged securities. Interest rates and haircuts will depend on the underlying collateral pledged.

With respect to our investments in credit assets that are not financed by short-term repurchase agreements, we finance our investment in these assets through long-term borrowings and working capital. Our financings may include longer-term structured debt financing, such as longer-term repurchase agreement financing and securitized debt where the assets we intend to finance are contributed to an SPE and serve as collateral for the financing. We engage in longer-term financings for the primary purpose of obtaining longer-term non-recourse financing on these assets.

Pursuant to the terms of our long-term debt financings, our ability to access the cash flows generated by the assets serving as collateral for these borrowings may be significantly limited and we may be unable to sell or otherwise transfer or dispose of or modify such assets until the financing has matured. As part of each of our securitized debt financings and longer-term master repurchase agreements that finance certain of our credit assets, we have provided a guarantee with respect to certain terms of some of these longer-term borrowings incurred by certain of our subsidiaries and we may provide similar guarantees in connection with future financings.

For more information regarding our outstanding borrowings and debt instruments at December 31, 2018, see Item 7 - “Management’s Discussion and Analysis of Financial Condition and Results of Operations” below.

Our Hedging Strategy

The Company enters into derivative instruments in connection with its risk management activities. These derivative instruments may include interest rate swaps, swaptions, interest rate caps, futures, options on futures and mortgage derivatives such as forward-settling purchases and sales of Agency RMBS where the underlying pools of mortgage loans are “To-Be-Announced,” or TBAs.

We use interest rate swaps to hedge any variable cash flows associated with our borrowings. We typically pay a fixed rate and receive a floating rate based on one or three month LIBOR, on the notional amount of the interest rate swaps. The floating rate we receive under our swap agreements has the effect of offsetting the repricing characteristics and cash flows of our financing arrangements.

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We may use TBAs, swaptions, futures and options on futures to hedge market value risk for certain of our strategies. We have utilized TBAs as part of our Agency investment strategy to enhance the overall yield of the portfolio. In a TBA transaction, we would agree to purchase or sell, for future delivery, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered is not identified until shortly before the TBA settlement date. The Company typically does not take delivery of TBAs, but rather settles with its trading counterparties on a net basis prior to the forward settlement date. Although TBAs are liquid and have quoted market prices and represent the most actively traded class of RMBS, the use of TBAs exposes us to increased market value risk.

In connection with our hedging strategy, we utilize a model based risk analysis system to assist in projecting portfolio performances over a variety of different interest rates and market scenarios, such as shifts in interest rates, changes in prepayments and other factors impacting the valuations of our assets and liabilities. However, given the uncertainties related to prepayment rates, it is not possible to perfectly lock-in a spread between the earnings asset yield and the related cost of borrowings. Nonetheless, through active management and the use of evaluative stress scenarios, we believe that we can mitigate a significant amount of both value and earnings volatility.

Competition

Our success depends, in large part, on our ability to acquire assets at favorable spreads over our borrowing costs. When we invest in mortgage-backed securities, mortgage loans and other investment assets, we compete with other REITs, investment banking firms, savings and loan associations, insurance companies, mutual funds, hedge funds, pension funds, banks and other financial institutions and other entities that invest in the same types of assets.

Corporate Offices and Personnel

We were formed as a Maryland corporation in 2003. Our corporate headquarters are located at 275 Madison Avenue, Suite 3200, New York, New York, 10016 and our telephone number is (212) 792-0107. We also maintain offices in Charlotte, North Carolina and Woodland Hills, California. As of December 31, 2018, we employed 36 full-time employees.

Access to our Periodic SEC Reports and Other Corporate Information

Our Internet website address is www.nymtrust.com. We make available free of charge, through our Internet website, our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and any amendments thereto that we file or furnish pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

We have adopted a Code of Business Conduct and Ethics that applies to our executive officers, including our principal executive officer, principal financial officer, principal accounting officer and to our other employees. We have also adopted a Code of Ethics for senior financial officers, including the principal financial officer. We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K relating to amendments to or waivers from any provision of either of these Code of Ethics applicable to our principal executive officer, principal financial officer, principal accounting officer and other persons performing similar functions by posting such information on our website at www.nymtrust.com, “Corporate Governance”. Our Corporate Governance Guidelines and Code of Business Conduct and Ethics and the charters of our Audit, Compensation and Nominating and Corporate Governance Committees are available on our website and are available in print to any stockholder upon request in writing to New York Mortgage Trust, Inc., c/o Secretary, 275 Madison Avenue, Suite 3200, New York, New York, 10016. Information on our website is neither part of, nor incorporated into, this Annual Report on Form 10-K.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

When used in this Annual Report on Form 10-K, in future filings with the SEC or in press releases or other written or oral communications issued or made by us, statements which are not historical in nature, including those containing words such as “believe,” “expect,” “anticipate,” “estimate,” “plan,” “continue,” “intend,” “should,” “would,” “could,” “goal,” “ “may” or similar expressions, are intended to identify “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act and, as such, may involve known and unknown risks, uncertainties and assumptions.

Forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. The following factors are examples of those that could cause actual results to vary from our forward-looking statements: changes in interest rates and the market value of our assets, changes in credit spreads, the impact of a downgrade of the long-term credit ratings of the U.S., Fannie Mae, Freddie Mac, or Ginnie Mae; market volatility; changes in the prepayment rates on the loans we own or that underlie our investment securities; increased rates of default and/or decreased recovery rates on our assets; our ability to identify and acquire our targeted assets; our ability to borrow to finance our assets and the terms thereof; changes in governmental laws, regulations, or policies affecting our business; our ability to maintain our qualification as a REIT for federal tax purposes; our ability to maintain our exemption from registration under the Investment Company Act; 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 the risk factors described in Part I, Item 1A – “Risk Factors” elsewhere in this Annual Report on Form 10-K, as updated by those risks described in our subsequent filings under the Exchange Act, could cause our actual results to differ materially from those projected in any forward-looking statements we make. All forward-looking statements 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. 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.

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Item 1A. RISK FACTORS

Set forth below are the risks that we believe are material to stockholders and prospective investors. You should carefully consider the following risk factors and the various other factors identified in or incorporated by reference into any other documents filed by us with the SEC in evaluating our company and our business. The risks discussed herein can adversely affect our business, liquidity, operating results, prospects and financial condition. These risks could cause the market price of our securities to decline. The risk factors described below are not the only risks that may affect us. Additional risks and uncertainties not presently known to us, or not presently deemed material by us, also may adversely affect our business, liquidity, operating results, prospects and financial condition.

Risks Related to Our Business and Our Company

Declines in the market values of assets in our investment portfolio may adversely affect periodic reported results and credit availability, which may reduce earnings and, in turn, cash available for distribution to our stockholders.

The market value of our investment portfolio may move inversely with changes in interest rates. We anticipate that increases in interest rates will generally tend to decrease our net income and the market value of our investment portfolio. A significant percentage of the securities within our investment portfolio are classified for accounting purposes as "available for sale." Changes in the market values of trading securities and residential mortgage loans, at fair value will be reflected in earnings and changes in the market values of available for sale securities will be reflected in stockholders' equity. As a result, a decline in market values of assets in our investment portfolio may reduce the book value of our assets. Moreover, if the decline in market value of an available for sale security is other than temporary, such decline will reduce earnings.

A decline in the market value of our interest-bearing assets may adversely affect us, particularly in instances where we have borrowed money based on the market value of those assets. If the market value of those assets declines, the lender may require us to post additional collateral to support the loan, which would reduce our liquidity and limit our ability to leverage our assets. In addition, if we are, or anticipate being, unable to post the additional collateral, we would have to sell the assets at a time when we might not otherwise choose to do so. In the event that we do not have sufficient liquidity to meet such requirements, lending institutions may accelerate indebtedness, increase interest rates and terminate our ability to borrow, any of which could result in a rapid deterioration of our financial condition and cash available for distribution to our stockholders. Moreover, if we liquidate the assets at prices lower than the amortized cost of such assets, we will incur losses.

The market values of our investments may also decline without any general increase in interest rates for a number of reasons, such as increases in defaults, actual or perceived increases in voluntary prepayments for those investments that we have that are subject to prepayment risk, a reduction in the liquidity of the assets and markets generally and widening of credit spreads, and adverse legislation or regulatory developments. If the market values of our investments were to decline for any reason, the value of your investment could also decline.

Difficult conditions in the mortgage and real estate markets, the financial markets and the economy generally have caused and may cause us to experience losses in the future.

Our business is materially affected by conditions in the residential and commercial mortgage markets, the residential and commercial real estate markets, the financial markets and the economy generally. Furthermore, because a significant portion of our current assets and our targeted assets are credit sensitive, we believe the risks associated with our investments will be more acute during periods of economic slowdown, recession or market dislocations, especially if these periods are accompanied by declining real estate values and defaults. In prior years, concerns about the health of the global economy generally and the residential and commercial mortgage markets specifically, as well as inflation, energy costs, changes in monetary policy, perceived or actual changes in interest rates, European sovereign debt, U.S. budget debates and geopolitical issues and the availability and cost of credit have contributed to increased volatility and uncertainty for the economy and financial markets. The residential and commercial mortgage markets were materially adversely affected by changes in the lending landscape during the financial market crisis of 2008, the severity of which was largely unanticipated by the markets, and there can be no assurance that such adverse markets will not occur in the future.

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In addition, an economic slowdown, delayed recovery or general disruption in the mortgage markets may result in decreased demand for residential and commercial property, which would likely further compress homeownership rates and place additional pressure on home price performance, while forcing commercial property owners to lower rents on properties with excess supply. We believe there is a strong correlation between home price growth rates and mortgage loan delinquencies. Moreover, to the extent that a property owner has fewer tenants or receives lower rents, such property owners will generate less cash flow on their properties, which reduces the value of their property and increases significantly the likelihood that such property owners will default on their debt service obligations. If the borrowers of our mortgage loans, the loans underlying certain of our investment securities or the commercial properties that we finance or in which we invest, default or become delinquent on their obligations, we may incur material losses on those loans or investment securities. Any sustained period of increased payment delinquencies, defaults, foreclosures or losses could adversely affect both our net interest income and our ability to acquire our targeted assets in the future on favorable terms or at all. The further deterioration of the mortgage markets, the residential or commercial real estate markets, the financial markets and the economy generally may result in a decline in the market value of our assets or cause us to experience losses related thereto, which may adversely affect our results of operations, the availability and cost of credit and our ability to make distributions to our stockholders.

An increase in interest rates may cause a decrease in the availability of certain of our targeted assets, which could adversely affect our ability to acquire targeted assets that satisfy our investment objectives and to generate income and pay dividends.

Rising interest rates generally reduce the demand for mortgage loans due to the higher cost of borrowing. A reduction in the volume of mortgage loans originated may affect the volume of targeted assets available to us, which could adversely affect our ability to acquire assets that satisfy our investment and business objectives. Rising interest rates may also cause our targeted assets that were issued or originated prior to an interest rate increase to provide yields that are below prevailing market interest rates. If rising interest rates cause us to be unable to acquire a sufficient volume of our targeted assets with a yield that is above our borrowing cost, our ability to satisfy our investment objectives and to generate income and pay dividends will be materially and adversely affected.

In addition, the RMBS and residential mortgage loans we invest in may be comprised of ARMs that are subject to periodic and lifetime interest rate caps. Periodic interest rate caps limit the amount an interest rate can increase during any given period. Lifetime interest rate caps limit the amount an interest rate can increase over the life of the security or loan. Our borrowings typically are not subject to similar restrictions. Accordingly, in a period of rapidly increasing interest rates, the interest rates paid on our borrowings could increase without limitation while interest rate caps could limit the interest rates on the Agency ARMs or residential mortgage loans comprised of ARMs in our portfolio. This problem is magnified for securities backed by, or residential mortgage loans comprised of ARMs and hybrid ARMs that are not fully indexed. Further, certain securities backed by, or residential mortgage loans comprised of ARMs and hybrid ARMs may be subject to periodic payment caps that result in a portion of the interest being deferred and added to the principal outstanding. As a result, the payments we receive on Agency ARMs backed by, or residential mortgage loans comprised of ARMs and hybrid ARMs may be lower than the related debt service costs. These factors could have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our stockholders.

Interest rate fluctuations will also cause variances in the yield curve, which may reduce our net income. The relationship between short-term and longer-term interest rates is often referred to as the “yield curve.” If short-term interest rates rise disproportionately relative to longer-term interest rates (a flattening of the yield curve), our borrowing costs may increase more rapidly than the interest income earned on our interest-earning assets. For example, because the Agency RMBS in our investment portfolio typically bear interest based on longer-term rates while our borrowings typically bear interest based on short-term rates, a flattening of the yield curve would tend to decrease our net income and the market value of these securities. Additionally, to the extent cash flows from investments that return scheduled and unscheduled principal are reinvested, the spread between the yields of the new investments and available borrowing rates may decline, which would likely decrease our net income. It is also possible that short-term interest rates may exceed longer-term interest rates (a yield curve inversion), in which event our borrowing costs may exceed our interest income and we could incur significant operating losses.

Prepayment rates can change, adversely affecting the performance of our assets.

The frequency at which prepayments (including both voluntary prepayments by the borrowers and liquidations due to defaults and foreclosures) occur on the residential mortgage loans we own and those that underlie our RMBS is difficult to predict and is affected by a variety of factors, including the prevailing level of interest rates as well as economic, demographic, tax, social, legal, legislative and other factors. Generally, borrowers tend to prepay their mortgages when prevailing mortgage rates fall below the interest rates on their mortgage loans.

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In general, “premium” assets (assets whose market values exceed their principal or par amounts) are adversely affected by faster-than-anticipated prepayments because the above-market coupon that such premium securities carry will be earned for a shorter period of time. Generally, “discount” assets (assets whose principal or par amounts exceed their market values) are adversely affected by slower-than-anticipated prepayments. Since many RMBS will be discount securities when interest rates are high, and will be premium securities when interest rates are low, these RMBS may be adversely affected by changes in prepayments in any interest rate environment. Although we estimate prepayment rates to determine the effective yield of our assets and valuations, these estimates are not precise and prepayment rates do not necessarily change in a predictable manner as a function of interest rate changes.

The adverse effects of prepayments may impact us in various ways. First, certain investments, such as IOs, may experience outright losses in an environment of faster actual or anticipated prepayments. Second, particular investments may under-perform relative to any hedges that we may have constructed for these assets, resulting in a loss to us. In particular, prepayments (at par) may limit the potential upside of many RMBS to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss. Furthermore, to the extent that faster prepayment rates are due to lower interest rates, the principal payments received from prepayments will tend to be reinvested in lower-yielding assets, which may reduce our income in the long run. Therefore, if actual prepayment rates differ from anticipated prepayment rates, our business, financial condition and results of operations and ability to make distributions to our stockholders could be materially adversely affected.

Some of the commercial real estate loans we may originate or invest in or that underlie our CMBS may allow the borrower to make prepayments without incurring a prepayment penalty and some may include provisions allowing the borrower to extend the term of the loan beyond the originally scheduled maturity. Because the decision to prepay or extend a commercial loan is typically controlled by the borrower, we may not accurately anticipate the timing of these events, which could affect the earnings and cash flows we anticipate and could impact our ability to finance these assets.

Increased levels of prepayments on the mortgages underlying structured mortgage-backed securities might decrease net interest income or result in a net loss, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

When we acquire structured mortgage-backed securities we anticipate that the underlying mortgages will prepay at a projected rate, generating an expected yield. When the prepayment rates on the mortgages underlying these securities are higher than expected, our returns on those securities may be materially adversely affected.

Interest rate mismatches between the interest-earning assets held in our investment portfolio and the borrowings used to fund the purchases of those assets may reduce our net income or result in a loss during periods of changing interest rates.

Certain of the assets held in our investment portfolio have a fixed coupon rate, generally for a significant period, and in some cases, for the average maturity of the asset. At the same time, a significant portion of our repurchase agreements and our borrowings provide for a payment reset period of 30 days or less. In addition, the average maturity of our borrowings generally will be shorter than the average maturity of the assets currently in our portfolio and certain other targeted assets in which we seek to invest. Historically, we have used swap agreements as a means for attempting to fix the cost of certain of our liabilities over a period of time; however, these agreements will not be sufficient to match the cost of all our liabilities against all of our investments. In the event we experience unexpectedly high or low prepayment rates on RMBS or other assets, our strategy for matching our assets with our liabilities is more likely to be unsuccessful which may result in reduced earnings or losses and reduced cash available for distribution to our stockholders.

Our investments include high yield or subordinated and lower rated securities that have greater risks of loss than other investments, which could adversely affect our business, financial condition and cash available for dividends.

We own and seek to acquire higher yielding or subordinated or lower rated securities, including subordinated securities of CMBS or non-Agency RMBS, which involve a higher degree of risk than other investments. Numerous factors may affect a company's ability to repay its high yield or subordinated securities, including the failure to meet its business plan, a downturn in its industry, rising interest rates or negative economic conditions. These assets may not be secured by mortgages or liens on assets. Our right to payment or a security interest with respect to such assets may be subordinated to the payment rights or security interests of the holders of more senior positions. Therefore, we may be limited in our ability to enforce our rights to collect on these assets through a foreclosure of collateral.

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Our direct and indirect investments in multi-family and other commercial properties are subject to the ability of the property owner to generate net income from operating the property as well as the risks of delinquency and foreclosure.

Our direct and indirect investments in multi-family or other commercial properties are subject to risks of delinquency and foreclosure on the properties that underlie or back these investments, and risk of loss that may be greater than similar risks associated with loans made on the security of single-family residential property. The ability of a borrower to repay a loan or obligation secured by, or an equity interest in an entity that owns, an income-producing property typically is dependent primarily upon the successful operation of such property. If the net operating income of the subject property is reduced, the borrower's ability to repay the loan, or our ability to receive adequate returns on our investment, may be impaired. Net operating income of an income-producing property can be adversely affected by, among other things:

- tenant mix;
- success of tenant businesses;
- the performance, actions and decisions of operating partners and the property managers they engage in the day-to-day management and maintenance of the property;
- property location, condition, and design;
- new construction of competitive properties;
- a surge in homeownership rates;
- changes in laws that increase operating expenses or limit rents that may be charged;
- changes in specific industry segments, including the labor, credit and securitization markets;
- declines in regional or local real estate values;
- declines in regional or local rental or occupancy rates;
- increases in interest rates, real estate taxes, energy costs and other operating expenses;
- costs of remediation and liabilities associated with environmental conditions;
- the potential for uninsured or underinsured property losses; and
- the risks particular to real property, including those described in “-Our real estate assets are subject to risks particular to real property.”

In the event of any default under a loan held directly by us, we will bear a risk of loss to the extent of any deficiency between the value of the collateral and the outstanding principal and accrued interest of the mortgage loan, and any such losses could have a material adverse effect on our cash flow from operations and our ability to make distributions to our stockholders. Similarly, the CMBS, preferred equity and mezzanine loan and joint venture equity investments we own will be adversely affected by a default on any of the loans or other instruments that underlie those securities or that are secured by the related property. See "—We invest in CMBS that are subordinate to more senior securities issued by the applicable securitization, which entails certain risks."

In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law. Foreclosure of a mortgage loan can be an expensive and lengthy process, which could have a substantial negative effect on our anticipated return on the foreclosed mortgage loan.

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The preferred equity or mezzanine loan investments that we may acquire or originate will involve greater risks of loss than senior loans secured by income-producing properties.

We may acquire or originate mezzanine loans, which take the form of subordinated loans secured by second mortgages on the underlying property or loans secured by a pledge of the ownership interests of either the entity owning the property or a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. We also may make preferred equity investments in the entity that owns the property. These types of assets involve a higher degree of risk than long-term senior mortgage lending secured by income-producing real property, because the loan may become unsecured or our equity investment may be effectively extinguished as a result of foreclosure by the senior lender. In addition, mezzanine loans and preferred equity investments are often used to achieve a very high leverage on large commercial projects, resulting in less equity in the property and increasing the risk of loss of principal or investment. If a borrower defaults on our mezzanine loan or debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan or preferred equity investment will be satisfied only after the senior debt, in case of a mezzanine loan, or all senior and subordinated debt, in case of a preferred equity investment, is paid in full. Where senior debt exists, the presence of intercreditor arrangements may limit our ability to amend our loan documents, assign our loans, accept prepayments, exercise our remedies or control decisions made in bankruptcy proceedings relating to borrowers or preferred equity investors. As a result, we may not recover some or all of our investment, which could result in significant losses.

To the extent that due diligence is conducted on potential assets, such due diligence may not reveal all of the risks associated with such assets and may not reveal other weaknesses in such assets, which could lead to losses.

Before acquiring certain assets, including, without limitation, whole mortgage loans, structured multi-family property investments, or other mortgage-related or fixed income assets, we may decide to conduct (either directly or using third parties) certain due diligence. Such due diligence may include (i) an assessment of the strengths and weaknesses of the asset’s or underlying asset's credit profile, (ii) a review of all or merely a subset of the documentation related to the asset or underlying asset, or (iii) other reviews that we may deem appropriate to conduct. There can be no assurance that we will conduct any specific level of due diligence, or that, among other things, the due diligence process will uncover all relevant facts or that any purchase will be successful, which could result in losses on these assets, which, in turn, could adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

Our real estate assets are subject to risks particular to real property.

We own real estate and assets secured by real estate, and may in the future acquire more of these assets, either through direct or indirect investments or upon a default of mortgage loans. Real estate assets are subject to various risks, including:

- acts of God, including earthquakes, floods and other natural disasters, which may result in uninsured losses;
- acts of war or terrorism, including the consequences of terrorist attacks, such as those that occurred on September 11, 2001, social unrest and civil disturbances;
- adverse changes in national and local economic and market conditions; and
- changes in governmental laws and regulations, fiscal policies, zoning ordinances and environmental legislation and the related costs of compliance with laws and regulations, fiscal policies and ordinances.

The occurrence of any of the foregoing or similar events may reduce our return from an affected property or asset and, consequently, materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

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The geographic distribution of the loans we own or underlying, and collateral securing, certain of our investments subjects us to geographic real estate market risks.

The geographic distribution of the loans we own or underlying, and collateral securing our investments, including our interests in non-Agency RMBS, structured multi-family property investments and residential loans, exposes us to risks associated with the real estate and commercial lending industry in general within the states and regions in which we hold significant investments. These risks include, without limitation: possible declines in the value of real estate; overbuilding; extended vacancies of properties; increases in competition, property taxes and operating expenses; changes in zoning laws; increased energy costs; unemployment; environmental problems; casualty or condemnation losses; uninsured damages from floods, hurricanes, earthquakes or other natural disasters; and changes in interest rates. To the extent any of the foregoing risks arise in states and regions where we hold significant investments, our business, financial condition and results of operations and ability to make distributions to could be materially adversely affected.

The lack of liquidity in certain of our assets may adversely affect our business.

A portion of the assets we own or acquire may be subject to legal, contractual and other restrictions on resale or will otherwise be less liquid than publicly-traded securities. For example, certain of our multi-family CMBS are held in a securitization trust and may not be sold or transferred until the note issued by the securitization trust matures or is repaid. The illiquidity of certain of our assets may make it difficult for us to sell such assets if the need or desire arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our assets. As a result, our ability to vary our portfolio in response to changes in economic and other conditions may be relatively limited, which could materially adversely affect our results of operations and financial condition.

Our Level 2 portfolio investments are recorded at fair value based on market quotations from pricing services and brokers/dealers. Our Level 3 investments are recorded at fair value utilizing a third party pricing service or internal valuation models. The value of our securities, in particular our common stock, could be adversely affected if our determinations regarding the fair value of these investments were materially higher than the values that we ultimately realize upon their disposal.

All of our current portfolio investments are, and some of our future portfolio investments will be, in the form of securities or other investments that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. We currently value and will continue to value these investments on a quarterly basis at fair value as determined by our management based on market quotations from pricing services and brokers/dealers and/or internal valuation models. Because such quotations and valuations are inherently uncertain, they may fluctuate over short periods of time and are based on estimates, our determinations of fair value may differ materially from the values that would have been used if a public market for these securities existed. The value of our securities, in particular our common stock, could be materially adversely affected if our determinations regarding the fair value of these investments were materially higher than the values that we ultimately realize upon their disposal.

Our adoption of fair value option accounting could result in income statement volatility, which in turn, could cause significant market price and trading volume fluctuations for our securities.

We have determined that certain securitization trusts that issued certain of our multi-family CMBS are VIEs of which we are the primary beneficiary, and elected the fair value option on the assets and liabilities held within those securitization trusts. As a result, we are required to consolidate the underlying multi-family loan or securities, as applicable, related debt, interest income and interest expense of those securitization trusts in our financial statements, although our actual investments in these securitization trusts generally represent a small percentage of the total assets of the trusts. Prior to the year ended December 31, 2012, we historically accounted for the multi-family CMBS in our investment portfolio through accumulated other comprehensive income, pursuant to which unrealized gains and losses on those multi-family CMBS were reflected as an adjustment to stockholders’ equity. However, the fair value option requires that changes in valuations in the assets and liabilities of those VIEs of which we are the primary beneficiary, such as the Consolidated K-Series, be reflected through our earnings. As we acquire additional multi-family CMBS assets in the future that are similar in structure and form to the Consolidated K-Series’ assets or securitize investment securities owned by us, we may be required to consolidate the assets and liabilities of the issuing or securitization trust and would expect to elect the fair value option for those assets. In addition, we have elected the fair value option on certain of our distressed and other residential mortgage loans where changes in fair value are recorded in our consolidated statements of operations each period. Our earnings may experience greater volatility in the future as a decline in the fair value of our distressed and other residential mortgage loans at fair value and the assets of any VIE that we consolidate in our financial statements could reduce both our earnings and stockholders' equity, which in turn, could cause significant market price and trading volume fluctuations for our securities.

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Competition may prevent us from acquiring assets on favorable terms or at all, which could have a material adverse effect on our business, financial condition and results of operations.

We operate in a highly competitive market for investment opportunities. Our net income largely depends on our ability to acquire our targeted assets at favorable spreads over our borrowing costs. In acquiring our targeted assets, we compete with other REITs, investment banking firms, savings and loan associations, banks, insurance companies, mutual funds, private investors, lenders and other entities that purchase mortgage-related assets, many of which have greater financial resources than us. Additionally, many of our potential competitors are not subject to REIT tax compliance or required to maintain an exclusion from the Investment Company Act. As a result, we may not in the future be able to acquire sufficient quantities of our targeted assets at favorable spreads over our borrowing costs, which could have a material adverse effect on our business, financial condition, results of operations and ability to make distributions to our stockholders.

We may change our investment, financing, or hedging strategies and asset allocation and operational and management policies without stockholder consent, which may result in the purchase of riskier assets, the use of greater leverage or commercially unsound actions, any of which could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

We may change our investment strategy, financing strategy, hedging strategy and asset allocation and operational and management policies at any time without the consent of our stockholders, which could result in our purchasing assets or entering into financing or hedging transactions in which we have no or limited experience with or that are different from, and possibly riskier than the assets, financing and hedging transactions described in this report. A change in our investment strategy, financing strategy or hedging strategy may increase our exposure to real estate values, interest rates, prepayment rates, credit risk and other factors and there can be no assurance that we will be able to effectively identify, manage, monitor or mitigate these risks. A change in our asset allocation or investment guidelines could result in us purchasing assets in classes different from those described in this report. Our Board of Directors determines our operational policies and may amend or revise our policies, including those with respect to our investments, including our investment guidelines, growth, operations, indebtedness, capitalization and distributions or approve transactions that deviate from these policies without a vote of, or notice to, our stockholders. Changes in our investment strategy, financing strategy, hedging strategy and asset allocation and operational and management policies could materially adversely affect our business, financial condition and results of operations and ability to make distributions to our stockholders.

Moreover, while our Board of Directors periodically reviews our investment guidelines and our investment portfolio, our directors do not approve every individual investment that we make, leaving management with day-to-day discretion over the portfolio composition within the investment guidelines. Within those guidelines, management has discretion to significantly change the composition of the portfolio. In addition, in conducting periodic reviews, the directors may rely primarily on information provided to them by our management. Moreover, because our management has great latitude within our investment guidelines in determining the types and amounts of assets in which to invest on our behalf, there can be no assurance that our management will not make or approve investments that result in returns that are substantially below expectations or result in losses, which would materially adversely affect our business, results of operations, financial condition and ability to make distributions to our stockholders.

In connection with our operating and investment activity, we rely on third-party service providers to perform a variety of services, comply with applicable laws and regulations, and carry out contractual covenants and terms, the failure of which by any of these third-party service providers may adversely impact our business and financial results.

In connection with our business of acquiring and holding loans, engaging in securitization transactions, and investing in third-party issued securities, we rely on third-party service providers to perform a variety of services, comply with applicable laws and regulations, and carry out contractual covenants and terms. For example, we rely on the mortgage servicers who service the mortgage loans we purchase as well as the mortgage loans underlying our CMBS to, among other things, collect principal and interest payments on such mortgage loans and perform loss mitigation services. If mortgage servicers are not vigilant in encouraging borrowers to make their monthly payments, the borrowers are far less likely to make those payments. Moreover, our mortgage servicers' loss mitigation efforts may be unsuccessful in limiting delinquencies, defaults, and losses, or may not be cost effective.

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Legislation that has been enacted or that may be enacted in order to reduce or prevent foreclosures through, among other things, loan modifications may reduce the value of mortgage loans backing our CMBS, RMBS, or mortgage loans that we acquire. Mortgage servicers may be incentivized by the U.S. Government to pursue such loan modifications, as well as forbearance plans and other actions intended to prevent foreclosure, even if such loan modifications and other actions are not in the best interests of the beneficial owners of the mortgage loans. Mortgage servicers and other service providers, such as our trustees, bond insurance providers, due diligence vendors, document custodians and asset managers, may fail to perform or otherwise not perform in a manner that promotes our interests. As a result, we are subject to the risks associated with a third party's failure to perform, including failure to perform due to reasons such as fraud, negligence, errors, miscalculations, or insolvency.
In the ordinary course of business, our mortgage servicers and other service providers are subject to numerous legal proceedings, federal, state or local governmental examinations, investigations or enforcement actions, which could adversely affect their reputation and their liquidity, financial position and results of operations. Mortgage servicers, in particular, have experienced heightened regulatory scrutiny and enforcement actions, and our mortgage servicers could be adversely affected by the market's perception that they could experience, or continue to experience, regulatory issues. Regardless of the merits of any such claim, proceeding or inquiry, defending any such claims, proceedings or inquiries may be time consuming and costly and may divert the mortgage servicer's resources, time and attention from servicing our mortgage loans or related assets and performing as expected. In addition, it is possible that regulators or other governmental entities or parties impacted by the actions of our mortgage servicers could seek enforcement or legal actions against us, as the beneficial owner of the loans or other assets, and responding to such claims, and any related losses, could negatively impact our business. Moreover, if such actions or claims are levied against us, we could also suffer reputational damage and lenders and other counterparties could cease wanting to do business with us, any of which could materially adversely affect our business, financial condition and results of operations and ability to make distributions to our stockholders.

We may be affected by deficiencies in foreclosure practices of third parties, as well as related delays in the foreclosure process.

One of the biggest risks overhanging the mortgage market has been uncertainty around the timing and ability of servicers to foreclose on defaulted loans, so that they can liquidate the underlying properties and ultimately pass the liquidation proceeds through to the holders of the loans or RMBS. Given the magnitude of the most recent housing crisis, and in response to the well-publicized failures of many servicers to follow proper foreclosure procedures (such as involving "robo-signing"), mortgage servicers are being held to much higher foreclosure-related documentation standards than they previously were. However, because many mortgages have been transferred and assigned multiple times (and by means of varying assignment procedures) throughout the origination, warehouse, and securitization processes, mortgage servicers are generally having much more difficulty furnishing the requisite documentation to initiate or complete foreclosures. This leads to stalled or suspended foreclosure proceedings, and ultimately additional foreclosure-related costs. Foreclosure-related delays also tend to increase ultimate loan loss severities as a result of property deterioration, amplified legal and other costs, and other factors. Many factors delaying foreclosure, such as borrower lawsuits and judicial backlog and scrutiny, are outside of a servicer's control and have delayed, and will likely continue to delay, foreclosure processing in both judicial states (where foreclosures require court involvement) and non-judicial states. The extension of foreclosure timelines also increases the inventory backlog of distressed homes on the market and creates greater uncertainty about housing prices. The concerns about deficiencies in foreclosure practices of servicers and related delays in the foreclosure process may impact our loss assumptions and affect the values of, and our returns on, our investments in RMBS and residential mortgage loans.

Termination of the Headlands Management Agreement may be difficult and costly.
In connection with the internalization and expansion of our single-family residential credit asset platform, we announced in August 2018 that we provided Headlands with written notice (the "Headlands Notice") that we are not renewing the Headlands Management Agreement with Headlands at the end of the current term, which is set to expire

on June 30, 2019. Pursuant to the terms of the Headlands Management Agreement, Headlands will continue to manage the loans sourced by it and currently owned by the Company (the “Headlands Loans”) and will be entitled to continue to receive a base management fee, incentive fees (to the extent earned) and certain ancillary fees on such assets until such assets have been liquidated. In addition, in accordance with the Headlands Management Agreement, Headlands has an exclusive right of first refusal on an ongoing basis to purchase or arrange for the purchase any of the Headlands Loans, which could result in a lengthy liquidation process and/or the disposition of assets at a time or for consideration that we otherwise would not choose. We anticipate continuing to work directly with Headlands to finalize the details around the transition of its services to us; however, there can be no assurance that such transition will not be difficult or costly.

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The market price and trading volume of our securities may be volatile.

The market price of our securities is highly volatile and subject to wide fluctuations. In addition, the trading volume in our securities may fluctuate and cause significant price variations to occur. Some of the factors that could result in fluctuations in the price or trading volume of our securities include, among other things: actual or anticipated changes in our current or future financial performance; actual or anticipated changes in our current or future dividend yield; and changes in market interest rates and general market and economic conditions. We cannot assure you that the market price of our securities will not fluctuate or decline significantly.

We have not established a minimum dividend payment level for our common stockholders and there are no assurances of our ability to pay dividends to common or preferred stockholders in the future.

We intend to pay quarterly dividends and to make distributions to our common stockholders in amounts such that all or substantially all of our taxable income in each year, subject to certain adjustments, is distributed. This, along with other factors, should enable us to qualify for the tax benefits accorded to a REIT under the Internal Revenue Code. We have not established a minimum dividend payment level for our common stockholders and our ability to pay dividends may be harmed by the risk factors described herein. All distributions to our common stockholders will be made at the discretion of our Board of Directors and will depend on our earnings, our financial condition, maintenance of our REIT status and such other factors as our Board of Directors may deem relevant from time to time. There are no assurances of our ability to pay dividends to our common or preferred stockholders in the future at the current rate or at all.

Future offerings of debt securities, which would rank senior to our common stock and preferred stock upon our liquidation, and future offerings of equity securities, which would dilute our existing stockholders and may be senior to our common stock for the purposes of dividend and liquidating distributions, may adversely affect the market price of our common stock and, in certain circumstances, our preferred stock.

We may seek to increase our capital resources by making offerings of debt or additional offerings of equity securities, including commercial paper, medium-term notes, senior or subordinated notes, convertible notes and classes of preferred stock or common stock. Upon liquidation, holders of our debt securities and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our preferred stock and common stock, with holders of our preferred stock having priority over holders of our common stock. Additional offerings of equity or other securities with an equity component, such as convertible notes, may dilute the holdings of our existing stockholders or reduce the market price of our equity securities or other securities with an equity component, or both. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, holders of our securities bear the risk of our future offerings reducing the market price of our securities and diluting their stock holdings in us.

An increase in interest rates may have an adverse effect on the market price of our securities and our ability to make distributions to our stockholders.

One of the factors that investors may consider in deciding whether to buy or sell our securities is our dividend rate (or expected future dividend rates) as a percentage of our common stock price, relative to market interest rates. If market interest rates increase, prospective investors may demand a higher dividend rate on our shares or seek alternative investments paying higher dividends or interest. As a result, interest rate fluctuations and capital market conditions can affect the market price of our securities independent of the effects such conditions may have on our portfolio.

Actions of our operating partners could subject us to liabilities in excess of those contemplated or prevent us from taking actions which are in the best interests of our stockholders, which could result in lower investment returns to our stockholders.

We have entered into, and in the future may enter into, joint ventures with operating partners to acquire or improve properties. We may also make investments in properties through partnerships, co-tenancies or other co-ownership arrangements. Such investments may involve risks not otherwise present when acquiring real estate directly, including, for example:

- that our operating partners may share certain approval rights over major decisions;
- that our operating partners may at any time have economic or business interests or goals which are or which become inconsistent with our business interests or goals, including inconsistent goals relating to the sale of properties held in the joint venture or the timing of termination or liquidation of the joint venture;

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- the possibility that our operating partner in a property might become insolvent or bankrupt;
- the possibility that we may incur liabilities as a result of an action taken by one of our operating partners;
- that one of our operating partners may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives, including our policy with respect to qualifying and maintaining our qualification as a REIT;
- disputes between us and our operating partners may result in litigation or arbitration that would increase our expenses and prevent our officers and directors from focusing their time and effort on our business, which may subject the properties owned by the applicable joint venture to additional risk;
- under certain joint venture arrangements, neither venture partner may have the power to control the venture, and an impasse could be reached which might have a negative influence on the joint venture; or
- that we will rely on our operating partners to provide us with accurate financial information regarding the performance of the joint venture properties in which we invest on a timely basis to enable us to satisfy our annual, quarterly and periodic reporting obligations under the Exchange Act and our operating partners and the joint venture entities in which we invest may have inadequate internal controls or procedures that could cause us to fail to meet our reporting obligations and other requirements under the federal securities laws.

Actions by one of our operating partners or one of the property managers of the multi-family properties in which we invest, which are generally out of our control, might subject us to liabilities in excess of those contemplated and thus reduce our investment returns. If we have a right of first refusal or buy/sell right to buy out an operating partner, we may be unable to finance such a buy-out if it becomes exercisable or we may be required to purchase such interest at a time when it would not otherwise be in our best interest to do so. If our interest is subject to a buy/sell right, we may not have sufficient cash, available borrowing capacity or other capital resources to allow us to elect to purchase the interest of our operating partner that is subject to the buy/sell right, in which case we may be forced to sell our interest as the result of the exercise of such right when we would otherwise prefer to keep our interest. Finally, we may not be able to sell our interest in a joint venture if we desire to exit the venture.

Short-term apartment leases expose us to the effects of declining market rent, which could adversely impact our earnings.
Substantially all of the apartment leases at the properties we invest in are for terms of one year or less. Because these leases generally permit the residents to leave at the end of the lease term without penalty, our earnings may be impacted more quickly by declines in market rents than if these leases were for longer terms, which could have a material adverse effect on our business, results of operations, financial condition and ability to make distributions to our stockholders.
The revenues generated by our investments in multi-family properties are significantly influenced by demand for multi-family properties generally, and a decrease in such demand will likely have a greater adverse effect on our revenues than if we owned a more diversified portfolio.
A significant portion of our investment portfolio is comprised of direct or indirect investments in multi-family properties, and we expect that our portfolio going forward will continue to heavily focus on these assets. As a result, we are subject to risks inherent in investments concentrated in a single industry, and a decrease in the demand for multi-family apartment properties would likely have a greater adverse effect on our revenues and results of operations than if we invested in a more diversified portfolio. Resident demand at multi-family apartment properties may be adversely affected by, among other things, reduced household spending, reduced home prices, high unemployment, the rate of household formation or population growth in the markets in which we invest, changes in interest rates or the changes in supply of, or demand for, similar or competing multi-family apartment properties in an area. Reduced

resident demand could cause downward pressure on occupancy and market rents at the properties in which we invest, which could cause a decrease in our revenue. In addition, decreased demand could also impair the ability of our joint venture properties or operating partners to satisfy their substantial debt service obligations or make distributions or payments of principal or interest to us, which in turn could materially adversely affect our business, results of operations, financial condition and ability to make distributions to our stockholders.

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Our existing goodwill could become impaired, which may require us to take significant non-cash charges.

We evaluate our goodwill for impairment at least annually, or more frequently if circumstances indicate potential impairment may have occurred. We also evaluate, at least quarterly, whether events or circumstances have occurred subsequent to the annual impairment testing which indicate that it is more-likely-than-not an impairment loss has occurred. If the fair value of our reporting unit is less than its carrying value, we would record an impairment charge for the excess of the carrying amount over the estimated fair value. The valuation of our reporting unit requires significant judgment, which includes the evaluation of recent indicators of market activity and estimated future cash flows, discount rates, and other factors. Any impairment of goodwill as a result of such analysis would result in a non-cash charge against earnings, which could materially adversely affect our reported financial results for the period in which the charge was taken and the price of our securities.

Your interest in us may be diluted if we issue additional shares.

Current stockholders of our company do not have preemptive rights to any common stock issued by us in the future. Therefore, our common stockholders may experience dilution of their equity investment if we sell additional common stock in the future, sell securities that are convertible into common stock or issue shares of common stock or options exercisable for shares of common stock. In addition, we could sell securities at a price less than our then-current book value per share.

Investing in our securities may involve a high degree of risk.

The investments we make in accordance with our investment strategy may result in a higher degree of risk or loss of principal than alternative investment options. Our investments may be highly speculative and aggressive, and therefore, an investment in our securities may not be suitable for someone with lower risk tolerance.

The downgrade of the credit ratings of the U.S., any future downgrades of the credit ratings of the U.S. and the failure to resolve issues related to U.S. fiscal and debt policies may materially adversely affect our business, liquidity, financial condition and results of operations.

U.S. debt ceiling and budget deficit concerns have increased the possibility of credit-rating downgrades or economic slowdowns in the U.S. In August 2011, Standard & Poor's Ratings Services lowered its long-term sovereign credit rating on the U.S. from “AAA” to “AA+” due, in part, to these concerns. The impact of any further downgrades to the U.S. Government's sovereign credit rating or its perceived creditworthiness could adversely affect the U.S. and global financial markets and economic conditions and would likely impact the credit risk associated with Agency RMBS in our portfolio. A downgrade of the U.S. Government's credit rating or a default by the U.S. Government to satisfy its debt obligations likely would create broader financial turmoil and uncertainty, which would weigh heavily on the global banking system and these developments could cause interest rates and borrowing costs to rise and a reduction in the availability of credit, which may negatively impact the value of the assets in our portfolio, our net income, liquidity and our ability to finance our assets on favorable terms.

Risks Related to Our Company, Structure and Change in Control Provisions

We are highly dependent on information systems and system failures could significantly disrupt our business, which may, in turn, materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

Our business is highly dependent on communications and information systems. Any failure or interruption of our systems could cause delays or other problems in our securities trading and other investment activities which could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

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The occurrence of cyber-incidents, or a deficiency in our cybersecurity or in those of any of our third party service providers, could negatively impact our business by causing a disruption to our operations, a compromise or corruption of our confidential information or damage to our business relationships or reputation, all of which could negatively impact our business and results of operations.

A cyber-incident is considered to be any adverse event that threatens the confidentiality, integrity, or availability of our information resources or the information resources of our third party service providers. More specifically, a cyber-incident is an intentional attack or an unintentional event that can include gaining unauthorized access to systems to disrupt operations, corrupt data, or steal confidential information. As our reliance on technology has increased, so have the risks posed to our systems, both internal and those we have outsourced. The primary risks that could directly result from the occurrence of a cyber-incident include operational interruption and private data exposure. We have implemented processes, procedures and controls to help mitigate these risks, but these measures, as well as our increased awareness of a risk of a cyber-incident, do not guarantee that our business and results of operations will not be negatively impacted by such an incident.

We are dependent on certain key personnel.

We are a small company and are substantially dependent upon the efforts of our Chief Executive Officer, Steven R. Mumma, and certain other key individuals employed by us. The loss of Mr. Mumma or any key personnel of our Company could have a material adverse effect on our operations.

The stock ownership limit imposed by our charter may inhibit market activity in our common stock and may restrict our business combination opportunities.

In order for us to maintain our qualification as a REIT under the Internal Revenue Code, not more than 50% in value of the issued and outstanding shares of our capital stock may be owned, actually or constructively, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) at any time during the last half of each taxable year (other than our first year as a REIT). This test is known as the “5/50 test.” Attribution rules in the Internal Revenue Code apply to determine if any individual or entity actually or constructively owns our capital stock for purposes of this requirement. Additionally, at least 100 persons must beneficially own our capital stock during at least 335 days of each taxable year (other than our first year as a REIT). To help ensure that we meet these tests, our charter restricts the acquisition and ownership of shares of our capital stock. Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT and provides that, unless exempted by our Board of Directors, no person may own more than 9.9% in value of the aggregate of the outstanding shares of our capital stock or more than 9.9% in value or in number of shares, whichever is more restrictive, of the aggregate of our outstanding shares of common stock. The ownership limits contained in our charter could delay or prevent a transaction or a change in control of our company under circumstances that otherwise could provide our stockholders with the opportunity to realize a premium over the then current market price for our common stock or would otherwise be in the best interests of our stockholders.

Risks Related to Credit

Our efforts to manage credit risks may fail.

Despite our efforts to manage credit risk, there are many aspects of credit risk that we cannot control. Our credit policies and procedures may not be successful in limiting future delinquencies, defaults, and losses, or they may not be cost effective. Our underwriting reviews may not be effective. Loan servicing companies may not cooperate with our loss mitigation efforts or those efforts may be ineffective. Service providers to securitizations, such as trustees, loans servicers, bond insurance providers, and custodians, may not perform in a manner that promotes our interests.

Delay of foreclosures could delay resolution and increase ultimate loss severities, as a result.

The value of the properties collateralizing or underlying the loans, securities or interests we own may decline. The frequency of default and the loss severity on loans upon default may be greater than we anticipate. Credit sensitive assets that are partially collateralized by non-real estate assets may have increased risks and severity of loss. If property securing or underlying loans become real estate owned as a result of foreclosure, we bear the risk of not being able to sell the property and recovering our investment and of being exposed to the risks attendant to the ownership of real property.

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If we underestimate the loss-adjusted yields of our investments in credit sensitive assets, we may experience losses.

We expect to value our investments in many credit sensitive assets, including, but not limited to, multi-family CMBS, based on loss-adjusted yields taking into account estimated future losses on the loans that we are investing in directly or that underlie securities owned by us, and the estimated impact of these losses on expected future cash flows. Our loss estimates may not prove accurate, as actual results may vary from our estimates. In the event that we underestimate the losses relative to the price we pay for a particular investment, we may experience material losses with respect to such investment.

We invest in CMBS that are subordinate to more senior securities issued by the applicable securitization, which entails certain risks.

We currently own and intend to acquire in the future principal only multi-family CMBS that represent the first loss security or other subordinate security of a multi-family mortgage loan securitization. These securities are subject to the first risk of loss or greater risk of loss (as applicable) if any losses are realized on the underlying mortgage loans in the securitization. We also own and may acquire in the future IOs issued by multi-family mortgage loan securitizations. However, these IOs typically only receive payments of interest to the extent that there are funds available in the securitization to make the payments. CMBS generally entitle the holders thereof to receive payments that depend primarily on the cash flow from a specified pool of commercial or multi-family mortgage loans. Consequently, the CMBS, and in particular, first loss PO securities, will be adversely affected by payment defaults, delinquencies and losses on the underlying mortgage loans, each of which could have a material adverse effect on our cash flows and results of operations.

Residential mortgage loans are subject to increased risks.

We acquire and manage residential whole mortgage loans, including distressed residential loans and loans that may not meet or conform to the underwriting standards of any GSE. Residential mortgage loans are subject to increased risks of loss. Unlike Agency RMBS, the residential mortgage loans we invest in generally are not guaranteed by the federal government or any GSE. Additionally, by directly acquiring residential mortgage loans, we do not receive the structural credit enhancements that benefit senior securities of RMBS. A residential whole mortgage loan is directly exposed to losses resulting from default. Therefore, the value of the underlying property, the creditworthiness and financial position of the borrower and the priority and enforceability of the lien will significantly impact the value of such mortgage. In the event of a foreclosure, we may assume direct ownership of the underlying real estate. The liquidation proceeds upon sale of such real estate may not be sufficient to recover our cost basis in the loan, and any costs or delays involved in the foreclosure or liquidation process may increase losses.

Many of the loans we own or seek to acquire have been purchased by us at a discount to par value. These residential loans sell at a discount because they may constitute riskier investments than those selling at or above par value. The residential loans we invest in may be distressed or purchased at a discount because a borrower may have defaulted thereupon, because the borrower is or has been in the past delinquent on paying all or a portion of his obligation under the loan, because the loan may otherwise contain credit quality that is considered to be poor or because the loan documentation fails to meet certain standards. In addition, non-performing or sub-performing loans may require a substantial amount of workout negotiations and/or restructuring, which may divert the attention of our management team from other activities and entail, among other things, a substantial reduction in the interest rate, capitalization of interest payments, and a substantial write-down of the principal of the loan. However, even if such restructuring were successfully accomplished, a risk exists that the borrower will not be able or willing to maintain the restructured payments or refinance the restructured mortgage upon maturity. Although we typically expect to receive less than the principal amount or face value of the residential loans that we purchase, the return that we in fact receive thereupon may be less than our investment in such loans due to the failure of the loans to perform or reperform. An economic downturn would exacerbate the risks of the recovery of the full value of the loan or the cost of our investment therein. Finally, residential mortgage loans are also subject to "special hazard" risk (property damage caused by hazards, such as earthquakes or environmental hazards, not covered by standard property insurance policies), and to bankruptcy risk (reduction in a borrower's mortgage debt by a bankruptcy court). In addition, claims may be assessed against us on account of our position as a mortgage holder or property owner, including assignee liability, responsibility for tax payments, environmental hazards and other liabilities. In some cases, these liabilities may be "recourse liabilities" or may otherwise lead to losses in excess of the purchase price of the related mortgage or property.

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Second mortgage investments expose us to greater credit risks.

We expect to invest in second mortgages on residential properties, which are subject to a greater risk of loss than a traditional mortgage. Our security interest in the property securing a second mortgage is subordinated to the interest of the first mortgage holder and the second mortgages have a higher combined loan-to-value ratio than do the first mortgages. If the borrower experiences difficulties in making senior lien payments or if the value of the property is equal to or less than the amount needed to repay the borrower's obligation to the first mortgage holder upon foreclosure, our investment in the second mortgage may not be repaid in full or at all. Further, it is likely that any investments we make in second mortgages will be placed with private entities and not insured by a GSE.

If we sell or transfer any whole mortgage loans to a third party, including a securitization entity, we may be required to repurchase such loans or indemnify such third party if we breach representations and warranties.

When we sell or transfer any whole mortgage loans to a third party, including a securitization entity, we generally are required to make customary representations and warranties about such loans to the third party. Our residential mortgage loan sale agreements and terms of any securitizations into which we sell or transfer loans will generally require us to repurchase or substitute loans in the event we breach a representation or warranty given to the loan purchaser or securitization. In addition, we may be required to repurchase loans as a result of borrower fraud or in the event of early payment default on a mortgage loan. The remedies available to a purchaser of mortgage loans are generally broader than those available to us against an originating broker or correspondent. Repurchased loans are typically worth only a fraction of the original price. Significant repurchase activity could materially adversely affect our business, financial condition and results of operations and our ability to pay dividends to our stockholders.

In the future, we may acquire rights to excess servicing spreads that may expose us to significant risks.
In the future, we may acquire certain excess servicing spreads arising from certain mortgage servicing rights. The excess servicing spreads represent the difference between the contractual servicing fee with Fannie Mae, Freddie Mac or Ginnie Mae and a base servicing fee that is retained as compensation for servicing or subservicing the related mortgage loans pursuant to the applicable servicing contract.
Because the excess servicing spread is a component of the related mortgage servicing right, the risks of owning the excess servicing spread are similar to the risks of owning a mortgage servicing right. We would record any excess servicing spread assets we acquired at fair value, which would be based on many of the same estimates and assumptions used to value mortgage servicing right assets, thereby creating the same potential for material differences between the recorded fair value of the excess servicing spread and the actual value that is ultimately realized. Also, the performance of any excess servicing spread assets we would acquire would be impacted by the same drivers as mortgage servicing right assets, namely interest rates, prepayment speeds and delinquency rates. Because of the inherent uncertainty in the estimates and assumptions and the potential for significant change in the impact of the drivers, there may be material uncertainty about the fair value of any excess servicing spreads we acquire, and this could ultimately have a material adverse effect on our business, financial condition, results of operations and cash flows.

Risks Related to Our Use of Hedging Strategies

Hedging against interest rate and market value changes as well as other risks may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.
Subject to compliance with the requirements to qualify as a REIT, we engage in certain hedging transactions to limit our exposure to changes in interest rates and therefore may expose ourselves to risks associated with such transactions. We may utilize instruments such as interest rate swaps, interest rate swaptions, Eurodollars and U.S. Treasury futures to seek to hedge the interest rate risk associated with our portfolio. Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or

prevent losses if the values of such positions decline. Such hedging transactions may also limit the opportunity for gain if the values of the portfolio positions should increase. Moreover, at any point in time we may choose not to hedge all or a portion of these risks, and we generally will not hedge those risks that we believe are appropriate for us to take at such time, or that we believe would be impractical or prohibitively expensive to hedge.

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Even if we do choose to hedge certain risks, for a variety of reasons we generally will not seek to establish a perfect correlation between our hedging instruments and the risks being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. Our hedging activity will vary in scope based on the composition of our portfolio, our market views, and changing market conditions, including the level and volatility of interest rates. When we do choose to hedge, hedging may fail to protect or could materially adversely affect us because, among other things:

- we may fail to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the assets in the portfolio being hedged;
- we may fail to recalculate, re-adjust and execute hedges in an efficient and timely manner;
- the hedging transactions may actually result in poorer overall performance for us than if we had not engaged in the hedging transactions;
- interest rate hedging can be expensive, particularly during periods of volatile interest rates;
- available hedges may not correspond directly with the risks for which protection is sought;
- the durations of the hedges may not match the durations of the related assets or liabilities being hedged;
- many hedges are structured as over-the-counter contracts with counterparties whose creditworthiness is not guaranteed, raising the possibility that the hedging counterparty may default on their payment obligations; and
- to the extent that the creditworthiness of a hedging counterparty deteriorates, it may be difficult or impossible to terminate or assign any hedging transactions with such counterparty.

The use of derivative instruments is also subject to an increasing number of laws and regulations, including the Dodd-Frank Act and its implementing regulations. These laws and regulations are complex, compliance with them may be costly and time consuming, and our failure to comply with any of these laws and regulations could subject us to lawsuits or government actions and damage our reputation. For these and other reasons, our hedging activity may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

Our delayed delivery transactions, including TBAs, subject us to certain risks, including price risks and counterparty risks.

We purchase a significant portion of our Agency RMBS through delayed delivery transactions, including TBAs. In a delayed delivery transaction, we enter into a forward purchase agreement with a counterparty to purchase either (i) an identified Agency RMBS, or (ii) a to-be-issued (or “to-be-announced”) Agency RMBS with certain terms. As with any forward purchase contract, the value of the underlying Agency RMBS may decrease between the contract date and the settlement date. Furthermore, a transaction counterparty may fail to deliver the underlying Agency RMBS at the settlement date. If any of the above risks were to occur, our financial condition and results of operations may be materially adversely affected.

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Risks Related to Debt Financing

Our access to financing sources, which may not be available on favorable terms, or at all, may be limited, and this may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

We depend upon the availability of adequate capital and financing sources on acceptable terms to fund our operations. However, as previously discussed, the capital and credit markets have experienced unprecedented levels of volatility and disruption in recent years that has generally caused a reduction of available credit. Continued volatility or disruption in the credit markets or a downturn in the global economy could materially adversely affect one or more of our lenders and could cause one or more of our lenders to be unwilling or unable to provide us with financing, or to increase the costs of that financing, or to become insolvent. Although we finance some of our assets with longer-term financing, we rely heavily on access to short-term borrowings, primarily in the form of repurchase agreements, to finance our investments. We are currently party to repurchase agreements of a short duration and there can be no assurance that we will be able to roll over or re-set these borrowings on favorable terms, if at all. In the event we are unable to roll over or re-set our repurchase agreement borrowings, it may be more difficult for us to obtain debt financing on favorable terms or at all. In addition, regulatory capital requirements imposed on our lenders have changed the willingness of many repurchase agreement lenders to make repurchase agreement financing available and additional regulatory capital requirements imposed on our lenders may cause them to change, limit, or increase the cost of, the financing they provide to us. In general, this could potentially increase our financing costs and reduce our liquidity or require us to sell assets at an inopportune time or price. Under current market conditions, securitizations have been limited, which has also limited borrowings under warehouse facilities and other credit facilities that are intended to be refinanced by such securitizations. Consequently, depending on market conditions at the relevant time, we may have to rely on additional equity issuances to meet our capital and financing needs, which may be dilutive to our stockholders, or we may have to rely on less efficient forms of debt financing that restrict our operations or consume a larger portion of our cash flow from operations, thereby reducing funds available for our operations, future business opportunities, cash distributions to our stockholders and other purposes. We cannot assure you that we will have access to such equity or debt capital on favorable terms (including, without limitation, cost and term) at the desired times, or at all, which may cause us to curtail our investment activities and/or dispose of assets, which could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

We may incur increased borrowing costs related to repurchase agreements and that would adversely affect our profitability.

Currently, a significant portion of our borrowings are collateralized borrowings in the form of repurchase agreements. If the interest rates on these agreements increase at a rate higher than the increase in rates payable on our investments, our profitability would be adversely affected.

Our borrowing costs under repurchase agreements generally correspond to short-term interest rates such as LIBOR or a short-term Treasury index, plus or minus a margin. The margins on these borrowings over or under short-term interest rates may vary depending upon a number of factors, including, without limitation:

- the movement of interest rates;

- the availability of financing in the market; and

- the value and liquidity of our mortgage-related assets.

During 2008 and 2009, many repurchase agreement lenders required higher levels of collateral than they had required in the past to support repurchase agreements collateralized by RMBS. Although these collateral requirements have been reduced to more appropriate levels, we cannot assure you that they will not again experience a dramatic increase. If the interest rates, lending margins or collateral requirements under our short-term borrowings, including repurchase agreements, increase, or if lenders impose other onerous terms to obtain this type of financing, our results of operations will be adversely affected.

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The repurchase agreements that we use to finance our investments may require us to provide additional collateral, which could reduce our liquidity and harm our financial condition.

We use repurchase agreements to finance certain of our investments. Each of these repurchase agreements allows the lender, to varying degrees, to revalue the collateral to values that the lender considers to reflect the market value. If a lender determines that the value of the collateral has decreased, it may initiate a margin call, in which case we may be required by the lending institution to provide additional collateral or pay down a portion of the funds advanced, but we may not have the funds available to do so. Posting additional collateral to support our repurchase agreements will reduce our liquidity and limit our ability to leverage our assets. In the event we do not have sufficient liquidity to meet such requirements, lending institutions can accelerate our indebtedness, increase our borrowing rates, liquidate our collateral at inopportune times and terminate our ability to borrow. This could result in a rapid deterioration of our financial condition and possibly require us to file for protection under the U.S. Bankruptcy Code.

We leverage our equity, which can exacerbate any losses we incur on our current and future investments and may reduce cash available for distribution to our stockholders.

We leverage our equity through borrowings, generally through the use of repurchase agreements and other short-term borrowings, longer-term structured debt, such as CDOs and other forms of securitized debt, or corporate-level debt, such as convertible notes. We may, in the future, utilize other forms of borrowing. The amount of leverage we incur varies depending on the asset type, our ability to obtain borrowings, the cost of the debt and our lenders' estimates of the value of our portfolio's cash flow. The return on our investments and cash available for distribution to our stockholders may be reduced to the extent that changes in market conditions cause the cost of our financing to increase relative to the income that can be derived from the assets we hold in our investment portfolio. Further, the leverage on our equity may exacerbate any losses we incur.

Our debt service payments will reduce the net income available for distribution to our stockholders. We may not be able to meet our debt service obligations and, to the extent that we cannot, we risk the loss of some or all of our assets to sale to satisfy our debt obligations. Although we have established target leverage amounts for many of our assets, there is no established limitation, other than may be required by our financing arrangements, on our leverage ratio or on the aggregate amount of our borrowings.

If we are unable to leverage our equity to the extent we currently anticipate, the returns on certain of our assets could be diminished, which may limit or eliminate our ability to make distributions to our stockholders.

If we are limited in our ability to leverage our assets to the extent we currently anticipate, the returns on these assets may be harmed. A key element of our strategy is our use of leverage to increase the size of our portfolio in an attempt to enhance our returns. Our repurchase agreements generally are not currently committed facilities, meaning that the counterparties to these agreements may at any time choose to restrict or eliminate our future access to the facilities and we have no other committed credit facilities through which we may leverage our equity. If we are unable to leverage our equity to the extent we currently anticipate, the returns on our portfolio could be diminished, which may limit or eliminate our ability to make distributions to our stockholders.

Despite our current debt levels, we may still incur substantially more debt or take other actions which could have the effect of diminishing our ability to make payments on our indebtedness when due and distributions to our stockholders.

Despite our current consolidated debt levels, we and our subsidiaries may be able to incur substantial additional debt in the future, subject to the restrictions contained in our debt instruments, some of which may be secured debt. We are not restricted presently under the terms of the agreements governing our borrowings from incurring additional debt, securing existing or future debt, recapitalizing our debt or taking a number of other actions that could have the effect of diminishing our ability to make payments on our indebtedness when due and distributions to our stockholders.

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We directly or indirectly utilize non-recourse securitizations and recourse structured financings and such structures expose us to risks that could result in losses to us.

We sometimes utilize non-recourse securitizations of our investments in mortgage loans or CMBS to the extent consistent with the maintenance of our REIT qualification and exclusion from registration under the Investment Company Act in order to generate cash for funding new investments and/or to leverage existing assets. In most instances, this involves us transferring loans or CMBS owned by us to a SPE in exchange for cash and typically the ownership certificate or residual interest in the entity. In some sale transactions, we also retain a subordinated interest in the loans or CMBS sold, such as a B-note. The securitization or other structured financing of our portfolio investments might magnify our exposure to losses on those portfolio investments because the subordinated interest we retain in the loans or CMBS sold would be subordinate to the senior interest in the loans or CMBS sold, and we would, therefore, absorb all of the losses sustained with respect to a loan sold before the owners of the senior interest experience any losses. Under the terms of these financings, which generally have terms of three to ten years, we may agree to receive no cash flows from the assets transferred to the SPE until the debt issued by the special purpose entity has matured or been repaid. There can be no assurance that we will be able to access the securitization markets in the future, or be able to do so at favorable rates. The inability to consummate longer-term financing for the credit sensitive assets in our portfolio could require us to seek other forms of potentially less attractive financing or to liquidate assets at an inopportune time or price, which could adversely affect our performance and our ability to grow our business.

In addition, under the terms of the securitization or structured financing, we may have limited or no ability to sell, transfer or replace the assets transferred to the SPE, which could have a material adverse effect on our ability to sell the assets opportunistically or during periods when our liquidity is constrained or to refinance the assets. Finally, we have in the past and may in the future guarantee certain terms or conditions of these financings, including the payment of principal and interest on the debt issued by the SPE, the cash flows for which are typically derived from the assets transferred to the entity. If a SPE defaults on its obligations and we have guaranteed the satisfaction of that obligation, we may be materially adversely affected.

If a counterparty to our repurchase transactions defaults on its obligation to resell the pledged assets back to us at the end of the transaction term or if we default on our obligations under the repurchase agreement, we may incur losses.

When we engage in repurchase transactions, we generally sell RMBS, CMBS, mortgage loans or certain other assets to lenders (i.e., repurchase agreement counterparties) and receive cash from the lenders. The lenders are obligated to resell the same asset back to us at the end of the term of the transaction. Because the cash we receive from the lender when we initially sell the asset to the lender is less than the value of that asset (this difference is referred to as the “haircut”), if the lender defaults on its obligation to resell the same asset back to us we would incur a loss on the transaction equal to the amount of the haircut (assuming there was no change in the value of the asset). Certain of the assets that we pledge as collateral, are currently subject to significant haircuts. Further, if we default on one of our obligations under a repurchase transaction, the lender can terminate the transaction and cease entering into any other repurchase transactions with us. Our repurchase agreements contain cross-default provisions, so that if a default occurs under any one agreement, the lenders under our other agreements could also declare a default. Any losses we incur on our repurchase transactions could adversely affect our earnings and thus our cash available for distribution to our stockholders.

Our use of repurchase agreements to borrow funds may give our lenders greater rights in the event that either we or a lender files for bankruptcy.

Our borrowings under repurchase agreements may qualify for special treatment under the bankruptcy code, giving our lenders the ability to avoid the automatic stay provisions of the bankruptcy code and to take possession of and liquidate our collateral under the repurchase agreements without delay in the event that we file for bankruptcy.

Furthermore, the special treatment of repurchase agreements under the bankruptcy code may make it difficult for us to recover our pledged assets in the event that a lender files for bankruptcy. Thus, the use of repurchase agreements exposes our pledged assets to risk in the event of a bankruptcy filing by either a lender or us.

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Risks Related to Regulatory Matters

The federal conservatorship of Fannie Mae and Freddie Mac and related efforts, along with any changes in laws and regulations affecting the relationship between Fannie Mae, Freddie Mac and Ginnie Mae and the U.S. Government, may materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our shareholders.

Payments on the Agency RMBS in which we invest are guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae. Fannie Mae and Freddie Mac are GSEs, but their guarantees are not backed by the full faith and credit of the United States. Ginnie Mae, which guarantees mortgage-backed securities (“MBS”) backed by federally insured or guaranteed loans primarily consisting of loans insured by the Federal Housing Administration (the “FHA”) or guaranteed by the Department of Veterans Affairs (“VA”), is part of a U.S. Government agency and its guarantees are backed by the full faith and credit of the United States.

In September 2008, in response to the deteriorating financial condition of Fannie Mae and Freddie Mac, the U.S. Government placed Fannie Mae and Freddie Mac into the conservatorship of the Federal Housing Finance Agency (the “FHFA”), their federal regulator, pursuant to its powers under The Federal Housing Finance Regulatory Reform Act of 2008, a part of the Housing and Economic Recovery Act of 2008. Under this conservatorship, Fannie Mae and Freddie Mac are required to reduce the amount of mortgage loans they own or for which they provide guarantees on Agency RMBS.

Shortly after Fannie Mae and Freddie Mac were placed in federal conservatorship, the Secretary of the U.S. Treasury noted that the guarantee structure of Fannie Mae and Freddie Mac required examination and that changes in the structures of the entities were necessary to reduce risk to the financial system. The future roles of Fannie Mae and Freddie Mac could be significantly reduced, and the nature of their guarantees could be considerably limited relative to historical measurements or even eliminated. The substantial financial assistance provided by the U.S. Government to Fannie Mae and Freddie Mac, especially in the course of their being placed into conservatorship and thereafter, together with the substantial financial assistance provided by the U.S. Government to the mortgage-related operations of other GSEs and government agencies, such as the FHA, VA and Ginnie Mae, has stirred debate among many federal policymakers over the continued role of the U.S. Government in providing such financial support for the mortgage-related GSEs in particular, and for the mortgage and housing markets in general. To date, no definitive legislation has been enacted with respect to a possible unwinding of Fannie Mae or Freddie Mac or a material reduction in their roles in the U.S. mortgage market, and it is not possible at this time to predict the scope and nature of the actions that the U.S. Government will ultimately take with respect to these entities.

Fannie Mae, Freddie Mac and Ginnie Mae could each be dissolved, and the U.S. Government could determine to stop providing liquidity support of any kind to the mortgage market. If Fannie Mae, Freddie Mac or Ginnie Mae were eliminated, or their structures were to change radically, or the U.S. Government significantly reduced its support for any or all of them which would drastically reduce the amount and type of MBS available for purchase, we may be unable or significantly limited in our ability to acquire MBS, which, in turn, could materially adversely affect our ability to maintain our exclusion from regulation as an investment company under the Investment Company Act. Moreover, any changes to the nature of the guarantees provided by, or laws affecting, Fannie Mae, Freddie Mac and Ginnie Mae could materially adversely affect the credit quality of the guarantees, could increase the risk of loss on purchases of MBS issued by these GSEs and could have broad adverse market implications for the MBS they currently guarantee and the mortgage industry generally. Any action that affects the credit quality of the guarantees provided by Fannie Mae, Freddie Mac and Ginnie Mae could materially adversely affect the value of the MBS and other mortgage-related assets that we own or seek to acquire. In addition, any market uncertainty that arises from any such proposed changes, or the perception that such changes will come to fruition, could have a similar impact on us and the values of the MBS and other mortgage-related assets that we own.

In addition, we rely on our Agency RMBS as collateral for our financings under the repurchase agreements that we have entered into. Any decline in their value, or perceived market uncertainty about their value, would make it more difficult for us to obtain financing on our Agency RMBS on acceptable terms or at all, or to maintain compliance with the terms of any financing transactions.

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Mortgage loan modification programs and future legislative action may adversely affect the value of, and the returns on, our targeted assets.

The U.S. Congress and various state and local legislatures have considered in the past, and in the future may adopt, legislation, which, among other provisions, would permit limited assignee liability for certain violations in the mortgage loan origination process, and would allow judicial modification of loan principal in the event of personal bankruptcy. We cannot predict whether or in what form the U.S. Congress or the various state and local legislatures may enact legislation affecting our business or whether any such legislation will require us to change our practices or make changes in our portfolio in the future. These changes, if required, could materially adversely affect our business, results of operations and financial condition and our ability to make distributions to our stockholders, particularly if we make such changes in response to new or amended laws, regulations or ordinances in any state where we acquire a significant portion of our mortgage loans, or if such changes result in us being held responsible for any violations in the mortgage loan origination process. These loan modification programs, future legislative or regulatory actions, including possible amendments to the bankruptcy laws, which result in the modification of outstanding residential mortgage loans, as well as changes in the requirements necessary to qualify for refinancing mortgage loans with Fannie Mae, Freddie Mac or Ginnie Mae, may adversely affect the value of, and the returns on, our assets which, in turn, could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

We could be subject to liability for potential violations of predatory lending laws, which could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

Residential mortgage loan originators and servicers are required to comply with various federal, state and local laws and regulations, including anti-predatory lending laws and laws and regulations imposing certain restrictions on requirements on high cost loans. Failure of residential mortgage loan originators or servicers to comply with these laws, to the extent any of their residential mortgage loans become part of our investment portfolio, could subject us, as an assignee or purchaser of the related residential mortgage loans, to monetary penalties and could result in the borrowers rescinding the affected residential mortgage loans. Lawsuits have been brought in various states making claims against assignees or purchasers of high cost loans for violations of state law. Named defendants in these cases have included numerous participants within the secondary mortgage market. If the loans are found to have been originated in violation of predatory or abusive lending laws, we could incur losses that would materially adversely affect our business.

Certain provisions of Maryland law and our charter and bylaws could hinder, delay or prevent a change in control which could have an adverse effect on the value of our securities.

Certain provisions of Maryland law, our charter and our bylaws may have the effect of delaying, deferring or preventing transactions that involve an actual or threatened change in control. These provisions include the following, among others:

- our charter provides that, subject to the rights of one or more classes or series of preferred stock to elect one or more directors, a director may be removed with or without cause only by the affirmative vote of holders of at least two-thirds of all votes entitled to be cast by our stockholders generally in the election of directors;

- our bylaws provide that only our Board of Directors shall have the authority to amend our bylaws;

- under our charter, our Board of Directors has authority to issue preferred stock from time to time, in one or more series and to establish the terms, preferences and rights of any such series, all without the approval of our stockholders;

- the Maryland Business Combination Act; and

- the Maryland Control Share Acquisition Act.

Although our Board of Directors has adopted a resolution exempting us from application of the Maryland Business Combination Act and our bylaws provide that we are not subject to the Maryland Control Share Acquisition Act, our Board of Directors may elect to make the “business combination” statute and “control share” statute applicable to us at any time and may do so without stockholder approval.

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Maintenance of our Investment Company Act exemption imposes limits on our operations.

We have conducted and intend to continue to conduct our operations so as not to become regulated as an investment company under the Investment Company Act. We believe that there are a number of exclusions under the Investment Company Act that are applicable to us. To maintain the exclusion, the assets that we acquire are limited by the provisions of the Investment Company Act and the rules and regulations promulgated under the Investment Company Act. On August 31, 2011, the SEC published a concept release entitled “Companies Engaged in the Business of Acquiring Mortgages and Mortgage Related Instruments” (Investment Company Act Rel. No. 29778). This release suggests that the SEC may modify the exclusion relied upon by companies similar to us that invest in mortgage loans and mortgage-backed securities. If the SEC acts to narrow the availability of, or if we otherwise fail to qualify for, our exclusion, we could, among other things, be required either (a) to change the manner in which we conduct our operations to avoid being required to register as an investment company or (b) to register as an investment company, either of which could have a material adverse effect on our operations and the market price of our common stock.

Tax Risks Related to Our Structure

Failure to qualify as a REIT would adversely affect our operations and ability to make distributions.

We have operated and intend to continue to operate so to qualify as a REIT for U.S. federal income tax purposes. Our continued qualification as a REIT will depend on our ability to meet various requirements concerning, among other things, the ownership of our outstanding stock, the nature of our assets, the sources of our income, and the amount of our distributions to our stockholders. In order to satisfy these requirements, we might have to forego investments we might otherwise make. Thus, compliance with the REIT requirements may hinder our investment performance. Moreover, while we intend to continue to operate so to qualify as a REIT for U.S. federal income tax purposes, given the highly complex nature of the rules governing REITs, there can be no assurance that we will so qualify in any taxable year.

If we fail to qualify as a REIT in any taxable year and we do not qualify for certain statutory relief provisions, we would be subject to U.S. federal income tax on our taxable income at regular corporate rates. We might be required to borrow funds or liquidate some investments in order to pay the applicable tax. Our payment of income tax would reduce our net earnings available for investment or distribution to stockholders. Furthermore, if we fail to qualify as a REIT and do not qualify for certain statutory relief provisions, we would no longer be required to make distributions to stockholders. Unless our failure to qualify as a REIT were excused under the U.S. federal income tax laws, we generally would be disqualified from treatment as a REIT for the four taxable years following the year in which we lost our REIT status.

REIT distribution requirements could adversely affect our liquidity.

In order to qualify as a REIT, we generally are required each year to distribute to our stockholders at least 90% of our REIT taxable income, excluding any net capital gain. To the extent that we distribute at least 90%, but less than 100% of our REIT taxable income, we will be subject to corporate income tax on our undistributed REIT taxable income. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which certain distributions paid by us with respect to any calendar year are less than the sum of (i) 85% of our ordinary REIT income for that year, (ii) 95% of our REIT capital gain net income for that year, and (iii) 100% of our undistributed REIT taxable income from prior years.

We have made and intend to continue to make distributions to our stockholders to comply with the 90% distribution requirement and to avoid corporate income tax and the nondeductible excise tax. However, differences in timing between the recognition of REIT taxable income and the actual receipt of cash could require us to sell assets or to borrow funds on a short-term basis to meet the 90% distribution requirement and to avoid corporate income tax and the nondeductible excise tax.

Certain of our assets may generate substantial mismatches between REIT taxable income and available cash. Such assets could include mortgage-backed securities we hold that have been issued at a discount and require the accrual of taxable income in advance of the receipt of cash. As a result, our taxable income may exceed our cash available for distribution and the requirement to distribute a substantial portion of our net taxable income could cause us to:

- sell assets in adverse market conditions;
- borrow on unfavorable terms; or
- distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt in order to comply with the REIT distribution requirements.

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Further, our lenders could require us to enter into negative covenants, including restrictions on our ability to distribute funds or to employ leverage, which could inhibit our ability to satisfy the 90% distribution requirement.

We may satisfy the 90% distribution test with taxable distributions of our stock or debt securities. Revenue Procedure 2017-45 authorized elective cash/stock dividends to be made by publicly offered REITS (i.e. REITS that are required to file annual and periodic reports with the SEC under the Exchange Act). Pursuant to Revenue Procedure 2017-45, the IRS will treat the distribution of stock pursuant to an elective cash/stock dividend as a distribution of property under Section 301 of the Code (i.e., a dividend), as long as at least 20% of the total dividend is available in cash and certain other parameters detailed in the Revenue Procedure are satisfied. Although we have no current intention of paying dividends in our own stock, if in the future we choose to pay dividends in our own stock, our stockholder may be required to pay tax in excess of the cash that they receive.

Dividends payable by REITs do not qualify for the reduced tax rates on dividend income from regular corporations.

The maximum U.S. federal income tax rate for dividends payable to domestic stockholders that are individuals, trusts and estates is 20%. Dividends payable by REITs, however, are generally not eligible for the reduced rates. Rather, under the Tax Cuts and Jobs Act (the “TCJA”), REIT dividends constitute “qualified business income” and thus a 20% deduction is available to individual taxpayers with respect to such dividends, resulting in a 29.6% maximum federal tax rate (plus the 3.8% surtax on net investment income, if applicable) for individual U.S. stockholders. Without further legislative action, the 20% deduction applicable to REIT dividends will expire on January 1, 2026. The more favorable rates applicable to regular corporate qualified dividends could cause investors who are taxed at individual rates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our common stock.

Complying with REIT requirements may cause us to forego or liquidate otherwise attractive investments.

To qualify as a REIT, we must continually satisfy various tests regarding the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our common stock. In order to meet these tests, we may be required to forego investments we might otherwise make. We may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution, and may be unable to pursue investments that would be otherwise advantageous to us in order to satisfy the source of income or asset diversification requirements for qualifying as a REIT. Thus, compliance with the REIT requirements may hinder our investment performance.

Complying with REIT requirements may limit our ability to hedge effectively.

The REIT provisions of the Internal Revenue Code substantially limit our ability to hedge the RMBS in our investment portfolio. Our aggregate gross income from non-qualifying hedges, fees, and certain other non-qualifying sources cannot exceed 5% of our annual gross income. As a result, we might have to limit our use of advantageous hedging techniques or implement those hedges through a TRS. Any hedging income earned by a TRS would be subject to federal, state and local income tax at regular corporate rates. This could increase the cost of our hedging activities or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear.

Our ability to invest in and dispose of “to be announced” securities could be limited by our REIT status, and we could lose our REIT status as a result of these investments.

We may purchase Agency RMBS through TBAs, or dollar roll transactions. In certain instances, rather than take delivery of the Agency RMBS subject to a TBA, we will dispose of the TBA through a dollar roll transaction in which we agree to purchase similar securities in the future at a predetermined price or otherwise, which may result in the recognition of income or gains. We account for dollar roll transactions as purchases and sales. The law is unclear regarding whether TBAs will be qualifying assets for the 75% asset test and whether income and gains from dispositions of TBAs will be qualifying income for the 75% gross income test.

Until such time as we seek and receive a favorable private letter ruling from the IRS, or we are advised by counsel that TBAs should be treated as qualifying assets for purposes of the 75% asset test, we will limit our investment in TBAs and any non-qualifying assets to no more than 25% of our assets at the end of any calendar quarter. Further, until such time as we seek and receive a favorable private letter ruling from the IRS or we are advised by counsel that income and gains from the disposition of TBAs should be treated as qualifying income for purposes of the 75% gross income test, we will limit our gains from dispositions of TBAs and any non-qualifying income to no more than 25% of our gross income for each calendar year. Accordingly, our ability to purchase Agency RMBS through TBAs and to dispose of TBAs, through dollar roll transactions or otherwise, could be limited.

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Moreover, even if we are advised by counsel that TBAs should be treated as qualifying assets or that income and gains from dispositions of TBAs should be treated as qualifying income, it is possible that the IRS could successfully take the position that such assets are not qualifying assets and such income is not qualifying income. In that event, we could be subject to a penalty tax or we could fail to qualify as a REIT if (i) the value of our TBAs, together with our non-qualifying assets for the 75% asset test, exceeded 25% of our gross assets at the end of any calendar quarter or (ii) our income and gains from the disposition of TBAs, together with our non-qualifying income for the 75% gross income test, exceeded 25% of our gross income for any taxable year.

The failure of certain investments subject to a repurchase agreement to qualify as real estate assets would adversely affect our ability to qualify as a REIT.

We have entered, and intend to continue to enter, into repurchase agreements under which we will nominally sell certain of our investments to a counterparty and simultaneously enter into an agreement to repurchase the sold investments. We believe that for U.S. federal income tax purposes these transactions will be treated as secured debt and we will be treated as the owner of the investments that are the subject of any such agreement notwithstanding that such agreement may transfer record ownership of such investments to the counterparty during the term of the agreement. It is possible, however, that the IRS could successfully assert that we do not own the investments during the term of the repurchase agreement, in which case our ability to continue to qualify as a REIT could be adversely affected.

We could fail to continue to qualify as a REIT if the IRS successfully challenges our treatment of our mezzanine loans.
We currently own, and in the future may originate or acquire, mezzanine loans, which are loans secured by equity interests in an entity that directly or indirectly owns real property, rather than by a direct mortgage of the real property. In Revenue Procedure 2003-65, the IRS established a safe harbor under which loans secured by a first priority security interest in ownership interests in a partnership or limited liability company owning real property will be treated as real estate assets for purposes of the REIT asset tests, and interest derived from those loans will be treated as qualifying income for both the 75% and 95% gross income tests, provided several requirements are satisfied. Although Revenue Procedure 2003-65 provides a safe harbor on which taxpayers may rely, it does not prescribe rules of substantive tax law. Moreover, our mezzanine loans typically do not meet all of the requirements for reliance on the safe harbor. Consequently, there can be no assurance that the IRS will not challenge our treatment of such loans as qualifying real estate assets, which could adversely affect our ability to continue to qualify as a REIT. We have invested, and will continue to invest, in mezzanine loans in a manner that will enable us to continue to satisfy the REIT gross income and asset tests.

We may incur a significant tax liability as a result of selling assets that might be subject to the prohibited transactions tax if sold directly by us.

A REIT's net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of assets held primarily for sale to customers in the ordinary course of business. There is a risk that certain loans that we are treating as owned for federal income tax purposes and property received upon foreclosure of these loans will be treated as held primarily for sale to customers in the ordinary course of business. Although we expect to avoid the prohibited transactions tax by contributing those assets to one of our TRSs and conducting the marketing and sale of those assets through that TRS, no assurance can be given that the IRS will respect the transaction by which those assets are contributed to our TRS. Even if those contribution transactions are respected, our TRS will be subject to federal, state and local corporate income tax and may incur a significant tax liability as a result of those sales.

We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our common stock.

At any time, the U.S. federal income tax laws or regulations governing REITs or the administrative interpretations of those laws or regulations may be amended. We cannot predict when or if any new U.S. federal income tax law, regulation or administrative interpretation, or any amendment to any existing U.S. federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective and any such law, regulation or interpretation may take effect retroactively. We and our stockholders could be adversely affected by any such change in, or any new, U.S. federal income tax law, regulation or administrative interpretation.

The TCJA made significant changes to the U.S. federal income tax rules for taxation of individuals and corporations. In the case of individuals, the tax brackets have been adjusted, the top federal income rate has been reduced to 37%, special rules reduce taxation of certain income earned through pass-through entities and reduce the top effective rate applicable to ordinary dividends from REITs to 29.6% (through a 20% deduction for ordinary REIT dividends received) and various deductions have been eliminated or limited, including limiting the deduction for state and local taxes to $10,000 per year. Most of the changes applicable to individuals are temporary and apply only to taxable years beginning after December 31, 2017 and before January 1, 2026. The top corporate income tax rate has been reduced to 21%. There were only minor changes to the REIT rules (other than the 20% deduction applicable to individuals for ordinary REIT dividends received). The TCJA made numerous other large and small changes to the tax rules that do not affect REITs directly but may affect our stockholders and may indirectly affect us. For example, the TCJA amends the rules for accrual of income so that income is taken into account no later than when it is taken into account on applicable financial statements, even if financial statements take such income into account before it would accrue under the original issue discount rules, market discount rules or other Code rules. Such rule may cause us to recognize income before receiving any corresponding receipt of cash. In addition, the TCJA reduces the limit for individuals' mortgage interest expense to interest on $750,000 of mortgages and does not permit deduction of interest on home equity loans (after grandfathering all existing mortgages). Such change, and the reduction in deductions for state and local taxes (including property taxes), may adversely affect the residential mortgage markets in which we invest.

Prospective stockholders are urged to consult with their tax advisors with respect to the status of the TCJA and any other regulatory or administrative developments and proposals and their potential effect on investment in our common stock.

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Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

The Company does not own any materially important physical properties; however, it does have residential homes (or real estate owned) that it acquires, from time to time, through or in lieu of foreclosures on mortgage loans. As of December 31, 2018, our principal executive and administrative offices are located in leased space at 275 Madison Avenue, Suite 3200, New York, New York 10016. We also maintain offices in Charlotte, North Carolina and Woodland Hills, California.

Item 3. LEGAL PROCEEDINGS

We are at times subject to various legal proceedings arising in the ordinary course of our business. As of the date of this Annual Report on Form 10-K, we do not believe that any of our current legal proceedings, individually or in the aggregate, will have a material adverse effect on our operations, financial condition or cash flows.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters

Our common stock is traded on the NASDAQ Global Select Market under the trading symbol "NYMT". As of December 31, 2018, we had 155,589,528 shares of common stock outstanding and there were approximately 46 holders of record of our common stock. This figure does not reflect the beneficial ownership of shares held in nominee name.

The following table sets forth, for the periods indicated, the high, low and quarter end closing sales prices per share of our common stock and the cash dividends paid on our common stock on a per share basis:

	Common Stock Prices			Cash Dividends		
	High	Low	Quarter End	Declaration Date	Payment Date	Amount Per Share
Year Ended December 31, 2018						
Fourth quarter	$6.31	$5.62	$ 5.89	12/4/2018	1/25/2019	$ 0.20
Third quarter	6.48	6.05	6.08	9/17/2018	10/26/2018	0.20
Second quarter	6.23	5.83	6.01	6/18/2018	7/26/2018	0.20
First quarter	6.16	5.45	5.93	3/19/2018	4/26/2018	0.20

	Common Stock Prices			Cash Dividends		
	High	Low	Quarter End	Declaration Date	Payment Date	Amount Per Share
Year Ended December 31, 2017						
Fourth quarter	$6.49	$5.92	$ 6.17	12/7/2017	1/25/2018	$ 0.20
Third quarter	6.41	6.10	6.15	9/14/2017	10/25/2017	0.20
Second quarter	6.62	6.07	6.22	6/14/2017	7/25/2017	0.20
First quarter	6.82	6.10	6.17	3/16/2017	4/25/2017	0.20

We intend to continue to pay quarterly dividends to holders of shares of our common stock. Future distributions will be at the discretion of the Board of Directors and will depend on our earnings and financial condition, maintenance of our REIT qualification, restrictions on making distributions under Maryland law and such other factors as our Board of Directors deems relevant.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information as of December 31, 2018 with respect to compensation plans under which equity securities of the Company are authorized for issuance. The Company has no such plans that were not approved by security holders.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans
Equity compensation plans approved by security holders	—	$ —	3,865,174

Performance Graph

The following line graph sets forth, for the period from December 31, 2013 through December 31, 2018, a comparison of the percentage change in the cumulative total stockholder return on the Company’s common stock compared to the cumulative total return of the Russell 2000 Index and the FTSE National Association of Real Estate Investment Trusts Mortgage REIT (“FTSE NAREIT Mortgage REITs”) Index. The graph assumes (i) that the value of the investment in the Company’s common stock and each of the indices were $100 as of December 31, 2013 and (ii) the reinvestment of all dividends.

The foregoing graph shall not be deemed incorporated by reference by any general statement incorporating by reference this Annual Report on Form 10-K into any filing under the Securities Act or under the Exchange Act, except to the extent we specifically incorporate this information by reference, and shall not otherwise by deemed "filed" with the SEC or deemed "soliciting material" under those acts.

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Item 6. SELECTED FINANCIAL DATA

The following table sets forth our selected historical operating and financial data. The selected historical operating and balance sheet data for the years ended and as of December 31, 2018, 2017, 2016, 2015 and 2014 have been derived from our historical financial statements.

The information presented below is only a summary and does not provide all of the information contained in our historical financial statements, including the related notes. You should read the information below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical financial statements, including the related notes (amounts in thousands, except per share data):

Selected Statement of Operations Data:

	For the Years Ended December 31,				
	2018	2017	2016	2015	2014
Interest income	$455,799	$366,087	$319,306	$336,768	$378,847
Interest expense	377,071	308,101	254,668	260,651	301,010
Net interest income	78,728	57,986	64,638	76,117	77,837
Other income	66,480	75,013	41,238	45,911	105,208
General, administrative and operating expenses	41,470	41,077	35,221	39,480	40,459
Net income attributable to Company's common stockholders	79,186	76,320	54,651	67,023	130,379
Basic earnings per common share	$0.62	$0.68	$0.50	$0.62	$1.48
Diluted earnings per common share	$0.61	$0.66	$0.50	$0.62	$1.48
Dividends declared per common share	$0.80	$0.80	$0.96	$1.02	$1.08
Weighted average shares outstanding-basic	127,243	111,836	109,594	108,399	87,867
Weighted average shares outstanding-diluted	147,450	130,343	109,594	108,399	87,867

Selected Balance Sheet Data:

	As of December 31,				
	2018	2017	2016	2015	2014
Investment securities, available for sale, at fair value	$1,512,252	$1,413,081	$818,976	$765,454	$ 885,241
Residential mortgage loans held in securitization trusts, net	56,795	73,820	95,144	119,921	149,614
Distressed and other residential mortgage loans, at fair value	737,523	87,153	17,769	946	—
Distressed residential mortgage loans, net	228,466	331,464	503,094	558,989	582,697
Multi-family loans held in securitization trusts, at fair value	11,679,847	9,657,421	6,939,844	7,105,336	8,365,514
Investment in unconsolidated entities	73,466	51,143	79,259	87,662	49,828
Preferred equity and mezzanine loan investments	165,555	138,920	100,150	44,151	24,907
Total assets [(1)]	14,737,638	12,056,285	8,951,631	9,056,242	10,540,005
Financing arrangements, portfolio investments	1,543,577	1,276,918	773,142	577,413	651,965
Financing arrangements, residential mortgage loans	587,928	149,063	192,419	212,155	238,949
Residential collateralized debt obligations	53,040	70,308	91,663	116,710	145,542
Multi-family collateralized debt obligations, at fair value	11,022,248	9,189,459	6,624,896	6,818,901	8,048,053
Securitized debt	42,335	81,537	158,867	116,541	232,877
Subordinated debentures	45,000	45,000	45,000	45,000	45,000
Convertible notes	130,762	128,749	—	—	—
Total liabilities [(1)]	13,557,345	11,080,284	8,100,469	8,175,716	9,722,078
Total equity	1,180,293	976,001	851,162	880,526	817,927

(1)

Our consolidated balance sheets include assets and liabilities of Consolidated VIEs, as the Company is the primary beneficiary of these VIEs. As of December 31, 2018, 2017, 2016, 2015 and 2014, assets of the Company's Consolidated VIEs totaled $11,984,374, $10,041,468, $7,330,872, $7,412,093 and $8,847,078 respectively, and the liabilities of these Consolidated VIEs totaled $11,191,736, $9,436,421, $6,902,536, $7,077,175 and $8,457,034 respectively. See Note 10 of our consolidated financial statements included in this Annual Report for further discussion.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

We are a real estate investment trust ("REIT") for U.S. federal income tax purposes, in the business of acquiring, investing in, financing and managing mortgage-related and residential-housing related assets. Our objective is to deliver long-term stable distributions to our stockholders over changing economic conditions through a combination of net interest margin and net realized capital gains from a diversified investment portfolio. Our investment portfolio includes credit sensitive assets and investments sourced from distressed markets that create the potential for capital gains, as well as more traditional types of mortgage-related investments that generate interest income.

Our investment portfolio includes (i) structured multi-family property investments such as multi-family CMBS and preferred equity in, and mezzanine loans to, owners of multi-family properties, (ii) residential mortgage loans, including distressed residential mortgage loans, non-QM loans, second mortgages, and other residential mortgage loans, (iii) non-Agency RMBS, (iv) Agency RMBS and (v) certain other mortgage-related and residential housing-related assets. Subject to maintaining our qualification as a REIT and the maintenance of our exclusion from registration as an investment company under the Investment Company Act of 1940, as amended (the "Investment Company Act"), we also may opportunistically acquire and manage various other types of mortgage-related and residential housing-related assets that we believe will compensate us appropriately for the risks associated with them, including, without limitation, collateralized mortgage obligations, excess mortgage servicing spreads and securities issued by newly originated residential securitizations, including credit sensitive securities from these securitizations.

We intend to maintain our focus on expanding our portfolio of single-family residential and multi-family credit assets, which we believe will benefit from improving credit metrics. Consistent with this approach to capital allocation, we acquired an additional $1.2 billion of multi-family and single-family residential credit assets during the year ended December 31, 2018. In periods where we have working capital in excess of our short-term liquidity needs, we may invest the excess in more liquid assets until such time as we are able to re-invest that capital in credit assets that meet our underwriting requirements. Our investment and capital allocation decisions depend on prevailing market conditions, among other factors, and may change over time in response to opportunities available in different economic and capital market environments.

We seek to achieve a balanced and diverse funding mix to finance our assets and operations. We currently rely primarily on a combination of short-term borrowings, such as repurchase agreements with terms typically of 30 days, longer-term repurchase agreement borrowings with terms between one year and 24 months and longer-term financings, such as securitizations and convertible notes, with terms longer than one year.

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Significant Events in 2018

- We earned net income attributable to common stockholders in 2018 of $79.2 million, or $0.62 per share (basic) and comprehensive income to common stockholders of $51.5 million, or $0.40 per share;

- We earned net interest income of $78.7 million and portfolio net interest margin of 253 basis points;

- We recognized book value per common share of $5.65 at December 31, 2018, delivering an annual economic return of 7.5% for the year ended December 31, 2018;

- We declared aggregate 2018 dividends of $0.80 per share of common stock;

- We completed the issuance of an aggregate of 28,750,000 shares through two underwritten public offerings in August 2018 and November 2018 at an average public offering price of $6.14 per share resulting in aggregate net proceeds to the Company of $171.3 million, after deducting underwriting discounts, commissions, and offering expenses. We also issued and sold 14,588,631 shares of common stock under our at-the-market equity offering program at an average sales price of $6.19 per share, resulting in net proceeds to the Company of $89.0 million, after deducting placement fees;

- We purchased multi-family CMBS totaling $249.4 million, including aggregate purchases of approximately $112.2 million in first loss POs, certain IOs and mezzanine securities issued by two Freddie Mac-sponsored multi-family loan K-Series securitizations;

- Purchased non-Agency RMBS totaling $196.2 million and Agency fixed-rate RMBS for a gross purchase price of $60.3 million;

- We funded in aggregate $113.0 million of investments in unconsolidated entities and preferred equity investments in owners of multi-family properties;

- We acquired residential mortgage loans, including distressed residential mortgage loans totaling $560.7 million and other residential mortgage loans totaling $128.0 million;

- We closed on a master repurchase agreement with a maximum aggregate uncommitted principal amount of $750.0 million to fund the purchase of residential loans; and

- We added 18 professionals in connection with our growth.

Subsequent Event

On January 11, 2019, the Company issued 14,490,000 shares of its common stock through an underwritten public offering at a public offering price of $5.96 per share, resulting in total net proceeds to the Company of $83.8 million after deducting underwriting discounts and commissions and offering expenses.

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Current Market Conditions and Commentary

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, 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. The market conditions discussed below significantly influence our investment strategy and results:

Overview. The 2018 fiscal year was marked by a mix of accelerating U.S. economic growth, slowing growth in several other developed countries, low inflation, continued labor market expansion, fiscal stimulus through tax reform, tightening monetary policy and uncertainty surrounding the economic outlook late in the year, which in turn contributed to growth in corporate earnings and margins, rising mortgage rates and moderating housing sector data, but also contributed to significant market volatility, particularly late in the year. U.S. equity markets experienced their worst annual performance since 2008, with many stocks falling sharply near the end of the year and dragging all of the major indexes into loss territory for the year. The interest rate environment experienced moderate volatility during much of 2018, moving directionally higher during the year in concert with expectations for increases in the federal funds rate, with the yield on the 10-year U.S. Treasury reaching 3.24% on November 8, 2018, a seven-year high, only to see yields make a significant course correction during the balance of 2018, closing at 2.69% at year-end as concerns involving the economic outlook, trade tensions with China and the partial U.S. federal government shutdown took hold. Credit markets were also challenged in 2018, as non-financial corporate debt-to-GDP rose to the highest level in over 70 years.

Select U.S. Economic Data. The U.S. economy grew at a faster pace in 2018 as compared to 2017, with real gross domestic product (“GDP”) expanding by over 3.0% through the nine months ended September 30, 2018, versus 2.3% for full year 2017. Fourth quarter 2018 GDP is expected to decelerate from the nine-month levels due, in part, to many of the factors described above. According to the minutes of the Federal Reserve’s December 2018 meeting, Federal Reserve policymakers expect the GDP growth rate to slow in 2019 with a median projection for GDP growth of 2.4%, while projecting a deceleration in GDP growth in 2020 with a median projection for GDP growth ranging of 2.0%.

The labor market continued its expansion in 2018. According to the U.S. Department of Labor, the U.S. unemployment rate fell from 4.1% as of the end of December 2017 to 3.9% as of the end of December 2018, while total nonfarm payroll employment posted an average monthly increase of 223,000 jobs in 2018, up from an average monthly increase of 147,000 jobs in 2017. Data from the U.S. Department of Labor in January 2019 indicated that the U.S. unemployment rate increased slightly to 4.0%, while total nonfarm payroll employment added 304,000 jobs in January 2019.

Federal Reserve and Monetary Policy. In December 2018, in view of realized and expected labor market conditions, economic activity and inflation, the Federal Reserve again raised the target range for the federal funds rate by 25 basis points from 2.25% to 2.50% and has indicated it intends to be patient as it determines future changes to the target range for the federal funds rate. Consistent with this approach, the Federal Reserve opted not to increase the rate at its January 2019 meeting. The Federal Reserve indicated that in determining the size and timing of future adjustments to the target range for the federal funds rate, it will assess “realized and expected economic conditions relative to its maximum employment objective and its symmetric 2 percent inflation objective.” The increase in December marked the fourth such increase in the target range for the fed funds rate during 2018. As was evident during the fourth quarter of 2018, significant uncertainty with respect to the speed at which the Federal Reserve will tighten its monetary policy continues to persist and may result in significant volatility in 2019 and future periods. Greater uncertainty frequently leads to wider asset spreads or lower prices and higher hedging costs.

Single-Family Homes and Residential Mortgage Market. The residential real estate market displayed signs of slowing during 2018. Data released by S&P Indices for its S&P/Case-Shiller Home Price Indices for November 2018 showed that, on average, home prices increased 5.1% for the 20-City Composite over November 2017, down from 5.5% from the previous month. In addition, according to data provided by the U.S. Department of Commerce, privately-owned housing starts for single-family homes averaged a seasonally adjusted annual rate of 844,000 during October and November of 2018, which was 5.2% below the fourth quarter 2017 rate of 890,000. According to S&P Indices, sales of existing homes are down 9.3% from the November 2017 peak for sales of both new and existing single-family homes. In addition, single-family housing starts in November 2018 are down 13.1% from November of last year. Declining single-family housing fundamentals may adversely impact the overall credit profile of our existing portfolio of single-family residential credit investments, but also may result in a more attractive new investment environment.

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Multi-family Housing. Apartments and other residential rental properties have continued to perform well, although the data has been more mixed in recent months. According to data provided by the U.S. Department of Commerce, starts on multi-family homes containing five units or more averaged a seasonally adjusted annual rate of 376,000 during October and November of 2018 and 371,000 for the eleven months ended November 30, 2018, as compared to 345,000 for the full year 2017. While supply expansion remained strong in 2018, vacancy concerns among multi-family industry participants has ticked higher. According to the Multifamily Vacancy Index ("MVI"), which is produced by the National Association of Home Builders and surveys the multi-family housing industry's perception of vacancies, the MVI was at 47 for the third quarter of 2018, up from 45 and 42 for the first and second quarters of 2018, respectively. Strength in the multi-family housing sector has contributed to valuation improvements for multi-family properties and, in turn, many of the structured multi-family investments that we own.

Credit Spreads. Although credit spreads generally tightened throughout much of 2018, credit spreads widened during the fourth quarter of 2018. However, credit spreads for residential and multi-family credit assets remained tight during 2018 and this had a positive impact on the value of many of our credit sensitive assets. Tightening credit spreads generally increase the value of many of our credit sensitive assets while widening credit spreads generally decrease the value of these assets.

Financing markets. During 2018, the bond market experienced moderate volatility with the closing yield of the 10-year U.S. Treasury Note rising from 2.46% on January 2, 2018 to as high as 3.24% on November 8, 2018, and then rapidly reversing course and closing at 2.69% on December 31, 2018. Overall interest rate volatility tends to increase the costs of hedging and may place downward pressure on some of our strategies. During the second half of 2018, the Treasury curve decreased with the spread between the 2-Year U.S. Treasury yield and the 10-Year U.S. Treasury yield narrowing to as little as 11 basis points at one point during the fourth quarter, the tightest level since 2007. As of February 13, 2019, the spread between the 2-Year U.S. Treasury yield and the 10-Year U.S. Treasury yield was 18 basis points. This spread is important as it is indicative of opportunities for investing in levered assets. Increases in interest rates raises the costs of many of our liabilities, while overall interest rate volatility generally increases the costs of hedging.

Developments at Fannie Mae and Freddie Mac. Payments on the Agency fixed-rate and Agency ARMs RMBS in which we invest are guaranteed by Fannie Mae and Freddie Mac. In addition, although not guaranteed by Freddie Mac, all of our multi-family CMBS has been issued by securitization vehicles sponsored by Freddie Mac. As broadly publicized, Fannie Mae and Freddie Mac are presently under federal conservatorship as the U.S. Government continues to evaluate the future of these entities and what role the U.S. Government should continue to play in the housing markets in the future. The FHFA recently indicated that the U.S. Treasury and the White House are expected to release a plan that will include details about reforming the role of the U.S. Government in the mortgage market and will likely include a recommendation for ending the conservatorships of Fannie Mae and Freddie Mac. Since being placed under federal conservatorship, there have been a number of proposals introduced, both from industry groups and by the U.S. Congress, relating to changing the role of the U.S. government in the mortgage market and reforming or eliminating Fannie Mae and Freddie Mac. It remains unclear how the U.S. Congress or the executive branch of the U.S. Government will move forward on such reform at this time and what impact, if any, this reform will have on mortgage REITs. See "Item 1A. Risk Factors-Risks Related to Regulatory Matters-The federal conservatorship of Fannie Mae and Freddie Mac and related efforts, along with any changes in laws and regulations affecting the relationship between Fannie Mae, Freddie Mac and Ginnie Mae and the U.S. Government, may materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our shareholders."

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Significant Estimates and Critical Accounting Policies

We prepare our consolidated financial statements in conformity with GAAP, which requires the use of estimates, judgments and assumptions that affect reported amounts. These estimates are based, in part, on our judgment and assumptions regarding various economic conditions that we believe are reasonable based on facts and circumstances existing at the time of reporting. The results of these estimates affect reported amounts of assets, liabilities and accumulated other comprehensive income at the date of the consolidated financial statements and the reported amounts of income, expenses and other comprehensive income during the periods presented.

Changes in the estimates and assumptions could have a material effect on these financial statements. Accounting policies and estimates related to specific components of our consolidated financial statements are disclosed in the notes to our consolidated financial statements. In accordance with SEC guidance, those material accounting policies and estimates that we believe are most critical to an investor's understanding of our financial results and condition and which require complex management judgment are discussed below.

Revenue Recognition. Interest income on our investment securities available for sale is accrued based on the outstanding principal balance and their contractual terms. Purchase premiums or discounts on investment securities are amortized or accreted to interest income over the estimated life of the investment securities using the effective yield method. Adjustments to amortization are made for actual prepayment activity.

Interest income on certain of our credit sensitive securities, such as our CMBS and non-Agency RMBS that were purchased at a discount to par value, is recognized based on the security's effective interest yield. The effective yield on these securities is based on management's estimate of the projected cash flows from each security, which incorporates assumptions related to fluctuations in interest rates, prepayment speeds and the timing and amount of credit losses. On at least a quarterly basis, management reviews and, if appropriate, adjusts 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 yield (or interest income) recognized on these securities.

A portion of the purchase discount on the Company's first loss PO multi-family CMBS is designated as non-accretable purchase discount or credit reserve, which estimates the Company's risk of loss on the mortgages collateralizing such multi-family CMBS, and is not expected to be accreted into interest income. The amount designated as a credit reserve may be adjusted over time, based on the actual performance of the security, its underlying collateral, actual and projected cash flow from such collateral, economic conditions and other factors. If the performance of a security with a credit reserve is more favorable than forecasted, a portion of the amount designated as credit reserve may be accreted into interest income over time. Conversely, if the performance of a security with a credit reserve is less favorable than forecasted, the amount designated as credit reserve may be increased, or impairment charges and write-downs of such securities to a new cost basis could be required.

With respect to interest rate swaps that have not been designated as hedges, any net payments under, or fluctuations in the fair value of, such swaps will be recognized in current earnings.

Fair Value. The Company has established and documented processes for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, then fair value is based upon internally developed models that primarily use inputs that are market-based or independently-sourced market parameters, including interest rate yield curves. The Company's investment securities available for sale, multi-family loans held in securitization trusts, certain of its distressed and other residential mortgage loans and multi-family CDOs are considered to be the most significant of its fair value estimates.

The Company’s valuation methodologies are described in “Note 18 – Fair Value of Financial Instruments” included in Item 8 of this Annual Report on Form 10-K.

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Variable Interest Entities – A VIE is an entity that lacks one or more of the characteristics of a voting interest entity. A VIE is defined as an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The Company consolidates a VIE when it is the primary beneficiary of such VIE. As primary beneficiary, the Company 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.

Loan Consolidation Reporting Requirement for Certain Multi-Family K-Series Securitizations – We own 100% of the first loss POs of the Consolidated K-Series. The Consolidated K-Series represents certain Freddie Mac-sponsored multi-family loan K-Series securitizations of which we, or one of our special purpose entities, or SPEs, own the first loss POs, certain IOs and mezzanine CMBS securities. We determined that the Consolidated K-Series were VIEs and that we are the primary beneficiary of the Consolidated K-Series. As a result, we are required to consolidate the Consolidated K-Series' underlying multi-family loans including their liabilities, income and expenses in our consolidated financial statements. We have elected the fair value option on the assets and liabilities held within the Consolidated K-Series, which requires that changes in valuations in the assets and liabilities of the Consolidated K-Series be reflected in our consolidated statement of operations.

Fair Value Option – The fair value option provides an election that allows companies to irrevocably elect fair value for financial assets and liabilities on an instrument-by-instrument basis at initial recognition. Changes in fair value for assets and liabilities for which the election is made will be recognized in earnings as they occur. The Company elected the fair value option for certain of its investments in unconsolidated entities, the Consolidated K-Series, certain acquired distressed and other residential mortgage loans, including both first and second mortgages, and certain investments within its former Agency IO strategy.

Distressed Residential Mortgage Loans, net – Certain of the distressed residential mortgage loans acquired by the Company at a discount, with evidence of credit deterioration since their origination and where it is probable that the Company will not collect all contractually required principal payments, are accounted for under ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality ("ASC 310-30"). Management evaluates whether there is evidence of credit quality deterioration as of the acquisition date using indicators such as past due or modified status, risk ratings, recent borrower credit scores and recent loan-to-value percentages. Loans considered credit impaired are recorded at fair value at the date of acquisition, with no allowance for loan losses. Subsequent to acquisition, the recorded amount for these loans reflects the original investment, plus accretion income, less principal and interest cash flows received. These distressed residential mortgage loans are presented on the Company's consolidated balance sheets at carrying value, which reflects the recorded amount reduced by any allowance for loan losses established subsequent to acquisition.

Under ASC 310-30, the acquired credit impaired loans may be accounted for individually or aggregated and accounted for as a pool of loans if the loans being aggregated have common risk characteristics. A pool is accounted for as a single asset with a single composite interest rate and an expectation of aggregate cash flows. Once a pool is assembled, it is treated as if it was one loan for purposes of applying the accounting guidance. For each pool established, or on an individual loan basis for loans not aggregated into pools, the Company estimates at the time of acquisition and periodically, the principal and interest expected to be collected. The difference between the cash flows expected to be collected and the carrying amount of the loans is referred to as the "accretable yield." This amount is accreted as interest income over the life of the loans using a level yield methodology. Interest income recorded each period relates to the accretable yield recognized at the pool level or on an individual loan basis, and not to contractual interest payments received at the loan level. The difference between contractually required principal and interest payments and the cash flows expected to be collected, referred to as the "nonaccretable difference," includes estimates of both the impact of prepayments and expected credit losses over the life of the individual loan, or the pool (for loans grouped into a pool).

Management monitors actual cash collections against its expectations, and revised cash flow expectations are prepared as necessary. A decrease in expected cash flows in subsequent periods may indicate that the loan pool or individual loan, as applicable, is impaired, thus requiring the establishment of an allowance for loan losses by a charge to the provision for loan losses. An increase in expected cash flows in subsequent periods initially reduces any previously established allowance for loan losses by the increase in the present value of cash flows expected to be collected, and results in a recalculation of the amount of accretable yield for the loan pool. The adjustment of accretable yield due to an increase in expected cash flows is accounted for prospectively as a change in estimate. The additional cash flows expected to be collected are reclassified from the nonaccretable difference to the accretable yield, and the amount of periodic accretion is adjusted accordingly over the remaining life of the loans in the pool or individual loan, as applicable. The impacts of (i) prepayments, (ii) changes in variable interest rates, and (iii) any other changes in the timing of expected cash flows are recognized prospectively as adjustments to interest income.

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Business Combinations - The Company accounts for business combinations by applying the acquisition method in accordance with ASC 805, Business Combinations. Transaction costs related to acquisition of a business are expensed as incurred and excluded from the fair value of consideration transferred. The identifiable assets acquired, liabilities assumed and non-controlling interests, if any, in an acquired entity are recognized and measured at their estimated fair values. The excess of the fair value of consideration transferred over the fair values of identifiable assets acquired, liabilities assumed and non-controlling interests, if any, in an acquired entity, net of fair value of any previously held interest in the acquired entity, is recorded as goodwill. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets and liabilities.

Contingent consideration is classified as a liability or equity, as applicable. Contingent consideration in connection with the acquisition of a business is measured at fair value on acquisition date, and unless classified as equity, is remeasured at fair value each reporting period thereafter until the consideration is settled, with changes in fair value included in net income.

Net cash paid to acquire a business is classified as investing activities on the accompanying consolidated statements of cash flows.

Recent Accounting Pronouncements

A discussion of recent accounting pronouncements and the possible effects on our financial statements is included in "Note 2 — Summary of Significant Accounting Policies" included in Item 8 of this Annual Report on Form 10-K.

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Capital Allocation

The following tables set forth our allocated capital by investment type at December 31, 2018 and December 31, 2017, respectively (dollar amounts in thousands):

At December 31, 2018:

	Agency RMBS[(1)]	Multi-Family Credit[(2)]	Residential Credit[(3)]	Other[(4)]	Total
Carrying value	$1,037,730	$1,166,628	$1,241,817	$10,953	$3,457,128
Liabilities:					
Callable [(5)]	(925,230)	(529,617)	(676,658)	—	(2,131,505)
Non-callable	—	(30,121)	(65,253)	(45,000)	(140,374)
Convertible	—	—	—	(130,762)	(130,762)
Hedges (Net) [(6)]	10,263	—	—	—	10,263
Cash and Restricted Cash [(7)]	10,377	17,291	20,859	60,618	109,145
Goodwill	—	—	—	25,222	25,222
Other	2,374	(4,929)	24,182	(40,451)	(18,824)
Net capital allocated	$135,514	$619,252	$544,947	$(119,420)	$1,180,293
% of capital allocated	11.5%	52.5%	46.2%	(10.2)%	100.0%

(1) Includes Agency fixed-rate RMBS and Agency ARMs.

(2) The Company, through its ownership of certain securities, has determined it is the primary beneficiary of the Consolidated K-Series and has consolidated the Consolidated K-Series into the Company's financial statements. A reconciliation to our financial statements as of December 31, 2018 follows:

Multi-Family loans held in securitization trusts, at fair value	$11,679,847
Multi-Family CDOs, at fair value	(11,022,248)
Net carrying value	657,599
Investment securities available for sale, at fair value	260,485
Total CMBS, at fair value	918,084
Preferred equity investments, mezzanine loans and investments in unconsolidated entities	228,067
Real estate under development	22,000
Real estate held for sale in consolidated variable interest entities	29,704
Mortgages and notes payable in consolidated variable interest entities	(31,227)
Financing arrangements, portfolio investments	(529,617)
Securitized debt	(30,121)
Cash and other	12,362
Net Capital in Multi-Family	$619,252

(3) Includes $737.5 million of distressed and other residential mortgage loans at fair value, $228.5 million of distressed residential mortgage loans at carrying value, $214.0 million of non-Agency RMBS, $56.8 million of residential mortgage loans held in securitization trusts and $1.9 million of mortgage loans held for sale and mortgage loans held for investment. Mortgage loans held for sale and mortgage loans held for investment are included in the Company's accompanying consolidated balance sheets in receivables and other assets.

(4) Other includes $11.0 million of investments in unconsolidated entities. Other non-callable liabilities consist of $45.0 million in subordinated debentures.

(5) Includes repurchase agreements.

(6) Includes derivative assets and variation margin.

(7)

Restricted cash is included in the Company’s accompanying consolidated balance sheets in receivables and other assets.

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At December 31, 2017:

	Agency RMBS [1]	Multi-Family Credit[2]	Residential Credit [3]	Other [4]	Total
Carrying value	$1,169,535	$816,805	$601,831	$12,622	$2,600,793
Liabilities:					
Callable [5]	(928,823)	(309,935)	(187,223)	—	(1,425,981)
Non-callable	—	(29,164)	(122,681)	(45,000)	(196,845)
Convertible	—	—	—	(128,749)	(128,749)
Hedges (Net) [6]	10,101	—	—	—	10,101
Cash and Restricted Cash [7]	13,027	2,145	9,615	81,408	106,195
Goodwill	—	—	—	25,222	25,222
Other	961	(4,651)	17,415	(28,460)	(14,735)
Net capital allocated	$264,801	$475,200	$318,957	$(82,957)	$976,001
% of capital allocated	27.1%	48.7%	32.7%	(8.5)%	100.0%

(1) Includes Agency fixed-rate RMBS, Agency ARMs and Agency IOs.

(2) The Company, through its ownership of certain securities, has determined it is the primary beneficiary of the Consolidated K-Series and has consolidated the Consolidated K-Series into the Company's financial statements. A reconciliation to our financial statements as of December 31, 2017 follows:

Multi-Family loans held in securitization trusts, at fair value	$9,657,421
Multi-Family CDOs, at fair value	(9,189,459)
Net carrying value	467,962
Investment securities available for sale, at fair value	141,420
Total CMBS, at fair value	609,382
Preferred equity investments, mezzanine loans and investments in unconsolidated entities	177,440
Real estate under development	22,904
Real estate held for sale in consolidated variable interest entities	64,202
Mortgages and notes payable in consolidated variable interest entities	(57,124)
Financing arrangements, portfolio investments	(309,935)
Securitized debt	(29,164)
Other	(2,505)
Net Capital in Multi-Family	$475,200

(3) Includes $87.2 million of distressed and other residential loans at fair value, $331.5 million of distressed residential mortgage loans at carrying value, $102.1 million of non-Agency RMBS, $73.8 million of residential mortgage loans held in securitization trusts and $3.5 million of mortgage loans held for sale and mortgage loans held for investment. Mortgage loans held for sale and mortgage loans held for investment are included in the Company's accompanying consolidated balance sheets in receivables and other assets.

(4) Other includes $12.6 million investments in unconsolidated entities. Other non-callable liabilities consist of $45.0 million in subordinated debentures.

(5) Includes repurchase agreements.

(6) Includes derivative assets, derivative liabilities, payable for securities purchased and variation margin.

(7) Includes $0.5 million held in overnight deposits related to our Agency IO investments, $9.6 million in deposits held in our distressed residential securitization trusts to be used to pay down outstanding debt and $0.7 million restricted cash posted as margin. These deposits are reported as Restricted Cash and are included in the Company's accompanying consolidated balance sheets in receivables and other assets.

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Results of Operations

Comparison of the Year Ended December 31, 2018 to the Year Ended December 31, 2017

For the year ended December 31, 2018, we reported net income attributable to the Company's common stockholders of $79.2 million, as compared to net income attributable to the Company's common stockholders of $76.3 million for the prior year. The main components of the change in net income for the year ended December 31, 2018 as compared to the prior year are detailed in the following table (amounts in thousands, except per share data):

	For the Years Ended December 31,		
	2018	2017	$ Change
Net interest income	$78,728	$57,986	$20,742
Total other income	66,480	75,013	(8,533)
Total general, administrative and operating expenses	41,470	41,077	393
Income from operations before income taxes	103,738	91,922	11,816
Income tax (benefit) expense	(1,057)	3,355	(4,412)
Net income attributable to Company	102,886	91,980	10,906
Preferred stock dividends	23,700	15,660	8,040
Net income attributable to Company's common stockholders	79,186	76,320	2,866
Basic earnings per common share	$0.62	$0.68	$(0.06)
Diluted earnings per common share	$0.61	$0.66	$(0.05)

Net Interest Income

The increase in net interest income of approximately $20.7 million for the year ended December 31, 2018 as compared to the corresponding period in 2017 was driven by:

- An increase in net interest income of approximately $5.9 million in our Agency RMBS portfolio primarily due to an increase in average interest earning assets in this portfolio to $1.1 billion for the current period as compared to $610.3 million for the prior period.

- An increase in net interest income of approximately $11.1 million in our multi-family portfolio primarily due to an increase in average interest earning assets in this portfolio to $682.1 million for the current period as compared to $530.1 million for the prior period. The increase in average interest earning assets in this portfolio is attributable to new multi-family preferred equity investments, mezzanine loans, and investments in unconsolidated entities and CMBS purchased during the 2018 period.

- An increase in net interest income of approximately $5.0 million in our residential credit portfolio primarily due to an increase in asset yield and a decrease in average interest bearing liabilities in this portfolio during the current period as compared to the prior period.

Other Income

Total other income decreased by $8.5 million for the year ended December 31, 2018 as compared to the prior year. The change was primarily driven by:

- A decrease in realized gains on distressed residential mortgage loans of $26.7 million primarily due to decreased loan sale activity in 2018.

- An increase in net realized loss on investment securities and related hedges of $15.6 million primarily related to the liquidation of our Agency IO portfolio.

- An increase in net unrealized gains on multi-family loans and debt held in securitization trusts of $18.7 million for the year ended December 31, 2018 as compared to the prior year primarily due to an increase in multi-family CMBS owned by us and and tightening of credit spreads as compared to the corresponding period in the prior year.

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- An increase in net unrealized gains on investment securities and related hedges of $9.1 million primarily due to the liquidation of the Agency IO portfolio during the period.

- An increase in net gain on distressed and other residential mortgage loans at fair value of $7.0 million primarily due to an increase in residential mortgage loans accounted for at fair value from purchases during the year and unrealized gains during the current period.

Comparative General, Administrative and Operating Expenses (dollar amounts in thousands)

	For the Years Ended December 31,		
General, Administrative and Operating Expenses:	2018	2017	$ Change
General and Administrative Expenses			
Salaries, benefits and directors’ compensation	$14,243	$10,626	$3,617
Professional fees	4,468	3,588	880
Base management and incentive fees	5,366	4,517	849
Other	4,157	4,143	14
Operating Expenses			
Expenses related to distressed and other residential mortgage loans	8,908	8,746	162
Expenses related to operating real estate and real estate held for sale in consolidated variable interest entities	4,328	9,457	(5,129)
Total	$41,470	$41,077	$393

For the year ended December 31, 2018 as compared to the prior year, general, administrative and operating expenses increased by $0.4 million. The increase was primarily driven by a $3.6 million increase in salaries, benefits and directors' compensation due to an increase in employee headcount as part of the internalization and expansion of our single-family residential credit investment platform. The increase in management fees is primarily due to the Company fully expensing prepaid incentive fees paid to Headlands in 2017 as a result of non-renewal of our management agreement with Headlands. The overall increase was partially offset by a $5.1 million reduction in expenses related to operating real estate and real estate held for sale in consolidated variable interest entities as a result of cessation of depreciation and amortization expense on real estate held for sale in Consolidated VIEs subsequent to the second quarter of 2017 and the de-consolidation of Riverchase Landing as a result of its sale in March 2018.

Comparison of the Year Ended December 31, 2017 to the Year Ended December 31, 2016

For the year ended December 31, 2017, we reported net income attributable to the Company's common stockholders of $76.3 million, as compared to net income attributable to the Company's common stockholders of $54.7 million for the prior year. The main components of the change in net income for the year ended December 31, 2017 as compared to the prior year are detailed in the following table (dollar amounts in thousands, except per share data):

	For the Years Ended December 31,		
	2017	2016	$ Change
Net interest income	$57,986	$64,638	$(6,652)
Total other income	75,013	41,238	33,775
Total general, administrative and operating expenses	41,077	35,221	5,856
Income from operations before income taxes	91,922	70,655	21,267
Income tax expense	3,355	3,095	260
Net income attributable to Company	91,980	67,551	24,429

Preferred stock dividends	15,660	12,900	2,760
Net income attributable to Company's common stockholders	76,320	54,651	21,669
Basic earnings per common share	$0.68	$0.50	$0.18
Diluted earnings per common share	$0.66	$0.50	$0.16

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Net Interest Income

The decrease in net interest income of approximately $6.7 million for the year ended December 31, 2017 as compared to the corresponding period in 2016 was driven by:

- A decrease in net interest income of approximately $4.2 million in our Agency RMBS portfolio primarily due to a $5.7 million decline in net interest income in the Company's Agency IO portfolio, partially offset by an increase of $1.5 million in net interest income in our Agency fixed-rate RMBS portfolio. The reduction in net interest income in the Agency IO portfolio was primarily due to a decrease in average interest earning assets as the Company substantially exited the strategy in 2017.

- An increase in net interest income of approximately $15.2 million in our multi-family portfolio due to an increase in average interest earning assets attributable to new multi-family preferred equity investments and CMBS purchased during the 2017 period.

- A decrease in net interest income of approximately $7.6 million in our residential credit portfolio primarily due to a decrease in net interest income on our distressed and other residential mortgage loans of approximately $10.4 million partially offset by an increase in net interest income on our non-Agency RMBS of approximately $2.8 million. Net interest income on our distressed and other residential mortgage loans decreased due to seasoning of the portfolio resulting in less accretion of discount in the 2017 period as compared to the corresponding period in 2016, a decrease in average interest earning assets in this portfolio in 2017, and an increase in financing costs in 2017. Net interest income on our non-Agency RMBS increased due to an increase in average interest earning assets in this portfolio in 2017.

- An increase in non-portfolio interest expense of $9.9 million related to the issuance on January 23, 2017 of $138.0 million principal amount in convertible notes (the "Convertible Notes").

Other Income

Total other income increased by $33.8 million for the year ended December 31, 2017 as compared to the prior year. The change was primarily driven by:

- An increase in realized gains on distressed residential mortgage loans of $11.2 million due to increased sales activity in 2017.

- An increase in net unrealized gains on multi-family loans and debt held in securitization trusts of $15.8 million for the year ended December 31, 2017 as compared to the prior year. Credit spreads on our Freddie Mac-sponsored multi-family loan K-Series securities tightened during the year ended December 31, 2017, which in turn drove valuations on these securities higher in 2017. In addition, an increase in multi-family CMBS investments owned during 2017 contributed to the increase in net unrealized gains as compared to the prior period.

- A decrease in net unrealized gains on investment securities and related hedges of $5.1 million primarily due to the removal of hedges in connection with our exit from the Agency IO strategy.

- An increase in realized gains on investment securities and related hedges of $7.5 million primarily due to approximately $64.0 million in sales of CMBS resulting in realized gains of approximately $6.3 million.

- An increase in income from operating real estate and real estate held for sale in consolidated variable interest entities of $7.3 million related to the consolidation of Riverchase Landing and The Clusters, which required consolidation of the entities' income and expenses in our consolidated financial statements in accordance with GAAP. This income is offset by $9.5 million in expenses related to operating real estate and real estate held for sale in consolidated variable interest entities included in general, administrative and operating expenses.

- A decrease in other income of $5.5 million in the 2017 period primarily due to gains recognized as a result of the Company's re-measurement of its previously held membership interests in RiverBanc LLC ("RiverBanc"), RB Multifamily Investors LLC ("RBMI"), and RB Development Holding Company, LLC ("RBDHC") in accordance with GAAP.

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Comparative General, Administrative and Operating Expenses (dollar amounts in thousands)

	For the Years Ended December 31,		
General, Administrative and Operating Expenses:	2017	2016	$ Change
General and Administrative Expenses			
Salaries, benefits and directors’ compensation	$10,626	$8,795	$1,831
Professional fees	3,588	2,877	711
Base management fees and incentive fees	4,517	9,261	(4,744)
Other	4,143	3,574	569
Operating Expenses			
Expenses related to distressed and other residential mortgage loans	8,746	10,714	(1,968)
Expenses related to operating real estate	9,457	—	9,457
Total	$41,077	$35,221	$5,856

For the year ended December 31, 2017 as compared to the prior year, general, administrative and operating expenses increased by $5.9 million.

The $1.8 million increase in salaries, benefits and directors' compensation in 2017 is primarily attributable to inclusion of employee headcount resulting from the May 2016 RiverBanc acquisition for the full year in 2017. This increase is offset by a decline in base management and incentive fees to RiverBanc of $1.8 million as a result of the termination of the RiverBanc management agreement in May 2016.

In addition, base management fees on our distressed loan strategy decreased by $2.5 million for the year ended December 31, 2017, due in part to a change in methodology for calculating base management fees from 1.5% of assets under management to 1.5% of invested capital beginning in the third quarter of 2016.

The decrease in expenses related to distressed and other residential mortgage loans for the year ended December 31, 2017 as compared to the same period in 2016 can be attributed to a decrease in loan count during the 2017 period as compared to the same period in 2016.

Beginning in the second quarter of 2017, the Company recognized expenses related to operating real estate and real estate held for sale in consolidated variable interest entities in the amount of $9.5 million due to the consolidation of Riverchase Landing and The Clusters in our consolidated financial statements in accordance with GAAP. These expenses are offset by $7.3 million of income from operating real estate and real estate held for sale in consolidated variable interest entities included in other income.

Comparative Portfolio Net Interest Margin

Our results of operations for our investment portfolio during a given period typically reflect, in large part, the net interest income earned on our investment portfolio of RMBS, CMBS (including CMBS held in securitization trusts), residential securitized loans, distressed and other residential mortgage loans (including loans accounted for at fair value and loans accounted for under ASC 310-30), loans held for investment, preferred equity investments and mezzanine loans, where the risks and payment characteristics are equivalent to and accounted for as loans, and loans held for sale (collectively, our “Interest Earning Assets”). The net interest spread is impacted by factors such as our cost of financing, the interest rate that our investments bear and our interest rate hedging strategies. Furthermore, the amount of premium or discount paid on purchased portfolio investments and the prepayment rates on portfolio investments will impact the net interest spread as such factors will be amortized over the expected term of such investments. Realized and unrealized gains and losses on TBAs, Eurodollar and Treasury futures and other derivatives associated with our Agency RMBS investments, which do not utilize hedge accounting for financial reporting purposes, are included in other income in our statement of operations, and therefore, not reflected in the data set forth below.

The following table sets forth certain information about our portfolio by investment type and their related interest income, interest expense, weighted average yield on interest earning assets, average cost of funds and portfolio net interest margin for our interest earning assets (by investment type) for the years ended December 31, 2018, 2017 and 2016, respectively (dollar amounts in thousands):

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Year Ended December 31, 2018

	Agency RMBS[1]	Multi-Family Credit[2][3]	Residential Credit	Other	Total
Interest Income	$30,737	$76,769	$35,191	$—	$142,697
Interest Expense	(19,505)	(17,162)	(13,916)	(13,386)	(63,969)
Net Interest Income (Expense)	$11,232	$59,607	$21,275	$(13,386)	$78,728
Average Interest Earning Assets[3] [4]	$1,146,157	$682,148	$661,600	$—	$2,489,905
Weighted Average Yield on Interest Earning Assets[5]	2.68 %	11.25 %	5.32 %	—	5.73 %
Average Cost of Funds[6]	(2.12)%	(4.80)%	(4.58)%	—	(3.20)%
Portfolio Net Interest Margin[7]	0.56 %	6.45 %	0.74 %	—	2.53 %

Year Ended December 31, 2017

	Agency RMBS[1]	Multi-Family Credit[2][3]	Residential Credit	Other	Total
Interest Income	$12,632	$59,489	$32,301	$—	$104,422
Interest Expense	(7,314)	(10,972)	(16,002)	(12,148)	(46,436)
Net Interest Income (Expense)	$5,318	$48,517	$16,299	$(12,148)	$57,986
Average Interest Earning Assets[3] [4]	$610,339	$530,093	$698,203	$—	$1,838,635
Weighted Average Yield on Interest Earning Assets[5]	2.07 %	11.22 %	4.63 %	—	5.68 %
Average Cost of Funds[6]	(1.47)%	(4.45)%	(3.82)%	—	(2.95)%
Portfolio Net Interest Margin[7]	0.60 %	6.77 %	0.81 %	—	2.73 %

Year Ended December 31, 2016

	Agency RMBS[1]	Multi-Family Credit[2][3]	Residential Credit	Other	Total
Interest Income	$15,729	$40,786	$40,238	$—	$96,753
Interest Expense	(6,177)	(7,490)	(16,387)	(2,061)	(32,115)
Net Interest Income (Expense)	$9,552	$33,296	$23,851	$(2,061)	$64,638
Average Interest Earning Assets[3] [4]	$645,459	$330,242	$753,504	$—	$1,729,205
Weighted Average Yield on Interest Earning Assets[5]	2.44 %	12.35 %	5.34 %	—	5.60 %
Average Cost of Funds[6]	(1.17)%	(6.44)%	(3.40)%	—	(2.67)%
Portfolio Net Interest Margin[7]	1.27 %	5.91 %	1.94 %	—	2.93 %

(1) Includes Agency fixed-rate RMBS, Agency ARMs and Agency IOs.

(2) The Company, through its ownership of certain securities, has determined it is the primary beneficiary of the Consolidated K-Series and has consolidated the Consolidated K-Series into the Company's consolidated financial statements. Interest income amounts represent interest income earned by securities that are actually owned by the Company. A reconciliation of our net interest income in multi-family investments to our consolidated financial

statements for the years ended December 31, 2018, 2017 and 2016, respectively, is set forth below (dollar amounts in thousands):

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	For the Years Ended December 31,		
	2018	2017	2016
Interest income, multi-family loans held in securitization trusts	$358,712	$297,124	$249,191
Interest income, investment securities, available for sale [a]	10,123	10,089	5,036
Interest income, preferred equity investments and mezzanine loans [a]	21,036	13,941	9,112
Interest expense, multi-family collateralized debt obligations	(313,102)	(261,665)	(222,553)
Interest income, Multi-Family, net	76,769	59,489	40,786
Interest expense, investment securities, available for sale	(14,252)	(8,149)	(1,859)
Interest expense, securitized debt	(2,910)	(2,823)	(5,631)
Net interest income, Multi-Family	$59,607	$48,517	$33,296

(a) Included in the Company's accompanying consolidated statements of operations in interest income, investment securities and other.

(3) Average Interest Earning Assets for the period indicated exclude all Consolidated K-Series assets other than those securities actually owned by the Company.

(4) Our Average Interest Earning Assets is calculated based on daily average amortized cost for the respective periods.

(5) Our Weighted Average Yield on Interest Earning Assets was calculated by dividing our interest income by our Average Interest Earning Assets for the respective periods.

(6) Our Average Cost of Funds was calculated by dividing our annualized interest expense by our average interest bearing liabilities, excluding our subordinated debentures and Convertible Notes, for the respective periods. For the years ended December 31, 2018, 2017 and 2016, our subordinated debentures and Convertible Notes generated aggregate interest expense of approximately $13.4 million, $12.1 million and $2.1 million, respectively. Our Average Cost of Funds includes interest expense on our interest rate swaps and amortization of premium on our swaptions.

(7) Portfolio Net Interest Margin is the difference between our Weighted Average Yield on Interest Earning Assets and our Average Cost of Funds, excluding the weighted average cost of subordinated debentures and Convertible Notes.

Prepayment History

The following table sets forth the actual constant prepayment rates ("CPR") for our Agency-Fixed Rate RMBS and Agency ARM portfolios, by quarter, for the periods indicated:

Quarter Ended	Weighted Average	Agency Fixed-Rate RMBS	Agency ARMs
December 31, 2018	7.2 %	6.8 %	12.9 %
September 30, 2018	7.8 %	7.3 %	14.6 %
June 30, 2018	6.6 %	5.9 %	16.3 %
March 31, 2018	5.8 %	5.4 %	10.2 %
December 31, 2017	7.0 %	6.3 %	12.9 %
September 30, 2017	11.9 %	12.8 %	9.4 %
June 30, 2017	11.4 %	9.6 %	16.5 %
March 31, 2017	10.0 %	10.6 %	8.3 %
December 31, 2016	14.7 %	12.3 %	21.7 %
September 30, 2016	12.8 %	10.0 %	20.7 %
June 30, 2016	12.2 %	10.2 %	17.6 %
March 31, 2016	9.4 %	7.9 %	13.5 %

When prepayment expectations over the remaining life of assets increase, we have to amortize premiums over a shorter time period resulting in a reduced yield to maturity on our investment assets. Conversely, if prepayment expectations decrease, the premium would be amortized over a longer period resulting in a higher yield to maturity. During the second quarter of 2018, the Company completely exited its Agency IO strategy. We monitor our prepayment experience on a monthly basis and adjust the amortization rate to reflect current market conditions.

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Financial Condition

As of December 31, 2018, we had approximately $14.7 billion of total assets, as compared to approximately $12.1 billion of total assets as of December 31, 2017. A significant portion of our assets represents the assets comprising the Consolidated K-Series, which we consolidate in accordance with GAAP. As of December 31, 2018 and December 31, 2017, the Consolidated K-Series assets amounted to approximately $11.7 billion and $9.7 billion, respectively. See "Significant Estimates and Critical Accounting Policies - Loan Consolidation Reporting Requirement for Certain Multi-Family K-Series Securitizations." For a reconciliation of our actual interest in the Consolidated K-Series to our financial statements, see "Capital Allocation" and "Comparative Portfolio Net Interest Margin" above.

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Balance Sheet Analysis

Investment Securities Available for Sale. At December 31, 2018, our securities portfolio includes Agency RMBS, including Agency fixed-rate RMBS and Agency ARMs, CMBS and non-Agency RMBS, which are classified as investment securities available for sale. At December 31, 2018, we had no investment securities in a single issuer or entity that had an aggregate book value in excess of 10% of our total assets. The increase in the carrying value of our investment securities available for sale as of December 31, 2018 as compared to December 31, 2017 is due to purchases of CMBS and non-Agency RMBS during the period partially offset by the liquidation of our Agency IO portfolio, principal payments and unrealized losses incurred during the year.

The following tables set forth the balances of our investment securities available for sale by vintage (i.e., by issue year) as of December 31, 2018 and December 31, 2017, respectively (dollar amounts in thousands):

	December 31, 2018		December 31, 2017	
	Par Value	Carrying Value	Par Value	Carrying Value
Agency RMBS				
ARMs				
Prior to 2012	$11,813	$12,257	$16,290	$16,899
2012	58,547	59,137	72,498	74,173
Total ARMs	70,360	71,394	88,788	91,072
Fixed-Rate				
Prior to 2012	357	358	597	609
2012	207,667	207,572	257,978	262,792
2015	2,386	2,392	2,786	2,886
2017	735,959	736,851	757,387	780,998
2018	19,132	19,163	—	—
Total Fixed-Rate	965,501	966,336	1,018,748	1,047,285
IO				
Prior to 2013	—	—	152,994	21,405
2013	—	—	27,484	4,361
2014	—	—	19,371	1,944
2015	—	—	5,636	956
2016	—	—	31,480	2,513
Total IOs	—	—	236,965	31,179
Total Agency RMBS	1,035,861	1,037,730	1,344,501	1,169,536
Non-Agency RMBS				
2006	173	156	211	192
2016	—	—	16,978	17,118
2017	19,000	18,691	84,054	84,815
2018	196,919	195,190	—	—
Total Non-Agency RMBS	216,092	214,037	101,243	102,125
CMBS				
Prior to 2013[1]	807,319	52,700	821,746	47,922
2016	20,228	21,444	36,108	38,270
2017	50,243	48,840	55,977	55,228

2018	143,680	137,501	—	—
Total CMBS	1,021,470	260,485	913,831	141,420
Total	$2,273,423	$1,512,252	$2,359,575	$1,413,081

(1) These amounts represent multi-family CMBS available for sale held in securitization trusts at December 31, 2018 and December 31, 2017, respectively

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Residential Mortgage Loans.

Distressed and Other Residential Mortgage Loans, at Fair Value

Certain of the Company’s acquired residential mortgage loans, including distressed residential mortgage loans, non-QM loans and second mortgages, are presented at fair value on its consolidated balance sheets as a result of a fair value election made at the time of acquisition pursuant to ASC 825, Financial Instruments. Subsequent changes in fair value are reported in current period earnings and presented in net gain (loss) on distressed and other residential mortgage loans at fair value on the Company’s consolidated statements of operations.

The following table details our distressed and other residential mortgage loans, at fair value at December 31, 2018 and December 31, 2017, respectively (dollar amounts in thousands):

	December 31, 2018			December 31, 2017		
	Number of Loans	Unpaid Principal	Fair Value	Number of Loans	Unpaid Principal	Fair Value
Distressed Residential Mortgage Loans	3,352	$627,092	$576,816	201	$42,789	$36,914
Other Residential Mortgage Loans (1)	1,539	161,280	160,707	766	49,316	50,239

(1) Includes second mortgages with a fair value of $67.4 million and $50.2 million at December 31, 2018 and December 31, 2017, respectively.

Characteristics of Our Distressed and other Residential Mortgage Loans, at Fair Value:

Loan to Value at Purchase (1)	December 31, 2018		December 31, 2017	
50.00% or less	18.5	%	3.6	%
50.01% - 60.00%	13.6	%	5.1	%
60.01% - 70.00%	14.5	%	8.7	%
70.01% - 80.00%	15.9	%	18.3	%
80.01% - 90.00%	15.4	%	41.5	%
90.01% - 100.00%	9.3	%	13.5	%
100.01% and over	12.8	%	9.3	%
Total	100.0	%	100.0	%

(1) For second mortgages, the Company calculated combined loan to value.

FICO Scores at Purchase	December 31, 2018		December 31, 2017	
550 or less	26.0	%	7.0	%
551 to 600	21.9	%	8.2	%
601 to 650	17.3	%	9.5	%
651 to 700	12.7	%	14.9	%
701 to 750	10.3	%	37.8	%
751 to 800	7.8	%	20.4	%
801 and over	4.0	%	2.2	%
Total	100.0	%	100.0	%

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Current Coupon	December 31, 2018		December 31, 2017	
3.00% or less	8.6	%	1.8	%
3.01% – 4.00%	16.1	%	19.7	%
4.01% – 5.00%	35.2	%	20.0	%
5.01% – 6.00%	19.0	%	2.3	%
6.01% and over	21.1	%	56.2	%
Total	100.0	%	100.0	%

Delinquency Status	December 31, 2018		December 31, 2017	
Current	71.8	%	94.1	%
31 – 60 days	6.4	%	3.8	%
61 – 90 days	12.3	%	0.8	%
90+ days	9.5	%	1.3	%
Total	100.0	%	100.0	%

Origination Year	December 31, 2018