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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-K**

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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**

*(State or other jurisdiction of  
incorporation or organization)*

**47-0934168**

*(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:**

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
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  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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically 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  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  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

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

<u>Document</u>	<u>Where Incorporated</u>
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.	Part III, Items 10-14

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 servicers 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.



## **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](http://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](http://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.

## 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,” “objective,” “will,” “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.

**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.

***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.

***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.

***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.



***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.



***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.

## 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.

***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.

**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.

***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.

***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.

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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.

**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.

## 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
<b>Year Ended December 31, 2018</b>						
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
<b>Year Ended December 31, 2017</b>						
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.

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*Securities Authorized for Issuance Under Equity Compensation Plans*

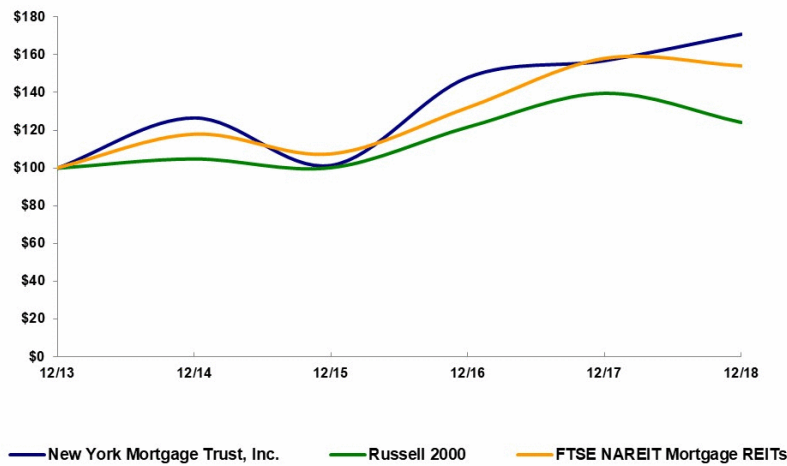
The following table sets forth information as of December 31, 2018 with respect to compensation plans under which equity securities of the Company are authorized for issuance. The Company has no such plans that were not approved by security holders.

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.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\***  
 Among New York Mortgage Trust, Inc., the Russell 2000 Index  
 and the FTSE NAREIT Mortgage REITs Index



\*\$100 invested on 12/31/13 in stock or index, including reinvestment of dividends.  
 Fiscal year ending December 31.

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*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 be deemed "filed" with the SEC or deemed "soliciting material" under those acts.*

**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:**

	<b>For the Years Ended December 31,</b>				
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
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:**

	<b>As of December 31,</b>				
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
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 <sup>(1)</sup>	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 <sup>(1)</sup>	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

<sup>(1)</sup> 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.

## **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.



### 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.

## 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.”

## 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 <sup>(1)</sup>	Multi- Family Credit <sup>(2)</sup>	Residential Credit <sup>(3)</sup>	Other <sup>(4)</sup>	Total
Carrying value	\$ 1,037,730	\$ 1,166,628	\$ 1,241,817	\$ 10,953	\$ 3,457,128
Liabilities:					
Callable <sup>(5)</sup>	(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) <sup>(6)</sup>	10,263	—	—	—	10,263
Cash and Restricted Cash <sup>(7)</sup>	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 <sup>(1)</sup>	Multi- Family Credit <sup>(2)</sup>	Residential Credit <sup>(3)</sup>	Other <sup>(4)</sup>	Total
Carrying value	\$ 1,169,535	\$ 816,805	\$ 601,831	\$ 12,622	\$ 2,600,793
Liabilities:					
Callable <sup>(5)</sup>	(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) <sup>(6)</sup>	10,101	—	—	—	10,101
Cash and Restricted Cash <sup>(7)</sup>	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	<u>\$ 264,801</u>	<u>\$ 475,200</u>	<u>\$ 318,957</u>	<u>\$ (82,957)</u>	<u>\$ 976,001</u>
% 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	<u>\$ 475,200</u>

(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.



**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):

	<b>For the Years Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>\$ Change</b>
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)*

General, Administrative and Operating Expenses:	For the Years Ended December 31,		
	2018	2017	\$ Change
<b>General and Administrative Expenses</b>			
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
<b>Operating Expenses</b>			
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)
<b>Total</b>	<b>\$ 41,470</b>	<b>\$ 41,077</b>	<b>\$ 393</b>

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

### ***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.

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

<b>General, Administrative and Operating Expenses:</b>	<b>For the Years Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>\$ Change</b>
<b>General and Administrative Expenses</b>			
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
<b>Operating Expenses</b>			
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
<b>Total</b>	<b>\$ 41,077</b>	<b>\$ 35,221</b>	<b>\$ 5,856</b>

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):

**Year Ended December 31, 2018**

	Agency RMBS <sup>(1)</sup>	Multi- Family Credit <sup>(2)</sup> (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)	<u>\$ 11,232</u>	<u>\$ 59,607</u>	<u>\$ 21,275</u>	<u>\$ (13,386)</u>	<u>\$ 78,728</u>
Average Interest Earning Assets <sup>(3)(4)</sup>	\$ 1,146,157	\$ 682,148	\$ 661,600	\$ —	\$ 2,489,905
Weighted Average Yield on Interest Earning Assets <sup>(5)</sup>	2.68 %	11.25 %	5.32 %	—	5.73 %
Average Cost of Funds <sup>(6)</sup>	(2.12)%	(4.80)%	(4.58)%	—	(3.20)%
Portfolio Net Interest Margin <sup>(7)</sup>	<u>0.56 %</u>	<u>6.45 %</u>	<u>0.74 %</u>	<u>—</u>	<u>2.53 %</u>

**Year Ended December 31, 2017**

	Agency RMBS <sup>(1)</sup>	Multi- Family Credit <sup>(2)</sup> (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)	<u>\$ 5,318</u>	<u>\$ 48,517</u>	<u>\$ 16,299</u>	<u>\$ (12,148)</u>	<u>\$ 57,986</u>
Average Interest Earning Assets <sup>(3)(4)</sup>	\$ 610,339	\$ 530,093	\$ 698,203	\$ —	\$ 1,838,635
Weighted Average Yield on Interest Earning Assets <sup>(5)</sup>	2.07 %	11.22 %	4.63 %	—	5.68 %
Average Cost of Funds <sup>(6)</sup>	(1.47)%	(4.45)%	(3.82)%	—	(2.95)%
Portfolio Net Interest Margin <sup>(7)</sup>	<u>0.60 %</u>	<u>6.77 %</u>	<u>0.81 %</u>	<u>—</u>	<u>2.73 %</u>

**Year Ended December 31, 2016**

	Agency RMBS <sup>(1)</sup>	Multi- Family Credit <sup>(2)</sup> (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)	<u>\$ 9,552</u>	<u>\$ 33,296</u>	<u>\$ 23,851</u>	<u>\$ (2,061)</u>	<u>\$ 64,638</u>
Average Interest Earning Assets <sup>(3)(4)</sup>	\$ 645,459	\$ 330,242	\$ 753,504	\$ —	\$ 1,729,205
Weighted Average Yield on Interest Earning Assets <sup>(5)</sup>	2.44 %	12.35 %	5.34 %	—	5.60 %
Average Cost of Funds <sup>(6)</sup>	(1.17)%	(6.44)%	(3.40)%	—	(2.67)%
Portfolio Net Interest Margin <sup>(7)</sup>	<u>1.27 %</u>	<u>5.91 %</u>	<u>1.94 %</u>	<u>—</u>	<u>2.93 %</u>

(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):

	<b>For the Years Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Interest income, multi-family loans held in securitization trusts	\$ 358,712	\$ 297,124	\$ 249,191
Interest income, investment securities, available for sale <sup>(a)</sup>	10,123	10,089	5,036
Interest income, preferred equity investments and mezzanine loans <sup>(a)</sup>	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	<u>\$ 59,607</u>	<u>\$ 48,517</u>	<u>\$ 33,296</u>

(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:

<b>Quarter Ended</b>	<b>Weighted Average</b>	<b>Agency Fixed-Rate RMBS</b>	<b>Agency ARMs</b>
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.

**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.

**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
<b>Agency RMBS</b>				
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 <sup>(1)</sup>	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

<sup>(1)</sup> 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 <sup>(1)</sup>	1,539	161,280	160,707	766	49,316	50,239

<sup>(1)</sup> 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 <sup>(1)</sup>	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%

<sup>(1)</sup> 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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<b>Current Coupon</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
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%

<b>Delinquency Status</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
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%

<b>Origination Year</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
2005 or earlier	23.8%	4.2%
2006	16.0%	4.2%
2007	27.4%	7.7%
2008 or later	32.8%	83.9%
Total	100.0%	100.0%

*Residential Mortgage Loans Held in Securitization Trusts, Net*

Included in our portfolio are prime ARM loans that we originated or purchased in bulk from third parties that met our investment criteria and portfolio requirements and that we subsequently securitized in 2005.

At December 31, 2018, residential mortgage loans held in securitization trusts totaled approximately \$56.8 million. The Company's net investment in the residential securitization trusts, which is the maximum amount of the Company's investment that is at risk to loss and represents the difference between the carrying amount of (i) the ARM loans, real estate owned and receivables held in residential securitization trusts and (ii) the amount of Residential CDOs outstanding, was \$4.8 million. Of the residential mortgage loans held in securitization trusts, 100% are traditional ARMs or hybrid ARMs, 81.0% of which are ARM loans that are interest only at the time of origination. With respect to the hybrid ARMs included in these securitizations, interest rate reset periods were predominately five years or less and the interest-only period is typically nine years, which mitigates the "payment shock" at the time of interest rate reset. None of the residential mortgage loans held in securitization trusts are pay option-ARMs or ARMs with negative amortization. At December 31, 2018, the interest only period for the interest only ARM loans included in these securitizations has ended.

The following table details our residential mortgage loans held in securitization trusts at December 31, 2018 and December 31, 2017, respectively (dollar amounts in thousands):

	<b>Number of Loans</b>	<b>Unpaid Principal</b>	<b>Carrying Value</b>
December 31, 2018	196	\$ 60,171	\$ 56,795
December 31, 2017	240	77,519	73,820

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*Characteristics of Our Residential Mortgage Loans Held in Securitization Trusts:*

The following table sets forth the composition of our residential mortgage loans held in securitization trusts as of December 31, 2018 and December 31, 2017, respectively (dollar amounts in thousands):

	December 31, 2018			December 31, 2017		
	Average	High	Low	Average	High	Low
<b>General Loan Characteristics:</b>						
Original Loan Balance	\$ 425	\$ 2,850	\$ 48	\$ 423	\$ 2,850	\$ 48
Current Coupon Rate	4.75%	6.63%	3.00%	3.79%	5.63%	2.38%
Gross Margin	2.36%	4.13%	1.13%	2.37%	4.13%	1.13%
Lifetime Cap	11.32%	12.63%	9.38%	11.32%	13.25%	9.38%
Original Term (Months)	360	360	360	360	360	360
Remaining Term (Months)	197	204	163	209	216	175
Average Months to Reset	5	11	1	5	11	1
Original FICO Score	725	818	603	725	818	603
Original LTV	70.54%	95.00%	16.28%	70.17%	95.00%	16.28%

The following tables detail the activity for the residential mortgage loans held in securitization trusts, net for the years ended December 31, 2018 and 2017, respectively (dollar amounts in thousands):

	Principal	Premium	Allowance for Loan Losses	Net Carrying Value
<b>Balance, January 1, 2018</b>	\$ 77,519	\$ 492	\$ (4,191)	\$ 73,820
Principal repayments	(17,466)	—	—	(17,466)
Provision for loan loss	—	—	(166)	(166)
Transfer to real estate owned	—	—	—	—
Charge-Offs	118	—	598	716
Amortization of premium	—	(109)	—	(109)
<b>Balance, December 31, 2018</b>	<u>\$ 60,171</u>	<u>\$ 383</u>	<u>\$ (3,759)</u>	<u>\$ 56,795</u>
	Principal	Premium	Allowance for Loan Losses	Net Carrying Value
<b>Balance, January 1, 2017</b>	\$ 98,303	\$ 623	\$ (3,782)	\$ 95,144
Principal repayments	(20,667)	—	—	(20,667)
Provision for loan loss	—	—	(475)	(475)
Transfer to real estate owned	(117)	—	6	(111)
Charge-Offs	—	—	60	60
Amortization of premium	—	(131)	—	(131)
<b>Balance, December 31, 2017</b>	<u>\$ 77,519</u>	<u>\$ 492</u>	<u>\$ (4,191)</u>	<u>\$ 73,820</u>

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*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.

The following table details our portfolio of distressed residential mortgage loans at carrying value, including those distressed residential mortgage loans held in securitization trusts, at December 31, 2018 and December 31, 2017, respectively (dollar amounts in thousands):

	<u>Number of Loans</u>	<u>Unpaid Principal</u>	<u>Carrying Value</u>
December 31, 2018	2,702	\$ 242,007	\$ 228,466
December 31, 2017	3,729	355,998	331,464

Certain of the Company's distressed residential mortgage loans accounted for under ASC 310-30 with a carrying value of approximately \$88.1 million and \$121.8 million at December 31, 2018 and December 31, 2017, respectively, are held in securitization trusts and are pledged as collateral for certain of the securitized debt issued by the Company. The Company's net investment in these securitization trusts, which is the maximum amount of the Company's investment that is at risk to loss and represents the difference between the carrying amount of the net assets and liabilities associated with the distressed residential mortgage loans held in securitization trusts, was \$85.7 million and \$81.9 million at December 31, 2018 and 2017, respectively.

In addition, distressed residential mortgage loans with a carrying value of approximately \$128.1 million and \$182.6 million at December 31, 2018 and December 31, 2017, respectively, are pledged as collateral for a master repurchase agreement.

*Characteristics of our Distressed Residential Mortgage Loans accounted for under ASC 310-30:*

<b>Loan to Value at Purchase</b>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
50.00% or less	3.9%	4.5%
50.01% - 60.00%	4.8%	5.0%
60.01% - 70.00%	7.6%	7.6%
70.01% - 80.00%	12.4%	11.9%
80.01% - 90.00%	13.7%	13.6%
90.01% - 100.00%	15.0%	14.4%
100.01% and over	42.6%	43.0%
Total	<u>100.0%</u>	<u>100.0%</u>
<b>FICO Scores at Purchase</b>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
550 or less	20.3%	20.5%
551 to 600	30.5%	30.5%
601 to 650	29.3%	28.7%
651 to 700	12.3%	12.7%
701 to 750	5.3%	5.3%
751 to 800	1.9%	2.0%
801 and over	0.4%	0.3%
Total	<u>100.0%</u>	<u>100.0%</u>

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<b>Current Coupon</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
3.00% or less	7.9%	10.3%
3.01% - 4.00%	8.5%	10.5%
4.01 to 5.00%	21.2%	20.6%
5.01 - 6.00%	13.6%	12.9%
6.01% and over	48.8%	45.7%
Total	100.0%	100.0%

<b>Delinquency Status</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Current	65.7%	62.4%
31- 60 days	10.6%	12.0%
61 - 90 days	4.5%	5.5%
90+ days	19.2%	20.1%
Total	100.0%	100.0%

<b>Origination Year</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
2005 or earlier	29.2%	28.0%
2006	17.9%	17.4%
2007	32.1%	32.3%
2008 or later	20.8%	22.3%
Total	100.0%	100.0%

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**Consolidated K-Series.** As of December 31, 2018 and December 31, 2017, we owned 100% of the first loss POs of the Consolidated K-Series. The Consolidated K-Series are comprised of multi-family mortgage loans held in nine and seven Freddie Mac-sponsored multi-family loan K-Series securitizations as of December 31, 2018 and December 31, 2017, respectively, of which we, or one of our SPEs, own the first loss POs and, in certain cases, IOs and/or mezzanine securities. We determined that the securitizations comprising the Consolidated K-Series were VIEs and that we are the primary beneficiary of these securitizations. Accordingly, we are required to consolidate the Consolidated K-Series' underlying multi-family loans and related debt, income and expense 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 statements of operations. As of December 31, 2018 and December 31, 2017, the Consolidated K-Series were comprised of \$11.7 billion and \$9.7 billion, respectively, in multi-family loans held in securitization trusts and \$11.0 billion and \$9.2 billion, respectively, in multi-family CDOs, with a weighted average interest rate of 3.96% and 3.92%, respectively. The increases in multi-family loans held in securitization trusts and multi-family CDOs during the year ended December 31, 2018 were due to the consolidation of \$2.3 billion in multi-family loans held in securitization trusts and \$2.2 billion in multi-family CDOs in connection with the purchase in 2018 of \$112.2 million in additional first loss POs and certain IOs and mezzanine CMBS securities. As a result of the consolidation of the Consolidated K-Series, our consolidated statements of operations for the years ended December 31, 2018 and 2017 included interest income of \$358.7 million and \$297.1 million, respectively, and interest expense of \$313.1 million and \$261.7 million, respectively. Also, we recognized unrealized gains in the consolidated statements of operations for the years ended December 31, 2018 and 2017 of \$37.6 million and a \$18.9 million, respectively, as a result of the fair value accounting method election.

We do not have any claims to the assets (other than those securities represented by our first loss POs and mezzanine securities) or obligations for the liabilities of the Consolidated K-Series. Our investment in the Consolidated K-Series is limited to the multi-family CMBS comprised of first loss POs and, in certain cases, IOs and/or mezzanine securities, issued by these K-Series securitizations with an aggregate net carrying value of \$657.6 million and \$468.0 million as of December 31, 2018 and December 31, 2017, respectively.

*Multi-Family CMBS Loan Characteristics:*

The following table details the loan characteristics of the loans that back our multi-family CMBS investment securities available for sale, held in securitization trusts and multi-family loans held in securitization trusts as of December 31, 2018 and December 31, 2017, respectively (dollar amounts in thousands):

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Current balance of loans	\$ 13,593,818	\$ 11,479,393
Number of loans	773	662
Weighted average original LTV	68.8%	69.5%
Weighted average underwritten debt service coverage ratio	1.45x	1.44x
Current average loan size	\$ 19,364	\$ 17,340
Weighted average original loan term (in months)	123	120
Weighted average current remaining term (in months)	64	64
Weighted average loan rate	4.34%	4.32%
First mortgages	100%	100%
Geographic state concentration (greater than 5.0%):		
California	14.8%	14.7%
Texas	13.0%	12.7%
New York	6.4%	6.5%
Maryland	5.0%	5.5%

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**Investment in Unconsolidated Entities.** Investment in unconsolidated entities is comprised of ownership interests in entities that invest in multi-family or residential real estate and related assets. As of December 31, 2018 and December 31, 2017, we had approximately \$73.5 million and \$51.1 million of investments in unconsolidated entities, respectively.

On March 31, 2017, the Company reconsidered its evaluation of its variable interest in 200 RHC Hoover, LLC ("Riverchase Landing"), a multi-family apartment community in which the Company held a preferred equity investment, and determined that it became the primary beneficiary of Riverchase Landing. Accordingly, on this date, the Company consolidated Riverchase Landing into its consolidated financial statements and decreased its investment in unconsolidated entities by approximately \$9.0 million. In March 2018, Riverchase Landing completed the sale of its multi-family apartment community and redeemed the Company's preferred equity investment. See *Note 10* to our consolidated financial statements included in this report for more information on Riverchase Landing.

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**Preferred Equity and Mezzanine Loan Investments.** The Company had preferred equity and mezzanine loan investments in the amounts of \$165.6 million and \$138.9 million as of December 31, 2018 and December 31, 2017, respectively.

On March 31, 2017, the Company reconsidered its evaluation of its variable interest in The Clusters, LLC ("The Clusters"), a multi-family apartment community in which the Company holds a preferred equity investment, and determined that it became the primary beneficiary of The Clusters. Accordingly, on this date, the Company consolidated The Clusters into its consolidated financial statements, resulting in a decrease in preferred equity investments of approximately \$3.5 million. See *Note 10* to our consolidated financial statements included in this report for more information on The Clusters.

As of December 31, 2018, all preferred equity and mezzanine loan investments were paying in accordance with their contractual terms. During the year ended December 31, 2018, there were no impairments with respect to our preferred equity and mezzanine loan investments.



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The following tables summarize our preferred equity and mezzanine loan investments as of December 31, 2018 and December 31, 2017 (dollars in thousands):

<b>December 31, 2018</b>					
	<b>Count</b>	<b>Carrying Amount<sup>(1)</sup></b>	<b>Investment Amount<sup>(1)</sup></b>	<b>Weighted Average Interest or Preferred Return Rate<sup>(2)</sup></b>	<b>Weighted Average Remaining Life (Years)</b>
Preferred equity investments	24	\$ 154,629	\$ 155,819	11.59%	7.2
Mezzanine loans	4	10,926	10,970	12.29%	17.5
<b>Total</b>	<b>28</b>	<b>\$ 165,555</b>	<b>\$ 166,789</b>	<b>11.63%</b>	<b>7.8</b>

<b>December 31, 2017</b>					
	<b>Count</b>	<b>Carrying Amount<sup>(1)</sup></b>	<b>Investment Amount<sup>(1)</sup></b>	<b>Weighted Average Interest or Preferred Return Rate<sup>(2)</sup></b>	<b>Weighted Average Remaining Life (Years)</b>
Preferred equity investments	20	\$ 132,009	\$ 133,618	12.02%	6.6
Mezzanine loans	3	6,911	6,942	12.95%	6.8
<b>Total</b>	<b>23</b>	<b>\$ 138,920</b>	<b>\$ 140,560</b>	<b>12.07%</b>	<b>6.6</b>

(1) The difference between the carrying amount and the investment amount consists of any unamortized premium or discount, deferred fees, or deferred expenses.

(2) Based upon investment amount and contractual interest or preferred return rate.

*Preferred Equity and Mezzanine Loan Investments Characteristics*

<b>Combined Loan to Value at Investment</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
70.01% - 80.00%	10.4%	5.4%
80.01% - 90.00%	89.6%	94.6%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

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**Real Estate Held for Sale in Consolidated VIEs.** On March 31, 2017, the Company re-evaluated its variable interests in Riverchase Landing and The Clusters and, as a result of the reconsideration, consolidated Riverchase Landing and The Clusters into its consolidated financial statements.

During the second quarter of 2017, Riverchase Landing determined to actively market its multi-family apartment community for sale. Accordingly, the Company classified the real estate assets held by Riverchase Landing in the amount of \$34.9 million as held for sale as of December 31, 2017 in the accompanying consolidated balance sheets. In March 2018, Riverchase Landing completed the sale of its multi-family apartment community and redeemed the Company's preferred equity investment. The Company de-consolidated Riverchase Landing as of the date of the sale.

During the third quarter of 2017, The Clusters determined to actively market its multi-family apartment community for sale, with completion of such sale occurring in February 2019 (see *Note 26* to our consolidated financial statements included in this report for more information). As a result, the Company classified the real estate assets held by The Clusters in the amount of \$29.7 million and \$29.3 million as real estate held for sale in consolidated variable interest entities as of December 31, 2018 and 2017, respectively.

No gain or loss was recognized by the Company or allocated to non-controlling interests related to the classification of the real estate assets to held for sale.

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**Financing Arrangements, Portfolio Investments.** The Company finances its portfolio investments primarily through repurchase agreements with third party financial institutions. These financing arrangements are short-term borrowings that bear interest rates typically based on a spread to LIBOR and are secured by the securities which they finance.

As of December 31, 2018, the Company had repurchase agreements with an outstanding balance of \$1.5 billion and a weighted average interest rate of 3.41%. At December 31, 2017, the Company had repurchase agreements with an outstanding balance of \$1.3 billion and a weighted average interest rate of 2.18%. Our repurchase agreements have a weighted average days to maturity of 62 days.

At December 31, 2018, the Company's only exposure where the amount at risk was in excess of 5% of the Company's stockholders' equity was to Jefferies & Company, Inc. at 5.04%. At December 31, 2017, the Company's only exposure where the amount at risk was in excess of 5% of the Company's stockholders' equity was to Deutsche Bank AG, London Branch at 5.04%. The amount at risk is defined as the fair value of securities pledged as collateral to the financing arrangement in excess of the financing arrangement liability.

As of December 31, 2018, the outstanding balance under our repurchase agreements was funded at a weighted average advance rate of 87.7% that implies an average "haircut" of 12.3%. The weighted average "haircut" related to our repurchase agreement financing for our Agency RMBS, non-Agency RMBS, and CMBS was approximately 5%, 25%, and 23%, respectively, at December 31, 2018. As of December 31, 2017, the outstanding balance under our repurchase agreements was funded at a weighted average advance rate of 90.0% that implies an average "haircut" of 10.0%. The weighted average "haircut" related to our repurchase agreement financing for our Agency RMBS, non-Agency RMBS, and CMBS was approximately 5%, 25%, and 24%, respectively, at December 31, 2017.

The following table details the quarterly average balance, ending balance and maximum balance at any month-end during each quarter in 2018, 2017 and 2016 for our repurchase agreement borrowings (dollar amounts in thousands):

<b>Quarter Ended</b>	<b>Quarterly Average Balance</b>	<b>End of Quarter Balance</b>	<b>Maximum Balance at any Month-End</b>
December 31, 2018	\$ 1,372,459	\$ 1,543,577	\$ 1,543,577
September 30, 2018	\$ 1,144,080	\$ 1,130,659	\$ 1,163,683
June 30, 2018	\$ 1,230,648	\$ 1,179,961	\$ 1,279,121
March 31, 2018	\$ 1,287,939	\$ 1,287,314	\$ 1,297,949
December 31, 2017	\$ 1,224,771	\$ 1,276,918	\$ 1,276,918
September 30, 2017	\$ 624,398	\$ 608,304	\$ 645,457
June 30, 2017	\$ 688,853	\$ 656,350	\$ 719,222
March 31, 2017	\$ 702,675	\$ 702,309	\$ 762,382
December 31, 2016	\$ 742,594	\$ 773,142	\$ 773,142
September 30, 2016	\$ 686,348	\$ 671,774	\$ 699,506
June 30, 2016	\$ 615,930	\$ 618,050	\$ 642,536
March 31, 2016	\$ 576,822	\$ 589,919	\$ 589,919

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**Financing Arrangements, Residential Mortgage Loans.** The Company has a master repurchase agreement with Deutsche Bank AG, Cayman Islands Branch with a maximum aggregate committed principal amount of \$100.0 million and a maximum uncommitted principal amount of \$150.0 million to fund the purchase of residential mortgage loans, expiring on June 8, 2019. At December 31, 2017, the master repurchase agreement provided for a maximum aggregate principal committed amount of up to \$100.0 million. The outstanding balance on this master repurchase agreement as of December 31, 2018 and December 31, 2017 amounts to approximately \$120.7 million and \$123.6 million, respectively, bearing interest at 4.91% and 4.05% at December 31, 2018 and December 31, 2017, respectively. Residential mortgage loans with a carrying value of approximately \$168.4 million at December 31, 2018 are pledged as collateral for the borrowings under this master repurchase agreement.

The Company also has a master repurchase agreement with Deutsche Bank AG, Cayman Islands Branch with a maximum aggregate principal amount of up to \$50.0 million to fund the purchase of residential mortgage loans. On December 18, 2018, the Company amended the pricing side letter to the master repurchase agreement to extend the maturity date to February 19, 2019. On February 14, 2019, the Company amended and restated the pricing side letter to this master repurchase agreement. The pricing side letter increased the maximum aggregate principal amount from \$50.0 million to \$200.0 million, extended the maturity date to February 12, 2021 and will be used to fund the purchase of residential mortgage loans, including both first and second mortgages. The outstanding balance on this master repurchase agreement as of December 31, 2018 and December 31, 2017 amounts to approximately \$33.9 million and \$26.1 million, respectively, bearing interest at 6.01% and 5.05% at December 31, 2018 and December 31, 2017, respectively. Second mortgages with a carrying value of approximately \$57.6 million at December 31, 2018 are pledged as collateral for the borrowings under this master repurchase agreement.

On November 28, 2018, the Company entered into a master repurchase agreement with Credit Suisse AG, Cayman Islands Branch with a maximum aggregate principal amount of \$750.0 million to fund the purchase of residential mortgage loans, expiring on November 28, 2019. The outstanding balance on this master repurchase agreement as of December 31, 2018 amounts to approximately \$434.6 million, bearing interest at 4.50%. Residential mortgage loans with a carrying value of approximately \$528.4 million at December 31, 2018 are pledged as collateral for the borrowings under this master repurchase agreement.

The Company expects to roll outstanding borrowings under these master repurchase agreements into a new repurchase agreements or other financings prior to or at maturity.

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**Residential Collateralized Debt Obligations.** As of December 31, 2018 and 2017, we had Residential CDOs of \$53.0 million and \$70.3 million, respectively. As of December 31, 2018 and 2017, the weighted average interest rate of these Residential CDOs was 3.12% and 2.16%, respectively. The Residential CDOs are collateralized by ARMs with a principal balance of \$60.2 million and \$77.5 million at December 31, 2018 and 2017, respectively. The Company retained the owner trust certificates, or residual interest, for three securitizations, and had a net investment in the residential securitization trusts of \$4.8 million and \$4.4 million at December 31, 2018 and 2017, respectively.

**Securitized Debt.** As of December 31, 2018 and 2017, we had approximately \$42.3 million and \$81.5 million of securitized debt, respectively. As of December 31, 2018 and 2017, the weighted average interest rate for our securitized debt was 4.96% and 4.48%, respectively. The Company's securitized debt is collateralized by multi-family CMBS and distressed residential mortgage loans. See *Note 10* to our consolidated financial statements included in this report for more information on securitized debt.

**Debt.** The Company's debt as of December 31, 2018 included Convertible Notes, subordinated debentures and mortgages and notes payable in consolidated variable interest entities.

### *Convertible Notes*

On January 23, 2017, the Company issued \$138.0 million aggregate principal amount of its 6.25% Senior Convertible Notes due 2022 in an underwritten public offering. The net proceeds to the Company from the sale of the Convertible Notes, after deducting the underwriter's discounts, commissions and offering expenses, were approximately \$127.0 million with the total cost to the Company of approximately 8.24%.

### *Subordinated Debentures*

As of December 31, 2018, certain of our wholly owned subsidiaries had trust preferred securities outstanding of \$45.0 million with a weighted average interest rate of 6.52%. The securities are fully guaranteed by us with respect to distributions and amounts payable upon liquidation, redemption or repayment. These securities are classified as subordinated debentures in the liability section of our consolidated balance sheets.

### *Mortgages and Notes Payable in Consolidated VIEs*

On March 31, 2017, the Company determined that it became the primary beneficiary of Riverchase Landing and The Clusters, two VIEs that each own a multi-family apartment community and in which the Company held preferred equity investments. Accordingly, on this date, the Company consolidated both Riverchase Landing and The Clusters into its consolidated financial statements. Each of Riverchase Landing's and The Clusters' real estate investments were subject to a mortgage payable as of December 31, 2017. In March 2018, Riverchase Landing completed the sale of its multi-family apartment community and redeemed the Company's preferred equity investment. The Company de-consolidated Riverchase Landing as of the date of the sale. The Clusters' real estate investment remains subject to a mortgage payable of \$27.3 million and the Company has no obligation for this liability as of December 31, 2018. See *Note 10* to our consolidated financial statements included in this report for more information on Riverchase Landing and The Clusters.

The Company also consolidates Kiawah River View Investors LLC ("KRVI") into its consolidated financial statements. KRVI's real estate under development is subject to a note payable of \$4.0 million that has an unused commitment of \$4.4 million as of December 31, 2018. See *Note 10* to our consolidated financial statements included in this report for more information on KRVI.

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**Derivative Assets and Liabilities.** The Company enters into derivative instruments in connection with its risk management activities. These derivative instruments may include interest rate swaps, swaptions, 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 TBAs.

Our current derivative instruments are comprised of interest rate swaps. We use interest rate swaps to hedge variable cash flows associated with our variable rate 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. Historically, we have accounted for these interest rate swaps under the hedged accounting methodology with changes in value reflected in comprehensive earnings and not through the statement of operations. Beginning in the fourth quarter of 2017, the Company did not elect hedge accounting treatment and all changes in fair value are recognized in the statement of operations.

At December 31, 2018 and December 31, 2017 the Company had no outstanding swaps that qualify as cash flow hedges for financial reporting purposes. See *Note 12* to our consolidated financial statements included in this Form 10-K for more information on our derivative instruments and hedging activities.

Derivative financial instruments may contain credit risk to the extent that the institutional counterparties may be unable to meet the terms of the agreements. We minimize this risk by limiting our counterparties to major financial institutions with good credit ratings. In addition, we regularly monitor the potential risk of loss with any one party resulting from this type of credit risk. Currently, all of the Company's interest rate swaps outstanding are cleared through CME Group Inc. ("CME Clearing") which is the parent company of the Chicago Mercantile Exchange Inc. CME Clearing serves as the counterparty to every cleared transaction, becoming the buyer to each seller and the seller to each buyer, limiting the credit risk by guaranteeing the financial performance of both parties and netting down exposures.

**Balance Sheet Analysis - Company's Stockholders' Equity**

The Company's stockholders' equity at December 31, 2018 was \$1.2 billion and included \$22.1 million of accumulated other comprehensive loss. The accumulated other comprehensive loss at December 31, 2018 consisted of \$38.3 million in unrealized losses related to our Agency RMBS and \$1.2 million in net unrealized losses related to non-Agency RMBS, partially offset by \$17.4 million in unrealized gains related to our CMBS. The Company's stockholders' equity at December 31, 2017 was \$971.9 million and included \$5.6 million of accumulated other comprehensive income. The accumulated other comprehensive income at December 31, 2017 consisted of \$18.2 million in unrealized gains related to our CMBS and \$1.8 million in net unrealized gains related to our non-Agency RMBS, partially offset by \$14.5 million in unrealized losses related to our Agency RMBS.

**Analysis of Changes in Book Value**

The following table analyzes the changes in book value of our common stock for the year ended December 31, 2018 (amounts in thousands, except per share):

	<b>Year Ended December 31, 2018</b>		
	<b>Amount</b>	<b>Shares</b>	<b>Per Share<sup>(1)</sup></b>
<b>Beginning Balance</b>	\$ 671,865	111,910	\$ 6.00
Common stock issuance, net <sup>(2)</sup>	262,673	43,680	
Balance after share issuance activity	934,538	155,590	6.01
Dividends declared	(106,647)		(0.69)
Net change in accumulated other comprehensive income:			
Investment securities <sup>(3)</sup>	(27,688)		(0.18)
Net income attributable to Company's common stockholders	79,186		0.51
<b>Ending Balance</b>	<u>\$ 879,389</u>	<u>155,590</u>	<u>\$ 5.65</u>

(1) Outstanding shares used to calculate book value per share for the year ended December 31, 2018 are 155,589,528.

(2) Includes amortization of stock based compensation.

(3) The decline of \$27.7 million for the year ended December 31, 2018 relates to unrealized losses in investment securities and is primarily due to a decline in the value of the Agency RMBS portfolio.

The following table analyzes the changes in book value for the year ended December 31, 2017 (amounts in thousands, except per share):

	<b>Year Ended December 31, 2017</b>		
	<b>Amount</b>	<b>Shares</b>	<b>Per Share<sup>(1)</sup></b>
<b>Beginning Balance</b>	\$ 683,075	111,474	\$ 6.13
Common stock issuance, net <sup>(2)</sup>	2,560	436	
Preferred stock issuance, net	130,496		
Preferred stock liquidation preference	(135,000)		
Balance after share issuance activity	681,131	111,910	6.08
Dividends declared	(89,500)		(0.80)
Net change in accumulated other comprehensive income:			
Hedges	(102)		—
Investment securities	4,016		0.04
Net income attributable to Company's common stockholders	76,320		0.68
<b>Ending Balance</b>	<u>\$ 671,865</u>	<u>111,910</u>	<u>\$ 6.00</u>

(1) Outstanding shares used to calculate book value per share for the year ended December 31, 2017 are 111,909,909.

(2) Includes amortization of stock based compensation.



## Liquidity and Capital Resources

### *General*

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain investments, comply with margin requirements, fund our operations, pay management and incentive fees, pay dividends to our stockholders and other general business needs. Our investments and assets, excluding the multi-family CMBS POs we invest in, generate liquidity on an ongoing basis through principal and interest payments, prepayments, net earnings retained prior to payment of dividends and distributions from unconsolidated investments. Our multi-family CMBS POs are backed by balloon non-recourse mortgage loans that provide for the payment of principal at maturity date, which is typically ten to fifteen years from the date the underlying mortgage loans are originated, and therefore do not directly contribute to monthly cash flows. In addition, the Company will, from time to time, sell on an opportunistic basis certain assets from its investment portfolio as part of its overall investment strategy and these sales are expected to provide additional liquidity.

During the year ended December 31, 2018, net cash and restricted cash increased primarily as a result of \$621.2 million provided by financing activities and \$24.2 million provided by operating activities, which was partially offset by \$642.5 million used in investing activities.

Our financing activities primarily included net proceeds from financing arrangements of \$704.8 million, \$260.1 million in proceeds from issuance of common stock and \$1.2 million in advances on mortgages and notes payable in Consolidated VIEs, partially offset by \$137.8 million in payments made on multi-family CDOs, \$121.7 million in aggregate dividends paid on common stock and preferred stock, \$40.9 million in payments made on securitized debt, \$27.1 million in payments made on mortgages and notes payable in Consolidated VIEs, and \$17.3 million in payments made on Residential CDOs.

Our investing activities primarily included \$688.8 million of purchases of residential mortgage loans and distressed residential mortgage loans, \$393.7 million of purchases of investment securities, \$112.5 million in the funding of preferred equity, equity and mezzanine loan investments, \$112.2 million of purchases of investments held in multi-family securitization trusts, and \$0.6 million of other investing activities, partially offset by \$234.4 million in principal paydowns on investment securities available for sale, \$138.6 million in principal repayments and proceeds from sales and refinancings of distressed and other residential mortgage loans, \$137.8 million in principal repayments received on multi-family loans held in securitization trusts, \$56.7 million in principal repayments received on preferred equity and mezzanine loan investments, \$33.2 million in net proceeds from sales of real estate in Consolidated VIEs, \$26.9 million in proceeds from sales of investment securities, \$16.8 million in principal repayments received on residential mortgage loans held in securitization trusts, \$15.0 million of return of capital from unconsolidated entities, \$5.1 million in proceeds from sale of real estate owned, and \$0.7 million in net proceeds from other derivative instruments settled during the period.

We fund our investments and operations through a balanced and diverse funding mix, which includes proceeds from the issuance of common stock and preferred equity and debt securities, including convertible notes, short-term and longer-term repurchase agreement borrowings, CDOs, securitized debt and trust preferred debentures. The type and terms of financing used by us depends on the asset being financed and the financing available at the time of the financing. In those cases where we utilize some form of structured financing, be it through CDOs, longer-term repurchase agreements or securitized debt, the cash flow produced by the assets that serve as collateral for these structured finance instruments may be restricted in terms of its use or applied to pay principal or interest on CDOs, repurchase agreements, or notes that are senior to our interests. At December 31, 2018, we had cash and cash equivalents balances of \$103.7 million, which increased from \$95.2 million at December 31, 2017. Based on our current investment portfolio, new investment initiatives, leverage ratio and available and future possible borrowing arrangements, we believe our existing cash balances, funds available under our various financing arrangements and cash flows from operations will meet our liquidity requirements for at least the next 12 months.

### *Liquidity – Financing Arrangements*

We rely primarily on short-term repurchase agreements to finance the more liquid assets in our investment portfolio. Over the last several years, certain repurchase agreement lenders have elected to exit the repo lending market for various reasons, including new capital requirement regulations. However, as certain lenders have exited the space, other financing counterparties that had not participated in the repo lending market historically have stepped in, offsetting, in part the lenders that have elected to exit.

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As of December 31, 2018, we have outstanding short-term repurchase agreements, a form of collateralized short-term borrowing, with eleven different financial institutions. These agreements are secured by certain of our investment securities and bear interest rates that have historically moved in close relationship to LIBOR. Our borrowings under repurchase agreements are based on the fair value of our investment securities portfolio. Interest rate changes and increased prepayment activity can have a negative impact on the valuation of these securities, reducing the amount we can borrow under these agreements. Moreover, our repurchase agreements allow the counterparties to determine a new market value of the collateral to reflect current market conditions and because these lines of financing are not committed, the counterparty can call the loan at any time. 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. If a counterparty determines that the value of the collateral has decreased, the counterparty may initiate a margin call and require us to either post additional collateral to cover such decrease or repay a portion of the outstanding borrowing in cash, on minimal notice. Moreover, in the event an existing counterparty elected to not renew the outstanding balance at its maturity into a new repurchase agreement, we would be required to repay the outstanding balance with cash or proceeds received from a new counterparty or to surrender the securities that serve as collateral for the outstanding balance, or any combination thereof. If we are unable to secure financing from a new counterparty and had to surrender the collateral, we would expect to incur a loss. In addition, in the event one of our lenders under the repurchase agreement defaults on its obligation to “re-sell” or return to us the securities that are securing the borrowings at the end of the term of the repurchase agreement, we would incur a loss on the transaction equal to the amount of “haircut” associated with the short-term repurchase agreement, which we sometimes refer to as the “amount at risk.” As of December 31, 2018, we had an aggregate amount at risk under our repurchase agreements of approximately \$240.6 million, with no more than approximately \$59.4 million at risk with any single counterparty. At December 31, 2018, the Company had short-term repurchase agreement borrowings on its investment securities of \$1.5 billion as compared to \$1.3 billion as of December 31, 2017.

As of December 31, 2018, our available liquid assets include unrestricted cash and cash equivalents and unencumbered securities we believe may be posted as margin. We had \$103.7 million in cash and cash equivalents and \$262.5 million in unencumbered investment securities to meet additional haircuts or market valuation requirements. The unencumbered securities that we believe may be posted as margin as of December 31, 2018 included \$59.4 million of Agency RMBS, \$107.0 million of CMBS, and \$96.1 million of non-Agency RMBS and other investment securities. We believe the cash and unencumbered securities, which collectively represent 23.7% of our financing arrangements, are liquid and could be monetized to pay down or collateralize a liability immediately.

At December 31, 2018, the Company also had three longer-term master repurchase agreements, two with Deutsche Bank AG, Cayman Islands Branch and one with Credit Suisse AG, Cayman Islands Branch. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analysis - Financing Arrangements, Residential Mortgage Loans" for further information.

At December 31, 2018, we also had other longer-term debt, including Residential CDOs outstanding of \$53.0 million, multi-family CDOs outstanding of \$11.0 billion (which represent obligations of the Consolidated K-Series), subordinated debt of \$45.0 million and securitized debt of \$42.3 million. The CDOs are collateralized by residential and multi-family loans held in securitization trusts, respectively. The securitized debt as of December 31, 2018 represents the notes issued in (i) our May 2012 multi-family re-securitization transaction and (ii) our April 2016 distressed residential mortgage loan securitization transactions, which is described in *Note 10* of our consolidated financial statements.

On January 23, 2017, the Company issued \$138.0 million aggregate principal amount of Convertible Notes in a public offering. The Convertible Notes were issued at 96% of the principal amount, bear interest at a rate equal to 6.25% per year, payable semi-annually in arrears on January 15 and July 15 of each year, and are expected to mature on January 15, 2022, unless earlier converted or repurchased. The Company does not have the right to redeem the Convertible Notes prior to maturity and no sinking fund is provided for the Convertible Notes. Holders of the Convertible Notes are permitted to convert their Convertible Notes into shares of the Company's common stock at any time prior to the close of business on the business day immediately preceding January 15, 2022. The conversion rate for the Convertible Notes, which is subject to adjustment upon the occurrence of certain specified events, initially equals 142.7144 shares of the Company's common stock per \$1,000 principal amount of Convertible Notes, which is equivalent to a conversion price of approximately \$7.01 per share of the Company's common stock, based on a \$1,000 principal amount of the Convertible Notes.

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. As of December 31, 2018, 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. We monitor all at risk or short-term borrowings to ensure that we have adequate liquidity to satisfy margin calls and have the ability to respond to other market disruptions.

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### *Liquidity – Hedging and Other Factors*

Certain of our hedging instruments may also impact our liquidity. We may use interest rate swaps, swaptions, TBAs or other futures contracts to hedge interest rate and market value risk associated with our investments in Agency RMBS.

With respect to interest rate swaps, futures contracts and TBAs, initial margin deposits, which can be comprised of either cash or securities, will be made upon entering into these contracts. During the period these contracts are open, changes in the value of the contract are recognized as unrealized gains or losses by marking to market on a daily basis to reflect the market value of these contracts at the end of each day's trading. We may be required to satisfy variable margin payments periodically, depending upon whether unrealized gains or losses are incurred. In addition, because delivery of TBAs extend beyond the typical settlement dates for most non-derivative investments, these transactions are more prone to market fluctuations between the trade date and the ultimate settlement date, and thereby are more vulnerable to increasing amounts at risk with the applicable counterparties.

For additional information regarding the Company's derivative instruments and hedging activities for the periods covered by this report, including the fair values and notional amounts of these instruments and realized and unrealized gains and losses relating to these instruments, please see *Note 12* to our consolidated financial statements included in this report. Also, please see Item 7A. Quantitative and Qualitative Disclosures about Market Risk, under the caption, "Fair Value Risk", for a tabular presentation of the sensitivity of the fair value and net duration changes of the Company's portfolio across various changes in interest rates, which takes into account the Company's hedging activities.

### *Liquidity — Securities Offerings*

In addition to the financing arrangements described above under the caption "Liquidity—Financing Arrangements," we also rely on follow-on equity offerings of common and preferred stock, and may utilize from time to time debt securities offerings, as a source of both short-term and long-term liquidity. We also may generate liquidity through the sale of shares of our common stock in an "at the market" equity offering program pursuant to an equity distribution agreement (the "ATM Program"), as well as through the sale of shares of our common stock pursuant to our Dividend Reinvestment Plan ("DRIP"). Our DRIP provides for the issuance of up to \$20,000,000 of shares of our common stock.

On August 14, 2018, the Company issued 14,375,000 shares of its common stock through an underwritten public offering, at a public offering price of \$6.16 per share, resulting in total net proceeds to the Company of \$86.0 million after deducting underwriting discounts and commissions and offering expenses.

On November 13, 2018, the Company issued 14,375,000 shares of its common stock through an underwritten public offering at a public offering price of \$6.11 per share, resulting in total net proceeds to the Company of \$85.3 million after deducting underwriting discounts and commissions and offering expenses.

On September 10, 2018, the Company entered into an amendment to its equity distribution agreement (as amended, the "Equity Distribution Agreement") with Credit Suisse Securities (USA) LLC ("Credit Suisse"), as sales agent, to increase the amount available for issuance under the Equity Distribution Agreement by \$77.1 million. Pursuant to the Equity Distribution Agreement, we may offer and sell shares of our common stock, par value \$0.01 per share, having a maximum aggregate sales price of up to \$177.1 million, from time to time through Credit Suisse. The Company has no obligation to sell any of the shares of common stock issuable under the Equity Distribution Agreement and may at any time suspend solicitations and offers under the Equity Distribution Agreement.

During the year ended December 31, 2018, the Company issued 14,588,631 shares of common stock under the Equity Distribution Agreement, at an average sales price of \$6.19 per share, resulting in net proceeds to the Company of \$89.0 million, after deducting the placement fees. During the year ended December 31, 2017, the Company issued 55,886 shares of common stock under the Equity Distribution Agreement, at an average sales price of \$6.45 per share, resulting in total net proceeds to the Company of \$0.4 million, after deducting the placement fees. As of December 31, 2018, approximately \$86.4 million of common stock remains available for issuance under the Equity Distribution Agreement. Also during the year ended December 31, 2017, the Company issued 87,737 shares of its common stock under its ATM Program pursuant to a prior equity distribution agreement, at an average sales price of \$6.68 per share, resulting in total net proceeds to the Company of \$0.6 million, after deducting the placement fees.

*Internalization of Distressed Residential Loan Strategy*

We engaged Headlands beginning in 2012 to manage and advise us with respect to certain distressed residential mortgage loans that we acquired. Headlands sourced and performed due-diligence procedures on the pools of distressed residential mortgage loans that we acquired and manages the servicing, modification and final disposition or resolution of the loans, which can range from modifying a mortgage loan balance, interest rate or payment to selling the underlying loan or the real estate asset.

In August 2018, we announced that we had begun 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. In connection with the internalization, we provided Headlands with written notice that we intend to cause our management agreement with them to expire when its current term ends on June 30, 2019. Pursuant to the terms of the management agreement, Headlands will continue to manage the loans sourced by it and currently owned by us (the “Headlands Loans”) and will be entitled to continue to receive a base management fee equal to 1.5% per annum of Equity (as defined in the management agreement) managed, incentive fees (to the extent earned) and certain ancillary fees on such assets until such assets have been liquidated. Headlands is entitled to an incentive fee that is calculated quarterly and paid in cash in arrears. The incentive fee is based upon the average Equity during the fiscal quarter, subject to a high water mark equal to a 5% return on Equity, and shall be payable in an amount equal to 35% of the dollar amount by which adjusted net income (as defined in the management agreement) attributable to the assets managed by them, before accounting for any incentive fees payable to Headlands, exceeds an annualized 12% rate of return on Equity. In addition, in accordance with the management agreement, Headlands has an exclusive right of first refusal on an ongoing basis to purchase or arrange for purchase any of the Headlands Loans. We anticipate continuing to work directly with Headlands to finalize the details around the transition of its services to us. As of December 31, 2018, Headlands managed approximately \$321.7 million of Assets (as defined in the management agreement) and approximately \$188.8 million of Equity under the terms of the management agreement.

*Dividends*

For information regarding the declaration and payment of dividends on our preferred stock for the periods covered by this report, please see *Note 19* to our consolidated financial statements included in this report. For information regarding the declaration and payment of dividends on our common stock, see “Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities” above.

We expect to continue to pay quarterly cash dividends on our common stock during the near term. However, our Board of Directors will continue to evaluate our dividend policy each quarter and will make adjustments as necessary, based on a variety of factors, including, among other things, the need to maintain our REIT status, our financial condition, liquidity, earnings projections and business prospects. Our dividend policy does not constitute an obligation to pay dividends.

We intend to make distributions to our stockholders to comply with the various requirements to maintain our REIT status and to minimize or 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 REIT distribution requirements and to minimize or avoid corporate income tax and the nondeductible excise tax.

**Inflation**

Substantially all our assets and liabilities are financial in nature and are sensitive to interest rate and other related factors to a greater degree than inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our consolidated financial statements and corresponding notes thereto have been prepared in accordance with GAAP, which require the measurement of financial position and operating results in terms of historical dollars without considering inflation.

**Contractual Obligations and Commitments**

The Company had the following contractual obligations at December 31, 2018 (dollar amounts in thousands):

	<u>Less than 1 year</u>	<u>1 to 3 years</u>	<u>4 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Operating leases	\$ 1,240	\$ 2,856	\$ 2,791	\$ 6,507	\$ 13,394
Financing arrangements	2,131,505	—	—	—	2,131,505
Subordinated debentures <sup>(1)</sup>	3,030	6,069	6,060	79,909	95,068
Securitized debt <sup>(1)(3)</sup>	12,498	—	—	—	12,498
Interest rate swaps <sup>(1)</sup>	423	847	847	3,337	5,454
Management fees <sup>(2)</sup>	3,159	—	—	—	3,159
Convertible notes <sup>(1)</sup>	8,625	17,250	142,313	—	168,188
Employment agreements	800	—	—	—	800
Total contractual obligations <sup>(3)</sup>	<u>\$ 2,161,280</u>	<u>\$ 27,022</u>	<u>\$ 152,011</u>	<u>\$ 89,753</u>	<u>\$ 2,430,066</u>

(1) Amounts include projected interest payments during the period. Interest based on interest rates in effect on December 31, 2018.

(2) Amounts include the base fee for Headlands based on the current invested capital. The management fees exclude incentive fees which are based on future performance.

(3) We exclude our Residential CDOs from the contractual obligations disclosed in the table above as this debt is non-recourse and not cross-collateralized and, therefore, must be satisfied exclusively from the proceeds of the residential mortgage loans and real estate owned held in the securitization trusts. See *Note 15* in the Notes to Consolidated Financial Statements for further information regarding our Residential CDOs. We also exclude the securitized debt related to our May 2012 re-securitization transaction as this debt is non-recourse to the Company. See *Note 10* in the Notes to Consolidated Financial Statements for further information regarding our Securitized Debt. The Company's Multi-Family CDOs, which represent the CDOs issued by the Consolidated K-Series are excluded as this debt is non-recourse to the Company.

**Off-Balance Sheet Arrangements**

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

**Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

*This section should be read in conjunction with “Item 1A. Risk Factors” in this Annual Report on Form 10-K and our subsequent periodic reports filed with the SEC.*

We seek to manage risks that we believe will impact our business including interest rates, liquidity, prepayments, credit quality and market value. When managing these risks we consider the impact on our assets, liabilities and derivative positions. While we do not seek to avoid risk completely, we believe the risk can be quantified from historical experience. We seek to actively manage that risk, to generate risk-adjusted total returns that we believe compensate us appropriately for those risks and to maintain capital levels consistent with the risks we take.

The following analysis includes forward-looking statements that assume that certain market conditions occur. Actual results may differ materially from these projected results due to changes in our portfolio assets and borrowings mix and due to developments in the domestic and global financial and real estate markets. Developments in the financial markets include the likelihood of changing interest rates and the relationship of various interest rates and their impact on our portfolio yield, cost of funds and cash flows. The analytical methods that we use to assess and mitigate these market risks should not be considered projections of future events or operating performance.

***Interest Rate Risk***

Interest rates are sensitive to many factors, including governmental, monetary, tax policies, domestic and international economic conditions, and political or regulatory matters beyond our control. Changes in interest rates affect the value of the assets we manage and hold in our investment portfolio and the variable-rate borrowings we use to finance our portfolio. Changes in interest rates also affect the interest rate swaps and caps, Eurodollar and other futures, TBAs and other securities or instruments we may use to hedge our portfolio. As a result, our net interest income is particularly affected by changes in interest rates.

For example, we hold RMBS, some of which may have fixed rates or interest rates that adjust on various dates that are not synchronized to the adjustment dates on our repurchase agreements. In general, the re-pricing of our repurchase agreements occurs more quickly than the re-pricing of our variable-interest rate assets. Thus, it is likely that our floating rate borrowings, such as our repurchase agreements, may react to interest rates before our RMBS because the weighted average next re-pricing dates on the related borrowings may have shorter time periods than that of the RMBS. In addition, the interest rates on our Agency ARMs backed by hybrid ARMs may be limited to a “periodic cap,” or an increase of typically 1% or 2% per adjustment period, while our borrowings do not have comparable limitations. Moreover, changes in interest rates can directly impact prepayment speeds, thereby affecting our net return on RMBS. During a declining interest rate environment, the prepayment of RMBS may accelerate (as borrowers may opt to refinance at a lower interest rate) causing the amount of liabilities that have been extended by the use of interest rate swaps to increase relative to the amount of RMBS, possibly resulting in a decline in our net return on RMBS, as replacement RMBS may have a lower yield than those being prepaid. Conversely, during an increasing interest rate environment, RMBS may prepay more slowly than expected, requiring us to finance a higher amount of RMBS than originally forecast and at a time when interest rates may be higher, resulting in a decline in our net return on RMBS. Accordingly, each of these scenarios can negatively impact our net interest income.

We seek to manage interest rate risk in our portfolio by utilizing interest rate swaps, swaptions, interest rate caps, futures, options on futures and U.S. Treasury securities with the goal of optimizing the earnings potential while seeking to maintain long-term stable portfolio values. We continually monitor the duration of our mortgage assets and have a policy to hedge the financing of those assets such that the net duration of the assets, our borrowed funds related to such assets, and related hedging instruments, is less than one year.

We utilize a model-based risk analysis system to assist in projecting portfolio performances over a scenario of different interest rates. The model incorporates shifts in interest rates, changes in prepayments and other factors impacting the valuations of our financial securities and derivative hedging instruments.



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Based on the results of the model, the instantaneous changes in interest rates specified below would have had the following effect on our net interest income for the next 12 months based on our assets and liabilities as of December 31, 2018 (dollar amounts in thousands):

Changes in Net Interest Income	
Changes in Interest Rates (basis points)	Changes in Net Interest Income
+200	\$ (24,035)
+100	\$ (12,064)
-100	\$ 13,716

Interest rate changes may also impact our net book value as our assets and related hedge derivatives are marked-to-market each quarter. Generally, as interest rates increase, the value of our mortgage assets decreases, and conversely, as interest rates decrease, the value of such investments will increase. In general, we expect that, over time, decreases in the value of our portfolio attributable to interest rate changes will be offset, to the degree we are hedged, by increases in the value of our interest rate swaps or other financial instruments used for hedging purposes, and vice versa. However, the relationship between spreads on our assets and spreads on our hedging instruments may vary from time to time, resulting in a net aggregate book value increase or decline. That said, unless there is a material impairment in value that would result in a payment not being received on a security or loan, changes in the book value of our portfolio will not directly affect our recurring earnings or our ability to make a distribution to our stockholders.

**Liquidity Risk**

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain investments, pay dividends to our stockholders and other general business needs. The primary liquidity risk we face arises from financing long-maturity assets with shorter-term borrowings primarily in the form of repurchase agreement financings. We recognize the need to have funds available to operate our business. We manage and forecast our liquidity needs and sources daily to ensure that we have adequate liquidity at all times. We plan to meet liquidity through normal operations with the goal of avoiding unplanned sales of assets or emergency borrowing of funds.

We are subject to “margin call” risk under our repurchase agreements. In the event the value of our assets pledged as collateral suddenly decreases, margin calls relating to our repurchase agreements could increase, causing an adverse change in our liquidity position. Additionally, if one or more of our repurchase agreement counterparties chooses not to provide ongoing funding, we may be unable to replace the financing through other lenders on favorable terms or at all. As such, we provide no assurance that we will be able to roll over our repurchase agreements as they mature from time to time in the future. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" in this Annual Report on Form 10-K for further information about our liquidity and capital resource management.

Derivative financial instruments are also subject to “margin call” risk. For example, under our interest rate swaps, typically we pay a fixed rate to the counterparties while they pay us a floating rate. If interest rates drop below the fixed rate we are paying on an interest rate swap, we may be required to post cash margin.

**Prepayment Risk**

When borrowers repay the principal on their residential mortgage loans before maturity or faster than their scheduled amortization, the effect is to shorten the period over which interest is earned, and therefore, reduce the yield for residential mortgage assets purchased at a premium to their then current balance, as with our portfolio of Agency RMBS. Conversely, residential mortgage assets purchased for less than their then current balance, such as our distressed residential mortgage loans, exhibit higher yields due to faster prepayments. Furthermore, actual prepayment speeds may differ from our modeled prepayment speed projections impacting the effectiveness of any hedges we have in place to mitigate financing and/or fair value risk. Generally, when market interest rates decline, borrowers have a tendency to refinance their mortgages, thereby increasing prepayments.

Our modeled prepayments will help determine the amount of hedging we use to off-set changes in interest rates. If actual prepayment rates are higher than modeled, the yield will be less than modeled in cases where we paid a premium for the particular residential mortgage asset. Conversely, when we have paid a premium, if actual prepayment rates experienced are slower than modeled, we would amortize the premium over a longer time period, resulting in a higher yield to maturity.

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In an environment of increasing prepayment speeds, the timing difference between the actual cash receipt of principal paydowns and the announcement of the principal paydown may result in additional margin requirements from our repurchase agreement counterparties.

We mitigate prepayment risk by constantly evaluating our residential mortgage assets relative to prepayment speeds observed for assets with similar structures, quantities and characteristics. Furthermore, we stress-test the portfolio as to prepayment speeds and interest rate risk in order to further develop or make modifications to our hedge balances. Historically, we have not hedged 100% of our liability costs due to prepayment risk.

### ***Credit Risk***

Credit risk is the risk that we will not fully collect the principal we have invested in our credit sensitive assets, including distressed residential and other mortgage loans, non-Agency RMBS, multi-family CMBS, preferred equity and mezzanine loan and joint venture equity investments, due to borrower defaults. In selecting the credit sensitive assets in our portfolio, we seek to identify and invest in assets with characteristics that we believe offset or limit our exposure to borrower defaults.

We seek to manage credit risk through our pre-acquisition or pre-funding due diligence process, and by factoring projected credit losses into the purchase price we pay or loan terms we negotiate for all of our credit sensitive assets. In general, we evaluate relative valuation, supply and demand trends, prepayment rates, delinquency and default rates, vintage of collateral and macroeconomic factors as part of this process. Nevertheless, these procedures do not guarantee unanticipated credit losses which would materially affect our operating results.

With respect to the \$228.5 million of distressed residential mortgage loans at carrying value and \$576.8 million of distressed residential mortgage loans at fair value owned by the Company at December 31, 2018, we purchased these mortgage loans at a discount to par reflecting their distressed state or perceived higher risk of default, which may include higher loan to value ratios and, in certain instances, delinquent loan payments.

As of December 31, 2018, we own \$607.5 million of multi-family CMBS comprised solely of first loss POs that are backed by commercial mortgage loans on multi-family properties at a weighted average amortized purchase price of approximately 44.9% of current par. Prior to the acquisition of each of our multi-family CMBS POs, the Company completed an extensive review of the underlying loan collateral, including loan level cash flow re-underwriting, site inspections on selected properties, property specific cash flow and loss modeling, review of appraisals, property condition and environmental reports, and other credit risk analysis. We continue to monitor credit quality on an ongoing basis using updated property level financial reports provided by borrowers and periodic site inspection of selected properties. We also reconcile on a monthly basis the actual bond distributions received against projected distributions to assure proper allocation of cash flow generated by the underlying loan pool.

As of December 31, 2018, we own approximately \$242.5 million of preferred equity, mezzanine loan and equity investments in owners of residential and multi-family properties. The performance and value of these investments depend upon the applicable operating partner's or borrower's ability to effectively operate the multi-family and residential properties, that serve as the underlying collateral, to produce cash flows adequate to pay distributions, interest or principal due to us. The Company monitors the performance and credit quality of the underlying assets that serve as collateral for its investments. In connection with these types of investments by us in multi-family properties, the procedures for ongoing monitoring include financial statement analysis and regularly scheduled site inspections of portfolio properties to assess property physical condition, performance of on-site staff and competitive activity in the sub-market. We also formulate annual budgets and performance goals alongside our operating partners for use in measuring the ongoing investment performance and credit quality of our investments. Additionally, the Company's preferred equity and equity investments typically provide us with various rights and remedies to protect our investment. In March 2017, the Company exercised such rights and remedies with respect to Riverchase Landing and The Clusters and effectively assumed control of both entities. In March 2018, the Company successfully resolved its investment in Riverchase Landing with the sale of the entity's multi-family apartment community and full redemption of the Company's preferred equity investment. Additionally, the Company believes it has an asset management team with the experience and expertise necessary to efficiently manage The Clusters while working toward a successful resolution for this investment.

We are exposed to credit risk in our investments in non-Agency RMBS totaling \$214.0 million as of December 31, 2018. The non-Agency RMBS in our investment portfolio consist of either the senior, mezzanine or subordinate tranches in 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.

***Fair Value Risk***

Changes in interest rates also expose us to market value (fair value) fluctuation on our assets, liabilities and hedges. While the fair value of the majority of our assets (when excluding all Consolidated K-Series assets other than the securities we actually own) that are measured on a recurring basis are determined using Level 2 fair values, we own certain assets, such as our multi-family CMBS POs, for which fair values may not be readily available if there are no active trading markets for the instruments. In such cases, fair values would only be derived or estimated for these investments using various valuation techniques, such as computing the present value of estimated future cash flows using discount rates commensurate with the risks involved. However, the determination of estimated future cash flows is inherently subjective and imprecise. Minor changes in assumptions or estimation methodologies can have a material effect on these derived or estimated fair values. Our fair value estimates and assumptions are indicative of the interest rate environments as of December 31, 2018, and do not take into consideration the effects of subsequent interest rate fluctuations.

We note that the fair values of our investments in derivative instruments will be sensitive to changes in market interest rates, interest rate spreads, credit spreads and other market factors. The value of these investments can vary and has varied materially from period to period.

The following describes the methods and assumptions we use in estimating fair values of our financial instruments:

Fair value estimates are made as of a specific point in time based on estimates using present value or other valuation techniques. These techniques involve uncertainties and are significantly affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, estimate of future cash flows, future expected loss experience and other factors.

Changes in assumptions could significantly affect these estimates and the resulting fair values. Derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in an immediate sale of the instrument. Also, because of differences in methodologies and assumptions used to estimate fair values, the fair values used by us should not be compared to those of other companies.

The table below presents the sensitivity of the fair value and net duration changes of our portfolio as of December 31, 2018, using a discounted cash flow simulation model assuming an instantaneous interest rate shift. Application of this method results in an estimation of the fair market value change of our assets, liabilities and hedging instruments per 100 basis point ("bp") shift in interest rates.

The use of hedging instruments is a critical part of our interest rate risk management strategies, and the effects of these hedging instruments on the market value of the portfolio are reflected in the model's output. This analysis also takes into consideration the value of options embedded in our mortgage assets including constraints on the re-pricing of the interest rate of assets resulting from periodic and lifetime cap features, as well as prepayment options. Assets and liabilities that are not interest rate-sensitive such as cash, payment receivables, prepaid expenses, payables and accrued expenses are excluded.

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Changes in assumptions including, but not limited to, volatility, mortgage and financing spreads, prepayment behavior, defaults, as well as the timing and level of interest rate changes will affect the results of the model. Therefore, actual results are likely to vary from modeled results.

<b>Fair Value Changes</b>			
<b>Changes in Interest Rates</b>	<b>Changes in Fair Value</b>		<b>Net Duration</b>
(basis points)	(\$ amounts in thousands)		
+200	\$	(160,365)	2.72
+100	\$	(74,506)	2.51
<b>Base</b>			<b>2.00</b>
-100	\$	46,511	1.37

It should be noted that the model is used as a tool to identify potential risk in a changing interest rate environment but does not include any changes in portfolio composition, financing strategies, market spreads or changes in overall market liquidity.

Although market value sensitivity analysis is widely accepted in identifying interest rate risk, it does not take into consideration changes that may occur such as, but not limited to, changes in investment and financing strategies, changes in market spreads and changes in business volumes. Accordingly, we make extensive use of an earnings simulation model to further analyze our level of interest rate risk.

**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Our financial statements and the related notes, together with the Report of Independent Registered Public Accounting Firm thereon, as required by this Item 8, are set forth beginning on page F-1 of this Annual Report on Form 10-K and are incorporated herein by reference.

**Item 9. *CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE***

None.

**Item 9A. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures.* We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosures. An evaluation was performed under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of December 31, 2018. Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2018.

*Management's Report on Internal Control Over Financial Reporting.* Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the reliability, preparation and fair presentation of published financial statements in accordance with generally accepted accounting principles. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework (2013)* (the "COSO framework"). Based on our evaluation under the COSO framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2018.

The effectiveness of our internal control over financial reporting as of December 31, 2018 has been audited by Grant Thornton LLP, an independent registered public accounting firm, as stated in their report which appears in Item 15(a) of this Annual Report on Form 10-K and is incorporated by reference herein.

*Changes in Internal Control Over Financial Reporting.* There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

*Inherent Limitations on Effectiveness of Controls.* Our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

**Item 9B. OTHER INFORMATION**

None.



**PART III**

**Item 10. *DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT AND CORPORATE GOVERNANCE***

The information required by this item is included in our Proxy Statement for our 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2018 (the “2019 Proxy Statement”) and is incorporated herein by reference.

**Item 11. *EXECUTIVE COMPENSATION***

The information required by this item is included in the 2019 Proxy Statement and is incorporated herein by reference.

**Item 12. *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS***

Except as set forth below, the information required by this item is included in the 2019 Proxy Statement and is incorporated herein by reference.

The information presented under the heading “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities — Securities Authorized for Issuance Under Equity Compensation Plans” in Item 5 of Part II of this Form 10-K is incorporated herein by reference.

**Item 13. *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE***

The information required by this item is included in the 2019 Proxy Statement and is incorporated herein by reference.

**Item 14. *PRINCIPAL ACCOUNTING FEES AND SERVICES***

The information required by this item is included in the 2019 Proxy Statement and is incorporated herein by reference.

## PART IV

## Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

## (a) Financial Statements

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## (b) Exhibits.

**EXHIBIT INDEX**

**Exhibits:** The exhibits required by Item 601 of Regulation S-K are listed below. Management contracts or compensatory plans are filed as Exhibits 10.1 through 10.12.

<b>Exhibit</b>	<b>Description</b>
<a href="#">2.1</a>	Membership Purchase Agreement, by and among Donlon Family LLC, JMP Investment Holdings LLC, Hypotheca Capital, LLC, RiverBanc LLC and the Company, dated May 3, 2016 (Incorporated by reference to Exhibit 2.1 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 5, 2016).
<a href="#">3.1</a>	Articles of Amendment and Restatement of the Company, as amended (Incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 10, 2014).
<a href="#">3.2</a>	Bylaws of the Company, as amended (Incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 4, 2011).
<a href="#">3.3</a>	Articles Supplementary designating the Company's 7.75% Series B Cumulative Redeemable Preferred Stock (the "Series B Preferred Stock") (Incorporated by reference to Exhibit 3.3 to the Company's Registration Statement on Form 8-A filed with the Securities and Exchange Commission on May 31, 2013).
<a href="#">3.4</a>	Articles Supplementary classifying and designating 2,550,000 additional shares of the Series B Preferred Stock (Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 20, 2015).
<a href="#">3.5</a>	Articles Supplementary classifying and designating the Company's 7.875% Series C Cumulative Redeemable Preferred Stock (the "Series C Preferred Stock") (Incorporated by reference to Exhibit 3.5 to the Company's Registration Statement on Form 8-A filed with the Securities and Exchange Commission on April 21, 2015).

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- [3.6](#) Articles Supplementary classifying and designating the Company's 8.00% Series D Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (the "Series D Preferred Stock") (Incorporated by reference to Exhibit 3.6 to the Company's Registration Statement on Form 8-A filed with the Securities and Exchange Commission on October 10, 2017).
- [4.1](#) Form of Common Stock Certificate (Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-11 (Registration No. 333-111668) filed with the Securities and Exchange Commission on June 18, 2004).
- [4.2](#) Form of Certificate representing the Series B Preferred Stock Certificate (Incorporated by reference to Exhibit 3.4 to the Company's Registration Statement on Form 8-A filed with the Securities and Exchange Commission on May 31, 2013).
- [4.3](#) Form of Certificate representing the Series C Preferred Stock (Incorporated by reference to Exhibit 3.6 to the Company's Registration Statement on Form 8-A filed with the Securities and Exchange Commission on April 21, 2015).
- [4.4](#) Form of Certificate representing the Series D Preferred Stock (Incorporated by reference to Exhibit 3.7 to the Company's Registration Statement on Form 8-A filed with the Securities and Exchange Commission on October 10, 2017).
- [4.5](#) Indenture, dated April 15, 2016, by and between NYMT Residential 2016-RP1, LLC and U.S. Bank National Association (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 19, 2016).
- [4.6](#) Indenture, dated January 23, 2017, between the Company and U.S. Bank National Association, as trustee (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 23, 2017).
- [4.7](#) First Supplemental Indenture, dated January 23, 2017, between the Company and U.S. Bank National Association, as trustee (Incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 23, 2017).
- [4.8](#) Form of 6.25% Senior Convertible Note Due 2022 of the Company (Incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 23, 2017).

*Certain instruments defining the rights of holders of long-term debt securities of the Company and its subsidiaries are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. The Company hereby undertakes to furnish to the Securities and Exchange Commission, upon request, copies of any such instruments.*

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- [10.1](#) The Company's 2010 Stock Incentive Plan (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 17, 2010).
- [10.2](#) The Company's 2013 Incentive Compensation Plan (effective for fiscal year 2015) (Incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed with the Securities and Exchange Commission on May 29, 2015).
- [10.3](#) The Company's 2017 Equity Incentive Plan (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 15, 2017).
- [10.4](#) Form of Restricted Stock Award Agreement for Officers (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 14, 2009).
- [10.5](#) Form of Restricted Stock Award Agreement for Directors (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 14, 2009).
- [10.6](#) Letter Agreement, dated February 8, 2017, by and between the Company and Steven R. Mumma (Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 9, 2017).
- [10.7](#) Third Amended and Restated Employment Agreement, dated as of April 19, 2018, between New York Mortgage Trust, Inc. and Steven R. Mumma (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 20, 2018).
- [10.8](#) Separation Agreement, dated September 18, 2017, by and between the Company and Kevin Donlon (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 19, 2017).
- [10.9](#) The Company's 2018 Annual Incentive Plan (Incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 27, 2018).
- [10.10](#) Form of 2018 Performance Stock Unit Award Agreement (Incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 27, 2018).
- [10.11](#) The Company's 2019 Annual Incentive Plan.\*
- [10.12](#) Form of 2019 Performance Stock Unit Award Agreement.\*
- [10.13](#) Equity Distribution Agreement, dated August 10, 2017, by and between the Company and Credit Suisse Securities (USA) LLC (Incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 11, 2017).
- [10.14](#) Amendment No. 1 to Equity Distribution Agreement, dated September 10, 2018, between New York Mortgage Trust, Inc. and Credit Suisse Securities (USA) LLC (Incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 10, 2018).
- [10.15](#) Investment Management Agreement, by and between NYMT Loan Financing, LLC and Headlands Asset Management, LLC, dated as of November 2, 2016 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on November 3, 2016).
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<a href="#">21.1</a>	List of Subsidiaries of the Registrant.*
<a href="#">23.1</a>	Consent of Independent Registered Public Accounting Firm (Grant Thornton LLP).*
<a href="#">31.1</a>	Certification of the Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
<a href="#">31.2</a>	Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
<a href="#">32.1</a>	Certification Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
101.INS	XBRL Instance Document ***
101.SCH	Taxonomy Extension Schema Document ***
101.CAL	Taxonomy Extension Calculation Linkbase Document ***
101.DE XBRL	Taxonomy Extension Definition Linkbase Document ***
101.LAB	Taxonomy Extension Label Linkbase Document ***
101.PRE	Taxonomy Extension Presentation Linkbase Document ***

\* Filed herewith.

\*\* Furnished herewith. Such certification shall not be deemed “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

\*\*\* Submitted electronically herewith. Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets at December 31, 2018 and 2017; (ii) Consolidated Statements of Operations for the years ended December 31, 2018, 2017 and 2016; (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016; (iv) Consolidated Statements of Changes in Stockholders’ Equity for the years ended December 31, 2018, 2017 and 2016; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016; and (vi) Notes to Consolidated Financial Statements.

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### NEW YORK MORTGAGE TRUST, INC.

Date: February 25, 2019

By: /s/ Steven R. Mumma

Steven R. Mumma  
Chairman of the Board and Chief Executive Officer  
(Principal Executive Officer)

Date: February 25, 2019

By: /s/ Kristine R. Nario-Eng

Kristine R. Nario-Eng  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Steven R. Mumma</u> Steven R. Mumma	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	February 25, 2019
<u>/s/ Kristine R. Nario-Eng</u> Kristine R. Nario-Eng	Chief Financial Officer (Principal Financial and Accounting Officer)	February 25, 2019
<u>/s/ Michael B. Clement</u> Michael B. Clement	Director	February 25, 2019
<u>/s/ Alan L. Hainey</u> Alan L. Hainey	Director	February 25, 2019
<u>/s/ Steven G. Norcutt</u> Steven G. Norcutt	Director	February 25, 2019
<u>/s/ David R. Bock</u> David R. Bock	Director	February 25, 2019
<u>/s/ Lisa A. Pendergast</u> Lisa A. Pendergast	Director	February 25, 2019

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**NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**AND**  
**REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

For Inclusion in Form 10-K

Filed with

United States Securities and Exchange Commission

December 31, 2018

**NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders  
New York Mortgage Trust, Inc.

### Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of New York Mortgage Trust, Inc. (a Maryland corporation) and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2018 and the related notes and financial statement schedule included under Item 15(a) (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in the 2013 *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated February 25, 2019 expressed an unqualified opinion.

### Basis for opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Grant Thornton LLP

We have served as the Company's auditor since 2009.

New York, New York

February 25, 2019



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

New York Mortgage Trust, Inc.

### Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of New York Mortgage Trust, Inc. (a Maryland corporation) and subsidiaries (the “Company”) as of December 31, 2018, based on criteria established in the 2013 *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in the 2013 *Internal Control-Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements of the Company as of and for the year ended December 31, 2018, and our report dated February 25, 2019 expressed an unqualified opinion on those financial statements.

### Basis for opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and limitations of internal control over financial reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Grant Thornton LLP

New York, New York

February 25, 2019

**NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Dollar amounts in thousands, except share data)

	December 31, 2018	December 31, 2017
<b>ASSETS</b>		
Investment securities, available for sale, at fair value (including pledged securities of \$1,464,977 and \$1,076,187, as of December 31, 2018 and December 31, 2017, respectively, and \$52,700 and \$47,922 held in securitization trusts as of December 31, 2018 and December 31, 2017, respectively)	\$ 1,512,252	\$ 1,413,081
Residential mortgage loans held in securitization trusts, net	56,795	73,820
Distressed and other residential mortgage loans, at fair value	737,523	87,153
Distressed residential mortgage loans, net (including \$88,096 and \$121,791 held in securitization trusts as of December 31, 2018 and December 31, 2017, respectively)	228,466	331,464
Multi-family loans held in securitization trusts, at fair value	11,679,847	9,657,421
Derivative assets	10,263	10,101
Cash and cash equivalents	103,724	95,191
Investment in unconsolidated entities	73,466	51,143
Preferred equity and mezzanine loan investments	165,555	138,920
Real estate held for sale in consolidated variable interest entities	29,704	64,202
Goodwill	25,222	25,222
Receivables and other assets	114,821	108,567
<b>Total Assets <sup>(1)</sup></b>	<b>\$ 14,737,638</b>	<b>\$ 12,056,285</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Financing arrangements, portfolio investments	\$ 1,543,577	\$ 1,276,918
Financing arrangements, distressed and other residential mortgage loans	587,928	149,063
Residential collateralized debt obligations	53,040	70,308
Multi-family collateralized debt obligations, at fair value	11,022,248	9,189,459
Securitized debt	42,335	81,537
Mortgages and notes payable in consolidated variable interest entities	31,227	57,124
Accrued expenses and other liabilities	101,228	82,126
Subordinated debentures	45,000	45,000
Convertible notes	130,762	128,749
<b>Total liabilities <sup>(1)</sup></b>	<b>\$ 13,557,345</b>	<b>\$ 11,080,284</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity:</b>		
Preferred stock, \$0.01 par value, 7.75% Series B cumulative redeemable, \$25 liquidation preference per share, 6,000,000 shares authorized, 3,000,000 shares issued and outstanding	\$ 72,397	\$ 72,397
Preferred stock, \$0.01 par value, 7.875% Series C cumulative redeemable, \$25 liquidation preference per share, 4,140,000 shares authorized, 3,600,000 shares issued and outstanding	86,862	86,862
Preferred stock, \$0.01 par value, 8.00% Series D Fixed-to-Floating Rate cumulative redeemable, \$25 liquidation preference per share, 5,750,000 shares authorized and 5,400,000 issued and outstanding	130,496	130,496
Common stock, \$0.01 par value, 400,000,000 shares authorized, 155,589,528 and 111,909,909 shares issued and outstanding as of December 31, 2018 and December 31, 2017, respectively	1,556	1,119
Additional paid-in capital	1,013,391	751,155
Accumulated other comprehensive (loss) income	(22,135)	5,553
Accumulated deficit	(103,178)	(75,717)
Company's stockholders' equity	1,179,389	971,865
Non-controlling interest in consolidated variable interest entities	904	4,136
<b>Total equity</b>	<b>\$ 1,180,293</b>	<b>\$ 976,001</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 14,737,638</b>	<b>\$ 12,056,285</b>

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- (1) Our consolidated balance sheets include assets and liabilities of consolidated variable interest entities ("VIEs") as the Company is the primary beneficiary of these VIEs. As of December 31, 2018 and December 31, 2017, assets of consolidated VIEs totaled \$11,984,374 and \$10,041,468, respectively, and the liabilities of consolidated VIEs totaled \$11,191,736 and \$9,436,421, respectively. See Note 10 for further discussion.

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

**NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Dollar amounts in thousands, except per share data)

	<b>For the Years Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>INTEREST INCOME:</b>			
Investment securities and other	\$ 68,518	\$ 43,909	\$ 33,696
Multi-family loans held in securitization trusts	358,712	297,124	249,191
Distressed and other residential mortgage loans	28,569	25,054	36,419
Total interest income	<u>455,799</u>	<u>366,087</u>	<u>319,306</u>
<b>INTEREST EXPENSE:</b>			
Investment securities and other	44,050	25,344	17,764
Convertible notes	10,643	9,852	—
Multi-family collateralized debt obligations	313,102	261,665	222,553
Residential collateralized debt obligations	1,779	1,463	1,246
Securitized debt	4,754	7,481	11,044
Subordinated debentures	2,743	2,296	2,061
Total interest expense	<u>377,071</u>	<u>308,101</u>	<u>254,668</u>
<b>NET INTEREST INCOME</b>	<u>78,728</u>	<u>57,986</u>	<u>64,638</u>
<b>OTHER INCOME (LOSS):</b>			
(Provision for) recovery of loan losses	(1,257)	1,739	838
Realized (loss) gain on investment securities and related hedges, net	(11,758)	3,888	(3,645)
Realized (loss) gain on distressed residential mortgage loans at carrying value, net	(623)	26,049	14,865
Net gain on distressed and other residential mortgage loans at fair value	8,702	1,678	—
Unrealized gain on investment securities and related hedges, net	11,104	1,955	7,070
Unrealized gain on multi-family loans and debt held in securitization trusts, net	37,581	18,872	3,032
Income from operating real estate and real estate held for sale in consolidated variable interest entities	6,163	7,280	—
Other income	16,568	13,552	19,078
Total other income	<u>66,480</u>	<u>75,013</u>	<u>41,238</u>
<b>GENERAL, ADMINISTRATIVE AND OPERATING EXPENSES:</b>			
General and administrative expenses	22,868	18,357	15,246
Base management and incentive fees	5,366	4,517	9,261
Expenses related to distressed and other residential mortgage loans	8,908	8,746	10,714
Expenses related to operating real estate and real estate held for sale in consolidated variable interest entities	4,328	9,457	—
Total general, administrative and operating expenses	<u>41,470</u>	<u>41,077</u>	<u>35,221</u>
<b>INCOME FROM OPERATIONS BEFORE INCOME TAXES</b>	<u>103,738</u>	<u>91,922</u>	<u>70,655</u>
Income tax (benefit) expense	<u>(1,057)</u>	<u>3,355</u>	<u>3,095</u>
<b>NET INCOME</b>	<u>104,795</u>	<u>88,567</u>	<u>67,560</u>
Net (income) loss attributable to non-controlling interest in consolidated variable interest entities	(1,909)	3,413	(9)
<b>NET INCOME ATTRIBUTABLE TO COMPANY</b>	<u>102,886</u>	<u>91,980</u>	<u>67,551</u>
Preferred stock dividends	(23,700)	(15,660)	(12,900)
<b>NET INCOME ATTRIBUTABLE TO COMPANY'S COMMON STOCKHOLDERS</b>	<u>\$ 79,186</u>	<u>\$ 76,320</u>	<u>\$ 54,651</u>
Basic earnings per common share	<u>\$ 0.62</u>	<u>\$ 0.68</u>	<u>\$ 0.50</u>
Diluted earnings per common share	<u>\$ 0.61</u>	<u>\$ 0.66</u>	<u>\$ 0.50</u>
Weighted average shares outstanding-basic	<u>127,243</u>	<u>111,836</u>	<u>109,594</u>
Weighted average shares outstanding-diluted	<u>147,450</u>	<u>130,343</u>	<u>109,594</u>

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

**NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(Dollar amounts in thousands)**

	<b>For the Years Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
NET INCOME ATTRIBUTABLE TO COMPANY'S COMMON STOCKHOLDERS	\$ 79,186	\$ 76,320	\$ 54,651
OTHER COMPREHENSIVE (LOSS) INCOME			
(Decrease) increase in fair value of available for sale securities	(27,688)	8,314	4,695
Reclassification adjustment for net gain included in net income	—	(4,298)	—
Decrease in fair value of derivative instruments utilized for cash flow hedges	—	(102)	(202)
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME	(27,688)	3,914	4,493
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMPANY'S COMMON STOCKHOLDERS	<u>\$ 51,498</u>	<u>\$ 80,234</u>	<u>\$ 59,144</u>

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

**NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**For the Years Ended December 31, 2018, 2017, and 2016**  
**(Dollar amounts in thousands)**

	Common Stock	Preferred Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive (Loss) Income	Total Company Stockholders' Equity	Non- Controlling Interest in Consolidated VIE	Total
Balance, December 31, 2015	\$ 1,094	\$ 159,259	\$ 734,610	\$ (11,583)	\$ (2,854)	\$ 880,526	\$ —	\$ 880,526
Net income	—	—	—	67,551	—	67,551	9	67,560
Common Stock issuance, net	21	—	13,989	—	—	14,010	—	14,010
Preferred Stock issuance, net	—	—	—	—	—	—	—	—
Dividends declared on common stock	—	—	—	(105,605)	—	(105,605)	—	(105,605)
Dividends declared on preferred stock	—	—	—	(12,900)	—	(12,900)	—	(12,900)
Increase in fair value of available for sale securities	—	—	—	—	4,695	4,695	—	4,695
Decrease in fair value of derivative instruments utilized for cash flow hedges	—	—	—	—	(202)	(202)	—	(202)
Increase in non-controlling interest related to initial consolidation of variable interest entities	—	—	—	—	—	—	3,078	3,078
Balance, December 31, 2016	\$ 1,115	\$ 159,259	\$ 748,599	\$ (62,537)	\$ 1,639	\$ 848,075	\$ 3,087	\$ 851,162
Net income	—	—	—	91,980	—	91,980	(3,413)	88,567
Common Stock issuance, net	4	—	2,556	—	—	2,560	—	2,560
Preferred Stock issuance, net	—	130,496	—	—	—	130,496	—	130,496
Dividends declared on common stock	—	—	—	(89,500)	—	(89,500)	—	(89,500)
Dividends declared on preferred stock	—	—	—	(15,660)	—	(15,660)	—	(15,660)
Reclassification adjustment for net gain included in net income	—	—	—	—	(4,298)	(4,298)	—	(4,298)
Increase in fair value of available for sale securities	—	—	—	—	8,314	8,314	—	8,314
Decrease in fair value of derivative instruments utilized for cash flow hedges	—	—	—	—	(102)	(102)	—	(102)
Increase in non-controlling interest related to initial consolidation of variable interest entities	—	—	—	—	—	—	4,462	4,462
Balance, December 31, 2017	\$ 1,119	\$ 289,755	\$ 751,155	\$ (75,717)	\$ 5,553	\$ 971,865	\$ 4,136	\$ 976,001
Net income	—	—	—	102,886	—	102,886	1,909	104,795
Common Stock issuance, net	437	—	262,236	—	—	262,673	—	262,673
Preferred Stock issuance, net	—	—	—	—	—	—	—	—
Dividends declared on common stock	—	—	—	(106,647)	—	(106,647)	—	(106,647)
Dividends declared on preferred stock	—	—	—	(23,700)	—	(23,700)	—	(23,700)
Decrease in fair value of available for sale securities	—	—	—	—	(27,688)	(27,688)	—	(27,688)
Decrease in non-controlling interest related to distributions from and deconsolidation of variable interest entities	—	—	—	—	—	—	(5,141)	(5,141)
Balance, December 31, 2018	\$ 1,556	\$ 289,755	\$ 1,013,391	\$ (103,178)	\$ (22,135)	\$ 1,179,389	\$ 904	\$ 1,180,293

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

**NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Dollar amounts in thousands)

	<b>For the Years Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Cash Flows from Operating Activities:</b>			
Net income	\$ 104,795	\$ 88,567	\$ 67,560
Adjustments to reconcile net income to net cash provided by operating activities:			
Net (accretion) amortization	(29,338)	197	7,648
Realized loss (gain) on investment securities and related hedges, net	11,758	(3,888)	3,645
Net gain on distressed residential mortgage loans at carrying value and distressed and other residential mortgage loans at fair value	(8,079)	(27,727)	(14,865)
Unrealized gain on investment securities and related hedges, net	(11,104)	(1,955)	(7,070)
Gain on sale of real estate held for sale in consolidated variable interest entities	(2,328)	—	—
Impairment of real estate under development in consolidated variable interest entities	2,764	—	—
Gain on remeasurement of existing membership interest in businesses acquired	—	—	(5,052)
Gain on bargain purchase on businesses acquired	—	—	(65)
Unrealized gain on loans and debt held in multi-family securitization trusts, net	(37,581)	(18,872)	(3,032)
Net decrease in loans held for sale	1,492	34	432
Provision for (recovery of) loan losses	1,257	(1,739)	(838)
Income from unconsolidated entity, preferred equity and mezzanine loan investments	(37,922)	(27,164)	(22,202)
Distributions of income from unconsolidated entity, preferred equity and mezzanine loan investments	29,358	20,870	15,801
Amortization of stock based compensation, net	2,582	1,632	514
Changes in operating assets and liabilities:			
Receivables and other assets	(13,963)	(18,459)	6,756
Accrued expenses and other liabilities and accrued expenses, related parties	10,486	17,836	4,612
Net cash provided by operating activities	<u>24,177</u>	<u>29,332</u>	<u>53,844</u>
<b>Cash Flows from Investing Activities:</b>			
Acquisition of businesses, net of cash and restricted cash acquired	—	—	(28,447)
Cash received from initial consolidation of variable interest entities	—	112	—
Net proceeds from sale of real estate in consolidated variable interest entities	33,192	—	—
Proceeds from sales of investment securities	26,899	107,062	208,229
Purchases of investment securities	(393,663)	(940,597)	(423,175)
Redemption of FHLBI stock	—	—	5,445
Purchases of other assets	(183)	(41)	(103)
Capital expenditures on operating real estate and real estate held for sale in consolidated variable interest entities	(457)	(296)	—
Funding of preferred equity, equity and mezzanine loan investments	(112,452)	(61,814)	(46,896)
Principal repayments received on preferred equity and mezzanine loan investments	56,718	19,031	4,464
Return of capital from unconsolidated entity investments	14,973	25,940	10,940
Net proceeds (payments) from other derivative instruments settled during the period	747	(4,683)	(933)
Principal repayments received on residential mortgage loans held in securitization trusts	16,751	20,667	23,648
Principal repayments and proceeds from sales and refinancing of distressed and other residential mortgage loans	138,587	224,915	122,552
Principal repayments received on multi-family loans held in securitization trusts	137,820	137,164	136,331
Principal paydowns on investment securities - available for sale	234,438	228,968	136,836
Proceeds from sale of real estate owned	5,120	7,026	2,131
Purchases of distressed and other residential mortgage loans	(688,750)	(101,250)	(82,167)
Purchases of investments held in multi-family securitization trusts	(112,214)	(102,147)	—
Net cash (used in) provided by investing activities	<u>(642,474)</u>	<u>(439,943)</u>	<u>68,855</u>
<b>Cash Flows from Financing Activities:</b>			
Proceeds from financing arrangements, net of FHLBI advances and payments	704,763	459,733	175,993
Proceeds from issuance of convertible notes	—	126,995	—
Proceeds from issuance of securitized debt	—	—	166,347
Common stock issuance, net	260,091	930	13,496
Preferred stock issuance, net	—	130,496	—
Dividends paid on common stock	(97,911)	(93,872)	(105,108)
Dividends paid on preferred stock	(23,760)	(12,900)	(12,900)

Payments made on mortgages and notes payable in consolidated variable interest entities	(27,067)	(1,485)	—
Proceeds from mortgages and notes payable in consolidated variable interest entities	1,154	5,414	—
Payments made on residential collateralized debt obligations	(17,338)	(21,442)	(25,152)
Payments made on multi-family collateralized debt obligations	(137,803)	(137,160)	(136,314)
Payments made on securitized debt	(40,882)	(79,433)	(126,018)
Redemption of preferred equity	—	—	(16,255)
Net cash provided by (used in) financing activities	621,247	377,276	(65,911)
<b>Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash</b>	2,950	(33,335)	56,788
<b>Cash, Cash Equivalents and Restricted Cash - Beginning of Period</b>	106,195	139,530	82,742
<b>Cash, Cash Equivalents and Restricted Cash - End of Period</b>	<u>\$ 109,145</u>	<u>\$ 106,195</u>	<u>\$ 139,530</u>



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<b>Supplemental Disclosure:</b>			
Cash paid for interest	\$ 417,016	\$ 333,907	\$ 300,992
Cash paid for income taxes	\$ 1,711	\$ 3,952	\$ 4,061
<b>Non-Cash Investment Activities:</b>			
Purchase of investment securities not yet settled	\$ —	\$ —	\$ 148,015
Consolidation of multi-family loans held in securitization trusts	\$ 2,294,544	\$ 2,886,525	\$ —
Consolidation of multi-family collateralized debt obligations	\$ 2,182,330	\$ 2,784,377	\$ —
Transfer from residential loans to real estate owned	\$ 7,998	\$ 7,228	\$ 8,892
<b>Non-Cash Financing Activities:</b>			
Dividends declared on common stock to be paid in subsequent period	\$ 31,118	\$ 22,382	\$ 26,754
Dividends declared on preferred stock to be paid in subsequent period	\$ 5,925	\$ 5,985	\$ 3,225
<b>Cash, Cash Equivalents and Restricted Cash Reconciliation:</b>			
Cash and cash equivalents	\$ 103,724	\$ 95,191	\$ 83,554
Restricted cash included in receivables and other assets	5,421	11,004	55,976
Total cash, cash equivalents, and restricted cash	<u>\$ 109,145</u>	<u>\$ 106,195</u>	<u>\$ 139,530</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2018**

**1. Organization**

New York Mortgage Trust, Inc., together with its consolidated subsidiaries ("NYMT," "we," "our," or the "Company"), is a real estate investment trust, or REIT, 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 (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.

The Company conducts its business through the parent company, New York Mortgage Trust, Inc., and several subsidiaries, including special purpose subsidiaries established for residential loan, distressed residential loan and CMBS securitization purposes, taxable REIT subsidiaries ("TRSs") and qualified REIT subsidiaries ("QRSs"). The Company consolidates all of its subsidiaries under generally accepted accounting principles in the United States of America ("GAAP").

The Company is organized and conducts its operations to qualify as a REIT for U.S. federal income tax purposes. As such, the Company will generally not be subject to federal income taxes on that portion of its income that is distributed to stockholders if it distributes at least 90% of its REIT taxable income to its stockholders by the due date of its federal income tax return and complies with various other requirements.

## 2. Summary of Significant Accounting Policies

*Definitions* – The following defines certain of the commonly used terms in these financial statements:

“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;

“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”);

“non-Agency RMBS” refers to RMBS that are not guaranteed by any agency of the U.S. Government or any federally chartered corporation;

“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;

“Agency IOs” refers to Agency RMBS comprised of IO RMBS;

“POs” refers to mortgage-backed securities that represent the right to the principal component of the cash flow from a pool of mortgage loans;

“ARMs” refers to adjustable-rate residential 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;

“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;

“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;

“Multi-family CMBS” refers to CMBS backed by commercial mortgage loans on multi-family properties;

“CDOs” refers to collateralized debt obligations;

“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; and

“second mortgages” refers to liens on residential properties that are subordinate to more senior mortgages or loans.

*Basis of Presentation* – The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management has made significant estimates in several areas, including valuation of its CMBS investments, residential mortgage loans, multi-family loans held in securitization trusts and multi-family CDOs, as well as income recognition on distressed residential mortgage loans purchased at a discount. Although the Company’s estimates contemplate current conditions and how it expects those conditions to change in the future, it is reasonably possible that actual conditions could be different than anticipated in those estimates, which could materially impact the Company’s results of operations and its financial condition.

*Reclassifications* – Certain prior period amounts have been reclassified in the consolidated financial statements to conform to current period presentation.

*Principles of Consolidation and Variable Interest Entities* – The accompanying consolidated financial statements of the Company include the accounts of all of its subsidiaries that are majority-owned, controlled by the Company or a variable interest entity (“VIE”) where the Company is the primary beneficiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

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, herein referred to as a “Consolidated 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.

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*Business Combinations* – The Company accounts for business combinations by applying the acquisition method in accordance with Accounting Standards Codification (“ASC”) 805, *Business Combinations* (“ASC 805”). 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.

On May 16, 2016, the Company acquired the outstanding membership interests in RiverBanc LLC (“RiverBanc”), RB Multifamily Investors LLC (“RBMI”), and RB Development Holding Company, LLC (“RBDHC”) that were not previously owned by the Company through the consummation of separate membership interest purchase agreements, thereby increasing the Company’s ownership of each of these entities to 100% (*see Note 23*). These transactions were accounted for by applying the acquisition method for business acquisitions under ASC 805.

On March 31, 2017, the Company determined that it became the primary beneficiary of 200 RHC Hoover, LLC (“Riverchase Landing”) and The Clusters, LLC (“The Clusters”), two VIEs that each own a multi-family apartment community and in each of which the Company held a preferred equity investment. Accordingly, on this date, the Company consolidated both Riverchase Landing and The Clusters into its consolidated financial statements in accordance with ASC 810, *Consolidation* (“ASC 810”). These transactions were accounted for by applying the acquisition method for business combinations under ASC 805 (*see Note 10*). In March 2018, Riverchase Landing completed the sale of its multi-family apartment community and redeemed the Company’s preferred equity investment. The Company de-consolidated Riverchase Landing as of the date of the sale.

*Investment Securities Available for Sale* – The Company’s investment securities, where the fair value option has not been elected and which are reported at fair value with unrealized gains and losses reported in Other Comprehensive Income (“OCI”), include Agency RMBS, non-Agency RMBS and CMBS. The Company elected the fair value option for its Agency IOs and certain of its Agency ARMs and Agency fixed-rate RMBS within the Agency IO portfolio. The fair value option measures unrealized gains and losses through earnings in the accompanying consolidated statements of operations. The fair value option was elected for these investment securities to better match the accounting for these investment securities with the related derivative instruments within the Agency IO portfolio, which were not designated as hedging instruments for accounting purposes. As of December 31, 2018, the Company had fully exited its Agency IO strategy and liquidated its Agency IO portfolio.

The Company generally intends to hold its investment securities until maturity; however, from time to time, it may sell any of its securities as part of the overall management of its business. As a result, our investment securities are classified as available for sale securities. Realized gains and losses recorded on the sale of investment securities available for sale are based on the specific identification method and included in realized gain (loss) on investment securities and related hedges in the accompanying consolidated statements of operations.

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 associated with our Agency RMBS and other investment securities assessed as high credit quality at the time of purchase 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 that were purchased at a discount to par value, such as our CMBS and non-Agency RMBS of less than high credit quality, is recognized based on the security’s effective 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.

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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.

The Company accounts for investment securities that are of high credit quality (generally those rated AA or better by a Nationally Recognized Statistical Rating Organization, or NRSRO) at date of acquisition in accordance with ASC 320-10, *Investments - Debt and Equity Securities* ("ASC 320-10"). The Company accounts for investment securities that are not of high credit quality (i.e., those whose risk of loss is more than remote) or securities that can be contractually prepaid such that we would not recover our initial investment at the date of acquisition in accordance with ASC 325-40, *Investments - Beneficial Interests in Securitized Financial Assets* ("ASC 325-40"). The Company considers credit ratings, the underlying credit risk and other market factors in determining whether the debt securities are of high credit quality; however, securities rated lower than AA or an equivalent rating are not considered of high credit quality and are accounted for in accordance with ASC 325-40. If ratings are inconsistent among NRSROs, the Company uses the lower rating in determining whether the securities are of high credit quality.

When the fair value of an investment security is less than its amortized cost as of the reporting balance sheet date, the security is considered impaired. The Company assesses its impaired securities on at least a quarterly basis and designates such impairments as either "temporary" or "other-than-temporary". If the Company intends to sell an impaired security, or it is more likely than not that it will be required to sell the impaired security before its anticipated recovery, the Company recognizes an other-than-temporary impairment through earnings equal to the entire difference between the investment's amortized cost and its fair value as of the balance sheet date. If the Company does not expect to sell an other-than-temporarily impaired security, only the portion of the other-than-temporary impairment related to credit losses is recognized through earnings with the remainder recognized as a component of other comprehensive income (loss) on the accompanying consolidated balance sheets. Impairments recognized through other comprehensive income (loss) do not impact earnings. Following the recognition of an other-than-temporary impairment through earnings, a new cost basis is established for the security, which may not be adjusted for subsequent recoveries in fair value through earnings. However, other-than-temporary impairments recognized through earnings may be accreted back to the amortized cost basis of the security on a prospective basis through interest income. The determination as to whether an other-than-temporary impairment exists and, if so, the amount considered other-than-temporarily impaired is subjective, as such determinations are based on both factual and subjective information available at the time of assessment as well as the Company's estimates of the future performance and cash flow projections. As a result, the timing and amount of other-than-temporary impairments constitute material estimates that are susceptible to significant change.

In determining the other-than temporary impairment related to credit losses for investment securities that are not of high credit quality, the Company compares the present value of the remaining cash flows expected to be collected at the prior reporting date or purchase date, whichever is most recent, against the present value of the cash flows expected to be collected at the current financial reporting date. The Company considers information available about the past and expected future performance of underlying mortgage loans, including timing of expected future cash flows, prepayment rates, default rates, loss severities and delinquency rates.

*Residential Mortgage Loans Held in Securitization Trusts, net* – Residential mortgage loans held in securitization trusts are comprised of certain ARMs transferred to Consolidated VIEs that have been securitized into sequentially rated classes of beneficial interests. The Company accounted for these securitization trusts as financings which are consolidated into the Company's financial statements. Residential mortgage loans held in securitization trusts are carried at their unpaid principal balances, net of unamortized premium or discount, unamortized loan origination costs and allowance for loan losses. Interest income is accrued and recognized as revenue when earned according to the terms of the mortgage loans and when, in the opinion of management, it is collectible. The accrual of interest on loans is discontinued when, in management's opinion, the interest is not collectible in the normal course of business, but in all cases when payment becomes greater than 90 days delinquent. Loans return to accrual status when principal and interest become current and are anticipated to be fully collectible.

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The Company establishes an allowance for loan losses based on management's judgment and estimate of credit losses inherent in our portfolio of residential mortgage loans held in securitization trusts. Estimation involves the consideration of various credit-related factors, including but not limited to, macro-economic conditions, current housing market conditions, loan-to-value ratios, delinquency status, historical credit loss severity rates, purchased mortgage insurance, the borrower's current economic condition and other factors deemed to warrant consideration. Additionally, management looks at the balance of any delinquent loan and compares that to the current value of the collateralizing property. Management utilizes various home valuation methodologies including appraisals, broker pricing opinions, internet-based property data services to review comparable properties in the same area and consultation with a broker in the property's area.

*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 mortgage loans, are presented at fair value on its consolidated balance sheets as a result of a fair value election made at the time of acquisition pursuant to ASC 825, *Financial Instruments*. Changes in fair value are recorded in current period earnings in net gain (loss) on distressed and other residential mortgage loans at fair value in the Company's consolidated statements of operations.

Premiums and discounts associated with the purchase of distressed and other residential mortgage loans, at fair value are amortized or accreted into interest income over the life of the related loan using the effective interest method. Any premium amortization or discount accretion is reflected as a component of interest income, residential mortgage loans in the Company's consolidated statements of operations.

Distressed and other residential mortgage loans at fair value are considered past due when they are 30 days past their contractual due date, and are placed on nonaccrual status when delinquent for more than 90 days. Interest accrued but not yet collected at the time loans are placed on nonaccrual is reversed and subsequently recognized only to the extent it is received in cash or until it qualifies for return to accrual status. Loans are restored to accrual status only when contractually current or the collection of future payments is reasonably assured.

*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).

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Management monitors actual cash collections against its expectations, and revised cash flow estimates 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.

Disposal of a distressed residential mortgage loan accounted for under ASC 310-30, which may include a loan sale, receipt of payment in full from the borrower or foreclosure, results in removal of the loan from the loan pool at its allocated carrying amount. In the event of a sale of the loan and receipt of payment (in full or partial) from the borrower, a gain or loss on sale is recognized and reported based on the difference between the sales proceeds or payment from the borrower and the allocated carrying amount of the acquired distressed residential mortgage loan. In the case of a foreclosure, an individual loan is removed from the pool and a loss on sale is recognized if the carrying value exceeds the fair value of the collateral less costs to sell. A gain is not recognized if the fair value of collateral less costs to sell exceeds the carrying value.

The Company uses the specific allocation method for the removal of loans as the estimated cash flows and related carrying amount for each individual loan are known. In these cases, the remaining accretable yield is unaffected and any material change in remaining effective yield caused by the removal of the loan from the pool is addressed by the re-assessment of the estimate of cash flows for the pool prospectively.

Distressed residential mortgage loans accounted for under ASC 310-30 subject to modification are not removed from the pool even if those loans would otherwise be considered troubled debt restructurings because the pool, and not the individual loan, represents the unit of account.

For individual loans not accounted for in pools that are sold or satisfied by payment in full, a gain or loss on sale is recognized and reported based on the difference between the sales proceeds and the carrying amount of the acquired distressed residential mortgage loan. In the case of a foreclosure, a loss is recognized if the carrying value exceeds the fair value of the underlying collateral less costs to sell. A gain is not recognized if the fair value of underlying collateral less costs to sell exceeds the carrying value.

Certain of the Company's distressed residential mortgage loans accounted for under ASC 310-30 are held in securitization trusts and have been transferred to Consolidated VIEs that have been securitized into beneficial interests. The Company accounted for these securitization trusts as financings which are consolidated into the Company's financial statements.

*Multi-Family Loans Held in Securitization Trusts* – Multi-family loans held in securitization trusts are comprised of multi-family mortgage loans held in Freddie Mac-sponsored multi-family loan K-Series securitizations, of which we, or one of our "special purpose entities" ("SPEs") own the first loss POs, certain IOs and mezzanine securities issued by those securitizations, and that we consolidate in our financial statements in accordance with GAAP (the "Consolidated K-Series"). Based on a number of factors, management determined that the Company was the primary beneficiary of each VIE within the Consolidated K-Series and met the criteria for consolidation and, accordingly, has consolidated these securitizations, including their assets, liabilities, income and expenses in our financial statements. The Company has elected the fair value option on each of the assets and liabilities held within the Consolidated K-Series, which requires that changes in valuations be reflected in the Company's accompanying consolidated statements of operations. In accordance with ASC 810, the Company measures both the financial assets and financial liabilities of a qualifying consolidated collateralized financing entity ("CFE") using the fair value of either the CFE's financial assets or financial liabilities, whichever is more observable. As the Company's multi-family securitization trusts are considered qualifying CFEs, the Company determines the fair value of multi-family loans held in securitization trusts based on the fair value of its multi-family collateralized debt obligations and its retained interests from these securitizations (eliminated in consolidation in accordance with GAAP), as the fair value of these instruments is more observable.

Interest income is accrued and recognized as revenue when earned according to the terms of the multi-family loans and when, in the opinion of management, it is collectible. The accrual of interest on multi-family loans is discontinued when, in management's opinion, the interest is not collectible in the normal course of business, but in all cases when payment becomes greater than 90 days delinquent. The multi-family loans return to accrual status when principal and interest become current and are anticipated to be fully collectible.

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*Preferred Equity and Mezzanine Loan Investments* - The Company invests in preferred equity of and mezzanine loans to entities that have significant real estate assets.

A preferred equity investment is an equity investment in the entity that owns the underlying property. Preferred equity is not secured by the underlying property, but holders have priority relative to common equity holders on cash flow distributions and proceeds from capital events. In addition, preferred equity holders may be able to enhance their position and protect their equity position with covenants that limit the entity's activities and grant the holder the exclusive right to control the property after an event of default.

Mezzanine loans are secured by a pledge of the borrower's equity ownership in the property. Unlike a mortgage, this loan does not represent a lien on the property. Therefore, it is always junior and subordinate to any first lien as well as second liens, if applicable, on the property. These loans are senior to any preferred equity or common equity interests in the entity that owns the property.

The Company has evaluated its preferred equity and mezzanine loan investments for accounting treatment as loans versus equity investment utilizing the guidance provided by the ADC Arrangements Subsection of ASC 310, *Receivables*. Preferred equity and mezzanine loan investments, for which the characteristics, facts and circumstances indicate that loan accounting treatment is appropriate, are stated at unpaid principal balance, adjusted for any unamortized premium or discount and deferred fees or expenses, net of valuation allowances. The Company accretes or amortizes any discounts or premiums and deferred fees and expenses over the life of the related asset utilizing the effective interest method or straight line-method, if the result is not materially different.

Management evaluates the collectability of both interest and principal of each of these loans, if circumstances warrant, to determine whether they are impaired. A loan is impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the existing contractual terms. When a loan is impaired, the amount of the loss accrual is calculated by comparing the carrying amount of the investment to the estimated fair value of the loan or, as a practical expedient, to the value of the collateral if the loan is collateral dependent. Interest income is accrued and recognized as revenue when earned according to the terms of the loans and when, in the opinion of management, it is collectible. The accrual of interest on loans is discontinued when, in management's opinion, the interest is not collectible in the normal course of business, but in all cases when payment becomes greater than 90 days delinquent. Loans return to accrual status when principal and interest become current and are anticipated to be fully collectible.

Preferred equity and mezzanine loan investments where the risks and payment characteristics are equivalent to an equity investment are accounted for using the equity method of accounting. See "*Investment in Unconsolidated Entities*".

*Investment in Unconsolidated Entities* – Non-controlling, unconsolidated ownership interests in an entity may be accounted for using the equity method or the cost method. In circumstances where the Company has a non-controlling interest but either owns a significant interest or is able to exert influence over the affairs of the enterprise, the Company utilizes the equity method of accounting. Under the equity method of accounting, the initial investment is increased each period for additional capital contributions and a proportionate share of the entity's earnings or preferred return and decreased for cash distributions and a proportionate share of the entity's losses. Management periodically reviews its investments for impairment based on projected cash flows from the entity over the holding period. When any impairment is identified, the investments are written down to recoverable amounts.

The Company may elect the fair value option for an investment in an unconsolidated entity that is accounted for using the equity method. The Company elected the fair value option for certain investments in unconsolidated entities that own interests (directly or indirectly) in commercial and residential real estate assets because the Company determined that such presentation represents the underlying economics of the respective investment. The Company records the change in fair value of its investment in other income in the consolidated statements of operations (*see Note 8*).

*Real Estate Held for Sale in Consolidated Variable Interest Entities* - The Company recorded its initial investments in income-producing real estate at fair value at the acquisition date in accordance with ASC 805. The purchase price of acquired properties was apportioned to the tangible and identified intangible assets and liabilities acquired at their respective estimated fair values. In making estimates of fair values for purposes of allocating purchase price, the Company utilized a number of sources, including independent appraisals that may be obtained in connection with the acquisition or financing of the respective real estate, its own analysis of recently-acquired and existing comparable properties, property financial results, and other market data. The Company also considered information obtained about the real estate as a result of its due diligence, including marketing and leasing activities, in estimating the fair value of the tangible and intangible assets acquired. The Company considered the value of acquired in-place leases and utilized an amortization period that is the average remaining term of the acquired leases.



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The Company has reclassified its operating real estate held in consolidated variable interest entities to real estate held for sale in consolidated variable interest entities in accordance with ASC 360, *Property, Plant, and Equipment* as of December 31, 2018. When real estate assets are identified as held for sale, the Company discontinues depreciating (amortizing) the assets and estimates the fair value, net of selling costs, of such assets. Real estate held for sale in consolidated variable interest entities is recorded at the lower of the net carrying amount of the assets or the estimated net fair value. If the estimated net fair value of the real estate held for sale is less than the net carrying amount of the assets, an impairment charge is recorded in the consolidated statements of operations with an allocation to non-controlling interests in the respective VIEs, if any.

The Company assesses the net fair value of real estate held for sale each reporting period that assets remain classified as held for sale. Subsequent changes, if any, in the net fair value of the real estate assets held for sale that require an adjustment to the carrying amount are recorded in the consolidated statements of operations with an allocation to non-controlling interests in the respective VIEs, if any, unless the adjustment causes the carrying amount of the assets to exceed the net carrying amount upon initial classification as held for sale.

If circumstances arise that the Company previously considered unlikely and, as a result, the Company decides not to sell real estate assets previously classified as held for sale, the real estate assets are reclassified to another real estate classification. Real estate assets that are reclassified are measured at the lower of (a) their carrying amount before they were classified as held for sale, adjusted for any depreciation (amortization) expense that would have been recognized had the assets remained in their previous classification, or (b) their fair value at the date of the subsequent decision not to sell.

*Real Estate - Depreciation* – The Company depreciates on a straight-line basis the building component of its real estate over a 30-year estimated useful life, building and land improvements over a 10-year to 30-year estimated useful life and furniture, fixtures and equipment over a 5-year estimated useful life, all of which are judgmental determinations. Betterments and certain costs directly related to the improvement of real estate are capitalized. Expenditures for ordinary maintenance and repairs are expensed to operations as incurred.

*Real Estate Sales* – The Company accounts for its real estate sales in accordance with ASC 360-20, *Property, Plant and Equipment - Real Estate Sales*. When real estate is sold, the nature of the entire real estate component being sold is considered in relation to the entire transaction to determine whether the substance of the transaction is the sale of real estate. Profit is recognized on the date of the real estate sale provided that a) a sale is consummated, b) the buyer's initial and continuing investments are adequate to demonstrate commitment to pay for the property, c) the seller's receivable is not subject to future subordination, and d) the seller has transferred to the buyer the usual risks and rewards of ownership and does not have a substantial continuing involvement with the sold property. Sales value is calculated based off of the stated sales price plus any other proceeds that are additions to the sales price subtracting any discount needed to reduce a receivable to its present value and any services the seller commits to perform without compensation. See *Note 11* for further discussion regarding sales of real estate by consolidated VIEs.

*Real Estate Under Development* – The Company's expenditures which directly relate to the acquisition, development, construction and improvement of properties are capitalized at cost. During the development period, which culminates once a property is substantially complete and ready for intended use, operating and carrying costs such as interest expense, real estate taxes, insurance and other direct costs are capitalized. Advertising and general administrative costs that do not relate to the development of a property are expensed as incurred. Real estate under development as of December 31, 2018 and December 31, 2017 of \$22.0 million and \$22.9 million, respectively, is included in receivables and other assets on the consolidated balance sheets.

*Real Estate - Impairment* – The Company periodically evaluates its real estate assets for indicators of impairment. The judgments regarding the existence of impairment indicators are based on factors such as operational performance, market conditions and legal and environmental concerns, as well as the Company's ability and intent to hold each asset. Future events could occur which would cause the Company to conclude that impairment indicators exist and an impairment is warranted. If impairment indicators exist for long-lived assets to be held and used, and the expected future undiscounted cash flows are less than the carrying amount of the asset, then the Company will record an impairment loss for the difference between the fair value of the asset and its carrying amount. If the asset is to be disposed of, then an impairment loss is recognized for the difference between the estimated fair value of the asset, net of selling costs, and its carrying amount. The Company, through one of its consolidated VIEs, recorded a \$2.8 million impairment loss on real estate under development in the year ended December 31, 2018 which is included in other income in the Company's consolidated statements of operations. \$1.4 million of this impairment loss is included in net income attributable to non-controlling interest in consolidated variable interest entities for the year ended December 31, 2018 on the accompanying consolidated statements of operations, resulting in a net loss to the Company of \$1.4 million. See *Note 10* for further discussion regarding impairment.

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*Cash and Cash Equivalents* – Cash and cash equivalents include cash on hand, amounts due from banks and overnight deposits. The Company maintains its cash and cash equivalents in highly rated financial institutions, and at times these balances exceed insurable amounts.

*Goodwill* – Goodwill represents the excess of the fair value of consideration transferred in a business combination 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. Goodwill of \$25.2 million as of December 31, 2018 and December 31, 2017 relates to the Company's multi-family investment reporting unit.

Goodwill is not amortized but is evaluated for impairment on an annual basis, or more frequently if the Company believes indicators of impairment exist, by initially performing a qualitative screen and, if necessary, then comparing fair value of the reporting unit to its carrying value, including goodwill. If the fair value of the reporting unit is less than the carrying value, an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value (in an amount not to exceed the total amount of goodwill allocated to the reporting unit) is recognized. The Company's annual evaluation of goodwill as of October 1, 2018 indicated no impairment.

*Intangible Assets* – Intangible assets consisting of acquired trade name, acquired technology, employment/non-compete agreements, and acquired in-place leases with useful lives ranging from 6 months to 10 years are included in receivables and other assets on the consolidated balance sheets. Intangible assets with estimable useful lives are amortized on a straight-line basis over their respective estimated useful lives and reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The useful lives of intangible assets are evaluated on an annual basis to determine whether events and circumstances warrant a revision to the remaining useful life. See "*Real Estate Held for Sale in Consolidated Variable Interest Entities*" for further discussion of acquired in-place lease intangible assets.

*Receivables and Other Assets* – Receivables and other assets as of December 31, 2018 and 2017 include restricted cash held by third parties of \$5.4 million and \$11.0 million, respectively. Interest receivable on multi-family loans held in securitization trusts is also included in the amounts of \$41.9 million and \$33.6 million as of December 31, 2018 and 2017, respectively.

*Financing Arrangements, Portfolio Investments* – The Company finances the majority of its investment securities available for sale using repurchase agreements. Under a repurchase agreement, an asset is sold to a counterparty to be repurchased at a future date at a predetermined price, which represents the original sales price plus interest. The repurchase agreements are treated as collateralized financial transactions and are carried at their contractual amounts, as specified in the respective agreements. Borrowings under repurchase agreements generally bear interest rates of a specified margin over LIBOR.

*Financing Arrangements, Distressed and Other Residential Mortgage Loans* – The Company finances a portion of its distressed and other residential mortgage loans at fair value and distressed residential mortgage loans accounted for under ASC 310-30, through repurchase agreements that expire within 12 to 18 months (see *Note 14*). The borrowings under the repurchase agreements generally bear an interest rate of a specified margin over one-month LIBOR. The repurchase agreements are treated as collateralized financing transactions and are carried at their contractual amounts, as specified in the respective agreements. Costs related to the establishment of the repurchase agreements which include underwriting, legal, accounting and other fees are reflected as deferred charges. Such costs are presented as a deduction from the corresponding debt liability on the Company's accompanying consolidated balance sheets in the amount of \$1.2 million and \$0.7 million as of December 31, 2018 and December 31, 2017, respectively. These deferred charges are amortized as an adjustment to interest expense using the effective interest method, or straight line-method, if the result is not materially different.

*Residential Collateralized Debt Obligations ("Residential CDOs")* – We use Residential CDOs to permanently finance our residential mortgage loans held in securitization trusts. For financial reporting purposes, the ARMs held as collateral are recorded as assets of the Company and the Residential CDOs are recorded as the Company's debt. The Company completed four securitizations in 2005 and 2006. The first three were accounted for as a permanent financing while the fourth was accounted for as a sale and accordingly, is not included in the Company's accompanying consolidated financial statements.

*Multi-Family Collateralized Debt Obligations ("Multi-Family CDOs")* – The Consolidated K-Series, including their debt, are referred to as Multi-Family CDOs in our consolidated financial statements. The Multi-Family CDOs permanently finance the multi-family mortgage loans held by the Consolidated K-Series. For financial reporting purposes, the loans held as collateral are recorded as assets of the Company and the Multi-Family CDOs are recorded as the Company's debt. We refer to the Residential CDOs and Multi-Family CDOs collectively as "CDOs" in this report.

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*Securitized Debt* – Securitized debt represents third-party liabilities of Consolidated VIEs and excludes liabilities of the VIEs acquired by the Company that are eliminated on consolidation. The Company has entered into several financing transactions that resulted in the Company consolidating as VIEs the SPEs that were created to facilitate the transactions and to which underlying assets in connection with the financing were transferred. The Company engaged in these transactions primarily to obtain permanent or longer-term financing on a portion of its multi-family CMBS and acquired distressed residential mortgage loans.

Costs related to issuance of securitized debt which include underwriting, rating agency, legal, accounting and other fees, are reflected as deferred charges. Such costs are presented as a deduction from the corresponding debt liability on the Company's accompanying consolidated balance sheets in the amount of \$0.2 million and \$0.7 million as of December 31, 2018 and December 31, 2017, respectively. These deferred charges are amortized as an adjustment to interest expense using the effective interest method, or straight line-method, if the result is not materially different.

*Convertible Notes* – On January 23, 2017, the Company issued 6.25% Senior Convertible Notes due 2022 (the "Convertible Notes") to finance the acquisition of targeted assets and for general working capital purposes. The Company evaluated the conversion features of the Convertible Notes for embedded derivatives in accordance with ASC 815, *Derivatives and Hedging* ("ASC 815") and determined that the conversion features should not be bifurcated from the notes.

The Convertible Notes were issued at a 4% discount. Costs related to issuance of the Convertible Notes which include underwriting, legal, accounting and other fees, are reflected as deferred charges. The discount and deferred charges are amortized as an adjustment to interest expense using the effective interest method. The discount and deferred issuance costs, net of amortization, are presented as a deduction from the corresponding debt liability on the Company's accompanying consolidated balance sheets in the amount of \$7.2 million and \$9.3 million as of December 31, 2018 and December 31, 2017, respectively.

*Derivative Financial Instruments* – In accordance with ASC 815, the Company records derivative financial instruments on its consolidated balance sheets as assets or liabilities at fair value. Changes in fair value are accounted for depending on the use of the derivative instruments and whether they qualify for hedge accounting treatment.

The Company uses interest rate swaps to hedge the variable cash flows associated with our variable rate 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. At the inception of an interest rate swap agreement, the Company determines whether the instrument will be part of a qualifying hedge accounting relationship or whether the Company will account for the contract as a trading instrument. Changes in fair value for interest rate swaps qualifying for hedge accounting will be included in consolidated statement of comprehensive income (loss) as an increase (decrease) in fair value of derivative instruments utilized for cash flow hedges. The Company has elected to treat all current interest swaps as trading instruments due to volatility and difficulty in effectively matching cash flows. Changes in fair value for interest rate swaps designated as a trading instruments are reported in the consolidated statements of operations as unrealized gain (loss) on investment securities and related hedges.

All of the Company's interest rate swaps outstanding are cleared through a central clearing house. The Company exchanges variation margin for swaps based upon daily changes in fair value. As a result of amendments to rules governing certain central clearing activities, the exchange of variation margin is treated as a legal settlement of the exposure under the swap contract. Previously such payments were treated as cash collateral pledged against the exposure under the swap contract. Accordingly, the Company accounted for the receipt or payment of variation margin as a direct reduction to or increase of the carrying value of the interest rate swap asset or liability on the Company's consolidated balance sheets.

*Manager Compensation* – We are a party to an investment management agreement with Headlands Asset Management LLC ("Headlands") pursuant to which Headlands provides investment management services with respect to our investments in certain distressed residential mortgage loans. From 2011 to December 2017, we were a party to an investment management agreement with the Midway Group, LP ("Midway"), pursuant to which Midway provided investment management services with respect to our investments in Agency IOs. These investment management agreements provide for the payment to our investment managers of a management fee, incentive fee and reimbursement of certain operating expenses, which are accrued and expensed during the period for which they are earned or incurred. On August 2, 2018, the Company provided Headlands with written notice that it will not renew its management agreement at the end of the current term, which is set to expire on June 30, 2019. The Midway agreement was terminated effective December 31, 2017.

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*Other Comprehensive Income (Loss)* – The Company’s comprehensive income/(loss) attributable to the Company’s common stockholders includes net income, the change in net unrealized gains/(losses) on its available for sale securities and its derivative hedging instruments (comprised of interest rate swaps until October 2017) (to the extent that such changes are not recorded in earnings), adjusted by realized net gains/(losses) reclassified out of accumulated other comprehensive income/(loss) for available for sale securities, reduced by dividends declared on the Company’s preferred stock and increased/decreased for net loss/(income) attributable to non-controlling interest in consolidated variable interest entities.

*Employee Benefits Plans* – The Company sponsors a defined contribution plan (the “Plan”) for all eligible domestic employees. The Plan qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”). The Company made no contributions to the Plan for the years ended December 31, 2018 and December 31, 2017.

*Stock Based Compensation* – The Company has awarded restricted stock to eligible employees and officers as part of their compensation. Compensation expense for equity based awards and stock issued for services are recognized over the vesting period of such awards and services based upon the fair value of the award at the grant date.

In May 2015, the Company granted Performance Share Awards (“PSAs”) which cliff vest after a three-year period, subject to the achievement of certain performance criteria based on a formula tied to the Company’s achievement of three-year total stockholder return (“TSR”) and the Company’s TSR relative to the TSR of certain peer companies. The feature in this award constitutes a “market condition” which impacts the amount of compensation expense recognized for these awards. The grant date fair values of PSAs were determined through Monte-Carlo simulation analysis.

During the year ended December 31, 2018, the Company granted Performance Stock Units (“PSUs”) to the Chief Executive Officer, Chief Financial Officer and certain other employees. The awards were issued pursuant to and are consistent with the terms and conditions of the Company’s 2017 Equity Incentive Plan (the “2017 Plan”). The PSUs are subject to performance-based vesting under the 2017 Plan pursuant to a form of PSU award agreement (the “PSU Agreement”). Vesting of the PSUs will occur after a three-year period based on the Company’s relative TSR percentile ranking as compared to an identified performance peer group. The feature in this award constitutes a “market condition” which impacts the amount of compensation expense recognized for these awards. The grant date fair values of PSUs were determined through Monte-Carlo simulation analysis.

*Income Taxes* – The Company operates in such a manner so as to qualify as a REIT under the requirements of the Internal Revenue Code. Requirements for qualification as a REIT include various restrictions on ownership of the Company’s stock, requirements concerning distribution of taxable income and certain restrictions on the nature of assets and sources of income. A REIT must distribute at least 90% of its taxable income to its stockholders, of which 85% plus any undistributed amounts from the prior year must be distributed within the taxable year in order to avoid the imposition of an excise tax. Distribution of the remaining balance may extend until timely filing of the Company’s tax return in the subsequent taxable year. Qualifying distributions of taxable income are deductible by a REIT in computing taxable income.

Certain activities of the Company are conducted through TRSs and therefore are subject to federal and various state and local income taxes. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

ASC 740, *Income Taxes* (“ASC 740”), provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company’s tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. In situations involving uncertain tax positions related to income tax matters, we do not recognize benefits unless it is more likely than not that they will be sustained. ASC 740 was applied to all open taxable years as of the effective date. Management’s determinations regarding ASC 740 may be subject to review and adjustment at a later date based on factors including, but not limited to, an ongoing analysis of tax laws, regulations and interpretations thereof. The Company will recognize interest and penalties, if any, related to uncertain tax positions as income tax expense in our consolidated statements of operations.

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*Earnings Per Share* – Basic earnings per share excludes dilution and is computed by dividing net income attributable to the Company's common stockholders by the weighted-average number of shares of common stock outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

*Segment Reporting* – ASC 280, *Segment Reporting*, is the authoritative guidance for the way public entities report information about operating segments in their annual financial statements. The Company is a REIT focused on the business of acquiring, investing in, financing and managing mortgage-related and residential housing-related assets, and currently operate in only one reportable segment.

### *Summary of Recent Accounting Pronouncements*

#### *Revenue Recognition (Topic 606)*

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (“ASU 2014-09”). This guidance created a new, principle-based revenue recognition framework that affects nearly every revenue-generating entity. ASU 2014-09 also created a new topic in the Codification, Topic 606 (“ASC 606”). In addition to superseding and replacing nearly all existing GAAP revenue recognition guidance, including industry-specific guidance, ASC 606 does the following: (1) establishes a new control-based revenue recognition model; (2) changes the basis for deciding when revenue is recognized over time or at a point in time; (3) provides new and more detailed guidance on specific aspects of revenue recognition; and (4) expands and improves disclosures about revenue.

ASC 606 applies to all contracts with customers with exceptions for financial instruments and other contractual rights or obligations that are within the scope of other ASC Topics. Exclusions from the scope of ASC 606 include investment securities available for sale (subject to ASC 320, *Investments - Debt and Equity Securities* or ASC 325, *Investments - Other*); residential mortgage loans, distressed residential mortgage loans, multi-family loans, and preferred equity and mezzanine loan investments (subject to either ASC 310, *Receivables* or ASC 825, *Financial Instruments*); derivative assets and derivative liabilities (subject to ASC 815, *Derivatives and Hedging*); and investment in unconsolidated entities (subject to either ASC 323, *Investments - Equity Method and Joint Ventures* or ASC 825, *Financial Instruments*). In adopting the ASU effective January 1, 2018, the Company evaluated the applicability of this ASU with respect to its investment portfolio and, considering the scope exceptions listed above, the adoption of this ASU did not have a material impact on the Company's financial condition or results of operations.

#### *Leases (Topic 842)*

In February 2016, the FASB issued ASU 2016-02, *Leases* (“ASU 2016-02”). This guidance was issued to increase transparency and consistency among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing additional information about lease arrangements. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The accounting to be applied by a lessor is largely unchanged from that applied under previous GAAP. The amendments are effective for public entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The Company evaluated the applicability of this ASU with respect to the impact of our total assets and total liabilities. We expect the adoption of this guidance to increase both our total assets and total liabilities by less than 1%. The adoption will not have an impact on our results of operations.

#### *Financial Instruments —Credit Losses (Topic 326)*

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments —Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”). The amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments are effective for public entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption as of the fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 is permitted. The Company is currently assessing the impact of this guidance as the ASU will have an effect on the Company's estimation of credit losses on distressed residential mortgage loans, residential mortgage loans held in securitization trusts, residential mortgage loans, and preferred equity and mezzanine loan investments that are accounted for as loans.

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*Fair Value Measurement (Topic 820)*

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"). These amendments add, modify, or remove disclosure requirements regarding the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, narrative descriptions of measurement uncertainty, and the valuation processes for Level 3 fair value measurements. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted upon issuance of this update. An entity is permitted to early adopt any removed or modified disclosures upon issuance of ASU 2018-13 and delay adoption of the additional disclosures until their effective date. The Company anticipates the implementation of this guidance as of the effective date will provide additional and modified disclosures with respect to its Level 3 fair value measurements.

**3. Investment Securities Available For Sale**

Investment securities available for sale consisted of the following as of December 31, 2018 and December 31, 2017 (dollar amounts in thousands):

	December 31, 2018				December 31, 2017			
	Amortized Cost	Unrealized		Fair Value	Amortized Cost	Unrealized		Fair Value
		Gains	Losses			Gains	Losses	
Agency RMBS:								
Agency ARMs								
Freddie Mac	\$ 26,338	\$ —	\$ (1,052)	\$ 25,286	\$ 33,623	\$ 16	\$ (852)	\$ 32,787
Fannie Mae	43,984	8	(1,384)	42,608	54,958	6	(1,236)	53,728
Ginnie Mae	3,627	—	(127)	3,500	4,750	—	(193)	4,557
Total Agency ARMs	73,949	8	(2,563)	71,394	93,331	22	(2,281)	91,072
Agency Fixed Rate								
Freddie Mac	87,018	—	(2,526)	84,492	20,804	—	(736)	20,068
Fannie Mae	915,039	—	(33,195)	881,844	1,038,363	669	(12,174)	1,026,858
Ginnie Mae	—	—	—	—	365	—	(6)	359
Total Agency Fixed Rate	1,002,057	—	(35,721)	966,336	1,059,532	669	(12,916)	1,047,285
Agency IOs								
Freddie Mac	—	—	—	—	8,436	19	(2,756)	5,699
Fannie Mae	—	—	—	—	11,310	22	(2,989)	8,343
Ginnie Mae	—	—	—	—	21,621	230	(4,714)	17,137
Total Agency IOs	—	—	—	—	41,367	271	(10,459)	31,179
Total Agency RMBS	1,076,006	8	(38,284)	1,037,730	1,194,230	962	(25,656)	1,169,536
Non-Agency RMBS	215,337	166	(1,466)	214,037	100,291	1,852	(18)	102,125
CMBS <sup>(1)</sup>	243,046	17,815	(376)	260,485	123,203	18,217	—	141,420
Total investment securities available for sale	\$ 1,534,389	\$ 17,989	\$ (40,126)	\$ 1,512,252	\$ 1,417,724	\$ 21,031	\$ (25,674)	\$ 1,413,081

<sup>(1)</sup> Included in CMBS is \$52.7 million and \$47.9 million of investment securities available for sale held in securitization trusts as of December 31, 2018 and December 31, 2017, respectively.

*Realized Gain or Loss Activity*

During the year ended December 31, 2018, the Company received total proceeds of approximately \$26.9 million from the sale of investment securities available for sale, realizing a net loss of approximately \$12.3 million. During the year ended December 31, 2017, the Company received total proceeds of approximately \$107.1 million from the sale of investment securities available for sale, realizing a net loss of approximately \$0.1 million. During the year ended December 31, 2016, the Company received total proceeds of approximately \$208.2 million from the sale of investment securities available for sale, realizing a net loss of approximately \$2.3 million.

*Weighted Average Life*

Actual maturities of our available for sale securities are generally shorter than stated contractual maturities (with maturities up to 30 years), as they are affected by periodic payments and prepayments of principal on the underlying mortgages. As of December 31, 2018 and 2017, the weighted average life of the Company's available for sale securities portfolio was approximately 5.7 years and 7.1 years, respectively.



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The following table sets forth the weighted average lives of our investment securities available for sale as of December 31, 2018 and December 31, 2017 (dollar amounts in thousands):

<b>Weighted Average Life</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
0 to 5 years	\$ 456,947	\$ 426,061
Over 5 to 10 years	1,043,369	970,336
10+ years	11,936	16,684
<b>Total</b>	<b>\$ 1,512,252</b>	<b>\$ 1,413,081</b>

*Portfolio Interest Reset Periods*

The following tables set forth the stated reset periods of our investment securities available for sale at December 31, 2018 and December 31, 2017 at carrying value (dollar amounts in thousands):

	<b>December 31, 2018</b>				<b>December 31, 2017</b>			
	<b>Less than 6 months</b>	<b>6 to 24 months</b>	<b>More than 24 months</b>	<b>Total</b>	<b>Less than 6 months</b>	<b>6 to 24 months</b>	<b>More than 24 months</b>	<b>Total</b>
Agency RMBS	\$ 9,723	\$ 11,870	\$ 1,016,137	\$ 1,037,730	\$ 26,876	\$ 24,726	\$ 1,117,934	\$ 1,169,536
Non-Agency RMBS	152,000	—	62,037	214,037	84,461	—	17,664	102,125
CMBS	174,041	12,094	74,350	260,485	70,791	—	70,629	141,420
<b>Total investment securities available for sale</b>	<b>\$ 335,764</b>	<b>\$ 23,964</b>	<b>\$ 1,152,524</b>	<b>\$ 1,512,252</b>	<b>\$ 182,128</b>	<b>\$ 24,726</b>	<b>\$ 1,206,227</b>	<b>\$ 1,413,081</b>

*Unrealized Losses in OCI*

The following tables present the Company's investment securities available for sale in an unrealized loss position reported through OCI, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2018 and December 31, 2017 (dollar amounts in thousands):

<b>December 31, 2018</b>	<b>Less than 12 Months</b>		<b>Greater than 12 months</b>		<b>Total</b>	
	<b>Carrying Value</b>	<b>Gross Unrealized Losses</b>	<b>Carrying Value</b>	<b>Gross Unrealized Losses</b>	<b>Carrying Value</b>	<b>Gross Unrealized Losses</b>
Agency RMBS	\$ 310,783	\$ (8,037)	\$ 726,028	\$ (30,247)	\$ 1,036,811	\$ (38,284)
Non-Agency RMBS	187,395	(1,451)	158	(15)	187,553	(1,466)
CMBS	75,292	(376)	—	—	75,292	(376)
<b>Total investment securities available for sale</b>	<b>\$ 573,470</b>	<b>\$ (9,864)</b>	<b>\$ 726,186</b>	<b>\$ (30,262)</b>	<b>\$ 1,299,656</b>	<b>\$ (40,126)</b>

At December 31, 2018, the Company does not intend to sell any of its investments that were in an unrealized loss position, and it is "more likely than not" that the Company will not be required to sell these securities before recovery of their amortized cost basis, which may be at their maturity.

Gross unrealized losses on the Company's Agency RMBS were \$38.3 million at December 31, 2018. Agency RMBS are issued by GSEs and enjoy either the implicit or explicit backing of the full faith and credit of the U.S. Government. While the Company's Agency RMBS are not rated by any rating agency, they are currently perceived by market participants to be of high credit quality, with risk of default limited to the unlikely event that the U.S. Government would not continue to support the GSEs. Given the credit quality inherent in Agency RMBS, the Company does not consider any of the current impairments on its Agency RMBS to be credit related. In assessing whether it is more likely than not that it will be required to sell any impaired security before its anticipated recovery, which may be at its maturity, the Company considers for each impaired security, the significance of each investment, the amount of impairment, the projected future performance of such impaired securities, as well as the Company's current and anticipated leverage capacity and liquidity position. Based on these analysis, the Company determined that at December 31, 2018 any unrealized losses on its Agency RMBS were temporary.



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Gross unrealized losses on the Company's non-Agency RMBS and CMBS were \$1.5 million and \$0.4 million at December 31, 2018, respectively. Credit risk associated with non-Agency RMBS and CMBS is regularly assessed as new information regarding the underlying collateral becomes available and based on updated estimates of cash flows generated by the underlying collateral. Based upon the most recent evaluation, the Company does not consider these unrealized losses to be indicative of other-than-temporary impairment and does not believe that these unrealized losses are credit related, but are rather a reflection of current market yields and/or marketplace bid-ask spreads.

December 31, 2017	Less than 12 Months		Greater than 12 months		Total	
	Carrying Value	Gross Unrealized Losses	Carrying Value	Gross Unrealized Losses	Carrying Value	Gross Unrealized Losses
Agency RMBS	\$ 511,313	\$ (1,807)	\$ 342,963	\$ (13,390)	\$ 854,276	\$ (15,197)
Non-Agency RMBS	—	—	193	(18)	193	(18)
Total investment securities available for sale	\$ 511,313	\$ (1,807)	\$ 343,156	\$ (13,408)	\$ 854,469	\$ (15,215)

*Other than Temporary Impairment*

For the years ended December 31, 2018, 2017 and 2016, the Company did not recognize other-than-temporary impairment through earnings.

**4. Residential Mortgage Loans Held in Securitization Trusts, Net and Real Estate Owned**

Residential mortgage loans held in securitization trusts, net consist of the following at December 31, 2018 and December 31, 2017, respectively (dollar amounts in thousands):

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Unpaid principal balance	\$ 60,171	\$ 77,519
Deferred origination costs – net	383	492
Reserve for loan losses	(3,759)	(4,191)
Total	<u>\$ 56,795</u>	<u>\$ 73,820</u>

*Allowance for Loan Losses* - The following table presents the activity in the Company's allowance for loan losses on residential mortgage loans held in securitization trusts for the years ended December 31, 2018, 2017 and 2016, respectively (dollar amounts in thousands):

	<b>Years Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Balance at beginning of period	\$ 4,191	\$ 3,782	\$ 3,399
Provisions for loan losses	166	475	612
Transfer to real estate owned	—	(6)	(117)
Charge-offs	(598)	(60)	(112)
Balance at the end of period	<u>\$ 3,759</u>	<u>\$ 4,191</u>	<u>\$ 3,782</u>

On an ongoing basis, the Company evaluates the adequacy of its allowance for loan losses. The Company's allowance for loan losses at December 31, 2018 was \$3.8 million, representing 625 basis points of the outstanding principal balance of residential loans held in securitization trusts, as compared to 541 basis points as of December 31, 2017. As part of the Company's allowance for loan loss adequacy analysis, management will assess an overall level of allowances while also assessing credit losses inherent in each non-performing residential mortgage loan held in securitization trusts. These estimates involve the consideration of various credit related factors, including but not limited to, current housing market conditions, current loan to value ratios, delinquency status, the borrower's current economic and credit status and other relevant factors.

*Real Estate Owned* - The Company had no real estate owned held in residential securitization trusts at December 31, 2018. The Company had real estate owned held in residential securitization trusts of \$0.1 million at December 31, 2017. Real estate owned held in residential securitization trusts are included in receivables and other assets on the accompanying consolidated balance sheets and write downs are included in (provision for) recovery of loan losses in the accompanying consolidated statements of operations for reporting purposes.

All of the Company's mortgage loans and real estate owned held in residential securitization trusts are pledged as collateral for the Residential CDOs issued by the Company. The Company's net investment in the residential securitization trusts, which is the maximum amount of the Company's investment that is at risk to loss and represents the difference between (i) the carrying amount of the mortgage loans, real estate owned and receivables held in residential securitization trusts and (ii) the amount of Residential CDOs outstanding, was \$4.8 million and \$4.4 million as of December 31, 2018 and December 31, 2017, respectively.

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*Delinquency Status of Our Residential Mortgage Loans Held in Securitization Trusts*

As of December 31, 2018, we had 19 delinquent loans with an aggregate principal amount outstanding of approximately \$10.9 million categorized as residential mortgage loans held in securitization trusts, net, of which \$6.6 million, or 61%, are under some form of temporary modified payment plan. The table below shows delinquencies in our portfolio of residential mortgage loans held in securitization trusts as of December 31, 2018 (dollar amounts in thousands):

**December 31, 2018**

<b>Days Late</b>	<b>Number of Delinquent Loans</b>	<b>Total Unpaid Principal</b>	<b>% of Loan Portfolio</b>
90+	19	\$ 10,926	18.16%

As of December 31, 2017, we had 26 delinquent loans with an aggregate principal amount outstanding of approximately \$16.5 million categorized as residential mortgage loans held in securitization trusts, net, of which \$10.2 million, or 62%, are under some form of temporary modified payment plan. The table below shows delinquencies in our portfolio of residential mortgage loans held in securitization trusts, including REO through foreclosure, as of December 31, 2017 (dollar amounts in thousands):

**December 31, 2017**

<b>Days Late</b>	<b>Number of Delinquent Loans</b>	<b>Total Unpaid Principal</b>	<b>% of Loan Portfolio</b>
30 - 60	1	\$ 203	0.26%
61 - 90	1	\$ 173	0.22%
90+	24	\$ 16,147	20.80%
Real estate owned through foreclosure	1	\$ 118	0.15%

The geographic concentrations of credit risk exceeding 5% of the total loan balances in our residential mortgage loans held in securitization trusts and REO held in residential securitization trusts at December 31, 2018 and December 31, 2017 are as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
New York	33.9%	31.8%
Massachusetts	20.0%	20.7%
New Jersey	14.5%	11.9%
Florida	9.9%	8.8%
Maryland	5.3%	5.2%

**5. 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. 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 Company's distressed and other residential mortgage loans at fair value consist of the following as of December 31, 2018 and December 31, 2017, respectively (dollar amounts in thousands):

	Principal	Premium/(Discount)	Unrealized Gains/(Losses)	Carrying Value
December 31, 2018	\$ 788,372	\$ (54,905)	\$ 4,056	\$ 737,523
December 31, 2017	\$ 92,105	\$ (4,911)	\$ (41)	\$ 87,153

As of December 31, 2018, the company is committed to purchase \$0.9 million of second mortgages from originators.

The following table presents the components of net gain on distressed and other residential mortgage loans at fair value for the years ended December 31, 2018 and 2017, respectively (dollar amounts in thousands):

	December 31, 2018	December 31, 2017
Net realized gain on payoff and sale of loans	\$ 4,606	\$ 1,719
Net unrealized gains/(losses)	4,096	(41)

The geographic concentrations of credit risk exceeding 5% of the unpaid principal balance of distressed and other residential mortgage loans at fair value as of December 31, 2018 and December 31, 2017, respectively, are as follows:

	December 31, 2018	December 31, 2017
California	27.9%	35.9%
Florida	9.0%	6.6%
Maryland	5.2%	1.9%
New York	5.1%	3.8%

The following table presents the fair value and aggregate unpaid principal balance of the Company's distressed and other residential mortgage loans at fair value greater than 90 days past due and in non-accrual status as of December 31, 2018 and December 31, 2017, respectively (dollar amounts in thousands):

	Fair Value	Unpaid Principal Balance
December 31, 2018	\$ 60,117	\$ 75,167
December 31, 2017	\$ 1,048	\$ 1,214

Distressed and other residential mortgage loans with a fair value of approximately \$626.2 million and \$44.2 million at December 31, 2018 and December 31, 2017, respectively, are pledged as collateral for master repurchase agreements. (see Note 14).

**6. Distressed Residential Mortgage Loans, Net**

As of December 31, 2018 and December 31, 2017, the carrying value of the Company's distressed residential mortgage loans accounted for under ASC 310-30, including loans held in securitization trusts amounts to approximately \$228.5 million and \$331.5 million, respectively.

The following table presents information regarding the estimates of the contractually required payments, the cash flows expected to be collected, and the estimated fair value at the date of acquisition of the distressed residential mortgage loans acquired during the year ended December 31, 2017 (dollar amounts in thousands):

	<b>December 31, 2017</b>
Contractually required principal and interest	\$ 76,529
Nonaccretable yield	(6,467)
Expected cash flows to be collected	70,062
Accretable yield	(58,767)
Fair value at the date of acquisition	<u>\$ 11,295</u>

The Company has elected the fair value option for all distressed residential mortgage loans purchased during the year ended December 31, 2018 (*see Note 5*).

The following table details activity in accretable yield for the distressed residential mortgage loans, including distressed residential mortgage loans held in securitization trusts, for the years ended December 31, 2018 and December 31, 2017, respectively (dollar amounts in thousands):

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Balance at beginning of period	\$ 303,949	\$ 530,512
Additions	7,972	93,854
Disposals	(99,603)	(301,472)
Accretion	(16,758)	(18,945)
Balance at end of period <sup>(1)</sup>	<u>\$ 195,560</u>	<u>\$ 303,949</u>

<sup>(1)</sup> Accretable yield is the excess of the distressed residential mortgage loans' cash flows expected to be collected over the purchase price. The cash flows expected to be collected represents the Company's estimate of the amount and timing of undiscounted principal and interest cash flows. Additions include accretable yield estimates for purchases made during the period and reclassification to accretable yield from nonaccretable yield. Disposals include distressed residential mortgage loan dispositions, which include refinancing, sale and foreclosure of the underlying collateral and resulting removal of the distressed residential mortgage loans from the accretable yield, and reclassifications from accretable to nonaccretable yield. The reclassifications between accretable and nonaccretable yield and the accretion of interest income is based on various estimates regarding loan performance and the value of the underlying real estate securing the loans. As the Company continues to update its estimates regarding the loans and the underlying collateral, the accretable yield may change. Therefore, the amount of accretable income recorded in the twelve-month periods ended December 31, 2018 and December 31, 2017 is not necessarily indicative of future results.

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The geographic concentrations of credit risk exceeding 5% of the unpaid principal balance in our distressed residential mortgage loans, including distressed residential mortgage loans held in securitization trusts, as of December 31, 2018 and December 31, 2017, respectively, are as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Florida	10.4%	11.2%
North Carolina	9.0%	8.3%
Georgia	7.2%	5.8%
South Carolina	5.6%	5.0%
New York	5.4%	5.7%
Virginia	5.3%	4.9%
Ohio	5.0%	5.1%

The Company's distressed residential mortgage loans held in securitization trusts with a carrying value of approximately \$88.1 million and \$121.8 million at December 31, 2018 and December 31, 2017, respectively, are pledged as collateral for certain of the Securitized Debt issued by the Company (*see Note 10*). In addition, distressed residential mortgage loans with a carrying value of approximately \$128.1 million and \$182.6 million at December 31, 2018 and December 31, 2017, respectively, are pledged as collateral for a master repurchase agreement with Deutsche Bank AG, Cayman Islands Branch (*see Note 14*).

**7. Consolidated K-Series**

The Company has 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 the Company's consolidated statements of operations. Our investment in the Consolidated K-Series is limited to the multi-family CMBS comprised of first loss POs, certain IOs and mezzanine securities issued by certain Freddie Mac-sponsored multi-family loan K-Series securitizations that we consolidate with an aggregate net carrying value of \$657.6 million and \$468.0 million at December 31, 2018 and December 31, 2017, respectively (see Note 10). The Consolidated K-Series is comprised of nine and seven Freddie Mac-sponsored multi-family loan K-Series securitizations as of December 31, 2018 and December 31, 2017, respectively.

The condensed consolidated balance sheets of the Consolidated K-Series at December 31, 2018 and December 31, 2017, respectively, are as follows (dollar amounts in thousands):

<b>Balance Sheets</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
<b>Assets</b>		
Multi-family loans held in securitization trusts	\$ 11,679,847	\$ 9,657,421
Receivables	41,850	33,562
Total Assets	<u>\$ 11,721,697</u>	<u>\$ 9,690,983</u>
<b>Liabilities and Equity</b>		
Multi-family CDOs	\$ 11,022,248	\$ 9,189,459
Accrued expenses	41,102	33,136
Total Liabilities	11,063,350	9,222,595
Equity	658,347	468,388
Total Liabilities and Equity	<u>\$ 11,721,697</u>	<u>\$ 9,690,983</u>

The multi-family loans held in securitization trusts had unpaid aggregate principal balances of approximately \$11.5 billion and \$9.4 billion at December 31, 2018 and December 31, 2017, respectively. The multi-family CDOs had aggregate unpaid principal balances of approximately \$11.5 billion and \$9.4 billion at December 31, 2018 and December 31, 2017, respectively. As of December 31, 2018 and 2017, the current weighted average effective interest rate on these multi-family CDOs was 3.96% and 3.92%, respectively.

The Company does not have any claims to the assets or obligations for the liabilities of the Consolidated K-Series (other than those securities represented by our first loss POs, IOs and mezzanine securities). We have elected the fair value option for the Consolidated K-Series. The net fair value of our investment in the Consolidated K-Series, which represents the difference between the carrying values of multi-family loans held in securitization trusts less the carrying value of multi-family CDOs, approximates the fair value of our underlying securities (see Note 18).

The condensed consolidated statements of operations of the Consolidated K-Series for the years ended December 31, 2018, 2017, and 2016, respectively, are as follows (dollar amounts in thousands):

<b>Statements of Operations</b>	<b>Years Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Interest income	\$ 358,712	\$ 297,124	\$ 249,191
Interest expense	313,102	261,665	222,553
Net interest income	45,610	35,459	26,638
Unrealized gain on multi-family loans and debt held in securitization trusts, net	37,581	18,872	3,032
Net income	<u>\$ 83,191</u>	<u>\$ 54,331</u>	<u>\$ 29,670</u>

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The geographic concentrations of credit risk exceeding 5% of the total loan balances related to our CMBS investments included in investment securities available for sale, held in securitization trusts, and multi-family loans held in securitization trusts as of December 31, 2018 and December 31, 2017, respectively, are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
California	14.8%	14.7%
Texas	13.0%	12.7%
New York	6.4%	6.5%
Maryland	5.0%	5.5%



**8. Investment in Unconsolidated Entities**

The Company's investments in unconsolidated entities accounted for under the equity method consist of the following as of December 31, 2018 and December 31, 2017 (dollar amounts in thousands):

Investment Name	December 31, 2018		December 31, 2017	
	Ownership Interest	Carrying Amount	Ownership Interest	Carrying Amount
BBA-EP320 II, LLC, BBA-Ten10 II, LLC, and Lexington on the Green Apartments, LLC (collectively)	45%	\$ 8,948	45%	\$ 8,320
Somerset Deerfield Investor, LLC	45%	16,266	—	—
RS SWD Owner, LLC, RS SWD Mitchell Owner, LLC, RS SWD IF Owner, LLC, RS SWD Mullis Owner, LLC, RS SWD JH Mullis Owner, and RS SWD Saltzman Owner, LLC (collectively)	43%	4,714	—	—
Audubon Mezzanine Holdings, L.L.C. (Series A)	57%	10,544	—	—
Total - Equity Method		<u>\$ 40,472</u>		<u>\$ 8,320</u>

The Company's investments in unconsolidated entities accounted for under the equity method using the fair value option consist of the following as of December 31, 2018 and December 31, 2017 (dollar amounts in thousands):

Investment Name	December 31, 2018		December 31, 2017	
	Ownership Interest	Carrying Amount	Ownership Interest	Carrying Amount
Morrocroft Neighborhood Stabilization Fund II, LP	11%	\$ 10,954	11%	\$ 12,623
Evergreens JV Holdings, LLC	85%	8,200	85%	4,220
The Preserve at Port Royal Venture, LLC	77%	13,840	77%	13,040
WR Savannah Holdings, LLC <sup>(1)</sup>	—	—	90%	12,940
Total - Fair Value Option		<u>\$ 32,994</u>		<u>\$ 42,823</u>

<sup>(1)</sup> The Company's equity investment was redeemed during the year ended December 31, 2018.

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The following table presents income from investments in unconsolidated entities for the years ended December 31, 2018, 2017, and 2016 (dollar amounts in thousands):

Investment Name	For the Years Ended December 31,		
	2018	2017	2016
Autumnwood Investments LLC <sup>(1)</sup>	\$ —	\$ 265	\$ 260
200 RHC Hoover, LLC <sup>(2)</sup>	—	275	1,370
BBA-EP320 II, LLC, BBA-Ten10 II, LLC, and Lexington on the Green Apartments, LLC (collectively)	1,050	996	433
RiverBanc LLC <sup>(3)</sup>	—	—	125
Kiawah River View Investors LLC ("KRVI") <sup>(3)</sup>	—	—	1,250
RB Development Holding Company, LLC <sup>(3)</sup>	—	—	107
RB Multifamily Investors LLC <sup>(3)</sup>	—	—	2,262
Morrocroft Neighborhood Stabilization Fund II, LP	1,131	1,591	910
Evergreens JV Holdings, LLC	4,312	571	199
Bent Tree JV Holdings, LLC <sup>(1)</sup>	—	1,795	411
Summerchase LR Partners LLC <sup>(1)</sup>	—	569	380
Lake Mary Realty Partners, LLC <sup>(1)</sup>	—	2,745	554
The Preserve at Port Royal Venture, LLC	1,778	1,729	834
WR Savannah Holdings, LLC <sup>(4)</sup>	1,854	1,386	692
Somerset Deerfield Investor, LLC	251	—	—
RS SWD Owner, LLC RS SWD Mitchell Owner, LLC, RS SWD IF Owner, LLC, RS SWD Mullis Owner, LLC, RS SWD JH Mullis Owner, and RS SWD Saltzman Owner, LLC (collectively)	76	—	—
Audubon Mezzanine Holdings, L.L.C. (Series A)	59	—	—

<sup>(1)</sup> Includes income recognized from redemption of the Company's investment during the year ended December 31, 2017.

<sup>(2)</sup> On March 31, 2017, the Company reconsidered its evaluation of its variable interest in Riverchase Landing and determined that it became the primary beneficiary of Riverchase Landing. Accordingly, on this date, the Company consolidated Riverchase Landing into its consolidated financial statements (*see Note 10*).

<sup>(3)</sup> As of May 16, 2016, RiverBanc, RBDHC, and RBMI became wholly-owned subsidiaries of the Company as a result of the Company's acquisition of the remaining ownership interests in those entities held by other unaffiliated entities (*see Note 23*). Also as of May 16, 2016, the Company consolidated KRVI into its consolidated financial statements (*see Note 10*).

<sup>(4)</sup> Includes income recognized from redemption of the Company's investment during the year ended December 31, 2018.

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Summary combined financial information for the Company's investments in unconsolidated entities as of December 31, 2018 and December 31, 2017 and for the years ended December 31, 2018, 2017, and 2016 is shown below (dollar amounts in thousands).

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<b>Balance Sheets:</b>		
Real estate, net	\$ 479,862	\$ 332,344
Other assets	37,679	16,223
<b>Total assets</b>	<b>\$ 517,541</b>	<b>\$ 348,567</b>
Notes payable, net	\$ 381,196	\$ 247,749
Other liabilities	10,546	6,735
<b>Total liabilities</b>	<b>391,742</b>	<b>254,484</b>
Members' equity	125,799	94,083
<b>Total liabilities and members' equity</b>	<b>\$ 517,541</b>	<b>\$ 348,567</b>

	<u>For the Years Ended December 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Operating Statements: <sup>(1)</sup></b>			
Rental revenues	\$ 37,921	\$ 37,196	\$ 26,397
Real estate sales	49,750	92,900	—
Cost of real estate sales	(37,452)	(55,544)	—
Other income	1,719	2,906	3,131
Operating expenses	(20,599)	(21,375)	(19,227)
Income before debt service, acquisition costs, and depreciation and amortization	31,339	56,083	10,301
Interest expense	(16,456)	(16,704)	(6,149)
Acquisition costs	(183)	(432)	(1,448)
Depreciation and amortization	(15,176)	(13,659)	(15,879)
<b>Net (loss) income</b>	<b>\$ (476)</b>	<b>\$ 25,288</b>	<b>\$ (13,175)</b>

<sup>(1)</sup> The Company records income (loss) from investments in unconsolidated entities under either the equity method of accounting or the fair value option. Accordingly, the combined net (loss) income shown above is not indicative of the income recognized by the Company from investments in unconsolidated entities.

## 9. Preferred Equity and Mezzanine Loan Investments

Preferred equity and mezzanine loan investments consist of the following as of December 31, 2018 and December 31, 2017 (dollar amounts in thousands):

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Investment amount	\$ 166,789	\$ 140,560
Deferred loan fees, net	(1,234)	(1,640)
Total	<u>\$ 165,555</u>	<u>\$ 138,920</u>

There were no delinquent preferred equity and mezzanine loan investments as of December 31, 2018 and December 31, 2017.

The geographic concentrations of credit risk exceeding 5% of the total preferred equity and mezzanine loan investment amounts as of December 31, 2018 and December 31, 2017 are as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Texas	16.6%	24.3%
Georgia	15.3%	3.4%
Florida	11.3%	3.9%
South Carolina	9.5%	7.0%
Virginia	9.1%	10.8%
Alabama	8.6%	7.1%
Tennessee	6.8%	—
Missouri	5.1%	—

## 10. Use of Special Purpose Entities (SPE) and Variable Interest Entities (VIE)

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

The Company has entered into resecuritization or financing transactions which required the Company to analyze and determine whether the SPEs that were created to facilitate the transactions are VIEs in accordance with ASC 810, and if so, whether the Company is the primary beneficiary requiring consolidation. The Company evaluated the following resecuritization and financing transactions: 1) its Residential CDOs; 2) its multi-family CMBS re-securitization transaction and 3) its distressed residential mortgage loan securitization transaction (each a "Financing VIE" and collectively, the "Financing VIEs") and concluded that the entities created to facilitate each of the transactions are VIEs and that the Company is the primary beneficiary of these VIEs. Accordingly, the Company continues to consolidate the Financing VIEs as of December 31, 2018.

The Company invests in multi-family CMBS consisting of POs that represent the first loss of the Freddie Mac-sponsored multi-family loan K-Series securitizations from which they were issued, and certain IOs and mezzanine CMBS securities issued from those securitizations. The Company has evaluated these CMBS investments to determine whether they are VIEs and if so, whether the Company is the primary beneficiary requiring consolidation. The Company has determined that nine and seven Freddie Mac-sponsored multi-family loan K-Series securitization trusts are VIEs as of December 31, 2018 and December 31, 2017, respectively. The Company also determined that it is the primary beneficiary of each VIE within the Consolidated K-Series and, accordingly, has consolidated its assets, liabilities, income and expenses in the accompanying consolidated financial statements (*see Notes 2 and 7*). Of the multi-family CMBS investments owned by the Company that are included in the Consolidated K-Series, eight and six of these investments are not included as collateral to any Financing VIE as of December 31, 2018 and December 31, 2017, respectively.

In analyzing whether the Company is the primary beneficiary of the Consolidated K-Series and the Financing VIEs, the Company considered its involvement in each of the VIEs, including the design and purpose of each VIE, and whether its involvement reflected a controlling financial interest that resulted in the Company being deemed the primary beneficiary of the VIEs. In determining whether the Company would be considered the primary beneficiary, the following factors were assessed:

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

On May 16, 2016, the Company acquired the remaining outstanding membership interests in RBDHC, resulting in the Company's 100% ownership of RBDHC. RBDHC owns 50% of KRVI, a limited liability company that owns developed land and residential homes under development in Kiawah Island, SC, for which RiverBanc is the manager. The Company has evaluated KRVI to determine if it is a VIE and if so, whether the Company is the primary beneficiary requiring consolidation. The Company has determined that KRVI is a VIE for which RBDHC is the primary beneficiary as the Company, collectively through its wholly-owned subsidiaries, RiverBanc and RBDHC, has both the power to direct the activities that most significantly impact the economic performance of KRVI and has a right to receive benefits or absorb losses of KRVI that could be potentially significant to KRVI. Accordingly, the Company has consolidated KRVI in its consolidated financial statements with a non-controlling interest for the third-party ownership of KRVI membership interests.

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The Company evaluates the home pricing and lot values of the real estate under development that is owned by KRVI, which is included in other assets on the Company's consolidated balance sheets, on a quarterly basis. Based on evaluations during the year ended December 31, 2018, the Company determined that the real estate under development with a carrying amount of \$24.8 million was no longer fully recoverable and was impaired. The Company recognized a \$2.8 million impairment loss which is included in other income in the Company's consolidated statements of operations for the year ended December 31, 2018. For the year ended December 31, 2018, \$1.4 million of this impairment loss is included in net income attributable to non-controlling interest in consolidated variable interest entities on the accompanying consolidated statements of operations, resulting in a net loss to the Company of \$1.4 million. Fair value was determined based on the sales comparison approach which derives a value indication by comparing the subject property to similar properties that have been recently sold and assumes a purchaser will not pay more for a particular property than a similar substitute property.

On March 31, 2017 (the "Changeover Date"), the Company reconsidered its evaluation of its variable interests in Riverchase Landing and The Clusters, two VIEs that each own a multi-family apartment community and in each of which the Company held a preferred equity investment. The Company determined that it gained the power to direct the activities, and became primary beneficiary, of Riverchase Landing and The Clusters on the Changeover Date. Prior to the Changeover Date, the Company accounted for Riverchase Landing as an investment in an unconsolidated entity and for The Clusters as a preferred equity investment.

On the Changeover Date, the Company consolidated Riverchase Landing and The Clusters into its consolidated financial statements. These transactions were accounted for by applying the acquisition method for business combinations.

The estimated Changeover Date fair value of the consideration transferred totaled \$12.5 million, which consisted of the estimated fair value of the Company's preferred equity investments in both Riverchase Landing and The Clusters. The Company determined the estimated fair value of its preferred equity investments in Riverchase Landing and The Clusters using assumptions for the timing and amount of expected future cash flows from the underlying multi-family apartment communities and a discount rate.

The following table summarizes the estimated fair values of the assets and liabilities of Riverchase Landing and The Clusters at the Changeover Date (dollar amounts in thousands).

Cash	\$	112
Operating real estate <sup>(1)</sup>		62,322
Lease intangibles <sup>(1)</sup>		5,340
Receivables and other assets		2,260
<b>Total assets</b>		<b>70,034</b>
Mortgages payable		51,570
Accrued expenses and other liabilities		1,519
<b>Total liabilities</b>		<b>53,089</b>
Non-controlling interest <sup>(2)</sup>		4,462
<b>Net assets consolidated</b>	\$	<b>12,483</b>

<sup>(1)</sup> Reclassified to real estate held for sale in consolidated variable interest entities on the consolidated balance sheets in the year ended December 31, 2017 (see Note 11).

<sup>(2)</sup> Represents third party ownership of membership interests in Riverchase Landing and The Clusters. The fair value of the non-controlling interests in Riverchase Landing and The Clusters, both private companies, was estimated using assumptions for the timing and amount of expected future cash flows from the underlying multi-family apartment communities and a discount rate.

In March 2018, Riverchase Landing completed the sale of its multi-family apartment community and redeemed the Company's preferred equity investment. The Company de-consolidated Riverchase Landing as of the date of the sale. Prior to March 2018, the Company did not have any claims to the assets or obligations for the liabilities of Riverchase Landing. As of December 31, 2018, the Company does not have any claims to the assets or obligations for the liabilities of The Clusters.

The Consolidated K-Series, the Financing VIEs, KRVI, Riverchase Landing (as of December 31, 2017) and The Clusters are collectively referred to in this footnote as "Consolidated VIEs".

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The following tables present a summary of the assets and liabilities of these Consolidated VIEs as of December 31, 2018 and December 31, 2017, respectively. Intercompany balances have been eliminated for purposes of this presentation.

Assets and Liabilities of Consolidated VIEs as of December 31, 2018 (dollar amounts in thousands):

	Financing VIEs			Other VIEs		Total
	Multi-family CMBS Re-securitization <sup>(1)</sup>	Distressed Residential Mortgage Loan Securitization <sup>(2)</sup>	Residential Mortgage Loan Securitization	Multi-family CMBS <sup>(3)</sup>	Other	
Cash and cash equivalents	\$ —	\$ —	\$ —	\$ —	\$ 708	\$ 708
Investment securities available for sale, at fair value held in securitization trusts	52,700	—	—	—	—	52,700
Residential mortgage loans held in securitization trusts, net	—	—	56,795	—	—	56,795
Distressed residential mortgage loans held in securitization trusts, net	—	88,096	—	—	—	88,096
Multi-family loans held in securitization trusts, at fair value	1,107,071	—	—	10,572,776	—	11,679,847
Real estate held for sale in consolidated variable interest entities	—	—	—	—	29,704	29,704
Receivables and other assets	4,243	10,287	1,061	37,679	23,254	76,524
<b>Total assets</b>	<b>\$ 1,164,014</b>	<b>\$ 98,383</b>	<b>\$ 57,856</b>	<b>\$ 10,610,455</b>	<b>\$ 53,666</b>	<b>\$ 11,984,374</b>
Residential collateralized debt obligations	\$ —	\$ —	\$ 53,040	\$ —	\$ —	\$ 53,040
Multi-family collateralized debt obligations, at fair value	1,036,604	—	—	9,985,644	—	11,022,248
Securitized debt	30,121	12,214	—	—	—	42,335
Mortgages and notes payable in consolidated variable interest entities	—	—	—	—	31,227	31,227
Accrued expenses and other liabilities	4,228	444	26	37,022	1,166	42,886
<b>Total liabilities</b>	<b>\$ 1,070,953</b>	<b>\$ 12,658</b>	<b>\$ 53,066</b>	<b>\$ 10,022,666</b>	<b>\$ 32,393</b>	<b>\$ 11,191,736</b>

- (1) The Company classified the multi-family CMBS issued by two securitizations included in the Consolidated K-Series and held by this Financing VIE as available for sale securities as the purpose is not to trade these securities. The Financing VIE consolidated one securitization included in the Consolidated K-Series that issued certain of the multi-family CMBS owned by the Company, including its assets, liabilities, income and expenses, in its financial statements, as based on a number of factors, the Company determined that it was the primary beneficiary and has a controlling financial interest in this particular K-Series securitization (*see Note 7*).
- (2) The Company engaged in this transaction for the purpose of financing certain distressed residential mortgage loans acquired by the Company. The distressed residential mortgage loans serving as collateral for the financing are comprised of re-performing and, to a lesser extent, non-performing and other delinquent mortgage loans secured by first liens on one- to four family properties. Balances as of December 31, 2018 are related to a securitization transaction that closed in April 2016 that involved the issuance of \$177.5 million of Class A Notes representing the beneficial ownership in a pool of performing and re-performing seasoned mortgage loans. The Company holds 5% of the Class A Notes issued as part of this securitization transaction, which were eliminated in consolidation.
- (3) Eight of the securitizations included in the Consolidated K-Series were not held in a Financing VIE as of December 31, 2018.

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Assets and Liabilities of Consolidated VIEs as of December 31, 2017 (dollar amounts in thousands):

	Financing VIEs			Other VIEs		Total
	Multi-family CMBS Re-securitization <sup>(1)</sup>	Distressed Residential Mortgage Loan Securitization <sup>(2)</sup>	Residential Mortgage Loan Securitization	Multi-family CMBS <sup>(3)</sup>	Other	
Cash and cash equivalents	\$ —	\$ —	\$ —	\$ —	\$ 808	\$ 808
Investment securities available for sale, at fair value held in securitization trusts	47,922	—	—	—	—	47,922
Residential mortgage loans held in securitization trusts, net	—	—	73,820	—	—	73,820
Distressed residential mortgage loans held in securitization trusts, net	—	121,791	—	—	—	121,791
Multi-family loans held in securitization trusts, at fair value	1,157,726	—	—	8,499,695	—	9,657,421
Real estate held for sale in consolidated variable interest entities	—	—	—	—	64,202	64,202
Receivables and other assets	4,333	15,428	935	29,301	25,507	75,504
<b>Total assets</b>	<b>\$ 1,209,981</b>	<b>\$ 137,219</b>	<b>\$ 74,755</b>	<b>\$ 8,528,996</b>	<b>\$ 90,517</b>	<b>\$ 10,041,468</b>
Residential collateralized debt obligations	\$ —	\$ —	\$ 70,308	\$ —	\$ —	\$ 70,308
Multi-family collateralized debt obligations, at fair value	1,094,044	—	—	8,095,415	—	9,189,459
Securitized debt	29,164	52,373	—	—	—	81,537
Mortgages and notes payable in consolidated variable interest entities	—	—	—	—	57,124	57,124
Accrued expenses and other liabilities	4,316	2,957	24	28,969	1,727	37,993
<b>Total liabilities</b>	<b>\$ 1,127,524</b>	<b>\$ 55,330</b>	<b>\$ 70,332</b>	<b>\$ 8,124,384</b>	<b>\$ 58,851</b>	<b>\$ 9,436,421</b>

(1) The Company classified the multi-family CMBS issued by two securitizations included in the Consolidated K-Series and held by the Financing VIE as available for sale securities as the purpose is not to trade these securities. The Financing VIE consolidated one securitization included in the Consolidated K-Series that issued certain of the multi-family CMBS owned by the Company, including its assets, liabilities, income and expenses, in its financial statements, as based on a number of factors, the Company determined that it was the primary beneficiary and has a controlling financial interest in this particular K-Series securitization (see Note 7).

(2) The Company engaged in this transaction for the purpose of financing certain distressed residential mortgage loans acquired by the Company. The distressed residential mortgage loans serving as collateral for the financing are comprised of re-performing and, to a lesser extent, non-performing and other delinquent mortgage loans secured by first liens on one- to four family properties. Balances as of December 31, 2017 are related to a securitization transaction that closed in April 2016 that involved the issuance of \$177.5 million of Class A Notes representing the beneficial ownership in a pool of performing and re-performing seasoned mortgage loans. The Company holds 5% of the Class A Notes issued as part of this securitization transaction, which have been eliminated in consolidation.

(3) Six of the securitizations included in the Consolidated K-Series were not held in a Financing VIE as of December 31, 2017.



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The following table summarizes the Company's securitized debt collateralized by multi-family CMBS or distressed residential mortgage loans (dollar amounts in thousands):

	<b>Multi-family CMBS Re-securitization<sup>(1)</sup></b>	<b>Distressed Residential Mortgage Loan Securitizations</b>
Principal Amount at December 31, 2018	\$ 33,177	\$ 12,381
Principal Amount at December 31, 2017	\$ 33,350	\$ 53,089
Carrying Value at December 31, 2018 <sup>(2)</sup>	\$ 30,121	\$ 12,214
Carrying Value at December 31, 2017 <sup>(2)</sup>	\$ 29,164	\$ 52,373
Pass-through rate of Notes issued	5.35%	4.00%

(1) The Company engaged in the re-securitization transaction primarily for the purpose of obtaining non-recourse financing on a portion of its multi-family CMBS portfolio. As a result of engaging in this transaction, the Company remains economically exposed to the first loss position on the underlying multi-family CMBS transferred to the Consolidated VIE. The holders of the Note issued in this re-securitization transaction have no recourse to the general credit of the Company, but the Company does have the obligation, under certain circumstances, to repurchase assets upon the breach of certain representations and warranties. The Company will receive all remaining cash flow, if any, through its retained ownership. On February 21, 2019, the Company directed the trustee of this re-securitization transaction to exercise its right to redeem the re-securitization. On February 22, 2019, the trustee delivered a notice of the optional redemption of the re-securitization with a redemption date of March 14, 2019 (see Note 26).

(2) Classified as securitized debt in the liability section of the Company's accompanying consolidated balance sheets.

The following table presents contractual maturity information about the Financing VIEs' securitized debt as of December 31, 2018 and December 31, 2017, respectively (dollar amounts in thousands):

<b>Scheduled Maturity (principal amount)</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Within 24 months	\$ 12,381	\$ 53,089
Over 24 months to 36 months	—	—
Over 36 months	33,177	33,350
Total	45,558	86,439
Discount	(2,983)	(4,232)
Debt issuance cost	(240)	(670)
Carrying value	<u>\$ 42,335</u>	<u>\$ 81,537</u>

There is no guarantee that the Company will receive any cash flows from these securitization trusts.

*Residential Mortgage Loan Securitization Transaction*

The Company has completed four residential mortgage loan securitizations (other than the distressed residential mortgage loan securitizations discussed above) since inception; the first three were accounted for as permanent financings and have been included in the Company's accompanying consolidated financial statements. The fourth was accounted for as a sale and accordingly, is not included in the Company's accompanying consolidated financial statements.

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*Unconsolidated VIEs*

The Company has evaluated its multi-family CMBS investments in two Freddie Mac-sponsored multi-family loan K-Series securitizations and its mezzanine loan, preferred equity and other equity investments as of December 31, 2018 and 2017, respectively, to determine whether they are VIEs and should be consolidated by the Company. Based on a number of factors, the Company determined that, except for The Clusters as of December 31, 2018 and both Riverchase Landing and The Clusters as of December 31, 2017, it does not have a controlling financial interest and is not the primary beneficiary of these VIEs. The following tables present the classification and carrying value of unconsolidated VIEs as of December 31, 2018 and 2017 (dollar amounts in thousands):

	<b>December 31, 2018</b>				
	<b>Investment securities available for sale, at fair value, held in securitization trusts</b>	<b>Receivables and other assets</b>	<b>Preferred equity and mezzanine loan investments</b>	<b>Investment in unconsolidated entities</b>	<b>Total</b>
Multi-family CMBS	\$ 52,700	\$ 72	\$ —	\$ —	\$ 52,772
Preferred equity investment on multi-family properties	—	—	154,629	40,472	195,101
Mezzanine loan on multi-family properties	—	—	10,926	—	10,926
Equity investments in entities that invest in residential properties	—	—	—	10,954	10,954
<b>Total assets</b>	<b>\$ 52,700</b>	<b>\$ 72</b>	<b>\$ 165,555</b>	<b>\$ 51,426</b>	<b>\$ 269,753</b>

	<b>December 31, 2017</b>				
	<b>Investment securities available for sale, at fair value, held in securitization trusts</b>	<b>Receivables and other assets</b>	<b>Preferred equity and mezzanine loan investments</b>	<b>Investment in unconsolidated entities</b>	<b>Total</b>
Multi-family CMBS	\$ 47,922	\$ 73	\$ —	\$ —	\$ 47,995
Preferred equity investment on multi-family properties	—	—	132,009	8,320	140,329
Mezzanine loan on multi-family properties	—	—	6,911	—	6,911
Equity investments in entities that invest in multi-family and residential properties	—	—	—	25,562	25,562
<b>Total assets</b>	<b>\$ 47,922</b>	<b>\$ 73</b>	<b>\$ 138,920</b>	<b>\$ 33,882</b>	<b>\$ 220,797</b>

Our maximum loss exposure on the multi-family CMBS investments, mezzanine loan, preferred equity and other equity investments is approximately \$269.8 million and \$220.8 million at December 31, 2018 and December 31, 2017, respectively. The Company's maximum exposure does not exceed the carrying value of its investments.

## 11. Real Estate Held for Sale in Consolidated VIEs

On March 31, 2017, the Company determined that it became the primary beneficiary of Riverchase Landing and The Clusters, two VIEs that each own a multi-family apartment community and in each of which the Company held a preferred equity investment. Accordingly, on this date, the Company consolidated both Riverchase Landing and The Clusters into its consolidated financial statements (see Note 10).

During the second quarter of 2017, Riverchase Landing determined to actively market its multi-family apartment community for sale. Accordingly, the Company classified the real estate assets in Riverchase Landing as held for sale as of December 31, 2017 in the accompanying consolidated balance sheets. The Company also ceased depreciation of the operating real estate assets and amortization of the related lease intangible asset in Riverchase Landing as of June 5, 2017. In March 2018, Riverchase Landing completed the sale of its multi-family apartment community and redeemed the Company's preferred equity investment. Riverchase Landing recognized a net gain on sale of approximately \$2.3 million which is included in other income and is allocated to net income attributable to non-controlling interest in consolidated variable interest entities on the accompanying consolidated statements of operations. The Company de-consolidated Riverchase Landing as of the date of the sale.

During the third quarter of 2017, The Clusters determined to actively market its multi-family apartment community for sale. Accordingly, the Company classified the real estate assets in The Clusters as held for sale as of December 31, 2018 and December 31, 2017 in the accompanying consolidated balance sheets. The Company also ceased depreciation of the operating real estate assets and amortization of the related lease intangible asset in The Clusters as of September 1, 2017. In February 2019, The Clusters completed the sale of its multi-family apartment community and redeemed the Company's preferred equity investment (see Note 26).

The following is a summary of the real estate held for sale in consolidated VIEs as of December 31, 2018 and December 31, 2017 (dollar amounts in thousands):

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Land	\$ 2,650	\$ 7,000
Building and improvements	26,032	53,468
Furniture, fixtures and equipment	974	2,150
Lease intangible	2,802	5,340
Real estate held for sale before accumulated depreciation and amortization	32,458	67,958
Accumulated depreciation <sup>(1)</sup>	(418)	(647)
Accumulated amortization of lease intangible <sup>(1)</sup>	(2,336)	(3,109)
Real estate held for sale in consolidated variable interest entities	<u>\$ 29,704</u>	<u>\$ 64,202</u>

<sup>(1)</sup> There were no depreciation and amortization expenses for the twelve months ended December 31, 2018. Depreciation and amortization expenses for the twelve months ended December 31, 2017 totaled \$0.6 million and \$3.1 million, respectively.

No gain or loss was recognized by the Company or allocated to non-controlling interests related to the initial classification of the real estate assets as held for sale.

**12. Derivative Instruments and Hedging Activities**

The Company enters into derivative instruments in connection with its risk management activities. These derivative instruments may include interest rate swaps, swaptions, futures and options on futures. The Company may also purchase or sell TBAs, purchase options on U.S. Treasury futures or invest in other types of mortgage derivative securities. The Company's derivative instruments are currently comprised of interest rate swaps, which are designated as trading instruments.

*Derivatives Not Designated as Hedging Instruments*

The following table presents the fair value of derivative instruments and their location in our consolidated balance sheets at December 31, 2018 and December 31, 2017, respectively (dollar amounts in thousands):

Type of Derivative Instrument	Balance Sheet Location	December 31, 2018	December 31, 2017
Interest rate swaps <sup>(1)</sup>	Derivative assets	\$ 10,263	\$ 10,101

<sup>(1)</sup> Variation margin receivable of \$8.5 million and \$9.3 million is included as an adjustment to the carrying value of the derivative assets at December 31, 2018 and December 31, 2017, respectively.

The tables below summarize the activity of derivative instruments not designated as hedges for the years ended December 31, 2018 and 2017, respectively (dollar amounts in thousands).

	Notional Amount For the Year Ended December 31, 2018			
	December 31, 2017	Additions	Settlement, Expiration or Exercise	December 31, 2018
Interest rate swaps	\$ 345,500	\$ 150,000	\$ —	\$ 495,500

	Notional Amount For the Year Ended December 31, 2017			
	December 31, 2016	Additions	Settlement, Expiration or Exercise	December 31, 2017
TBA securities <sup>(1)</sup>	\$ 149,000	\$ 1,881,000	\$ (2,030,000)	\$ —
U.S. Treasury futures	17,100	129,100	(146,200)	—
Interest rate swap futures	(151,700)	500,700	(349,000)	—
Eurodollar futures	(2,575,000)	7,819,000	(5,244,000)	—
Options on U.S. Treasury futures	—	5,000	(5,000)	—
Swaptions	154,000	—	(154,000)	—
Interest rate swaps	15,000	345,500	(15,000)	345,500

<sup>(1)</sup> Open TBA purchases and sales involving the same counterparty, same underlying deliverable and the same settlement date are reflected in our consolidated financial statements on a net basis.

The following table presents the components of realized and unrealized gains and losses related to our derivative instruments that were not designated as hedging instruments included in other income category in our consolidated statements of operations for the years ended December 31, 2018, 2017 and 2016:

	Years Ended December 31,					
	2018		2017		2016	
	Realized Gains (Losses)	Unrealized Gains (Losses)	Realized Gains (Losses)	Unrealized Gains (Losses)	Realized Gains (Losses)	Unrealized Gains (Losses)
TBA	\$ —	\$ —	\$ 2,511	\$ (141)	\$ 3,998	\$ 534
Eurodollar futures	—	—	1,379	(1,175)	(3,202)	2,417
Interest rate swaps	—	909	(218)	1,231	—	(126)
Swaptions	—	—	—	274	—	568
U.S. Treasury and interest rate swap futures and options	—	—	267	(337)	(2,040)	(336)
Total	\$ —	\$ 909	\$ 3,939	\$ (148)	\$ (1,244)	\$ 3,057

Derivatives Designated as Hedging Instruments

As of December 31, 2018 and December 31, 2017, there were no derivative instruments designated as hedging instruments. Certain of the Company's interest rate swaps outstanding during the years ended December 31, 2017 and December 31, 2016 to hedge the variable cash flows associated with borrowings made under our variable rate borrowings were designated as cash flow hedges. There were no costs incurred at the inception of these interest rate swaps, under which the Company agreed to pay a fixed rate of interest and receive a variable interest rate based on one month LIBOR, on the notional amount of the interest rate swaps. As of October 31, 2017, there were no outstanding derivatives designated as cash flow hedges.

The Company documents its risk-management policies, including objectives and strategies, as they relate to its hedging activities, and upon entering into hedging transactions, documents the relationship between the hedging instrument and the hedged liability contemporaneously. The Company assesses, both at inception of a hedge and on an on-going basis, whether or not the hedge is "highly effective" when using the matched term basis.

The Company discontinues hedge accounting on a prospective basis and recognizes changes in the fair value through earnings when: (i) it is determined that the derivative is no longer effective in offsetting cash flows of a hedged item (including forecasted transactions); (ii) it is no longer probable that the forecasted transaction will occur; or (iii) it is determined that designating the derivative as a hedge is no longer appropriate. The Company's derivative instruments are carried on the Company's balance sheets at fair value, as assets, if their fair value is positive, or as liabilities, if their fair value is negative. For the Company's derivative instruments that are designated as "cash flow hedges," changes in their fair value are recorded in accumulated other comprehensive income (loss), provided that the hedges are effective. A change in fair value for any ineffective amount of the Company's derivative instruments would be recognized in earnings. The Company did not recognize any change in the value of its derivative instruments designated as cash flow hedges through earnings as a result of ineffectiveness of any of its hedges.

The following table presents the impact of the Company's interest rate swaps designated as hedging instruments on the Company's accumulated other comprehensive income (loss) for the years ended December 31, 2017 and December 31, 2016 (dollar amounts in thousands):

	Years Ended December 31,	
	2017	2016
Accumulated other comprehensive income (loss) for derivative instruments:		
Balance at beginning of the period	\$ 102	\$ 304
Unrealized loss on interest rate swaps	(102)	(202)
Balance at end of the period	\$ —	\$ 102

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The following table details the impact of the Company's interest rate swaps designated as hedging instruments included in interest income or expense for the years ended December 31, 2017 and December 31, 2016, respectively (dollar amounts in thousands):

	Years Ended December 31,	
	2017	2016
<b>Interest Rate Swaps:</b>		
Interest income-investment securities	\$ 267	\$ —
Interest expense-investment securities	—	743

Outstanding Derivatives

The following table presents information about our interest rate swaps whereby we receive floating rate payments in exchange for fixed rate payments as of December 31, 2018 and December 31, 2017, respectively (dollar amounts in thousands):

Swap Maturities	December 31, 2018			December 31, 2017		
	Notional Amount	Weighted Average Fixed Interest Rate	Weighted Average Variable Interest Rate	Notional Amount	Weighted Average Fixed Interest Rate	Weighted Average Variable Interest Rate
2024	\$ 98,000	2.18%	2.45%	\$ 98,000	2.18%	1.36%
2027	247,500	2.39%	2.53%	247,500	2.39%	1.39%
2028	150,000	3.23%	2.53%	—	—	—
Total	\$ 495,500	2.60%	2.52%	\$ 345,500	2.33%	1.38%

The use of derivatives exposes the Company to counterparty credit risks in the event of a default by a counterparty. If a counterparty defaults under the applicable derivative agreement, the Company may be unable to collect payments to which it is entitled under its derivative agreements and may have difficulty collecting the assets it pledged as collateral against such derivatives. The Company has in place with all counterparties bi-lateral margin agreements requiring a party to post collateral to the Company for any valuation deficit. This arrangement is intended to limit the Company's exposure to losses in the event of a counterparty default. Currently, all of the Company's interest rate swaps outstanding are cleared through CME Group Inc. ("CME Clearing") which is the parent company of the Chicago Mercantile Exchange Inc. CME Clearing serves as the counterparty to every cleared transaction, becoming the buyer to each seller and the seller to each buyer, limiting the credit risk by guaranteeing the financial performance of both parties and netting down exposures.

**13. Financing Arrangements, Portfolio Investments**

The Company has entered into repurchase agreements with third party financial institutions to finance its investment portfolio. These financing arrangements are short-term borrowings that bear interest rates typically based on a spread to LIBOR, and are secured by the securities which they finance. At December 31, 2018, the Company had repurchase agreements with an outstanding balance of \$1.5 billion and a weighted average interest rate of 3.41%. At December 31, 2017, the Company had repurchase agreements with an outstanding balance of \$1.3 billion and a weighted average interest rate of 2.18%.

The following table presents detailed information about the Company's borrowings under financing arrangements and associated assets pledged as collateral at December 31, 2018 and December 31, 2017 (dollar amounts in thousands):

Assets Pledged as Collateral	2018			2017		
	Outstanding Borrowings	Fair Value of Collateral Pledged	Amortized Cost Of Collateral Pledged	Outstanding Borrowings	Fair Value of Collateral Pledged	Amortized Cost Of Collateral Pledged
Agency ARMs RMBS	\$ 67,648	\$ 70,747	\$ 73,290	\$ 86,349	\$ 90,343	\$ 92,586
Agency Fixed-rate RMBS	857,582	907,610	940,994	842,474	890,359	902,744
Non-Agency RMBS	88,730	117,958	118,414	38,160	51,841	50,693
CMBS <sup>(1)</sup>	529,617	687,876	539,788	309,935	421,156	322,092
Balance at end of the period	<u>\$ 1,543,577</u>	<u>\$ 1,784,191</u>	<u>\$ 1,672,486</u>	<u>\$ 1,276,918</u>	<u>\$ 1,453,699</u>	<u>\$ 1,368,115</u>

<sup>(1)</sup> Includes first loss PO and mezzanine CMBS securities with a fair value amounting to \$319.2 million and \$377.5 million included in the Consolidated K-Series as of December 31, 2018 and December 31, 2017, respectively.

As of December 31, 2018 and 2017, the average days to maturity for all financing arrangements were 62 days and 44 days, respectively. The Company's accrued interest payable on outstanding financing arrangements at December 31, 2018 and 2017 amounts to \$3.9 million and \$2.5 million, respectively, and is included in accrued expenses and other liabilities on the Company's consolidated balance sheets.

The following table presents contractual maturity information about the Company's outstanding financing arrangements at December 31, 2018 and 2017 (dollar amounts in thousands):

Contractual Maturity	December 31, 2018	December 31, 2017
Within 30 days	\$ 732,051	\$ 1,081,911
Over 30 days to 90 days	677,906	95,007
Over 90 days	133,620	100,000
<b>Total</b>	<u>\$ 1,543,577</u>	<u>\$ 1,276,918</u>

As of December 31, 2018, the outstanding balance under our financing arrangements was funded at a weighted average advance rate of 87.7% that implies an average "haircut" of 12.3%. As of December 31, 2018, the weighted average "haircut" related to our repurchase agreement financing for our Agency RMBS, non-Agency RMBS, and CMBS was approximately 5%, 25%, and 23%, respectively.

In the event we are unable to obtain sufficient short-term financing through existing financings arrangements, or our lenders start to require additional collateral, we may have to liquidate our investment securities at a disadvantageous time, which could result in losses. Any losses resulting from the disposition of our investment securities in this manner could have a material adverse effect on our operating results and net profitability. At December 31, 2018 and December 31, 2017, the Company had financing arrangements with eleven and ten counterparties, respectively. At December 31, 2018 the Company's only exposure where the amount at risk was in excess of 5% of the Company's stockholders' equity was to Jefferies & Company, Inc. at 5.04%. At December 31, 2017 the Company's only exposure where the amount at risk was in excess of 5% of the Company's stockholders' equity was to Deutsche Bank AG, London Branch at 5.04%. The amount at risk is defined as the fair value of securities pledged as collateral to the financing arrangement in excess of the financing arrangement liability.

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As of December 31, 2018, our available liquid assets include unrestricted cash and cash equivalents and unencumbered securities that we believe may be posted as margin. The Company had \$103.7 million in cash and cash equivalents and \$262.5 million in unencumbered investment securities to meet additional haircuts or market valuation requirements. The unencumbered securities that we believe may be posted as margin as of December 31, 2018 included \$59.4 million of Agency RMBS, \$107.0 million of CMBS and \$96.1 million of non-Agency RMBS and other investment securities. The cash and unencumbered securities, which collectively represent 23.7% of our financing arrangements, are liquid and could be monetized to pay down or collateralize a liability immediately.



**14. Financing Arrangements, Distressed and Other Residential Mortgage Loans**

The Company has a master repurchase agreement with Deutsche Bank AG, Cayman Islands Branch with a maximum aggregate committed principal amount of \$100.0 million and a maximum uncommitted principal amount of \$150.0 million to fund the purchase of residential mortgage loans, expiring on June 8, 2019. The outstanding balance on this master repurchase agreement as of December 31, 2018 and December 31, 2017 amounts to approximately \$120.7 million and \$123.6 million, respectively, bearing interest at 4.91% and 4.05% at December 31, 2018 and December 31, 2017, respectively.

The Company also has a master repurchase agreement with Deutsche Bank AG, Cayman Islands Branch with a maximum aggregate principal amount of up to \$50.0 million to fund the purchase of residential mortgage loans. On December 18, 2018, the Company amended the pricing side letter to the master repurchase agreement to extend the maturity date to February 19, 2019. On February 14, 2019, the Company amended and restated the pricing side letter to this master repurchase agreement. The pricing side letter increased the maximum aggregate principal amount from \$50.0 million to \$200.0 million, extended the maturity date to February 12, 2021 and will be used to fund the purchase of residential mortgage loans, including both first and second mortgages. At December 31, 2017, the master repurchase agreement provided for a maximum aggregate committed principal amount of \$25.0 million and a maximum uncommitted principal amount of \$25.0 million. The outstanding balance on this master repurchase agreement as of December 31, 2018 and December 31, 2017 amounts to approximately \$33.9 million and \$26.1 million, respectively, bearing interest at 6.01% and 5.05% at December 31, 2018 and December 31, 2017, respectively.

In November 2018, the Company entered into a master repurchase agreement with Credit Suisse AG, Cayman Islands Branch with a maximum aggregate principal amount of \$750.0 million to fund the purchase of residential mortgage loans, expiring on November 28, 2019. The outstanding balance on this master repurchase agreement as of December 31, 2018 amounts to approximately \$434.6 million, bearing interest at 4.50% at December 31, 2018.

During the terms of the master repurchase agreements, proceeds from the residential mortgage loans, including the Company's distressed residential mortgage loans, will be applied to pay any price differential and to reduce the aggregate repurchase price of the collateral. The financings under the master repurchase agreements are subject to margin calls to the extent the market value of the residential mortgage loans falls below specified levels and repurchase may be accelerated upon an event of default under the master repurchase agreements. The master repurchase agreements contain various covenants, including among other things, the maintenance of certain amounts of net worth, liquidity, market capitalization, and total stockholders' equity and leverage ratios. The Company is in compliance with such covenants as of February 25, 2019. The Company expects to roll outstanding borrowings under these master repurchase agreements into new repurchase agreements or other financings prior to or at maturity.

**15. Residential Collateralized Debt Obligations**

The Company's Residential CDOs, which are recorded as liabilities on the Company's consolidated balance sheets, are secured by ARMs pledged as collateral, which are recorded as assets of the Company. As of December 31, 2018 and 2017, the Company had Residential CDOs outstanding of \$53.0 million and \$70.3 million, respectively. As of December 31, 2018 and 2017, the weighted average interest rate on these Residential CDOs was 3.12% and 2.16%, respectively. The Residential CDOs are collateralized by ARM loans with a principal balance of \$60.2 million and \$77.5 million at December 31, 2018 and 2017, respectively. The Company retained the owner trust certificates, or residual interest, for three securitizations, and, as of December 31, 2018 and December 31, 2017, had a net investment in the residential securitization trusts of \$4.8 million and \$4.4 million, respectively.

## 16. Debt

### *Convertible Notes*

On January 23, 2017, the Company issued \$138.0 million aggregate principal amount of its Convertible Notes, including \$18.0 million aggregate principal amount of Convertible Notes issued upon exercise of the underwriter's over-allotment option, in an underwritten public offering. The net proceeds to the Company from the sale of the Convertible Notes, after deducting the underwriter's discounts, commissions and offering expenses, were approximately \$127.0 million with the total cost to the Company of approximately 8.24%.

The Convertible Notes were issued at 96% of the principal amount, bear interest at a rate equal to 6.25% per year, payable semi-annually in arrears on January 15 and July 15 of each year, and are expected to mature on January 15, 2022, unless earlier converted or repurchased. The Company does not have the right to redeem the Convertible Notes prior to maturity and no sinking fund is provided for the Convertible Notes. Holders of the Convertible Notes are permitted to convert their Convertible Notes into shares of the Company's common stock at any time prior to the close of business on the business day immediately preceding January 15, 2022. The conversion rate for the Convertible Notes, which is subject to adjustment upon the occurrence of certain specified events, initially equals 142.7144 shares of the Company's common stock per \$1,000 principal amount of Convertible Notes, which is equivalent to a conversion price of approximately \$7.01 per share of the Company's common stock, based on a \$1,000 principal amount of the Convertible Notes. The Convertible Notes are senior unsecured obligations of the Company that rank senior in right of payment to the Company's subordinated debentures and any of its other indebtedness that is expressly subordinated in right of payment to the Convertible Notes.

During the twelve months ended December 31, 2018, none of the Convertible Notes were converted. As of February 25, 2019, the Company has not been notified, and is not aware, of any event of default under the covenants for the Convertible Notes.

### *Subordinated Debentures*

Subordinated debentures are trust preferred securities that are fully guaranteed by the Company with respect to distributions and amounts payable upon liquidation, redemption or repayment. The following table summarizes the key details of the Company's subordinated debentures as of December 31, 2018 and December 31, 2017 (dollar amounts in thousands):

	<u>NYM Preferred Trust I</u>	<u>NYM Preferred Trust II</u>
Principal value of trust preferred securities	\$ 25,000	\$ 20,000
Interest rate	Three month LIBOR plus 3.75%, resetting quarterly	Three month LIBOR plus 3.95%, resetting quarterly
Scheduled maturity	March 30, 2035	October 30, 2035

As of February 25, 2019, the Company has not been notified, and is not aware, of any event of default under the covenants for the subordinated debentures.

### *Mortgages and Notes Payable in Consolidated VIEs*

On March 31, 2017, the Company consolidated both Riverchase Landing and The Clusters into its consolidated financial statements (*see Note 10*). In March 2018, Riverchase Landing completed the sale of its multi-family apartment community and redeemed the Company's preferred equity investment. The Company de-consolidated Riverchase Landing as of the date of the sale. The Clusters' real estate investment is subject to a mortgage payable and the Company has no obligation for this liability as of December 31, 2018.

The Company also consolidates KRVI into its consolidated financial statements (*see Note 10*). KRVI's real estate under development is subject to a note payable of \$4.0 million that has an unused commitment of \$4.4 million as of December 31, 2018. The Company has not been notified, and is not aware, of any event of default under the covenants of KRVI's note payable as of February 25, 2019.

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The mortgages and notes payable in the consolidated VIEs as of December 31, 2018 are described below (dollar amounts in thousands):

	<b>Assumption/Origination Date</b>	<b>Mortgage Note Amount as of December 31, 2018</b>	<b>Maturity Date</b>	<b>Interest Rate</b>	<b>Net Deferred Finance Costs</b>
The Clusters	6/30/2014	27,296	7/6/2024	4.49%	55
KRVI	12/16/2016	3,986	12/16/2019	7.00%	—

As of December 31, 2018, maturities for debt on the Company's consolidated balance sheet are as follows (dollar amounts in thousands):

<b>Year Ending December 31,</b>	
2019	\$ 3,986
2020	—
2021	—
2022	138,000
2023	—
Thereafter	72,296
<b>Total</b>	<b>\$ 214,282</b>

**17. Commitments and Contingencies**

*Loans Sold to Third Parties* – In the normal course of business, the Company is obligated to repurchase loans based on violations of representations and warranties in the loan sale agreements. The Company did not repurchase any loans during the three years ended December 31, 2018.

*Outstanding Litigation* – The Company is at times subject to various legal proceedings arising in the ordinary course of business. As of December 31, 2018, the Company does not believe that any of its current legal proceedings, individually or in the aggregate, will have a material adverse effect on the Company's operations, financial condition or cash flows.

*Leases* – As of December 31, 2018, the Company has entered into multi-year lease agreements for office space accounted for as non-cancelable operating leases. Total property lease expense on these leases for the years ended December 31, 2018, 2017, and 2016 amounted to \$0.4 million, \$0.3 million, and \$0.3 million, respectively. The leases are secured by cash deposits in the amount of \$0.7 million.

As of December 31, 2018, obligations under non-cancelable operating leases are as follows (dollar amounts in thousands):

<b>Year Ending December 31,</b>		
2019	\$	1,240
2020		1,464
2021		1,392
2022		1,394
2023		1,397
Thereafter		6,507
<b>Total</b>	<b>\$</b>	<b>13,394</b>

## 18. Fair Value of Financial Instruments

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.

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

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

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

*Level 3* - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

- a. *Investment Securities Available for Sale* – The Company determines the fair value of the investment securities in our portfolio, except the CMBS held in securitization trusts, using a third-party pricing service or quoted prices provided by dealers who make markets in similar financial instruments. Dealer valuations typically incorporate common market pricing methods, including a spread measurement to the Treasury curve or interest rate swap curve as well as underlying characteristics of the particular security including coupon, periodic and life caps, collateral type, rate reset period and seasoning or age of the security. If quoted prices for a security are not reasonably available from a dealer, the security will be classified as a Level 3 security and, as a result, management will determine fair value by modeling the security based on its specific characteristics and available market information. Management reviews all prices used in determining fair value to ensure they represent current market conditions. This review includes surveying similar market transactions, comparisons to interest pricing models as well as offerings of like securities by dealers. The Company's investment securities, except the CMBS held in securitization trusts, are valued based upon readily observable market parameters and are classified as Level 2 fair values.

The Company's CMBS held in securitization trusts are comprised of securities for which there are not substantially similar securities that trade frequently. The Company classifies these securities as Level 3 fair values. Fair value of the Company's CMBS investments held in securitization trusts is based on an internal valuation model that considers expected cash flows from the underlying loans and yields required by market participants. The significant unobservable inputs used in the measurement of these investments are projected losses of certain identified loans within the pool of loans and a discount rate. The discount rate used in determining fair value incorporates default rate, loss severity and current market interest rates. The discount rate ranges from 4.5% to 9.5%. Significant increases or decreases in these inputs would result in a significantly lower or higher fair value measurement.

- b. *Multi-Family Loans Held in Securitization Trusts* – Multi-family loans held in securitization trusts are carried at fair value as a result of a fair value election and classified as Level 3 fair values. The Company determines the fair value of multi-family loans held in securitization trusts based on the fair value of its Multi-Family CDOs and its retained interests from these securitizations (eliminated in consolidation in accordance with GAAP), as the fair value of these instruments is more observable.
- c. *Derivative Instruments* – The fair value of interest rate swaps is based on dealer quotes and are presented net of variation margin payments pledged or received. The Company's derivatives are classified as Level 2 fair values.

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- d. *Multi-Family CDOs* – Multi-Family CDOs are recorded at fair value and classified as Level 3 fair values. The fair value of Multi-Family CDOs is determined using a third party pricing service or are based on quoted prices provided by dealers who make markets in similar financial instruments. The dealers will consider contractual cash payments and yields expected by market participants. Dealers also incorporate common market pricing methods, including a spread measurement to the Treasury curve or interest rate swap curve as well as underlying characteristics of the particular security including coupon, periodic and life caps, collateral type, rate reset period and seasoning or age of the security.
- e. *Investment in Unconsolidated Entities* – Fair value for investments in unconsolidated entities is determined based on a valuation model using assumptions for the timing and amount of expected future cash flow for income and realization events for the underlying assets in the unconsolidated entities and a discount rate. This fair value measurement is generally based on unobservable inputs and, as such, is classified as Level 3 in the fair value hierarchy.
- f. *Residential Mortgage Loans* - Certain of the Company's acquired distressed and other residential mortgage loans are recorded at fair value and classified as Level 3 in the fair value hierarchy. The fair value for distressed and other residential mortgage loans is determined using valuations obtained from a third-party that specializes in providing valuations of residential mortgage loans. The valuation approach depends on whether the residential mortgage loan is considered performing, re-performing or non-performing at the date the valuation is performed.

For performing and re-performing loans, estimates of fair value are derived using a discounted cash flow model, where estimates of cash flows are determined from scheduled payments for each loan, adjusted using forecast prepayment rates, default rates and rates for loss upon default. For non-performing loans, asset liquidation cash flows are derived based on the estimated time to liquidate the loan, expected liquidation costs and home price appreciation. The discount rate used in determining fair value for distressed and other residential mortgage loans ranges from 4.7% to 12.2%.

Any changes to the valuation methodology are reviewed by management to ensure the changes are appropriate. As markets and products develop and the pricing for certain products becomes more transparent, the Company continues to refine its valuation methodologies. The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. The Company uses inputs that are current as of each reporting date, which may include periods of market dislocation, during which time price transparency may be reduced. This condition could cause the Company's financial instruments to be reclassified from Level 2 to Level 3 in future periods.

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The following table presents the Company's financial instruments measured at fair value on a recurring basis as of December 31, 2018 and 2017, respectively, on the Company's consolidated balance sheets (dollar amounts in thousands):

	Measured at Fair Value on a Recurring Basis at							
	December 31, 2018				December 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets carried at fair value</b>								
Investment securities available for sale:								
Agency RMBS	\$ —	\$ 1,037,730	\$ —	\$ 1,037,730	\$ —	\$ 1,169,536	\$ —	\$ 1,169,536
Non-Agency RMBS	—	214,037	—	214,037	—	102,125	—	102,125
CMBS	—	207,785	52,700	260,485	—	93,498	47,922	141,420
Multi-family loans held in securitization trusts	—	—	11,679,847	11,679,847	—	—	9,657,421	9,657,421
Distressed and other residential mortgage loans, at fair value	—	—	737,523	737,523	—	—	87,153	87,153
Derivative assets:								
Interest rate swaps	—	10,263	—	10,263	—	10,101	—	10,101
Investments in unconsolidated entities	—	—	32,994	32,994	—	—	42,823	42,823
<b>Total</b>	<b>\$ —</b>	<b>\$ 1,469,815</b>	<b>\$ 12,503,064</b>	<b>\$ 13,972,879</b>	<b>\$ —</b>	<b>\$ 1,375,260</b>	<b>\$ 9,835,319</b>	<b>\$ 11,210,579</b>
<b>Liabilities carried at fair value</b>								
Multi-family collateralized debt obligations	\$ —	\$ —	\$ 11,022,248	\$ 11,022,248	\$ —	\$ —	\$ 9,189,459	\$ 9,189,459
<b>Total</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 11,022,248</b>	<b>\$ 11,022,248</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 9,189,459</b>	<b>\$ 9,189,459</b>



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The following table details changes in valuation for the Level 3 assets for the years ended December 31, 2018, 2017 and 2016, respectively (amounts in thousands):

**Level 3 Assets:**

	Years Ended December 31,		
	2018	2017	2016
Balance at beginning of period	\$ 9,835,319	\$ 7,061,842	\$ 7,214,587
Total (losses)/gains (realized/unrealized)			
Included in earnings <sup>(1)</sup>	(117,330)	(17,841)	(19,495)
Included in other comprehensive income	798	602	224
Transfers in <sup>(2)</sup>	—	—	52,176
Transfers out <sup>(3)</sup>	(56)	—	(56,756)
Contributions	—	2,500	3,200
Paydowns/Distributions	(180,788)	(176,037)	(150,824)
Sales	(18,173)	(7,224)	—
Purchases <sup>(4)</sup>	2,983,294	2,971,477	18,730
Balance at the end of period	<u>\$ 12,503,064</u>	<u>\$ 9,835,319</u>	<u>\$ 7,061,842</u>

- (1) Amounts include interest income from multi-family loans held in securitization trusts, interest income from residential mortgage loans, realized gain on distressed residential mortgage loans, net gain on residential mortgage loans at fair value, unrealized gain on multi-family loans and debt held in securitization trusts, and other income.
- (2) Transfers into Level 3 include investments in unconsolidated entities held by RiverBanc and RBMI for which the Company accounts under the equity method of accounting with a fair value election. These transfers in are a result of the Company's acquisition of the outstanding membership interests in RiverBanc and RBMI that were not previously owned by the Company on May 16, 2016, which resulted in consolidation of these entities into the Company's financial statements (*see Note 23*).
- (3) Transfers out of Level 3 for the year ended December 31, 2016 represent the Company's previously held membership interests in RBMI and RBDHC that were accounted for under the equity method of accounting with a fair value election. These transfers out are a result of the Company's acquisition of the outstanding membership interests in RBMI and RBDHC that were not previously owned by the Company on May 16, 2016, which resulted in consolidation of these entities into the Company's financial statements (*see Note 23*).
- (4) In the years ended December 31, 2018 and 2017, the Company purchased POs, certain IOs and mezzanine multi-family CMBS securities issued from securitizations that it determined to consolidate and include in the Consolidated K-Series. As a result, the Company consolidated assets of these securitizations in the amount of \$2.3 billion and \$2.9 billion, for the years ended December 31, 2018 and 2017, respectively (*see Notes 2 and 7*).

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The following table details changes in valuation for the Level 3 liabilities for the years ended December 31, 2018, 2017 and 2016, respectively (amounts in thousands):

**Level 3 Liabilities:**

	Years Ended December 31,		
	2018	2017	2016
Balance at beginning of period	\$ 9,189,459	\$ 6,624,896	\$ 6,818,901
Total losses (realized/unrealized)			
Included in earnings <sup>(1)</sup>	(211,738)	(82,650)	(57,687)
Purchases <sup>(2)</sup>	2,182,330	2,784,377	—
Paydowns	(137,803)	(137,164)	(136,318)
Balance at the end of period	<u>\$ 11,022,248</u>	<u>\$ 9,189,459</u>	<u>\$ 6,624,896</u>

- (1) Amounts include interest expense on Multi-Family CDOs and unrealized gain on multi-family loans and debt held in securitization trusts.
- (2) During the years ended December 31, 2018 and 2017, the Company purchased POs, certain IOs and mezzanine multi-family CMBS securities issued from securitizations that it determined to consolidate and include in the Consolidated K-Series. As a result, the Company consolidated liabilities of these securitizations in the amount \$2.2 billion and \$2.8 billion, for the years ended December 31, 2018 and 2017, respectively (see Notes 2 and 7).

The following table details the changes in unrealized gains (losses) included in earnings for our Level 3 assets and liabilities for the years ended December 31, 2018, 2017 and 2016, respectively (dollar amounts in thousands):

	Years Ended December 31,		
	2018	2017	2016
Change in unrealized (losses) gains – assets	\$ (77,007)	\$ 12,402	\$ 13,865
Change in unrealized gains (losses) – liabilities	122,696	8,851	(7,762)
Net change in unrealized gains included in earnings for assets and liabilities	<u>\$ 45,689</u>	<u>\$ 21,253</u>	<u>\$ 6,103</u>

The following table presents assets measured at fair value on a non-recurring basis as of December 31, 2018 and 2017, respectively, on the Company's consolidated balance sheets (dollar amounts in thousands):

	Assets Measured at Fair Value on a Non-Recurring Basis at							
	December 31, 2018				December 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Residential mortgage loans held in securitization trusts – impaired loans, net	\$ —	\$ —	\$ 5,921	\$ 5,921	\$ —	\$ —	\$ 10,317	\$ 10,317
Real estate owned held in residential securitization trusts	—	—	—	—	—	—	111	111

The following table presents gains (losses) incurred for assets measured at fair value on a non-recurring basis for the years ended December 31, 2018, 2017 and 2016, respectively, on the Company's consolidated statements of operations (dollar amounts in thousands):

	Years Ended December 31,		
	2018	2017	2016
Residential mortgage loans held in securitization trusts – impaired loans, net	\$ (165)	\$ (472)	\$ (482)
Real estate owned held in residential securitization trusts	—	(6)	(130)

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*Residential Mortgage Loans Held in Securitization Trusts – Impaired Loans, net* – Impaired residential mortgage loans held in securitization trusts are recorded at amortized cost less specific loan loss reserves. Impaired loan value is based on management’s estimate of the net realizable value taking into consideration local market conditions of the property, updated appraisal values of the property and estimated expenses required to remediate the impaired loan.

*Real Estate Owned Held in Residential Securitization Trusts* – Real estate owned held in the residential securitization trusts are recorded at net realizable value. Any subsequent adjustment will result in the reduction in carrying value with the corresponding amount charged to earnings. Net realizable value is based on an estimate of disposal taking into consideration local market conditions of the property, updated appraisal values of the property and estimated expenses required to sell the property.

The following table presents the carrying value and estimated fair value of the Company’s financial instruments at December 31, 2018 and 2017, respectively (dollar amounts in thousands):

	Fair Value Hierarchy Level	December 31, 2018		December 31, 2017	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<b>Financial Assets:</b>					
Cash and cash equivalents	Level 1	\$ 103,724	\$ 103,724	\$ 95,191	\$ 95,191
Investment securities available for sale	Level 2 or 3	1,512,252	1,512,252	1,413,081	1,413,081
Residential mortgage loans held in securitization trusts, net	Level 3	56,795	56,497	73,820	72,131
Distressed residential mortgage loans, at carrying value, net	Level 3	228,466	232,879	331,464	334,765
Distressed and other residential mortgage loans, at fair value	Level 3	737,523	737,523	87,153	87,153
Multi-family loans held in securitization trusts	Level 3	11,679,847	11,679,847	9,657,421	9,657,421
Derivative assets	Level 2	10,263	10,263	10,101	10,101
Mortgage loans held for sale, net <sup>(1)</sup>	Level 3	3,414	3,584	5,507	5,598
Mortgage loans held for investment <sup>(1)</sup>	Level 3	1,580	1,580	1,760	1,900
Preferred equity and mezzanine loan investments	Level 3	165,555	167,739	138,920	140,129
Investments in unconsolidated entities	Level 3	73,466	73,833	51,143	51,212
<b>Financial Liabilities:</b>					
Financing arrangements, portfolio investments	Level 2	1,543,577	1,543,577	1,276,918	1,276,918
Financing arrangements, distressed and other residential mortgage loans	Level 2	587,928	587,928	149,063	149,063
Residential collateralized debt obligations	Level 3	53,040	50,031	70,308	66,865
Multi-family collateralized debt obligations	Level 3	11,022,248	11,022,248	9,189,459	9,189,459
Securitized debt	Level 3	42,335	45,030	81,537	87,891
Subordinated debentures	Level 3	45,000	44,897	45,000	45,002
Convertible notes	Level 2	130,762	135,689	128,749	140,060

<sup>(1)</sup> Included in receivables and other assets in the accompanying consolidated balance sheets.

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In addition to the methodology to determine the fair value of the Company's financial assets and liabilities reported at fair value on a recurring basis and non-recurring basis, as previously described, the following methods and assumptions were used by the Company in arriving at the fair value of the Company's other financial instruments in the table immediately above:

- a. *Cash and cash equivalents* – Estimated fair value approximates the carrying value of such assets.
- b. *Residential mortgage loans held in securitization trusts, net* – Residential mortgage loans held in the securitization trusts are recorded at amortized cost, net of allowance for loan losses. Fair value is based on an internal valuation model that considers the aggregated characteristics of groups of loans such as, but not limited to, collateral type, index, interest rate, margin, length of fixed-rate period, life cap, periodic cap, underwriting standards, age and credit estimated using the estimated market prices for similar types of loans.
- c. *Distressed residential mortgage loans, net* – Fair value is estimated using pricing models taking into consideration current interest rates, loan amount, payment status and property type, and forecasts of future interest rates, home prices and property values, prepayment speeds, default, loss severities, and actual purchases and sales of similar loans.
- d. *Mortgage loans held for sale, net* - The fair value of mortgage loans held for sale, net are estimated by the Company based on the price that would be received if the loans were sold as whole loans taking into consideration the aggregated characteristics of the loans such as, but not limited to, collateral type, index, interest rate, margin, length of fixed interest rate period, life time cap, periodic cap, underwriting standards, age and credit.
- e. *Preferred equity and mezzanine loan investments* – Estimated fair value is determined by both market comparable pricing and discounted cash flows. The discounted cash flows are based on the underlying contractual cash flows and estimated changes in market yields. The fair value also reflects consideration of changes in credit risk since the origination or time of initial investment.
- f. *Financing arrangements* – The fair value of these financing arrangements approximates cost as they are short term in nature.
- g. *Residential collateralized debt obligations* – The fair value of these CDOs is based on discounted cash flows as well as market pricing on comparable obligations.
- h. *Securitized debt* – The fair value of securitized debt is based on discounted cash flows using management's estimate for market yields.
- i. *Subordinated debentures* – The fair value of these subordinated debentures is based on discounted cash flows using management's estimate for market yields.
- j. *Convertible notes* – The fair value is based on quoted prices provided by dealers who make markets in similar financial instruments.

**19. Stockholders' Equity**

*(a) Dividends on Preferred Stock*

The Company had 200,000,000 authorized shares of preferred stock, par value \$0.01 per share, with 12,000,000 shares issued and outstanding as of December 31, 2018 and 2017.

On June 4, 2013, the Company issued 3,000,000 shares of 7.75% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock"), with a par value of \$0.01 per share and a liquidation preference of \$25 per share, in an underwritten public offering, for net proceeds of approximately \$72.4 million, after deducting underwriting discounts and offering expenses. As of December 31, 2018 and December 31, 2017, there were 6,000,000 shares of Series B Preferred Stock authorized. The Series B Preferred Stock is entitled to receive a dividend at a rate of 7.75% per year on the \$25 liquidation preference and is senior to the common stock with respect to distributions upon liquidation, dissolution or winding up.

On April 22, 2015, the Company issued 3,600,000 shares of 7.875% Series C Cumulative Redeemable Preferred Stock ("Series C Preferred Stock"), with a par value of \$0.01 per share and a liquidation preference of \$25 per share, in an underwritten public offering, for net proceeds of approximately \$86.9 million, after deducting underwriting discounts and offering expenses. As of December 31, 2018 and December 31, 2017, there were 4,140,000 shares of Series C Preferred Stock authorized. The Series C Preferred Stock is entitled to receive a dividend at a rate of 7.875% per year on the \$25 liquidation preference and is senior to the common stock with respect to distribution upon liquidation, dissolution or winding up.

On October 13, 2017, the Company issued 5,400,000 shares of 8.00% Series D Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock ("Series D Preferred Stock"), with a par value of \$0.01 per share and a liquidation preference of \$25 per share, in an underwritten public offering, for net proceeds of approximately \$130.5 million, after deducting underwriting discounts and offering expenses. As of December 31, 2018 and December 31, 2017, there were 5,750,000 shares of Series D Preferred Stock authorized. The Series D Preferred Stock is entitled to receive a dividend at a fixed rate from and including the issue date to, but excluding, October 15, 2027 of 8.00% per year on the \$25 liquidation preference. Beginning October 15, 2027, the Series D Preferred Stock is entitled to receive a dividend at a floating rate equal to three-month LIBOR plus a spread of 5.695% per year on the \$25 liquidation preference. The Series D Preferred Stock is senior to the common stock with respect to dividends and distribution of assets upon liquidation, dissolution or winding up.

The Series B Preferred Stock, Series C Preferred Stock, and Series D Preferred Stock generally do not have any voting rights, subject to an exception in the event the Company fails to pay dividends on such stock for six or more quarterly periods (whether or not consecutive). Under such circumstances, holders of the Series B Preferred Stock, Series C Preferred Stock, and Series D Preferred Stock voting together as a single class with the holders of all other classes or series of our preferred stock upon which like voting rights have been conferred and are exercisable and which are entitled to vote as a class with the Series B Preferred Stock, Series C Preferred Stock, and Series D Preferred Stock will be entitled to vote to elect two additional directors to the Company's Board of Directors (the "Board") until all unpaid dividends have been paid or declared and set apart for payment. In addition, certain material and adverse changes to the terms of the Series B Preferred Stock, Series C Preferred Stock, and Series D Preferred Stock cannot be made without the affirmative vote of holders of at least two-thirds of the outstanding shares of Series B Preferred Stock, Series C Preferred Stock, or Series D Preferred Stock.

The Series B Preferred Stock, Series C Preferred Stock, and Series D Preferred Stock are not redeemable by the Company prior to June 4, 2018, April 22, 2020, and October 15, 2027, respectively, except under circumstances intended to preserve the Company's qualification as a REIT and except upon the occurrence of a Change of Control (as defined in the Articles Supplementary designating the Series B Preferred Stock, Series C Preferred Stock, and Series D Preferred Stock, respectively). On and after June 4, 2018, April 22, 2020, and October 15, 2027, the Company may, at its option, redeem the Series B Preferred Stock, Series C Preferred Stock, and Series D Preferred Stock, respectively, in whole or in part, at any time or from time to time, for cash at a redemption price equal to \$25.00 per share, plus any accumulated and unpaid dividends.

In addition, upon the occurrence of a Change of Control, the Company may, at its option, redeem the Series B Preferred Stock, Series C Preferred Stock, and Series D Preferred Stock in whole or in part, within 120 days after the first date on which such Change of Control occurred, for cash at a redemption price of \$25.00 per share, plus any accumulated and unpaid dividends.

Each of the Series B Preferred Stock, Series C Preferred Stock, and Series D Preferred Stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and will remain outstanding indefinitely unless repurchased or redeemed by the Company or converted into the Company's common stock in connection with a Change of Control.

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Upon the occurrence of a Change of Control, each holder of Series B Preferred Stock, Series C Preferred Stock, and Series D Preferred Stock will have the right (unless the Company has exercised its right to redeem the Series B Preferred Stock, Series C Preferred Stock, or Series D Preferred Stock, respectively) to convert some or all of the Series B Preferred Stock, Series C Preferred Stock, or Series D Preferred Stock held by such holder into a number of shares of our common stock per share of Series B Preferred Stock, Series C Preferred Stock or Series D Preferred Stock determined by a formula, in each case, on the terms and subject to the conditions described in the applicable Articles Supplementary for such series.

From the time of original issuance of the Series B Preferred Stock, Series C Preferred Stock, and Series D Preferred Stock through December 31, 2018, the Company has declared and paid all required quarterly dividends on such series of stock. The following table presents the relevant dates with respect to such quarterly cash dividends declared on the Series B Preferred Stock and Series C Preferred Stock commencing January 1, 2016 through December 31, 2018 and Series D Preferred Stock from its time of original issuance through December 31, 2018:

Declaration Date	Record Date	Payment Date	Cash Dividend Per Share		
			Series B Preferred Stock	Series C Preferred Stock	Series D Preferred Stock
December 4, 2018	January 1, 2019	January 15, 2019	\$ 0.484375	\$ 0.4921875	\$ 0.50
September 17, 2018	October 1, 2018	October 15, 2018	0.484375	0.4921875	0.50
June 18, 2018	July 1, 2018	July 15, 2018	0.484375	0.4921875	0.50
March 19, 2018	April 1, 2018	April 15, 2018	0.484375	0.4921875	0.50
December 7, 2017	January 1, 2018	January 15, 2018	0.484375	0.4921875	0.51 <sup>(1)</sup>
September 14, 2017	October 1, 2017	October 15, 2017	0.484375	0.4921875	—
June 14, 2017	July 1, 2017	July 15, 2017	0.484375	0.4921875	—
March 16, 2017	April 1, 2017	April 15, 2017	0.484375	0.4921875	—
December 15, 2016	January 1, 2017	January 15, 2017	0.484375	0.4921875	—
September 15, 2016	October 1, 2016	October 15, 2016	0.484375	0.4921875	—
June 16, 2016	July 1, 2016	July 15, 2016	0.484375	0.4921875	—
March 18, 2016	April 1, 2016	April 15, 2016	0.484375	0.4921875	—

<sup>(1)</sup> Cash dividend for the partial quarterly period that began on October 13, 2017 and ended on January 14, 2018.

[Table of Contents](#)*(b) Dividends on Common Stock*

The following table presents cash dividends declared by the Company on its common stock with respect to each of the quarterly periods commencing January 1, 2016 and ended December 31, 2018:

<b>Period</b>	<b>Declaration Date</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Cash Dividend Per Share</b>
Fourth Quarter 2018	December 4, 2018	December 14, 2018	January 25, 2019	\$ 0.20
Third Quarter 2018	September 17, 2018	September 27, 2018	October 26, 2018	0.20
Second Quarter 2018	June 18, 2018	June 28, 2018	July 26, 2018	0.20
First Quarter 2018	March 19, 2018	March 29, 2018	April 26, 2018	0.20
Fourth Quarter 2017	December 7, 2017	December 18, 2017	January 25, 2018	0.20
Third Quarter 2017	September 14, 2017	September 25, 2017	October 25, 2017	0.20
Second Quarter 2017	June 14, 2017	June 26, 2017	July 25, 2017	0.20
First Quarter 2017	March 16, 2017	March 27, 2017	April 25, 2017	0.20
Fourth Quarter 2016	December 15, 2016	December 27, 2016	January 26, 2017	0.24
Third Quarter 2016	September 15, 2016	September 26, 2016	October 28, 2016	0.24
Second Quarter 2016	June 16, 2016	June 27, 2016	July 25, 2016	0.24
First Quarter 2016	March 18, 2016	March 28, 2016	April 25, 2016	0.24

During 2018, dividends for our common stock were \$0.80 per share. For tax reporting purposes, the 2018 dividends were classified as ordinary income, capital gain distribution and return of capital in the amounts of \$0.37, \$0.12 and \$0.31, respectively, per share. During 2017, dividends for our common stock were \$0.80 per share. For tax reporting purposes, the 2017 dividends were classified as ordinary income, capital gain distribution and return of capital in the amounts of \$0.46, \$0.17 and \$0.17, respectively, per share. During 2016, dividends for our common stock were \$0.96 per share. For tax reporting purposes, the 2016 dividends were classified as ordinary income and return of capital in the amounts of \$0.44 and \$0.52, respectively, per share.

*(c) Public Offering of Common Stock*

On August 14, 2018, the Company issued 14,375,000 shares of its common stock through an underwritten public offering at a public offering price of \$6.16 per share, resulting in total net proceeds to the Company of \$86.0 million after deducting underwriting discounts and commissions and offering expenses.

On November 13, 2018, the Company issued 14,375,000 shares of its common stock through an underwritten public offering at a public offering price of \$6.11 per share, resulting in total net proceeds to the Company of \$85.3 million after deducting underwriting discounts and commissions and offering expenses.

*(d) Equity Distribution Agreements*

On August 10, 2017, the Company entered into an equity distribution agreement (the “Equity Distribution Agreement”) with Credit Suisse Securities (USA) LLC (“Credit Suisse”), as sales agent, pursuant to which the Company may offer and sell shares of its common stock, par value \$0.01 per share, having a maximum aggregate sales price of up to \$100.0 million, from time to time through Credit Suisse. On September 10, 2018, the Company entered into an amendment to the Equity Distribution Agreement that increased the maximum aggregate sales price to \$177.1 million. The Company has no obligation to sell any of the shares of common stock issuable under the Equity Distribution Agreement and may at any time suspend solicitations and offers under the Equity Distribution Agreement.

The Equity Distribution Agreement replaced the Company’s prior equity distribution agreements with JMP Securities LLC and Ladenburg Thalmann & Co. Inc. dated as of March 20, 2015 and August 25, 2016, respectively (the “Prior Equity Distribution Agreements”), pursuant to which up to \$39.3 million of aggregate value of the Company’s common stock and Series B Preferred Stock remained available for issuance immediately prior to termination. The Prior Equity Distribution Agreements were terminated effective on August 7, 2017.

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During the twelve months ended December 31, 2018, the Company issued 14,588,631 shares of common stock under the Equity Distribution Agreement, at an average sales price of \$6.19 per share, resulting in total net proceeds to the Company of \$89.0 million, after deducting the placement fees. During the twelve months ended December 31, 2017, the Company issued 55,886 shares of common stock under the Equity Distribution Agreement, at an average sales price of \$6.45 per share, resulting in total net proceeds to the Company of \$0.4 million, after deducting the placement fees. During the twelve months ended December 31, 2017, the Company issued 87,737 shares of common stock under the Prior Equity Distribution Agreements, at an average sales price of \$6.68 per share, resulting in total net proceeds to the Company of \$0.6 million, after deducting the placement fees. As of December 31, 2018, approximately \$86.4 million of common stock remains available for issuance under the Equity Distribution Agreement.



20. **Earnings Per Share**

The Company calculates basic earnings per common share by dividing net income attributable to the Company's common stockholders for the period by weighted-average shares of common stock outstanding for that period. Diluted earnings per common share takes into account the effect of dilutive instruments, such as convertible notes and performance share awards, and the number of incremental shares that are to be added to the weighted-average number of shares outstanding.

During the years ended December 31, 2018 and December 31, 2017, the Company's Convertible Notes were determined to be dilutive and were included in the calculation of diluted earnings per common share under the "if-converted" method. Under this method, the periodic interest expense (net of applicable taxes) for dilutive notes is added back to the numerator and the number of shares that the notes are entitled to (if converted, regardless of whether they are in or out of the money) are included in the denominator. During the year ended December 31, 2018, PSUs awarded under the Company's 2018 Long-Term Equity Incentive Program ("2018 Long-Term EIP") (see Note 21) were also determined to be dilutive and were included in the calculation of diluted earnings per common share under the treasury stock method. Under this method, common equivalent shares are calculated assuming that target PSUs vest according to the PSU Agreements and unrecognized compensation cost is used to repurchase shares of the Company's outstanding common stock at the average market price during the reported period. There were no dilutive PSU awards during the year ended December 31, 2017. There were no dilutive instruments for the year ended December 31, 2016.

The following table presents the computation of basic and diluted earnings per common share for the periods indicated (dollar and share amounts in thousands, except per share amounts):

	<b>Twelve Months Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Basic Earnings per Common Share</b>			
Net income attributable to Company	\$ 102,886	\$ 91,980	\$ 67,551
Less: Preferred stock dividends	(23,700)	(15,660)	(12,900)
Net income attributable to Company's common stockholders	<u>\$ 79,186</u>	<u>\$ 76,320</u>	<u>\$ 54,651</u>
Basic weighted average common shares outstanding	127,243	111,836	109,594
<b>Basic Earnings per Common Share</b>	<b>\$ 0.62</b>	<b>\$ 0.68</b>	<b>\$ 0.50</b>
<b>Diluted Earnings per Common Share:</b>			
Net income attributable to Company	\$ 102,886	\$ 91,980	\$ 67,551
Less: Preferred stock dividends	(23,700)	(15,660)	(12,900)
Add back: Interest expense on convertible notes for the period, net of tax	10,475	9,158	—
Net income attributable to Company's common stockholders	<u>\$ 89,661</u>	<u>\$ 85,478</u>	<u>\$ 54,651</u>
Weighted average common shares outstanding	127,243	111,836	109,594
Net effect of assumed convertible notes conversion to common shares	19,695	18,507	—
Net effect of assumed PSUs vested	512	—	—
Diluted weighted average common shares outstanding	<u>147,450</u>	<u>130,343</u>	<u>109,594</u>
<b>Diluted Earnings per Common Share</b>	<b>\$ 0.61</b>	<b>\$ 0.66</b>	<b>\$ 0.50</b>

**21. Stock Based Compensation**

In May 2017, the Company's stockholders approved the 2017 Plan, with such stockholder action resulting in the termination of the Company's 2010 Stock Incentive Plan (the "2010 Plan"). The terms of the 2017 Plan are substantially the same as the 2010 Plan. However, any outstanding awards under the 2010 Plan will continue in accordance with the terms of the 2010 Plan and any award agreement executed in connection with such outstanding awards. At December 31, 2018, there were 217,163 shares of non-vested restricted stock outstanding under the 2010 Plan.

Pursuant to the 2017 Plan, eligible employees, officers and directors of the Company are offered the opportunity to acquire the Company's common stock through the award of restricted stock and other equity awards under the 2017 Plan. The maximum number of shares that may be issued under the 2017 Plan is 5,570,000. Of the common stock authorized at December 31, 2018, 3,865,174 shares are available for issuance under the 2017 Plan. The Company's non-employee directors have been issued 131,975 shares under the 2017 Plan as of December 31, 2018. The Company's employees have been issued 292,459 shares of restricted stock under the 2017 Plan as of December 31, 2018. At December 31, 2018, there were 290,373 shares of non-vested restricted stock outstanding and 1,280,392 common shares reserved for issuance in connection with outstanding PSUs under the 2017 Plan.

Of the common stock authorized at December 31, 2017, 5,598,865 shares were reserved for issuance under the 2010 and 2017 Plans, collectively. The Company's non-employee directors had been issued 265,934 shares under the 2010 and 2017 Plans, collectively, as of December 31, 2017. The Company's employees had been issued 895,201 shares of restricted stock under the 2010 and 2017 Plans, collectively, as of December 31, 2017. At December 31, 2017, there were 422,928 shares of non-vested restricted stock outstanding collectively under the 2010 and 2017 Plans.

*(a) Restricted Common Stock Awards*

During the years ended December 31, 2018, 2017 and 2016, the Company recognized non-cash compensation expense on its restricted common stock awards of \$1.3 million, \$1.8 million and \$1.0 million, respectively. Dividends are paid on all restricted common stock issued, whether those shares have vested or not. In general, non-vested restricted stock is forfeited upon the recipient's termination of employment. There were forfeitures of 5,120 shares for the year ended December 31, 2018 and no forfeitures for the years ended December 31, 2017, and 2016.

A summary of the activity of the Company's non-vested restricted stock collectively under the 2010 Plan and 2017 Plan for the years ended December 31, 2018, 2017 and 2016, respectively, is presented below:

	2018		2017		2016	
	Number of Non-vested Restricted Shares	Weighted Average Per Share Grant Date Fair Value <sup>(1)</sup>	Number of Non-vested Restricted Shares	Weighted Average Per Share Grant Date Fair Value <sup>(1)</sup>	Number of Non-vested Restricted Shares	Weighted Average Per Share Grant Date Fair Value <sup>(1)</sup>
Non-vested shares at January 1	422,928	\$ 6.36	319,058	\$ 6.40	280,457	\$ 7.63
Granted	289,792	5.63	332,921	6.54	160,453	5.11
Vested	(200,064)	6.55	(229,051)	6.67	(121,852)	7.54
Forfeited	(5,120)	6.25	—	—	—	—
Non-vested shares as of December 31	507,536	\$ 5.91	422,928	\$ 6.36	319,058	\$ 6.40
Restricted stock granted during the period	289,792	\$ 5.63	332,921	\$ 6.54	160,453	\$ 5.11

<sup>(1)</sup> The grant date fair value of restricted stock awards is based on the closing market price of the Company's common stock at the grant date.

At December 31, 2018 and December 31, 2017, the Company had unrecognized compensation expense of \$1.9 million and \$1.6 million, respectively, related to the non-vested shares of restricted common stock under the 2010 Plan and 2017 Plan, collectively. The unrecognized compensation expense at December 31, 2018 is expected to be recognized over a weighted average period of 1.9 years. The total fair value of restricted shares vested during the years ended December 31, 2018, 2017 and 2016 was approximately \$1.1 million, \$1.5 million and \$0.6 million, respectively. The requisite service period for restricted shares at issuance is three years.

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*(b) Performance Share Awards*

In May 2015, the Compensation Committee of the Board of Directors approved a PSA under the 2010 Plan to the Company's Chairman and Chief Executive Officer. At the time of grant, the target number of shares pursuant to the PSA consisted of 89,629 shares of common stock. The PSA had a grant date fair value of approximately \$0.4 million. The grant date fair value of the PSA was determined through a Monte-Carlo simulation of the Company's common stock total shareholder return and the common stock total shareholder return of its peer companies to determine the total shareholder return of the Company's common stock relative to its peer companies over a future period of three years. For the PSA granted in 2015, the inputs used by the model to determine the fair value were (i) historical stock return volatilities of the Company and its peer companies over the most recent three year period, (ii) a risk free rate based on the three year U.S. Treasury rate on grant date, and (iii) historical pairwise stock return correlations between the Company and its peer companies over the most recent three year period.

Under the terms of the agreement pursuant to which the PSA was granted, vesting of the PSA would occur at the end of three years based on three-year total shareholder return in April 2018. At the end of the three-year performance period in April 2018, no shares were issued under the PSA award.

*(b) Performance Stock Units*

During the twelve months ended December 31, 2018, the Compensation Committee and the Board of Directors approved the grant of PSUs to the Chief Executive Officer, Chief Financial Officer and certain other employees as part of the Company's 2018 Long-Term EIP. The awards were issued pursuant to and are consistent with the terms and conditions of the 2017 Plan.

The PSU awards are subject to performance-based vesting under the 2017 Plan pursuant to the PSU Agreements. At the time of grant, the target number of shares pursuant to the PSU awards totaled 842,792 shares of common stock. The PSU awards had a grant date fair value of approximately \$3.5 million. Vesting of the PSUs will occur at the end of three years based on the following:

- If three-year TSR performance relative to the Company's identified performance peer group (the "Relative TSR") is less than 30th percentile, then 0% of the target PSUs will vest;
- If three-year Relative TSR performance is equal to the 30th percentile, then the Threshold % (as defined in the individual PSU Agreements) of the target PSUs will vest;
- If three-year Relative TSR performance is equal to the 50th percentile, then 100% of the target PSUs will vest; and
- If three-year Relative TSR performance is greater than or equal to the 80th percentile, then the Maximum % (as defined in the individual PSU Agreements) of the target PSUs will vest.

The percentage of target PSUs that vest for performance between the 30th, 50th, and 80th percentiles will be calculated using linear interpolation.

Total shareholder return for the Company and each member of the peer group will be determined by dividing (i) the sum of the cumulative amount of such entity's dividends per share for the performance period and the arithmetic average per share volume weighted average price (the "VWAP") of such entity's common stock for the last thirty (30) consecutive trading days of the performance period minus the arithmetic average per share VWAP of such entity's common stock for the last thirty (30) consecutive trading days immediately prior to the performance period by (ii) the arithmetic average per share VWAP of such entity's common stock for the last thirty (30) consecutive trading days immediately prior to the performance period. Each PSU represents an unfunded promise to receive one share of the Company's common stock once the performance condition has been satisfied.

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The grant date fair value of the PSUs was determined through a Monte-Carlo simulation of the Company's common stock total shareholder return and the common stock total shareholder return of its identified performance peer companies to determine the Relative TSR of the Company's common stock over a future period of three years. For the PSUs granted in 2018, the inputs used by the model to determine the fair value are (i) historical stock price volatilities of the Company and its identified performance peer companies over the most recent three year period and correlation between each company's stock and the identified performance peer group over the same time series and (ii) a risk free rate for the period interpolated from the U.S. Treasury yield curve on grant date.

Compensation expense related to the PSUs was \$0.9 million for the twelve months ended December 31, 2018. As of December 31, 2018, there was \$2.6 million of unrecognized compensation cost related to the non-vested portion of the PSUs.

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**22. Income Taxes**

For the years ended December 31, 2018, 2017 and 2016, the Company qualified to be taxed as a REIT under the Internal Revenue Code for U.S. federal income tax purposes. As long as the Company qualifies as a REIT, the Company generally will not be subject to U.S. federal income taxes on its taxable income to the extent it annually distributes at least 100% of its taxable income to stockholders and does not engage in prohibited transactions. Certain activities the Company performs may produce income that will not be qualifying income for REIT purposes. The Company has designated its TRSs to engage in these activities. The tables below reflect the taxes accrued at the TRS level and the tax attributes included in the consolidated financial statements.

The income tax provision for the years ended December 31, 2018, 2017 and 2016 is comprised of the following components (dollar amounts in thousands):

	Years Ended December 31,		
	2018	2017	2016
<b>Current income tax (benefit) expense</b>			
Federal	\$ (273)	\$ 1,243	\$ 2,771
State	(7)	2,130	187
Total current income tax (benefit) expense	(280)	3,373	2,958
<b>Deferred income tax (benefit) expense</b>			
Federal	(480)	(25)	104
State	(297)	7	33
Total deferred income tax (benefit) expense	(777)	(18)	137
<b>Total (benefit) provision</b>	<b>\$ (1,057)</b>	<b>\$ 3,355</b>	<b>\$ 3,095</b>

The Company's estimated taxable income differs from the statutory U.S. federal rate as a result of state and local taxes, non-taxable REIT income, valuation allowance and other differences. A reconciliation of the statutory income tax provision to the effective income tax provision for the years ended December 31, 2018, 2017 and 2016, respectively, are as follows (dollar amounts in thousands).

	December 31,					
	2018		2017		2016	
Provision at statutory rate	\$ 21,384	21.0 %	\$ 33,367	35.0 %	\$ 24,561	35.0 %
Non-taxable REIT loss	(23,720)	(23.3)	(29,857)	(31.3)	(20,672)	(29.5)
State and local tax (benefit) provision	(7)	—	2,130	2.2	187	0.3
Other	(2,601)	(2.6)	1,511	1.6	(502)	(0.7)
Valuation allowance	3,887	3.8	(3,796)	(4.0)	(479)	(0.7)
<b>Total (benefit) provision</b>	<b>\$ (1,057)</b>	<b>(1.1)%</b>	<b>\$ 3,355</b>	<b>3.5 %</b>	<b>\$ 3,095</b>	<b>4.4 %</b>

[Table of Contents](#)*Deferred Tax Assets and Liabilities*

The major sources of temporary differences included in the deferred tax assets and their deferred tax effect as of December 31, 2018 and 2017 are as follows (dollar amounts in thousands):

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<b>Deferred tax assets</b>		
Net operating loss carryforward	\$ 2,416	\$ 295
Capital loss carryover	739	—
GAAP/Tax basis differences	3,903	2,237
Total deferred tax assets <sup>(1)</sup>	<u>7,058</u>	<u>2,532</u>
<b>Deferred tax liabilities</b>		
Deferred tax liabilities	6	144
Total deferred tax liabilities <sup>(2)</sup>	<u>6</u>	<u>144</u>
Valuation allowance <sup>(1)</sup>	(6,069)	(2,182)
<b>Total net deferred tax asset</b>	<u>\$ 983</u>	<u>\$ 206</u>

<sup>(1)</sup> Included in receivables and other assets in the accompanying consolidated balance sheets.

<sup>(2)</sup> Included in accrued expenses and other liabilities in the accompanying consolidated balance sheets.

As of December 31, 2018, the Company, through wholly owned TRSs, had incurred net operating losses in the aggregate amount of approximately \$7.1 million. The Company's carryforward net operating losses can be carried forward indefinitely until they are offset by future taxable income. Additionally, as of December 31, 2018, the Company, through one of its wholly owned TRSs, had also incurred approximately \$2.2 million in capital losses. The Company's carryforward capital losses will expire in 2023 if they are not offset by future capital gains. At December 31, 2018, the Company has recorded a valuation allowance against certain deferred tax assets as management does not believe that it is more likely than not that these deferred tax assets will be realized.

The Company files income tax returns with the U.S. federal government and various state and local jurisdictions. The Company's federal, state and city income tax returns are subject to examination by the Internal Revenue Service and related tax authorities generally for three years after they were filed. The Company has assessed its tax positions for all open years and concluded that there are no material uncertainties to be recognized.

In addition, based on the Company's evaluation, the Company has concluded that there are no significant uncertain tax positions requiring recognition in the Company's financial statements.

On December 22, 2017, H.R.1, informally known as the Tax Cuts and Jobs Act (the "TCJA") was signed into law. The TCJA made major changes to the Internal Revenue Code which the company has considered in its analysis during the year ended December 31, 2018.

We have recognized the tax effects of the TCJA in the year ended December 31, 2018 through the measurement of deferred tax assets at the reduced corporate tax rate from 35% to 21%. We will continue to analyze and monitor the application of TCJA to our business and continue to assess our provision for income taxes as future guidance is issued.

## 23. Business Combinations

On May 16, 2016 (the "Acquisition Date"), the Company acquired the outstanding common equity interests in RiverBanc, RBMI, and RBDHC (collectively, the "Acquirees") that were not previously owned by the Company through the consummation of separate membership interest purchase agreements, thereby increasing the Company's ownership of each of these entities to 100%. The results of the Acquirees' operations have been included in the consolidated financial statements since the Acquisition Date. Prior to the Acquisition Date, the Company owned 20.0%, 67.19% and 62.5% of the outstanding common equity interests in RiverBanc, RBMI and RBDHC, respectively. RiverBanc is an investment management firm that was founded in 2010 and has sourced and managed direct and indirect investments in multi-family apartment properties on behalf of both public and private institutional investors, including the Company, RBMI and RBDHC. Prior to the completion of the RiverBanc acquisition, RiverBanc had served as an external manager for the Company pursuant to an investment management agreement, for which it received base management and incentive fees. In connection with the acquisition, the Company terminated its investment management agreement with RiverBanc on May 17, 2016. As of March 31, 2016, RiverBanc managed approximately \$371.5 million of the Company's capital. In acquiring a 100% ownership interest in RiverBanc, the Company has internalized the management of its multi-family investments. The Company has achieved certain synergies related to processes and personnel as a result of this internalization. Prior to the completion of the acquisitions described above, Donlon Family LLC, which is 100% owned by the Company's former President and director, Kevin M. Donlon, beneficially owned 59.40%, 5.47% and 6.25% of the outstanding common equity interests in RiverBanc, RMI and RBDHC, respectively.

The estimated Acquisition Date fair value of the consideration transferred totaled \$53.5 million, which consisted of the following (dollar amounts in thousands):

Cash <sup>(1)</sup>	\$	29,073
Contingent consideration		3,800
Fair value of previously held membership interests		20,608
<b>Total consideration transferred</b>	<b>\$</b>	<b>53,481</b>

<sup>(1)</sup> Includes \$16.3 million paid to Donlon Family LLC and reflects a post-closing working capital adjustment of \$20 thousand delivered to the sellers of RiverBanc on July 15, 2016.

Prior to the Acquisition Date, the Company accounted for its previously held membership interests in the Acquirees as equity method investments, utilizing the fair value election for both RBMI and RBDHC. The Acquisition Date fair value of the Company's previously held membership interests in the Acquirees was \$20.6 million and is included in the measurement of consideration transferred. In the year ended December 31, 2016, the Company recorded a net gain as a result of remeasuring its previously held membership interests in RiverBanc, RBMI, and RBDHC totaling \$5.0 million. This net gain is included in other income on the Company's consolidated statements of operations for the year ended December 31, 2016.

The Company determined the estimated fair value of its previously held membership interests in RiverBanc using assumptions for the timing and amount of expected net future cash flow for the managed portfolio and a discount rate. The Company determined the estimated fair value of its previously held membership interests in RBMI and RBDHC using assumptions for the timing and amount of expected future cash flow for income and realization events for the underlying assets and a discount rate.

The contingent consideration includes two components:

- A cash holdback in the amount of \$3.0 million to be released to Donlon Family LLC upon the purchase of \$3.0 million in Company common shares on the open market within 90 days of the Acquisition Date. This cash holdback was paid to Donlon Family LLC on June 10, 2016 upon satisfaction of the conditions to the release of this holdback.
- A severance holdback in the amount of \$0.8 million to fund the aggregate amount of all severance compensation and severance benefits to be paid or provided to current or former RiverBanc employees as a result of the acquisition. The severance holdback was settled in cash and paid to a separated employee on June 30, 2016 and the holdback amount in excess of actual severance costs was delivered to the sellers of RiverBanc on July 15, 2016.

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The following table summarizes the estimated fair values of the assets acquired and liabilities assumed by the Company at the Acquisition Date (dollar amounts in thousands). The membership interest purchase agreement for the acquisition of RiverBanc included a post-closing working capital adjustment that was calculated at \$20 thousand and settled with the sellers of RiverBanc on July 15, 2016. Additionally, the excess severance holdback amount described above was settled with the sellers of RiverBanc on July 15, 2016. The Company engaged a third party for valuations of certain intangible assets.

Cash	\$	4,325
Investment in unconsolidated entities		52,176
Preferred equity and mezzanine loan investments		23,638
Real estate under development <sup>(1)</sup>		14,922
Receivables and other assets		911
Intangible assets <sup>(1)</sup>		3,490
<b>Total identifiable assets acquired</b>		<b>99,462</b>
Construction loan payable <sup>(2)</sup>		8,499
Accrued expenses and other liabilities		2,864
<b>Total liabilities assumed</b>		<b>11,363</b>
Preferred equity <sup>(3)</sup>		56,697
<b>Net identifiable assets acquired</b>		<b>31,402</b>
Goodwill <sup>(4)</sup>		25,222
Gain on bargain purchase <sup>(5)</sup>		(65)
Non-controlling interest <sup>(6)</sup>		(3,078)
<b>Net assets acquired</b>	<b>\$</b>	<b>53,481</b>

(1) Included in receivables and other assets on the consolidated balance sheets.

(2) Construction loan payable to the Company is eliminated on the consolidated balance sheets.

(3) Includes \$40.4 million of preferred equity owned by the Company that is eliminated on the consolidated balance sheets. Remaining \$16.3 million of preferred equity owned by third parties was redeemed on June 10, 2016 and June 24, 2016.

(4) Goodwill recognized in the acquisition of RiverBanc.

(5) Gain on bargain purchase recognized in the acquisitions of RBMI and RBDHC in the year ended December 31, 2016.

(6) Represents third-party ownership of KRVI membership interests (*see Note 10*). The Company consolidates its investment in KRVI. The third-party ownership in KRVI is represented in the consolidated financial statements and the pro forma net income attributable to the Company's common stockholders as non-controlling interests. The fair value of the non-controlling interests in KRVI was estimated to be \$3.1 million. The fair value of the non-controlling interests in KRVI, a private company, was estimated using assumptions for the timing and amount of expected future cash flow for income and realization events for the underlying real estate.

The \$3.5 million of intangible assets relates to the RiverBanc acquisition and was recognized at estimated fair value on the Acquisition Date. Intangible assets include an acquired trade name, acquired technology, and employment/non-compete agreements with useful lives ranging from 1 to 10 years.

The \$25.2 million of goodwill recognized is attributable primarily to expected synergies and economies of scale from combining with RiverBanc and the assembled workforce of RiverBanc. For the Company's ongoing evaluation of Goodwill for impairment in accordance with ASC 350, *Intangibles - Goodwill and Other*, the Company's multifamily investment portfolio (inclusive of RiverBanc) will be considered a reporting unit. As of December 31, 2016, there were changes in the recognized amounts of Goodwill resulting from the acquisition of RiverBanc as a result of payment of the post-closing working capital adjustment of \$20 thousand and adjustments to the estimated fair value of intangible assets in the amount of \$0.4 million. The Company evaluated goodwill as of October 1, 2018 and October 1, 2017 and no impairment was indicated.



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The acquisition of both RBMI and RBDHC was negotiated directly with the sellers and the fair value of identifiable assets acquired and liabilities assumed exceed the fair value of the consideration transferred. Subsequently, the Company reassessed the identification and recognition of identifiable assets acquired and liabilities assumed, the Company's previously held membership interests, and the consideration transferred and concluded that all items were recognized and that the valuation procedures and measurements were appropriate. Accordingly, the Company recorded a net gain on bargain purchase of \$0.1 million that is included in other income on the Company's consolidated statements of operations for the year ended December 31, 2016.

The amount of revenue of the Acquirees included in the Company's consolidated statements of operations from the Acquisition Date to the period ended December 31, 2016 was \$5.3 million.

The following represents the pro forma consolidated revenue and net income attributable to the Company's common stockholders as if the Acquirees had been included in the consolidated results of the Company for the years ended December 31, 2016 and 2015, respectively (dollar amounts in thousands):

	Years Ended December 31,	
	2016	2015
Revenue	\$ 356,138	\$ 390,576
Net income attributable to Company's common stockholders	\$ 51,782	\$ 72,707
Basic pro forma earnings per share	\$ 0.47	\$ 0.67
Diluted pro forma earnings per share	\$ 0.47	\$ 0.67

These amounts have been calculated after applying the Company's accounting policies and adjustments for consolidation and amortization that would have been charged assuming the estimated fair value adjustments to intangible assets had been applied on January 1, 2015. Material, nonrecurring pro forma adjustments directly attributable to the business combinations have been included in the pro forma consolidated revenue and net income attributable to the Company's common stockholders shown above as if the transaction occurred on January 1, 2015. These adjustments include a \$5.0 million net gain on remeasurement of the Company's previously held membership interests, a \$0.1 million net gain on bargain purchase, and the estimated related income tax expense of \$2.1 million.

**24. Related Party Transactions**

The Company terminated its management agreement with RiverBanc on May 17, 2016 as a result of the Company's acquisition of the remaining 80% membership interest in RiverBanc, which resulted in consolidation of RiverBanc into the Company's financial statements (*see Note 23*). Prior to May 16, 2016, RiverBanc sourced and managed direct and indirect investments in multi-family properties on behalf of the Company pursuant to a management agreement entered into on April 5, 2011 and amended and restated on March 13, 2013. The amended and restated management agreement had an effective date of January 1, 2013 and had an initial term that expired on December 31, 2015 and was subject to annual automatic one-year renewals (subject to any notice of termination).

Prior to May 16, 2016, the Company owned a 20% membership interest in RiverBanc. For the year ended December 31, 2016, the Company recognized approximately \$0.1 million in equity income related to its investment in RiverBanc and the Company expensed \$1.8 million in fees to RiverBanc.

**25. Quarterly Financial Data (unaudited)**

The following table is a comparative breakdown of our unaudited quarterly results for the immediately preceding eight quarters (amounts in thousands, except per share data):

	<b>Three Months Ended</b>			
	<b>Mar 31, 2018</b>	<b>Jun 30, 2018</b>	<b>Sep 30, 2018</b>	<b>Dec 31, 2018</b>
Interest income	\$ 108,891	\$ 107,723	\$ 110,249	\$ 128,936
Interest expense	89,139	90,223	90,646	107,063
Net interest income	19,752	17,500	19,603	21,873
<b>Other income:</b>				
(Provision for) recovery of loan losses	(42)	437	840	(2,492)
Realized (loss) gain on investment securities and related hedges, net	(3,423)	(8,654)	299	20
Realized (loss) gain on distressed residential mortgage loans at carrying value, net	(773)	2,021	1,806	(3,677)
Net (loss) gain on distressed and other residential mortgage loans at fair value	(166)	97	643	8,128
Unrealized gain (loss) on investment securities and related hedges, net	11,692	12,606	2,275	(15,469)
Unrealized gain on multi-family loans and debt held in securitization trusts, net	7,545	12,019	12,303	5,714
Income from operating real estate and real estate held for sale in consolidated variable interest entities	2,126	1,253	1,380	1,404
Other income	3,994	228	4,757	7,589
Total other income	20,953	20,007	24,303	1,217
General, administrative and operating expenses	8,698	8,769	9,912	14,091
Income from operations before income taxes	32,007	28,738	33,994	8,999
Income tax benefit	(79)	(13)	(454)	(511)
Net income	32,086	28,751	34,448	9,510
Net (income) loss attributable to non-controlling interest in consolidated variable interest entities	(2,468)	943	(475)	91
Net income attributable to Company	29,618	29,694	33,973	9,601
Preferred stock dividends	(5,925)	(5,925)	(5,925)	(5,925)
Net income attributable to Company's common stockholders	\$ 23,693	\$ 23,769	\$ 28,048	\$ 3,676
Basic earnings per common share	\$ 0.21	\$ 0.21	\$ 0.21	\$ 0.02
Diluted earnings per common share	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.02
Dividends declared per common share	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20
Weighted average shares outstanding-basic	112,018	115,211	132,413	148,871
Weighted average shares outstanding-diluted	131,761	135,164	152,727	149,590

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	<b>Three Months Ended</b>			
	<b>Mar 31, 2017</b>	<b>Jun 30, 2017</b>	<b>Sep 30, 2017</b>	<b>Dec 31, 2017</b>
Interest income	\$ 78,385	\$ 93,981	\$ 91,382	\$ 102,339
Interest expense	64,467	78,273	78,062	87,299
Net interest income	<u>13,918</u>	<u>15,708</u>	<u>13,320</u>	<u>15,040</u>
<b>Other income:</b>				
Recovery of (provision for) loan losses	188	(300)	563	1,288
Realized (loss) gain on investment securities and related hedges, net	(1,223)	1,114	4,059	(62)
Realized gain on distressed residential mortgage loans at carrying value, net	11,971	2,364	6,689	5,025
Net gain on distressed and other residential mortgage loans at fair value	—	—	717	961
Unrealized gain (loss) on investment securities and related hedges, net	1,546	(1,051)	1,192	268
Unrealized gain on multi-family loans and debt held in securitization trusts, net	1,384	1,447	2,353	13,688
Income from operating real estate and real estate held for sale in consolidated variable interest entities	—	2,316	2,429	2,535
Other income	2,839	2,282	6,916	1,515
Total other income	<u>16,705</u>	<u>8,172</u>	<u>24,918</u>	<u>25,218</u>
General, administrative and operating expenses	10,204	11,589	10,996	8,288
Income from operations before income taxes	20,419	12,291	27,242	31,970
Income tax expense	1,237	442	507	1,169
Net income	19,182	11,849	26,735	30,801
Net loss (income) attributable to non-controlling interest in consolidated variable interest entities	—	2,487	1,110	(184)
Net income attributable to Company	19,182	14,336	27,845	30,617
Preferred stock dividends	(3,225)	(3,225)	(3,225)	(5,985)
Net income attributable to Company's common stockholders	<u>\$ 15,957</u>	<u>\$ 11,111</u>	<u>\$ 24,620</u>	<u>\$ 24,632</u>
Basic earnings per common share	<u>\$ 0.14</u>	<u>\$ 0.10</u>	<u>\$ 0.22</u>	<u>\$ 0.22</u>
Diluted earnings per common share	<u>\$ 0.14</u>	<u>\$ 0.10</u>	<u>\$ 0.21</u>	<u>\$ 0.21</u>
Dividends declared per common share	<u>\$ 0.20</u>	<u>\$ 0.20</u>	<u>\$ 0.20</u>	<u>\$ 0.20</u>
Weighted average shares outstanding-basic	<u>111,721</u>	<u>111,863</u>	<u>111,886</u>	<u>111,871</u>
Weighted average shares outstanding-diluted	<u>126,602</u>	<u>111,863</u>	<u>131,580</u>	<u>131,565</u>

**26. Subsequent Events**

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.

On February 5, 2019, The Clusters completed the sale of its multi-family apartment community and redeemed the Company's preferred equity investment. Any gain or loss recognized on the sale will be fully allocated to net income attributable to non-controlling interest in consolidated variable interest entities on the Company's consolidated statements of operations. The Company de-consolidated The Clusters as of the date of the sale.

On February 14, 2019, the Company amended and restated the pricing side letter to a master repurchase agreement with Deutsche Bank AG, Cayman Islands Branch. The pricing side letter increased the maximum aggregate principal amount from \$50.0 million (maximum committed principal amount of \$25.0 million and maximum uncommitted principal amount of \$25.0 million) to a maximum uncommitted principal amount of \$200.0 million and will be used to fund the purchase of residential mortgage loans, including both first and second mortgages.

On February 21, 2019, the Company directed the trustee of the Company's multi-family CMBS re-securitization, with an outstanding balance of \$33.2 million as of December 31, 2018, to exercise its right to redeem the re-securitization. On February 22, 2019, the trustee delivered a notice of the optional redemption of the re-securitization with a redemption date of March 14, 2019. Due to the optional redemption of the re-securitization, multi-family CMBS with a fair value of \$123.2 million as of December 31, 2018, including \$70.5 million of first loss PO and IOs issued by a Freddie Mac-sponsored multi-family loan K-Series securitization included in the Consolidated K-Series, will become available to the Company.

In February 2019, multi-family CMBS with a fair value of \$52.7 million as of December 31, 2018 were sold by the Company.

**Schedule IV - Mortgage Loans on Real Estate**  
(dollar amounts in thousands)

December 31, 2018

Asset Type	Number of Loans	Interest Rate	Maturity Date	Carrying Value	Principal Amount of Loans Subject to Delinquent Principal or Interest
<b>Distressed residential mortgage loans, net</b>					
First mortgage loans					
Original loan amount \$0 - \$99,999	1,670	1.99% - 14.99%	8/18/2007 - 5/1/2062	\$ 78,252	\$ 12,140
Original loan amount \$100,000 - \$199,999	745	1.98% - 12.48%	11/1/2009 - 11/1/2058	78,666	13,049
Original loan amount \$200,000 - \$299,999	177	0.00% - 11.44%	7/1/2021 - 7/1/2058	32,813	9,091
Original loan amount over \$299,999	110	2.00% - 9.40%	11/1/2021 - 8/1/2057	38,735	12,170
<b>Residential mortgage loans held in securitization trusts</b>					
First mortgage loans					
Original loan amount \$0 - \$99,999	27	4.00% - 5.63%	10/1/2034 - 9/1/2035	1,803	92
Original loan amount \$100,000 - \$199,999	69	3.50% - 6.63%	8/1/2032 - 1/1/2036	10,338	1,029
Original loan amount \$200,000 - \$299,999	45	3.38% - 6.38%	8/1/2033 - 12/1/2035	10,772	764
Original loan amount \$300,000 - \$399,999	22	4.00% - 5.25%	12/1/2034 - 12/1/2035	7,252	1,556
Original loan amount \$400,000 - \$499,999	9	4.75% - 5.13%	2/1/2035 - 11/1/2035	3,762	456
Original loan amount over \$499,999	24	3.00% - 5.13%	8/1/2034 - 12/1/2035	22,868	7,028
<b>Distressed and other residential mortgage loans, at fair value</b>					
First mortgage loans					
\$0 - \$99,999	772	1.50% - 14.59%	9/21/2018 - 11/1/2058	41,547	4,015
\$100,000 - \$199,999	1,424	1.88% - 13.13%	7/1/2018 - 11/1/2058	161,571	17,303
\$200,000 - \$299,999	706	2.00% - 11.38%	9/1/2019 - 7/1/2058	135,073	15,906
Over \$299,999	888	2.00% - 10.89%	3/1/2020 - 10/1/2058	331,980	37,509
Second mortgage loans					
\$0 - \$99,999	963	5.75% - 9.13%	11/1/2030 - 9/1/2048	46,529	434
\$100,000 - \$199,999	113	6.00% - 9.13%	5/1/2032 - 11/1/2048	14,978	—
\$200,000 - \$299,999	24	6.25% - 8.63%	3/1/2046 - 8/1/2048	5,548	—
Over \$299,999	1	6.88%	11/1/2047	297	—
<b>Other mortgage loans</b>					
Residential and commercial first mortgage loans	20	2.98% - 15.00%	12/15/2013 - 8/1/2046	4,994	2,177

**Multi-family loans**

First mortgage loans	606	3.04% - 6.18%	5/1/2019 - 9/1/2033	11,679,847	16,872
				<u>\$ 12,707,625</u>	<u>\$ 151,591</u>

**Reconciliation of Balance Sheet Reported Amounts of Mortgage Loans on Real Estate**

<b>(in thousands)</b>	<b>For the year ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Beginning balance	\$ 10,157,126	\$ 7,565,459	\$ 7,792,422
Additions during period:			
Purchases	2,983,295	2,987,775	82,167
Accretion of purchase discount	19,940	19,686	32,688
Deconsolidation	—	—	—
Change in realized and unrealized gains (losses)	4,096	10,214	10,794
Deductions during period:			
Repayments of principal	(182,163)	(175,664)	(175,216)
Collection of interest	(21,754)	(26,081)	(32,928)
Transfer to REO	(7,998)	(7,228)	(8,892)
Cost of mortgages sold	(109,000)	(176,470)	(96,344)
Provision for loan loss	(1,235)	1,739	847
Change in realized and unrealized gains (losses)	(85,115)	(270)	—
Amortization of premium	(49,567)	(42,034)	(40,079)
Balance at end of period	\$ 12,707,625	\$ 10,157,126	\$ 7,565,459



## EXHIBIT INDEX

**Exhibits:** The exhibits required by Item 601 of Regulation S-K are listed below. Management contracts or compensatory plans are filed as Exhibits 10.1 through 10.12.

<u>Exhibit</u>	<u>Description</u>
<a href="#">2.1</a>	Membership Purchase Agreement, by and among Donlon Family LLC, JMP Investment Holdings LLC, Hypotheca Capital, LLC, RiverBanc LLC and the Company, dated May 3, 2016 (Incorporated by reference to Exhibit 2.1 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 5, 2016).
<a href="#">3.1</a>	Articles of Amendment and Restatement of the Company, as amended (Incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 10, 2014).
<a href="#">3.2</a>	Bylaws of the Company, as amended (Incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 4, 2011).
<a href="#">3.3</a>	Articles Supplementary designating the Company's 7.75% Series B Cumulative Redeemable Preferred Stock (the "Series B Preferred Stock") (Incorporated by reference to Exhibit 3.3 to the Company's Registration Statement on Form 8-A filed with the Securities and Exchange Commission on May 31, 2013).
<a href="#">3.4</a>	Articles Supplementary classifying and designating 2,550,000 additional shares of the Series B Preferred Stock (Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 20, 2015).
<a href="#">3.5</a>	Articles Supplementary classifying and designating the Company's 7.875% Series C Cumulative Redeemable Preferred Stock (the "Series C Preferred Stock") (Incorporated by reference to Exhibit 3.5 to the Company's Registration Statement on Form 8-A filed with the Securities and Exchange Commission on April 21, 2015).
<a href="#">3.6</a>	Articles Supplementary classifying and designating the Company's 8.00% Series D Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (the "Series D Preferred Stock") (Incorporated by reference to Exhibit 3.6 to the Company's Registration Statement on Form 8-A filed with the Securities and Exchange Commission on October 10, 2017).
<a href="#">4.1</a>	Form of Common Stock Certificate (Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-11 (Registration No. 333-111668) filed with the Securities and Exchange Commission on June 18, 2004).
<a href="#">4.2</a>	Form of Certificate representing the Series B Preferred Stock Certificate (Incorporated by reference to Exhibit 3.4 to the Company's Registration Statement on Form 8-A filed with the Securities and Exchange Commission on May 31, 2013).
<a href="#">4.3</a>	Form of Certificate representing the Series C Preferred Stock (Incorporated by reference to Exhibit 3.6 to the Company's Registration Statement on Form 8-A filed with the Securities and Exchange Commission on April 21, 2015).
<a href="#">4.4</a>	Form of Certificate representing the Series D Preferred Stock (Incorporated by reference to Exhibit 3.7 to the Company's Registration Statement on Form 8-A filed with the Securities and Exchange Commission on October 10, 2017).
<a href="#">4.5</a>	Indenture, dated April 15, 2016, by and between NYMT Residential 2016-RP1, LLC and U.S. Bank National Association (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 19, 2016).
<a href="#">4.6</a>	Indenture, dated January 23, 2017, between the Company and U.S. Bank National Association, as trustee (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 23, 2017).

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[4.7](#) First Supplemental Indenture, dated January 23, 2017, between the Company and U.S. Bank National Association, as trustee (Incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 23, 2017).

[4.8](#) Form of 6.25% Senior Convertible Note Due 2022 of the Company (Incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 23, 2017).

*Certain instruments defining the rights of holders of long-term debt securities of the Company and its subsidiaries are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. The Company hereby undertakes to furnish to the Securities and Exchange Commission, upon request, copies of any such instruments.*

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- [10.1](#) The Company's 2010 Stock Incentive Plan (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 17, 2010).
- [10.2](#) The Company's 2013 Incentive Compensation Plan (effective for fiscal year 2015) (Incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed with the Securities and Exchange Commission on May 29, 2015).
- [10.3](#) The Company's 2017 Equity Incentive Plan (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 15, 2017).
- [10.4](#) Form of Restricted Stock Award Agreement for Officers (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 14, 2009).
- [10.5](#) Form of Restricted Stock Award Agreement for Directors (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 14, 2009).
- [10.6](#) Letter Agreement, dated February 8, 2017, by and between the Company and Steven R. Mumma (Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 9, 2017).
- [10.7](#) Third Amended and Restated Employment Agreement, dated as of April 19, 2018, between New York Mortgage Trust, Inc. and Steven R. Mumma (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 20, 2018).
- [10.8](#) Separation Agreement, dated September 18, 2017, by and between the Company and Kevin Donlon (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 19, 2017).
- [10.9](#) The Company's 2018 Annual Incentive Plan (Incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 27, 2018).
- [10.10](#) Form of 2018 Performance Stock Unit Award Agreement (Incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 27, 2018).
- [10.11](#) The Company's 2019 Annual Incentive Plan.\*
- [10.12](#) Form of 2019 Performance Stock Unit Award Agreement.\*
- [10.13](#) Equity Distribution Agreement, dated August 10, 2017, by and between the Company and Credit Suisse Securities (USA) LLC (Incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 11, 2017).
- [10.14](#) Amendment No. 1 to Equity Distribution Agreement, dated September 10, 2018, between New York Mortgage Trust, Inc. and Credit Suisse Securities (USA) LLC (Incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 10, 2018).
- [10.15](#) Investment Management Agreement, by and between NYMT Loan Financing, LLC and Headlands Asset Management, LLC, dated as of November 2, 2016 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on November 3, 2016).
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<a href="#">21.1</a>	List of Subsidiaries of the Registrant.*
<a href="#">23.1</a>	Consent of Independent Registered Public Accounting Firm (Grant Thornton LLP).*
<a href="#">31.1</a>	Certification of the Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
<a href="#">31.2</a>	Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
<a href="#">32.1</a>	Certification Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
101.INS	XBRL Instance Document ***
101.SCH	Taxonomy Extension Schema Document ***
101.CAL	Taxonomy Extension Calculation Linkbase Document ***
101.DE XBRL	Taxonomy Extension Definition Linkbase Document ***
101.LAB	Taxonomy Extension Label Linkbase Document ***
101.PRE	Taxonomy Extension Presentation Linkbase Document ***

\* Filed herewith.

\*\* Furnished herewith. Such certification shall not be deemed “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

\*\*\* Submitted electronically herewith. Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets at December 31, 2018 and 2017; (ii) Consolidated Statements of Operations for the years ended December 31, 2018, 2017 and 2016; (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016; (iv) Consolidated Statements of Changes in Stockholders’ Equity for the years ended December 31, 2018, 2017 and 2016; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016; and (vi) Notes to Consolidated Financial Statements.

NEW YORK MORTGAGE TRUST, INC.

2019 ANNUAL INCENTIVE PLAN

New York Mortgage Trust, Inc.’s 2019 Annual Incentive Plan (the “**Plan**”) is a plan under which eligible employees of New York Mortgage Trust, Inc. (the “**Company**”) may receive bonus awards representing the opportunity to receive a payment in accordance with, and subject to the terms of, the Plan (“**Bonus Awards**”). The Compensation Committee of the Board of Directors of the Company, or its delegate (the “**Compensation Committee**”) will determine the amount, if any, payable under a Bonus Award based upon the Company’s and the employee’s performance during the Fiscal Year (as defined below), subject in all cases to the sole discretion of the Compensation Committee.

I. **Purposes.** The Plan is a component of the Company’s overall strategy to pay its employees for performance. The purposes of the Plan are to: (i) attract and retain top performing employees, (ii) motivate employees by tying compensation to the Company’s financial performance and (iii) reward exceptional individual performance that supports the Company’s overall objectives.

II. **Effective Date.** All eligible employees of the Company may participate in the Plan, except for employees who commence employment pursuant to an offer letter that excludes participation in the Plan. Those employees who are determined to be eligible to receive Bonus Awards under the Plan are called “**Participants**.” An employee must commence employment or otherwise become eligible to participate in the Plan no later than July 1 of the applicable Fiscal Year (defined below); provided, however that the Compensation Committee may make exceptions to this requirement in its sole discretion as it deems appropriate. Notwithstanding the foregoing, being a Participant under the Plan does not entitle an individual to receive payment of a Bonus Award.

III. **Plan Year.** The Plan operates on a fiscal year basis beginning January 1 and ending December 31 (the “**Fiscal Year**”), commencing on January 1, 2019.

IV. **Bonus Awards.** A Participant must be an active employee in good standing and on the payroll of the Company, or any approved subsidiary (an “**Approved Payroll**”) on the date the Bonus Award is paid to receive payment of any portion of the Bonus Award. A Participant who is not on an Approved Payroll for whatever reason on the date a Bonus Award is to be paid will not be entitled to payment of any portion of the Bonus Award. Bonus Award payments for a given Fiscal Year for an employee that was not actively employed or on an Approved Payroll on the first business day of the applicable Fiscal Year will be paid on a pro-rata basis for such Fiscal Year based on the period of the Fiscal Year during which the Participant was on an Approved Payroll. Notwithstanding the foregoing, a Participant may remain eligible to receive a Bonus Award pursuant to the terms and conditions of his or her employment agreement even if such Participant is not on an Approved Payroll on the date such Bonus Award would have otherwise been paid. Additionally, the Compensation Committee may make exceptions to the foregoing in its sole discretion as it deems appropriate.

Notwithstanding any language to the contrary contained in the Plan and for the avoidance of doubt, (i) a Participant is not entitled to a minimum Bonus Award payment or a guaranteed Bonus Award payment pursuant to the Plan and (ii) the Compensation Committee, in its sole discretion, is authorized to reduce the amount of any Bonus Award payment eligible to be paid under the terms of the Plan and may elect not to make a Bonus Award payment even if such Bonus Award payment would otherwise be payable under the terms of the Plan. Subject to the foregoing language, the amount payable with respect to a Bonus Award, if any, will be determined at the sole discretion of the Compensation Committee after considering the Company’s financial performance, the Participant’s threshold, target and maximum bonus opportunities in light of the Company’s performance, the employee’s performance for the Fiscal Year and any other factors as the Compensation Committee shall deem appropriate.

V. **Components of the Plan.** The Plan shall be divided into two components, a Quantitative Component (defined below) and a Qualitative Component (defined below). The eligible Bonus Award for each Participant will be based on the percentage allocation between the two components as follows (assuming the achievement of maximum Bonus Award opportunities for each component):

<b>Name</b>	<b>Quantitative Component</b>	<b>Qualitative Component</b>
Steven Mumma	80%	20%
Nathan Reese	60%	40%
Kristine Nario-Eng	50%	50%
All other employees	See Appendix	

a. **Quantitative Component.** The quantitative component will be based on one performance measure, Total Economic Return (“TER” or the “Quantitative Component”). TER is defined as (A) the sum of (i) the Company’s (GAAP) book value per share of common stock at December 31 of the applicable Fiscal Year and (ii) the aggregate dividends per share of common stock declared by the Company during the applicable Fiscal Year, divided by (B) the Company’s (GAAP) book value per share of common stock at December 31 of the prior Fiscal Year. The amount of each Participant’s bonus will be contingent on the Quantitative Component (TER) meeting certain performance levels (as described below).

The size of the Quantitative Component shall be contingent upon TER exceeding specified hurdle rates for the Fiscal Year set by the Compensation Committee. The size of the Quantitative Component of each Participant’s Bonus Award shall be based on the following threshold, target and maximum performance levels:

Name	Quantitative Component Measure Hurdle(1)	Payout as a % of Base Salary Upon Achievement of Hurdle
Steven Mumma	Less than 6%	0%
	6%	100%
	11%	200%
	16%	300%
Nathan Reese	Less than 6%	0%
	6%	50%
	11%	100%
	16%	150%
Kristine Nario-Eng	Less than 6%	0%
	6%	50%
	11%	100%
	16%	150%
All other employees		See Appendix

(1) At the discretion of the Compensation Committee, payout percentages may exceed the stated payout percentage for achievement of the Quantitative Component in excess of 16%.

If performance is between the threshold and target or between the target and maximum, the performance level achieved will be determined by applying linear interpolation to the performance interval. For the avoidance of doubt, the amount of each Bonus Award under the Quantitative Component shall be zero if the Company’s TER is below the 6% threshold hurdle rate.

b. **Qualitative Component.** The Plan also includes the Qualitative Component which is separate and distinct from the Quantitative Component. The Qualitative Component for each Participant can range from (i) in the case of the CEO, the CEO’s base salary multiplied by the Qualitative Component percentage, (ii) in the case of the CFO and all other named executive officers, zero to 1.5 times such employee’s base salary, multiplied by the Qualitative Component percentage and (iii) in the case of all other employees, it will vary by employee.

The Qualitative Component is intended to allow the Compensation Committee, in its sole discretion, to provide additional compensation to Participants based on the Compensation Committee’s evaluation of the Participant’s contributions to the success of the Company. The amount of each Bonus Award under the Qualitative Component will be determined by the Compensation Committee in its sole discretion based on its assessment of how each Participant has performed relative to the qualitative factors it deems relevant for each Fiscal Year.

VI. **Form of Bonuses.** Bonus Awards under the Plan will be settled in a combination of cash and shares of the Company’s common stock that are subject to certain restrictions and a risk of forfeiture (“Restricted Stock”). Shares of Restricted Stock granted as payment of all or a portion of a Bonus Award under the Plan will be issued pursuant to the Company’s 2017 Equity Incentive Plan (or a successor plan) and are expected to vest ratably on an annual basis over a three-year period or such other period as may be determined by the Compensation Committee. The following table sets forth the percentage of the Bonus Award payable in Restricted Stock for each Participant:

Annual Bonus Award Payout Calculation	Percentage of Bonus Award Payable as Restricted Stock(1)
Bonus Award Amounts up to 1X of Base Salary	25%
Bonus Award Amounts Exceeding 1X Base Salary	75%

- (1) The portion paid in Restricted Stock will increase in a manner determined by the Compensation Committee as the amount of the payment with respect to each Bonus Award increases. For example, if a Participant were to achieve a Bonus Award equal to 1.25 times the Participant's base salary, it is anticipated that 35% of the Bonus Award would be payable in Restricted Stock.

The named executive officers may elect, subject to the approval of the Compensation Committee, to have a greater percentage of the Bonus Award earned under the Plan to be paid in Restricted Stock. The balance of any Bonus Award not paid in Restricted Stock will be paid to the Participant in cash.

The Bonus Award shall be paid to the Participant (the "**Payment Date**") between January 1 and March 31 of the year following the applicable Fiscal Year to which the Bonus Award relates, subject to the Participant being on Approved Payroll on the payment date. The "grant date" for the Restricted Stock portion of any such Bonus Award shall be as soon as practicable following the Payment Date. Any Bonus Award paid under this Plan shall be subject to all applicable federal, state or local taxes required by law to be withheld.

VII. **Bonus Awards Subject to "Clawback"**. Each Bonus Award paid under the Plan, whether the portion paid in cash or the portion paid in Restricted Stock, will be paid subject to the Company's right to recoup or "**clawback**" all or part of the payment in accordance with the requirements of any compensation "**clawback**" policy of the Company in effect from time to time and applicable law, including such a policy that is later adopted by the Company with retroactive effect.

**NEW YORK MORTGAGE TRUST, INC.**  
**2017 EQUITY INCENTIVE PLAN**  
**PERFORMANCE SHARE UNIT GRANT NOTICE**

Pursuant to the terms and conditions of the New York Mortgage Trust, Inc. 2017 Equity Incentive Plan, as amended from time to time (the “*Plan*”), New York Mortgage Trust, Inc. (the “*Company*”) hereby grants to the individual listed below (“*you*” or the “*Participant*”) the number of performance share units (the “*PSUs*”) set forth below. This award of PSUs (this “*Award*”) is subject to the terms and conditions set forth herein and in the Performance Share Unit Agreement attached hereto as Exhibit A (the “*Agreement*”) and the Plan, each of which is incorporated herein by reference. Capitalized terms used but not defined herein shall have the meanings set forth in the Plan.

**Participant:** \_\_\_\_\_

**Date of Grant:** \_\_\_\_\_

**Award Type and Description:** Performance Award granted pursuant to Article X of the Plan. This Award represents the right to receive shares of Common Stock in an amount up to [125/150/300]% of the Target PSUs (defined below), subject to the terms and conditions set forth herein and in the Agreement.

Your right to receive settlement of this Award in an amount ranging from 0% to [125/150/300]% of the Target PSUs shall vest and become earned and nonforfeitable upon (i) your satisfaction of the continued employment or service requirements described below under “Service Requirement” and (ii) the Committee’s certification of the level of achievement of the Performance Goal (defined below). The portion of the Target PSUs actually earned upon satisfaction of the foregoing requirements is referred to herein as the “*Earned PSUs*.”

**Target Number of PSUs:** \_\_\_\_\_ (the “*Target PSUs*”).

**Performance Period:** January 1, 2019 (the “*Performance Period Commencement Date*”) through December 31, 2021 (the “*Performance Period End Date*”).

**Service Requirement:** Except as expressly provided in Sections 3 and 4 of the Agreement, you must remain continuously employed by, or continuously provide services to, the Company or an Affiliate, as applicable, from the Date of Grant through the Performance Period End Date to be eligible to receive payment of this Award, which is based on the level of achievement with respect to the Performance Goal (as defined below).

**Performance Goal:** Subject to the terms and conditions set forth in the Plan, the Agreement and herein, the number of Target PSUs, if any, that become Earned PSUs during the Performance Period will be determined in accordance with the following table:

Level of Achievement	Percentage of Target PSUs Earned*
< Threshold	0%
Threshold	[50/100]%
Target	[75/100/200]%
Maximum	[125/150/300]%

\*The percentage of Target PSUs that become Earned PSUs for performance between the threshold, target, and maximum achievement levels shall be calculated using linear interpolation.



The “*Performance Goal*” for the Performance Period is based on the Company’s achievement with respect to relative total shareholder return, as described in Exhibit B attached hereto.

**Settlement:**

Settlement of the Earned PSUs shall be made solely in shares of Common Stock, which shall be delivered to you in accordance with Section 5 of the Agreement.

By your signature below, you agree to be bound by the terms and conditions of the Plan, the Agreement and this Performance Share Unit Grant Notice (this “*Grant Notice*”). You acknowledge that you have reviewed the Agreement, the Plan and this Grant Notice in their entirety and fully understand all provisions of the Agreement, the Plan and this Grant Notice. You hereby agree to accept as binding, conclusive and final all decisions or interpretations of the Committee regarding any questions or determinations that arise under the Agreement, the Plan or this Grant Notice. This Grant Notice may be executed in one or more counterparts (including portable document format (.pdf) and facsimile counterparts), each of which shall be deemed to be an original, but all of which together shall constitute one and the same agreement.

*[Signature Page Follows]*

**IN WITNESS WHEREOF**, the Company has caused this Grant Notice to be executed by an officer thereunto duly authorized, and the Participant has executed this Grant Notice, effective for all purposes as provided above.

**Company**

New York Mortgage Trust, Inc.

By: \_\_\_\_\_

Name:

Title:

**Participant**

\_\_\_\_\_  
Name:

Signature Page to  
Performance Share Unit Grant Notice

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## EXHIBIT A

## PERFORMANCE SHARE UNIT AGREEMENT

This Performance Share Unit Agreement (together with the Grant Notice to which this Agreement is attached, this “*Agreement*”) is made as of the Date of Grant set forth in the Grant Notice to which this Agreement is attached by and between New York Mortgage Trust, Inc., a Maryland corporation (the “*Company*”), and \_\_\_\_\_ (the “*Participant*”). Capitalized terms used but not specifically defined herein shall have the meanings specified in the Plan or the Grant Notice.

1. **Award.** In consideration of the Participant’s past and/or continued employment with, or service to, the Company or its Affiliates and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, effective as of the Date of Grant set forth in the Grant Notice (the “*Date of Grant*”), the Company hereby grants to the Participant the target number of PSUs set forth in the Grant Notice on the terms and conditions set forth in the Grant Notice, this Agreement and the Plan, which is incorporated herein by reference as a part of this Agreement. In the event of any inconsistency between the Plan and this Agreement, the terms of the Plan shall control. To the extent vested, each PSU represents the right to receive one share of Common Stock, subject to the terms and conditions set forth in the Grant Notice, this Agreement and the Plan; provided, however, that, depending on the level of performance determined to be attained with respect to the Performance Goal, the number of shares of Common Stock that may be earned hereunder in respect of this Award may range from 0% to [125/150/300]% of the Target PSUs. Unless and until the PSUs have become vested in the manner set forth in the Grant Notice, the Participant will have no right to receive any Common Stock or other payments in respect of the PSUs. Prior to settlement of this Award, the PSUs and this Award represent an unsecured obligation of the Company, payable only from the general assets of the Company.

2. **Vesting of PSUs.** Except as otherwise set forth in Sections 3 and 4, the PSUs shall vest and become Earned PSUs in accordance with the Participant’s satisfaction of the vesting schedule set forth in the Grant Notice (the “*Service Requirement*”) based on the extent to which the Company has satisfied the Performance Goal set forth in the Grant Notice, which shall be determined by the Committee in its sole discretion following the end of the Performance Period (and any PSUs that do not become Earned PSUs shall be automatically forfeited). Unless and until the PSUs have vested and become Earned PSUs as described in the preceding sentence, the Participant will have no right to receive any dividends or other distribution with respect to the PSUs.

3. **Effect of Termination of Employment.** Except as otherwise provided for in any employment agreement between the Participant and the Company or an Affiliate, if the Participant has not satisfied the Service Requirement, then upon the termination of the Participant’s employment with the Company or an Affiliate for any reason, any unearned PSUs (and all rights arising from such PSUs and from being a holder thereof), unless otherwise determined by the Committee, will terminate automatically without any further action by the Company and will be forfeited without further notice and at no cost to the Company.

4. **Change in Control.** Except as otherwise provided for in any employment agreement between the Participant and the Company or an Affiliate, in the event a Change in Control occurs prior to the Performance Period End Date, so long as the Participant has remained continuously employed by, or has continuously provided services to, the Company or an Affiliate, as applicable, from the Date of Grant through the Control Change Date, then the PSUs will be deemed to be Earned PSUs to the extent that the Performance Goal has been achieved as of the Control Change Date assuming that the Performance Period ended on the Control Change Date, and shall be eligible for settlement in accordance with Section 5 except that settlement shall occur within 60 days following the Control Change Date.

5. **Settlement of PSUs.** As soon as administratively practicable following the Committee’s certification of the level of attainment of the Performance Goal, but in no event later than 60 days following the Performance Period End Date, the Company shall deliver to the Participant (or the Participant’s permitted transferee, if applicable), a number of shares of Common Stock equal to the number of Earned PSUs; provided, however, that any fractional PSU that becomes earned hereunder shall be rounded down at the time shares of Common Stock are issued in settlement of such PSU. No fractional shares of Common Stock, nor the cash value of any fractional shares of Common Stock, shall be issuable or payable to the Participant pursuant to this Agreement. All shares of Common Stock, if any, issued hereunder shall be delivered either by delivering one or more certificates for such shares to the Participant or by entering such shares in book-entry form, as determined by the Committee in its sole discretion. The value of shares of Common Stock shall not bear any interest owing to the passage of time. Neither this Section 5 nor any action taken pursuant to or in accordance with this Agreement shall be construed to create a trust or a funded or secured obligation of any kind.

6. **Tax Withholding.** To the extent that the receipt, vesting or settlement of this Award results in compensation income or wages to the Participant for federal, state, local and/or foreign tax purposes, the Participant shall make arrangements satisfactory to the Company for the satisfaction of obligations for the payment of withholding taxes and other tax obligations relating to this Award, which arrangements include the delivery of cash or cash equivalents, Common Stock (including previously owned Common Stock, net settlement, a broker-assisted sale, or other cashless withholding or reduction of the amount of shares otherwise issuable or delivered pursuant to this Award), other property, or any other legal consideration the Committee deems appropriate. If such tax obligations are satisfied through net settlement or the surrender of previously owned Common Stock, the maximum number of shares of Common Stock that may be so withheld (or surrendered) shall be the number of shares of Common Stock that have an aggregate Fair Market Value on the date of withholding or surrender equal to the aggregate amount of such tax liabilities determined based on the greatest withholding rates for federal, state, local and/or foreign tax purposes, including payroll taxes, that may be utilized without creating adverse accounting treatment for the Company with respect to this Award, as determined by the Committee. The Participant acknowledges that there may be adverse tax consequences upon the receipt, vesting or settlement of this Award or disposition of the underlying shares and that the Participant has been advised, and hereby is advised, to consult a tax advisor. The Participant represents that the Participant is in no manner relying on the Board, the Committee, the Company or an Affiliate or any of their respective managers, directors, officers, employees or authorized representatives (including, without limitation, attorneys, accountants, consultants, bankers, lenders, prospective lenders and financial representatives) for tax advice or an assessment of such tax consequences.

7. **Non-Transferability.** During the lifetime of the Participant, the PSUs may not be sold, pledged, assigned or transferred in any manner other than by will or the laws of descent and distribution, unless and until the shares of Common Stock underlying the PSUs have been issued, and all restrictions applicable to such shares have lapsed. Neither the PSUs nor any interest or right therein shall be liable for the debts, contracts or engagements of the Participant or his or her successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means, whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition thereof shall be null and void and of no effect, except to the extent that such disposition is permitted by the preceding sentence.

8. **Compliance with Applicable Law.** Notwithstanding any provision of this Agreement to the contrary, the issuance of shares of Common Stock hereunder will be subject to compliance with all applicable requirements of applicable law with respect to such securities and with the requirements of any stock exchange or market system upon which the Common Stock may then be listed. No shares of Common Stock will be issued hereunder if such issuance would constitute a violation of any applicable law or regulation or the requirements of any stock exchange or market system upon which the Common Stock may then be listed. In addition, shares of Common Stock will not be issued hereunder unless (a) a registration statement under the Securities Act of 1933, as amended from time to time, is in effect at the time of such issuance with respect to the shares to be issued or (b) in the opinion of legal counsel to the Company, the shares to be issued are permitted to be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act of 1933, as amended from time to time. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary for the lawful issuance and sale of any shares of Common Stock hereunder will relieve the Company of any liability in respect of the failure to issue such shares as to which such requisite authority has not been obtained. As a condition to any issuance of Common Stock hereunder, the Company may require the Participant to satisfy any requirements that may be necessary or appropriate to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect to such compliance as may be requested by the Company.

9. **Legends.** If a stock certificate is issued with respect to shares of Common Stock issued hereunder, such certificate shall bear such legend or legends as the Committee deems appropriate in order to reflect the restrictions set forth in this Agreement and to ensure compliance with the terms and provisions of this Agreement, the rules, regulations and other requirements of the Securities and Exchange Commission, any applicable laws or the requirements of any stock exchange on which the Common Stock is then listed. If the shares of Common Stock issued hereunder are held in book-entry form, then such entry will reflect that the shares are subject to the restrictions set forth in this Agreement.

10. **Rights as a Shareholder.** The Participant shall have no rights as a shareholder of the Company with respect to any shares of Common Stock that may become deliverable hereunder unless and until the Participant has become the holder of record of such shares of Common Stock, and no adjustments shall be made for dividends in cash or other property, distributions or other rights in respect of any such shares of Common Stock, except as otherwise specifically provided for in the Plan or this Agreement.

11. **Execution of Receipts and Releases.** Any issuance or transfer of shares of Common Stock or other property to the Participant or the Participant's legal representative, heir, legatee or distributee, in accordance with this Agreement shall be in full satisfaction of all claims of such person hereunder. As a condition precedent to such payment or issuance, the Company

may require the Participant or the Participant's legal representative, heir, legatee or distributee to execute (and not revoke within any time provided to do so) a release and receipt therefor in such form as it shall determine appropriate; provided, however, that any review period under such release will not modify the date of settlement with respect to Earned PSUs.

12. **No Right to Continued Employment, Service or Awards.** Nothing in the adoption of the Plan, nor the award of the PSUs thereunder pursuant to the Grant Notice and this Agreement, shall confer upon the Participant the right to continued employment by, or a continued service relationship with, the Company or any Affiliate, or any other entity, or affect in any way the right of the Company or any such Affiliate, or any other entity to terminate such employment or other service relationship at any time. The grant of the PSUs is a one-time benefit and does not create any contractual or other right to receive a grant of Awards or benefits in lieu of Awards in the future. Any future Awards will be granted at the sole discretion of the Company.

13. **Notices.** All notices and other communications under this Agreement shall be in writing and shall be delivered to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

If to the Company, unless otherwise designated by the Company in a written notice to the Participant (or other holder):

New York Mortgage Trust, Inc.

Attn: Compensation Committee

275 Madison Avenue

New York, New York 10016

If to the Participant, at the Participant's last known address on file with the Company.

Any notice that is delivered personally or by overnight courier or telecopier in the manner provided herein shall be deemed to have been duly given to the Participant when it is mailed by the Company or, if such notice is not mailed to the Participant, upon receipt by the Participant. Any notice that is addressed and mailed in the manner herein provided shall be conclusively presumed to have been given to the party to whom it is addressed at the close of business, local time of the recipient, on the fourth day after the day it is so placed in the mail.

14. **Consent to Electronic Delivery; Electronic Signature.** In lieu of receiving documents in paper format, the Participant agrees, to the fullest extent permitted by law, to accept electronic delivery of any documents that the Company may be required to deliver (including, but not limited to, prospectuses, prospectus supplements, grant or award notifications and agreements, account statements, annual and quarterly reports and all other forms of communications) in connection with this and any other Award made or offered by the Company. Electronic delivery may be via a Company electronic mail system or by reference to a location on a Company intranet to which the Participant has access. The Participant hereby consents to any and all procedures the Company has established or may establish for an electronic signature system for delivery and acceptance of any such documents that the Company may be required to deliver, and agrees that his or her electronic signature is the same as, and shall have the same force and effect as, his or her manual signature.

15. **Agreement to Furnish Information.** The Participant agrees to furnish to the Company all information requested by the Company to enable it to comply with any reporting or other requirement imposed upon the Company by or under any applicable statute or regulation.

16. **Entire Agreement; Amendment.** This Agreement constitutes the entire agreement of the parties with regard to the subject matter hereof, and contains all the covenants, promises, representations, warranties and agreements between the parties with respect to the PSUs granted hereby; provided, however, that the terms of this Agreement shall not modify and shall be subject to the terms and conditions of any employment, consulting and/or severance agreement between the Company (or an Affiliate or other entity) and the Participant in effect as of the date a determination is to be made under this Agreement. Without limiting the scope of the preceding sentence, except as provided therein, all prior understandings and agreements, if any, among the parties hereto relating to the subject matter hereof are hereby null and void and of no further force and effect. The Committee may, in its sole discretion, amend this Agreement from time to time in any manner that is not inconsistent with the Plan; provided, however, that except as otherwise provided in the Plan or this Agreement, any such amendment that materially reduces the rights of the Participant shall be effective only if it is in writing and signed by both the Participant and an authorized officer of the Company.

17. **Severability and Waiver.** If a court of competent jurisdiction determines that any provision of this Agreement is invalid or unenforceable, then the invalidity or unenforceability of such provision shall not affect the validity or enforceability of any other provision of this Agreement, and all other provisions shall remain in full force and effect. Waiver by any party of

any breach of this Agreement or failure to exercise any right hereunder shall not be deemed to be a waiver of any other breach or right. The failure of any party to take action by reason of such breach or to exercise any such right shall not deprive the party of the right to take action at any time while or after such breach or condition giving rise to such rights continues.

18. **Clawback.** Notwithstanding any provision in the Grant Notice, this Agreement or the Plan to the contrary, to the extent required by (a) applicable law, including, without limitation, the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, any Securities and Exchange Commission rule or any applicable securities exchange listing standards and/or (b) any policy that may be adopted or amended by the Board from time to time, all shares of Common Stock issued hereunder shall be subject to forfeiture, repurchase, recoupment and/or cancellation to the extent necessary to comply with such law(s) and/or policy.

19. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of DELAWARE applicable to contracts made and to be performed therein, exclusive of the conflict of laws provisions of DELAWARE LAW.

20. **Successors and Assigns.** The Company may assign any of its rights under this Agreement without the Participant's consent. This Agreement will be binding upon and inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer set forth herein and in the Plan, this Agreement will be binding upon the Participant and the Participant's beneficiaries, executors, administrators and the person(s) to whom the PSUs may be transferred by will or the laws of descent or distribution.

21. **Headings.** Headings are for convenience only and are not deemed to be part of this Agreement.

22. **Counterparts.** The Grant Notice may be executed in one or more counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument. Delivery of an executed counterpart of the Grant Notice by facsimile or portable document format (.pdf) attachment to electronic mail shall be effective as delivery of a manually executed counterpart of the Grant Notice.

23. **Section 409A.** Notwithstanding anything herein or in the Plan to the contrary, the PSUs granted pursuant to this Agreement are intended to comply with the applicable requirements of Section 409A of the Code, as amended from time to time, and the guidance and regulations promulgated thereunder and successor provisions, guidance and regulations thereto (the "*Nonqualified Deferred Compensation Rules*") and shall be construed and interpreted in accordance with such intent. If the Participant is deemed to be a "specified employee" within the meaning of the Nonqualified Deferred Compensation Rules, as determined by the Committee, at a time when the Participant becomes eligible for settlement of the PSUs upon his "separation from service" within the meaning of the Nonqualified Deferred Compensation Rules, then to the extent necessary to prevent any accelerated or additional tax under the Nonqualified Deferred Compensation Rules, such settlement will be delayed until the earlier of: (a) the date that is six months following the Participant's separation from service and (b) the Participant's death. Notwithstanding the foregoing, the Company and its Affiliates make no representations that the PSUs provided under this Agreement are compliant with the Nonqualified Deferred Compensation Rules and in no event shall the Company or any Affiliate be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by the Participant on account of non-compliance with the Nonqualified Deferred Compensation Rules.

## EXHIBIT B

## PERFORMANCE GOAL FOR PERFORMANCE SHARE UNITS

The performance goal for the PSUs shall be based on the relative total shareholder return (“*TSR*”) percentile ranking of the Company as compared to the Company’s Peer Group (as defined below) during the performance period specified below. Subject to the satisfaction of the Service Requirement, you will earn and become vested in an applicable number of PSUs, the Earned PSUs, that corresponds to the ranking that the Company achieves as set forth below. The Committee, in its sole discretion, will review, analyze and certify the achievement of the Company’s relative *TSR* percentile ranking for the Performance Period as compared to the Company’s Peer Group and will determine the number of Earned PSUs in accordance with the terms of this Agreement, the Grant Notice and the Plan.

**Company Performance Ranking and Payout Schedule**

<b>Level</b>	<b>Relative TSR Performance (Percentile Rank vs. Peers)</b>	<b>Earned PSUs (% of Target)*</b>
< Threshold	< 30th Percentile	0%
Threshold	30th Percentile	[50/100]%
Target	50th Percentile	[75/100/200]%
≥ Maximum	≥ 80th Percentile	[125/150/300]%

\* The percentage of Target PSUs that become Earned PSUs for performance between the threshold, target, and maximum achievement levels shall be calculated using linear interpolation.

**Company Peer Group**

The following companies will be deemed to be the Company’s “*Peer Group*” for purposes of this Agreement:

<b>Ticker Symbol</b>	<b>Name</b>
MITT	AG Mortgage Investment Trust
AGNC	AGNC Investment Corp
NLY	Annaly Capital Management
ANH	Anworth Mortgage Asset Corporation
ARR	ARMOUR Residential REIT, Inc.
CMO	Capstead Mortgage Corporation
CHMI	Cherry Hill Mortgage Investment Corporation
CIM	Chimera Investment Corporation
DX	Dynex Capital, Inc.
EARN	Ellington Residential Mortgage REIT
AJX	Great Ajax
IVR	Invesco Mortgage Capital Inc.
MFA	MFA Financial, Inc.
NRZ	New Residential Investment Corp.
ORC	Orchid Island Capital, Inc.
PMT	PennyMac Mortgage Investment Trust
RWT	Redwood Trust, Inc.
RC	Ready Capital Corp.
TWO	Two Harbors Investment Corp.
WMC	Western Asset Mortgage Capital Corp.

If a company ceases to exist, ceases to be publicly traded or is delisted from a national securities exchange at any time during the Performance Period, it shall be removed from the Peer Group, and the definition of “Peer Group” shall be adjusted to omit such company.

**Determination of Relative TSR Rank**

The TSR for the Company and each member of the Peer Group shall be determined by dividing (i) the sum of the cumulative amount of such entity's dividends per share for the performance period and the arithmetic average per share volume weighted average price (the "*VWAP*") of such entity's common stock for the last thirty (30) consecutive trading days of the Performance Period minus the arithmetic average per share VWAP of such entity's common stock for the last thirty (30) consecutive trading days immediately prior to the Performance Period by (ii) the arithmetic average per share VWAP of such entity's common stock for the last thirty (30) consecutive trading days immediately prior to the Performance Period. To determine the Company's applicable percentile ranking for the Performance Period, TSR will be calculated for the Company and each entity in the Peer Group. The entities will be arranged by their respective TSR (highest to lowest) and the percentile rank of the Company within the Peer Group will be calculated.

Exhibit B-2



## List of Significant Subsidiaries

<u>Name</u>	<u>State of Incorporation</u>	<u>Names under which it does Business</u>
Hypotheca Capital, LLC (formerly known as The New York Mortgage Company, LLC)	New York	n/a
New York Mortgage Funding, LLC	Delaware	n/a
New York Mortgage Trust 2005-1	Delaware	n/a
New York Mortgage Trust 2005-2	Delaware	n/a
New York Mortgage Trust 2005-3	Delaware	n/a
NYMT Commercial LLC	Delaware	n/a
NYMT Loan Financing, LLC	Delaware	n/a
RB Commercial Mortgage LLC	Delaware	n/a

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We have issued our reports dated February 25, 2019, with respect to the consolidated financial statements and internal control over financial reporting included in the Annual Report of New York Mortgage Trust, Inc. on Form 10-K for the year ended December 31, 2018. We consent to the incorporation by reference of said reports in the Registration Statements of New York Mortgage Trust, Inc. on Forms S-3 (File No. 333-226726 and File No. 333-186016) and on Forms S-8 (File No. 333-218165 and File No. 333-167609).

/s/ Grant Thornton LLP

New York, New York

February 25, 2019

**CERTIFICATION PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Steven R. Mumma, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2018 of New York Mortgage Trust, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2019

/s/ Steven R. Mumma

\_\_\_\_\_  
Steven R. Mumma

Chairman of the Board and Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Kristine R. Nario-Eng, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2018 of New York Mortgage Trust, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2019

/s/ Kristine R. Nario-Eng  
\_\_\_\_\_  
Kristine R. Nario-Eng  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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

In connection with the Annual Report of New York Mortgage Trust, Inc., (the "Company") on Form 10-K for the year ended December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to our knowledge:

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

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

Date: February 25, 2019

/s/ Steven R. Mumma  
Steven R. Mumma  
Chairman of the Board and Chief Executive Officer  
(Principal Executive Officer)

Date: February 25, 2019

/s/ Kristine R. Nario-Eng  
Kristine R. Nario-Eng  
Chief Financial Officer  
(Principal Financial and Accounting Officer)