Western Asset Mortgage Capital Corp
Form 10-Q
May 08, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)
ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2018

o 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: 001-35543
Western Asset Mortgage Capital Corporation
(Exact name of Registrant as specified in its charter)

Delaware	27-0298092
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

Western Asset Mortgage Capital Corporation
385 East Colorado Boulevard
Pasadena, California 91101
(Address of Registrant’s principal executive offices)

(626) 844-9400
(Registrant’s telephone number, including area code)

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 ý No o

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 ý No o

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

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer (Do not check if a smaller reporting company)	o	Smaller reporting company	o
		Emerging growth company	o

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 under the Securities Exchange Act of 1934). Yes o No ý

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practical date.

As of May 4, 2018, there were 41,616,379 shares, par value $0.01, of the registrant’s common stock outstanding.

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Part I
ITEM I. Financial Statements

Western Asset Mortgage Capital Corporation and Subsidiaries
Consolidated Balance Sheets
(in thousands—except share and per share data)
(Unaudited)

	March 31, 2018	December 31, 2017
Assets:		
Cash and cash equivalents	$24,828	$48,024
Restricted cash	37,034	—
Agency mortgage-backed securities, at fair value ($2,820,760 and $2,833,595 pledged as collateral, at fair value, respectively)	2,842,903	2,858,600
Non-Agency mortgage-backed securities, at fair value ($472,612 and $266,189 pledged as collateral, at fair value, respectively)	481,495	378,158
Other securities, at fair value ($131,467 and $89,823 pledged as collateral, at fair value, respectively)	131,603	122,065
Residential Whole-Loans, at fair value ($296,719 and $237,423 pledged as collateral, at fair value, respectively)	296,719	237,423
Residential Bridge Loans ($129,469 and $64,526 at fair value and $159,646 and $106,673 pledged as collateral, respectively)	159,646	106,673
Securitized commercial loans, at fair value	1,383,044	24,876
Commercial Loans, at fair value ($20,534 and $0 pledged as collateral, at fair value, respectively)	40,455	—
Investment related receivable	24,536	7,665
Accrued interest receivable	16,615	13,603
Due from counterparties	96,470	86,930
Derivative assets, at fair value	2,353	728
Other assets	2,102	2,161
Total Assets (1)	$5,539,803	$3,886,906
Liabilities and Stockholders' Equity:		
Liabilities:		
Borrowings under repurchase agreements, net	$3,556,920	$3,251,686
Convertible senior unsecured notes, net	109,072	108,743
Securitized debt, at fair value (includes $368,890 and $10,945 held by affiliates, respectively)	1,301,050	10,945
Accrued interest payable (includes $315 and $70 on securitized debt held by affiliates, respectively)	9,857	8,322
Investment related payables	25,382	17,217
Due to counterparties	300	1,490
Derivative liability, at fair value	3,689	4,346
Accounts payable and accrued expenses	4,775	3,118
Payable to affiliate	4,259	2,041
Dividend payable	12,921	12,960
Other liabilities	37,764	—
Total Liabilities (2)	5,065,989	3,420,868

Commitments and contingencies		
Stockholders' Equity:		
Common stock: $0.01 par value, 500,000,000 shares authorized, 41,679,679 and 41,794,079 outstanding, respectively	419	419
Preferred stock, $0.01 par value, 100,000,000 shares authorized and no shares outstanding	—	—
Treasury stock, at cost, 240,122 and 125,722 shares held, respectively	(2,339)	(1,232)
Additional paid-in capital	768,862	768,763
Retained earnings (accumulated deficit)	(293,128)	(301,912)
Total Stockholders' Equity	473,814	466,038
Total Liabilities and Stockholders' Equity	$5,539,803	$3,886,906

See notes to unaudited consolidated financial statements.

Western Asset Mortgage Capital Corporation and Subsidiaries
Consolidated Balance Sheets (Continued)
(in thousands—except share and per share data)
(Unaudited)

	March 31, 2018	December 31, 2017
[(1)] Assets of consolidated VIEs included in the total assets above:		
Cash and cash equivalents	$227	$ —
Restricted cash	37,034	—
Residential Whole-Loans, at fair value ($296,719 and $237,423 pledged as collateral, at fair value, respectively)	296,719	237,423
Residential Bridge Loans ($129,469 and $64,526 at fair value and $159,646 and $106,673 pledged as collateral, respectively)	159,646	106,673
Securitized commercial loans, at fair value	1,383,044	24,876
Commercial Loans, at fair value ($20,534 and $0 pledged as collateral, at fair value, respectively)	20,534	—
Investment related receivable	18,825	7,665
Accrued interest receivable	5,589	3,358
Other assets	57	—
Total assets of consolidated VIEs	$1,921,675	$ 379,995
[(2)] Liabilities of consolidated VIEs included in the total liabilities above:		
Securitized debt, at fair value (includes $368,890 and $10,945 held by affiliates, respectively)	$1,301,050	$ 10,945
Accrued interest payable (includes $315 and $70 on securitized debt held by affiliates, respectively)	887	70
Accounts payable and accrued expenses	455	189
Other liabilities	37,764	—
Total liabilities of consolidated VIEs	$1,340,156	$ 11,204

See notes to unaudited consolidated financial statements.

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Western Asset Mortgage Capital Corporation and Subsidiaries
Consolidated Statements of Operations
(in thousands—except share and per share data)
(Unaudited)

	For the three months ended March 31, 2018	For the three months ended March 31, 2017
Net Interest Income		
Interest income	$39,727	$28,430
Interest expense (includes $488 and $246 on securitized debt held by affiliates, respectively)	20,697	8,737
Net Interest Income	19,030	19,693
Other Income (Loss)		
Realized gain (loss) on sale of investments, net	575	21,258
Other than temporary impairment	(2,916)	(6,097)
Unrealized gain (loss), net	(68,961)	(5,140)
Gain (loss) on derivative instruments, net	79,582	(4,697)
Other, net	47	403
Other Income (Loss)	8,327	5,727
Expenses		
Management fee to affiliate	2,180	2,476
Other operating expenses	969	417
General and administrative expenses:		
Compensation expense	510	740
Professional fees	1,295	888
Other general and administrative expenses	361	345
Total general and administrative expenses	2,166	1,973
Total Expenses	5,315	4,866
Income before income taxes	22,042	20,554
Income tax provision	313	312
Net income	$21,729	$20,242
Net income per Common Share — Basic	$0.52	$0.48
Net income per Common Share — Diluted	$0.52	$0.48
Dividends Declared per Share of Common Stock	$0.31	$0.31

See notes to unaudited consolidated financial statements.

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Western Asset Mortgage Capital Corporation and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
(in thousands—except shares and share data)
(Unaudited)

	Common Stock Outstanding		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Treasury Stock	Total
	Shares	Par				
Balance at December 31, 2016	41,919,801	$419	$ 765,042	$ (334,979)	$—	$430,482
Vesting of restricted stock	—	—	981	—	—	981
Equity component of convertible senior unsecured notes	—	—	2,656	—	—	2,656
Treasury stock	(125,722)	—	—	—	(1,232)	(1,232)
Net income	—	—	—	85,097	—	85,097
Dividends declared on common stock	—	—	84	(52,030)	—	(51,946)
Balance at December 31, 2017	41,794,079	$419	$ 768,763	$ (301,912)	$(1,232)	$466,038
Vesting of restricted stock	—	—	75	—	—	75
Treasury stock	(114,400)	—	—	—	(1,107)	(1,107)
Net income	—	—	—	21,729	—	21,729
Dividends declared on common stock	—	—	24	(12,945)	—	(12,921)
Balance at March 31, 2018	41,679,679	$419	$ 768,862	$ (293,128)	$(2,339)	$473,814

See notes to unaudited consolidated financial statements.

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Western Asset Mortgage Capital Corporation and Subsidiaries
Consolidated Statements of Cash Flows (in thousands)
(Unaudited)

	For the three months ended March 31, 2018	For the three months ended March 31, 2017
Cash flows from operating activities:		
Net income	$ 21,729	$ 20,242
Adjustments to reconcile net income to net cash provided by operating activities:		
Premium amortization and (discount accretion) on investments, net	(367)	(1,199)
Interest income earned added to principal of securities	—	(46)
Amortization of deferred financing costs	192	—
Amortization of discount on convertible senior notes	137	—
Restricted stock amortization	75	362
Interest payments (interest received) and basis recovered on MAC interest rate swaps	64	(163)
Premium on purchase of Residential Whole-Loans	(1,452)	(354)
Premium on purchase of Residential Bridge Loans	(610)	(24)
Premium on purchase of securitized commercial loans	(3,019)	—
Unrealized (gain) loss, net	68,961	5,140
Unrealized (gain) loss on derivative instruments, net	(1,308)	3,306
Other than temporary impairment	2,916	6,097
Realized (gain) loss on sale of securities, net	(575)	(21,258)
(Gain) loss on derivatives, net	(4,183)	3,021
Loss on foreign currency transactions, net	—	1
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	(3,012)	7,877
Decrease (increase) in other assets	59	(99)
Increase (decrease) in accrued interest payable	1,535	(11,660)
Increase in accounts payable and accrued expenses	1,657	276
Increase (decrease) in payable to affiliate	2,218	(38)
Net cash provided by operating activities	85,017	11,481
Cash flows from investing activities:		
Purchase of securities	(210,368)	(1,012,603)
Proceeds from sale of securities	11,771	816,155
Principal repayments and basis recovered on securities	34,663	69,275
Purchase of Residential Whole-Loans	(69,897)	(35,317)
Principal repayments on Residential Whole-Loans	11,023	9,610
Purchase of Commercial Loans	(40,406)	—
Purchase of securitized commercial loans	(1,350,000)	—
Principal repayments on securitized commercial loans	100	—
Purchase of Residential Bridge Loans	(93,048)	(37,899)
Principal repayments on Residential Bridge Loans	29,261	1,010
Payment of premium for option derivatives	(467)	(2,658)
Premium received from option derivatives	298	1,412
Net settlements of TBAs	(668)	433

Proceeds from (Payments on) termination of futures, net	3,978	(6,638)
(Interest payments) interest received and basis recovered on MAC interest rate swaps	(64)	163
Due from counterparties	—	4,124
Payments on total return swaps, net	—	(514)
Premium for interest rate swaptions, net	—	(115)
Net cash used in investing activities	(1,673,824)	(193,562)

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Western Asset Mortgage Capital Corporation and Subsidiaries
Consolidated Statements of Cash Flows (Continued) (in thousands)
(Unaudited)

	For the three months ended March 31, 2018	For the three months ended March 31, 2017
Cash flows from financing activities:		
Repurchase of common stock	(1,107)	—
Proceeds from repurchase agreement borrowings	4,513,966	3,876,357
Repayments of repurchase agreement borrowings	(4,208,732)	(3,707,574)
Proceeds from securitized debt	1,285,219	—
Repayments of securitized debt	(45)	—
Proceeds from forward contracts	—	3,406
Repayments of forward contracts	—	(3,429)
Due from counterparties, net	(9,540)	25,136
Due to counterparties, net	(1,190)	3,110
Increase in other liabilities	37,034	—
Dividends paid on common stock	(12,960)	(12,995)
Net cash provided by financing activities	1,602,645	184,011
Effect of exchange rate changes on cash and cash equivalents	—	(1)
Net increase (decrease) in cash, cash equivalents and restricted cash	13,838	1,929
Cash, cash equivalents and restricted cash, beginning of period	48,024	46,172
Cash, cash equivalents and restricted cash, end of period	$61,862	$48,101
Supplemental disclosure of operating cash flow information:		
Interest paid	$18,833	$8,068
Supplemental disclosure of non-cash financing/investing activities:		
Principal payments of securities, not settled	$—	$16
Securities sold, not settled	$—	$22,965
Securities purchased, not settled	$(19,674)	$(333,505)
Net unsettled TBAs	$1	$—
Dividends and distributions declared, not paid	$12,921	$12,995
Principal payments of Residential Whole-Loans, not settled	$2,307	$3,768
Principal payments of Residential Bridge Loans, not settled	$16,518	$3,703
Derivative collateral offset against derivatives	$—	$(157,913)

See notes to unaudited consolidated financial statements.

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Western Asset Mortgage Capital Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
(in thousands- except share and per share data)

The following defines certain of the commonly used terms in these Notes to Consolidated Financial Statements: “Agency” or “Agencies” refer to a federally chartered corporation, such as the Federal National Mortgage Association (“Fannie Mae” or “FNMA”) or the Federal Home Loan Mortgage Corporation (“Freddie Mac” or “FHLMC”), or an agency of the U.S. Government, such as the Government National Mortgage Association (“Ginnie Mae” or “GNMA”); references to “MBS” refer to mortgage backed securities, including residential mortgage-backed securities or “RMBS,” commercial mortgage-backed securities or “CMBS,” and “Interest-Only Strips” (as defined herein); “Agency MBS” refer to RMBS, CMBS and Interest-Only Strips issued or guaranteed by the Agencies while “Non-Agency MBS” refer to RMBS, CMBS and Interest-Only Strips that are not issued or guaranteed by the Agencies; references to “ARMs” refers to adjustable rate mortgages; references to “Interest-Only Strips” refer to interest-only (“IO”) and inverse interest-only (“IIO”) securities issued as part of or collateralized with MBS; references to “TBA” refer to To-Be-Announced Securities; and references to “Residential Whole-Loans", “Residential Bridge Loans" and “Commercial Loans" (collectively “Whole-Loans”) refer to individual mortgage loans secured by single family, multifamily and commercial properties.

Note 1 — Organization

Western Asset Mortgage Capital Corporation, a Delaware corporation, and its subsidiaries (the “Company”), commenced operations in May 2012. The Company invests in, finances and manages a diversified portfolio of real estate related securities, whole-loans and other financial assets. The Company’s portfolio is comprised of Agency CMBS, Agency RMBS (including TBAs), Non-Agency RMBS, Non-Agency CMBS, Residential Whole Loans, Residential Bridge Loans and Commercial Loans. In addition, and to a significantly lesser extent, the Company has invested in other securities including certain Agency obligations that are not technically MBS as well as certain Non U.S. CMBS and in asset-backed securities (“ABS”) investments secured by a portfolio of private student loans. The Company’s investment strategy is based on Western Asset Management Company’s (the “Manager”) perspective of which mix of portfolio assets it believes provides the Company with the best risk-reward opportunities at any given time. The Manager will vary the allocation among various asset classes subject to maintaining the Company’s qualification as a REIT and maintaining its exemption from the Investment Company Act of 1940 (the “1940 Act”). These restrictions limit the Company’s ability to invest in non-qualifying MBS, non-real estate assets and/or assets which are not secured by real estate. Accordingly, the Company’s portfolio will continue to be principally invested in qualifying MBS, Whole-Loans and other real estate related assets.

The Company is externally managed by the Manager, an investment advisor registered with the Securities and Exchange Commission (“SEC”). The Manager is a wholly-owned subsidiary of Legg Mason, Inc. The Company operates and has elected to be taxed as a real estate investment trust or “REIT” commencing with its taxable year ended December 31, 2012.

Note 2 — Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The accompanying unaudited financial statements and related notes have been prepared in conformity with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial reporting in accordance with Article 10 of Regulation S-X and the instructions to Form 10-Q. Certain prior period amounts have been reclassified to conform to the current period’s presentation. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary have been made to state fairly the Company’s financial position, results of operations and cash flows. The results of operations for the period ended March 31, 2018, are not

necessarily indicative of the results to be expected for the full year or any future period. These consolidated financial statements should be read in conjunction with the Company's annual report on Form 10-K for the year ended December 31, 2017, filed with the SEC on March 29, 2018.

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary and variable interest entities ("VIEs") in which it is considered the primary beneficiary.   All intercompany amounts between the Company and its subsidiary and consolidated VIEs have been eliminated in consolidation.

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Variable Interest Entities

VIEs are defined as entities that by design either lack sufficient equity for the entity to finance its activities without additional subordinated financial support or are unable to direct the entity's activities or are not exposed to the entity's losses or entitled to its residual returns. The Company evaluates all of its interests in VIEs for consolidation. When the interests are determined to be variable interests, the Company assesses whether it is deemed the primary beneficiary. The primary beneficiary of a VIE is determined to be the party that has both the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE.

To assess whether the Company has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, it considers all facts and circumstances, including its role in establishing the VIE and its ongoing rights and responsibilities. This assessment includes first, identifying the activities that most significantly impact the VIE's economic performance; and second, identifying which party, if any, has power over those activities. In general, the parties that make the most significant decisions affecting the VIE or have the right to unilaterally remove those decision makers is deemed to have the power to direct the activities of a VIE.

To assess whether the Company has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE, it considers all of its economic interests. This assessment requires the Company to apply judgment in determining whether these interests, in the aggregate, are considered potentially significant to the VIE. Factors considered in assessing significance include: the design of the VIE, including its capitalization structure; subordination of interests; payment priority; relative share of interests held across various classes within the VIE's capital structure; and the reasons why the interests are held by the Company.

In instances where the Company and its related parties have variable interests in a VIE, the Company considers whether there is a single party in the related party group that meets both the power and losses or benefits criteria on its own as though no related party relationship existed. If one party within the related party group meets both these criteria, such reporting entity is the primary beneficiary of the VIE and no further analysis is needed. If no party within the related party group on its own meets both the power and losses or benefits criteria, but the related party group as a whole meets these two criteria, the determination of primary beneficiary within the related party group requires significant judgment. The analysis is based upon qualitative as well as quantitative factors, such as the relationship of the VIE to each of the members of the related-party group, as well as the significance of the VIE's activities to those members, with the objective of determining which party is most closely associated with the VIE.

Ongoing assessments of whether an enterprise is the primary beneficiary of a VIE are required.

Use of Estimates

The preparation of the consolidated financial statements 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 periods. Actual results could differ from those estimates.

Earnings (Loss) Per Share

GAAP requires use of the two-class method in computing earnings per share for all periods presented for each class of common stock and participating securities as if all earnings for the period had been distributed. Under the two-class method, during periods of net income, the net income is first reduced for dividends declared on all classes of securities to arrive at undistributed earnings. During periods of net losses, the net loss is reduced for dividends declared on

participating securities only if the security has the right to participate in the earnings of the entity and an objectively determinable contractual obligation to share in net losses of the entity. The Company's participating securities are not allocated a share of the net loss, as the participating securities do not have a contractual obligation to share in the net losses of the Company.

The remaining earnings are allocated to common stockholders and participating securities, to the extent that each security shares in earnings, as if all of the earnings for the period had been distributed. Each total is then divided by the applicable number of weighted average outstanding common shares to arrive at basic earnings per share. For the diluted earnings, the denominator includes the weighted average outstanding common shares and all potential common shares assumed issued if they are dilutive.

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The numerator is adjusted for any changes in income or loss that would result from the assumed conversion of these potential common shares.

Offering Costs

Offering costs borne by the Company in connection with common stock offerings and private placements are reflected as a reduction of additional paid-in-capital. Offering costs borne by the Company in connection with its shelf registration will be deferred and recorded in "Other assets" until such time the Company completes a common stock offering where all or a portion will be reclassified and reflected as a reduction of additional paid-in-capital. The deferred offering costs will be expensed upon the expiration of the shelf if the Company does not complete an equity offering.

Cash and Cash Equivalents

The Company considers all highly-liquid short term investments with original maturities of 90 days or less when purchased to be cash equivalents. Cash and cash equivalents are exposed to concentrations of credit risk. The Company places its cash and cash equivalents with what it believes to be high credit quality institutions. At times such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit.

Restricted Cash

Restricted cash represents cash held by the trustee or servicer for mortgage escrows in connection with the Company's securitized loan and commercial loan investments held in two consolidated VIE's. These escrows consist of capital improvement reserves, repair reserves, real estate tax and insurance reserves and tenant reserves. The corresponding liability is recorded in "Other liabilities " in the Consolidated Balance Sheets. The restricted cash is not available for general corporate use.

Valuation of Financial Instruments

The Company discloses the fair value of its financial instruments according to a fair value hierarchy (Levels I, II, and III, as defined below). ASC 820, "Fair Value Measurement and Disclosures" establishes a framework for measuring fair value and expands financial statement disclosure requirements for fair value measurements. ASC 820 further specifies a hierarchy of valuation techniques, which is based on whether the inputs into the valuation technique are observable or unobservable. The hierarchy is as follows:

Level I — Quoted prices in active markets for identical assets or liabilities.

Level II — Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level III — Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable, for example, when there is little or no market activity for an investment at the end of the period, unobservable inputs may be used.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Transfers between levels are determined by the Company at the end of the reporting period. Refer to Note 3 - "Fair Value of Financial Instruments".

Mortgage-Backed Securities and Other Securities

The Company's mortgage-backed securities and other securities portfolio primarily consists of Agency RMBS, Non-Agency RMBS, Agency CMBS, Non-Agency CMBS, ABS and other real estate related assets. These investments are recorded in accordance with ASC 320, “Investments - Debt and Equity Securities”, ASC 325-40, “Beneficial Interests in Securitized Financial Assets” or ASC 310-30, “Loans and Debt Securities Acquired with Deteriorated Credit Quality”. The Company has chosen to make a fair value election pursuant to ASC 825, “Financial Instruments” for its mortgage-backed securities and other securities portfolio. Electing the fair value option allows the Company to record changes in fair value in the Consolidated Statements of Operations as a component of “Unrealized gain (loss), net”.

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If the Company purchases securities with evidence of credit deterioration, it will analyze to determine if the guidance found in ASC 310-30, “Loans and Debt Securities Acquired with Deteriorated Credit Quality” is applicable.

The Company evaluates securities for other-than-temporary impairment (“OTTI”) on at least a quarterly basis. The determination of whether a security is other-than-temporarily impaired involves judgments, estimates and assumptions based on subjective and objective factors. As a result, the timing and amount of an OTTI constitutes an accounting estimate that may change materially over time.

When the fair value of an investment security is less than its amortized cost at the balance sheet date, the security is considered impaired, and the impairment is designated as either “temporary” or “other-than-temporary.” When a security is impaired, an OTTI is considered to have occurred if (i) the Company intends to sell the security (i.e., a decision has been made as of the reporting date) or (ii) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If the Company intends to sell the security or if it is more likely than not that the Company will be required to sell the real estate security before recovery of its amortized cost basis, the entire amount of the impairment loss, if any, is recognized in earnings as OTTI and the cost basis of the security is adjusted to its fair value. Additionally, for securities accounted for under ASC 325-40 an OTTI is deemed to have occurred when there is an adverse change in the expected cash flows to be received and the fair value of the security is less than its carrying amount. In determining whether an adverse change in cash flows occurred, the present value of the remaining cash flows, as estimated at the initial transaction date (or the last date previously revised), is compared to the present value of the expected cash flows at the current reporting date. The estimated cash flows reflect those a “market participant” would use and are discounted at a rate equal to the current yield used to accrete interest income. Any resulting OTTI adjustments are reflected in the “Other than temporary impairment” in the Consolidated Statements of Operations.

Increases in interest income may be recognized on a security on which the Company previously recorded an OTTI charge if the cash flow of such security subsequently improves.

In addition, unrealized losses on the Company's Agency securities, with explicit guarantee of principal and interest by the governmental sponsored entity ("GSE"), are not credit losses but rather were due to changes in interest rates and prepayment expectations. These securities would not be considered other than temporarily impaired provided we did not intend to sell the security.

Residential Whole-Loans

Investments in Residential Whole-Loans are recorded in accordance with ASC 310-20, "Nonrefundable Fees and Other Costs". The Company has chosen to make the fair value election pursuant to ASC 825 for its Residential Whole-Loan portfolio. Residential Whole-Loans are recorded at fair value with periodic changes in fair value being recorded in earnings as a component of "Unrealized gain (loss), net". All other costs incurred in connection with acquiring Residential Whole-Loans or committing to purchase these loans are charged to expense as incurred.

On a quarterly basis, the Company evaluates the collectability of both interest and principal of each loan, if circumstances warrant, to determine whether such loan is impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the existing contractual terms. When a loan is impaired, the Company does not record an allowance for loan loss as the Company has elected the fair value option. However, income recognition is suspended for loans at the earlier of the date at which payments become 90-days past due or when, in the opinion of management, a full recovery of income and principal becomes doubtful. When the ultimate collectability of the principal of an impaired loan is in doubt, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the principal of an impaired loan is not in doubt, contractual interest is recorded as interest income when received, under the cash

basis method until an accrual is resumed when the loan becomes contractually current and performance is demonstrated to be resumed. A loan is written off when it is no longer realizable and/or legally discharged.

Residential Bridge Loans

For the Bridge Loans acquired prior to October 25, 2017, the Company did not elect the fair value option pursuant to ASC 825. These loans are recorded at their principal amount outstanding, net of any premium or discount. Commencing with purchases on October 25, 2017, the Company decided to elect the fair value option pursuant to ASC 825 to be consistent with the accounting of its other investments, which are all carried at fair value. These loans are recorded at fair value with periodic changes in fair market value being recorded in earnings as a component of "Unrealized gain (loss), net". All other costs incurred in connection with acquiring the Residential Bridge Loans or committing to purchase these loans are charged to expense as incurred.

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A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the existing contractual terms. The Company evaluates each of its Residential Bridge Loans that it did not elect the fair value option on a quarterly basis. These loans are individually specific as they relate to the borrower, collateral type, interest rate, LTV and term as well as geographic location. The Company evaluates the collectability of both principal and interest of each loan. When a loan is impaired, the impairment is then measured based on fair value of the collateral, since these loans are collateral dependent. Upon measurement of impairment, the Company records an allowance to reduce the carrying value of the loan with a corresponding charge to earnings. Significant judgments are required in determining impairment, including assumptions regarding the value of the loan, the value of the underlying collateral and other provisions such as guarantees. The Company will not record an allowance for loan loss for the Residential Bridge Loans that it has elected the fair value option.

Income recognition is suspended for loans at the earlier of the date at which payments become 90-days past due or when, in the opinion of management, a full recovery of income and principal becomes doubtful. When the ultimate collectability of the principal of an impaired loan is in doubt, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the principal of an impaired loan is not in doubt, contractual interest is recorded as interest income when received, under the cash basis method until an accrual is resumed when the loan becomes contractually current and performance is demonstrated to be resumed. A loan is written off when it is no longer realizable and/or it is legally discharged.

Securitized Commercial Loans

Securitized commercial loans are comprised of commercial loans of consolidated variable interest entities which were sponsored by third parties. These loans are recorded in accordance with ASC 310-20, "Nonrefundable Fees and Other Costs". The Company has chosen to make the fair value election pursuant to ASC 825. Accordingly, these loans are recorded at fair value with periodic changes in fair value being recorded in earnings as a component of "Unrealized gain (loss), net".

The securitized commercial loans are typically collateralized by commercial real estate. As a result, the Company regularly evaluates the extent and impact of any credit migration associated with the performance and or value of the underlying collateral property as well as the financial and operating capability of the borrower on a loan by loan basis. On a quarterly basis, the Company evaluates the collectability of both interest and principal of each loan, if circumstances warrant, to determine whether such loan is impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the existing contractual terms. When a loan is impaired, the Company does not record an allowance for loan loss as the Company has elected the fair value option. However, income recognition is suspended for loans at the earlier of the date at which payments become 90-days past due or when, in the opinion of management, a full recovery of income and principal becomes doubtful. When the ultimate collectability of the principal of an impaired loan is in doubt, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the principal of an impaired loan is not in doubt, contractual interest is recorded as interest income when received, under the cash basis method until an accrual is resumed. Interest income accrual is resumed when the loan becomes contractually current and performance is demonstrated. A loan is written off when it is no longer realizable and/or legally discharged.

Commercial Loans

Investments in Commercial Loans, which are comprised of commercial mortgage loans and commercial mezzanine loans, are recorded in accordance with ASC 310-20, "Nonrefundable Fees and Other Costs". The Company has chosen to make the fair value election pursuant to ASC 825 for its Commercial Loan portfolio. Accordingly, these loans are recorded at fair value with periodic changes in fair value being recorded in earnings as a component of

"Unrealized gain (loss), net". All other costs incurred in connection with acquiring the Commercial Loans or committing to purchase these loans are charged to expense as incurred.

The Company's loans are typically collateralized by commercial real estate. As a result, the Company regularly evaluates the extent and impact of any credit migration associated with the performance and or value of the underlying collateral property as well as the financial and operating capability of the borrower on a loan by loan basis. On a quarterly basis, the Company evaluates the collectability of both interest and principal of each loan, if circumstances warrant, to determine whether such loan is impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the existing contractual terms. When a loan is impaired, the Company does not record an allowance for loan loss as the Company has elected the fair value option. However, income recognition is suspended for loans at the earlier of the date at which payments become 90-days past due or when, in the opinion of management, a full recovery of income and principal becomes doubtful. When the ultimate collectability of the principal of an impaired loan is in doubt, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the principal of an impaired loan is not in doubt, contractual interest is recorded as interest income when received, under the cash basis method until an accrual is resumed.

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Interest income accrual is resumed when the loan becomes contractually current and performance is demonstrated. A loan is written off when it is no longer realizable and/or legally discharged.

Interest Income Recognition

Agency MBS, Non-Agency MBS and other securities, excluding Interest-Only Strips, rated AA and higher at the time of purchase

Interest income on mortgage-backed and other securities is accrued based on the respective outstanding principal balances and corresponding contractual terms. The Company records interest income in accordance with ASC subtopic 835-30 "Imputation of Interest", using the effective interest method. As such premiums and discounts associated with Agency MBS, Non-Agency MBS and other securities, excluding Interest-Only Strips, are amortized into interest income over the estimated life of such securities. Adjustments to premium and discount amortization are made for actual prepayment activity. The Company estimates prepayments at least quarterly for its securities and, as a result, if the projected prepayment speed increases, the Company will accelerate the rate of amortization on premiums or discounts and make a retrospective adjustment to historical amortization. Alternatively, if projected prepayment speeds decrease, the Company will reduce the rate of amortization on the premiums or discounts and make a retrospective adjustment to historical amortization.

Non-Agency MBS and other securities that are rated below AA at the time of purchase and Interest-Only Strips that are not classified as derivatives

Interest income on Non-Agency MBS and other securities that are rated below AA at the time of purchase and Interest-Only Strips that are not classified as derivatives are also recognized in accordance with ASC 835, using the effective yield method. The effective yield on these securities is based on the projected cash flows from each security, which is estimated based on the Company’s observation of the then current information and events, where applicable, and will include assumptions related to interest rates, prepayment rates and the timing and amount of credit losses. On at least a quarterly basis, the Company reviews and, if appropriate, makes adjustments to its cash flow projections based on input and analysis received from external sources, internal models, and its judgment about interest rates, prepayment rates, the timing and amount of credit losses, and other factors. Changes in cash flows from those originally projected, or from those estimated at the last evaluation, may result in a prospective change in the yield/interest income recognized on such securities. Actual maturities of the securities are affected by the contractual lives of the underlying collateral, periodic payments of scheduled principal, and prepayments of principal. Therefore, actual maturities of the securities will generally be shorter than stated contractual maturities.

Based on the projected cash flow of such securities purchased at a discount to par value, the Company may designate a portion of such purchase discount as credit protection against future credit losses and, therefore, not accrete such amount into interest income. The amount designated as credit discount 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 discount is more favorable than forecasted, a portion of the amount designated as credit discount may be accreted into interest income prospectively.

Loan Portfolio

Interest income on the Company's residential loan portfolio and commercial loan portfolio is recorded using the effective interest method based on the contractual payment terms of the loan. Any premium amortization or discount accretion will be reflected as a component of "Interest income" in the Consolidated Statements of Operations.

Purchases and Sales of Investments

The Company accounts for a contract for the purchase or sale of securities, or other securities that do not yet exist on a trade date basis, which it intends to take possession and thus recognizes the acquisition or disposition of the securities at the inception of the contract.

Sales of investments are driven by the Company's portfolio management process. The Company seeks to mitigate risks including those associated with prepayments and will opportunistically rotate the portfolio into securities and/or other investments the Company's Manager believes have more favorable attributes. Strategies may also be employed to manage net capital gains, which need to be distributed for tax purposes. Realized gains or losses on sales of investments, including Agency Interest-Only Strips not characterized as derivatives, are a component of "Realized gain (loss) on sale of investments, net" in the Consolidated Statements of Operations, and are recorded at the time of disposition. Realized gains or losses on Interest-Only Strips which are

characterized as derivatives are a component of "Gain (loss) on derivative instruments, net" in the Consolidated Statements of Operations.

Foreign Currency Transactions

The Company has and expects to continue to enter into transactions denominated in foreign currency from time to time. At the date the transaction is recognized, the asset and/or liability will be measured and recorded using the exchange rate in effect at the date of the transaction. At each balance sheet date, such foreign currency assets and liabilities are re-measured using the exchange rate in effect at the date of the balance sheet, resulting in unrealized foreign currency gains or losses, which are recorded in "Other, net" in the Consolidated Statements of Operations.

Due From Counterparties / Due To Counterparties

"Due from counterparties" represents cash posted by the Company with its counterparties as collateral for the Company's interest rate and/or currency derivative financial instruments, repurchase agreements, and TBAs. "Due to counterparties" represents cash posted with the Company by its counterparties as collateral under the Company's interest rate and/or currency derivative financial instruments, repurchase agreements, and TBAs. Included in "Due from counterparties" and/or "Due to counterparties" are daily variation margin settlement amounts with counterparties which are based on the price movement of the Company's futures contracts. However, commencing in 2017, daily variation margin on only the Company's centrally cleared derivatives were treated as a settlement and classified as either "Derivative assets, at fair value" or "Derivative liability, at fair value" in the Consolidated Balance Sheets. In addition, as provided below, "Due to counterparties" may include non-cash collateral in which the Company has the obligation to return and which the Company has either sold or pledged. To the extent the Company receives collateral other than cash from its counterparties such assets are not included in the Company's Consolidated Balance Sheets. Notwithstanding the foregoing, if the Company either rehypothecates such assets or pledges the assets as collateral pursuant to a repurchase agreement, the cash received and the corresponding liability are reflected in the Consolidated Balance Sheets.

Derivatives and Hedging Activities

Subject to maintaining its qualification as a REIT for U.S. federal income tax purposes, the Company as part of its hedging strategy, may enter into, interest rate swaps, including forward starting swaps, interest rate swaptions, U.S. Treasury options, Eurodollar, Volatility Index and U.S, Treasury futures, TBAs, total return swaps, credit default swaps and foreign currency swaps and forwards to hedge the interest rate and currency risk associated with its portfolio and related borrowings. Derivatives, subject to REIT requirements, are used for hedging purposes rather than speculation. The Company has also entered into a total return swap, which transfers the total return of the referenced security to the Company. The Company determines the fair value of its derivative positions and obtains quotations from third parties, including the Chicago Mercantile Exchange or CME, to facilitate the process of determining such fair values. The Company does not necessarily seek to hedge all such risks. In addition, if the Company's hedging activities do not achieve the desired results, reported earnings may be adversely affected.

GAAP requires an entity to recognize all derivatives as either assets or liabilities on the balance sheet and to measure those instruments at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative. The fair value adjustment will affect either other comprehensive income in stockholders' equity until the hedged item is recognized in earnings or net income depending on whether the derivative instrument is designated and qualifies as a for hedge for accounting purposes and if so, the nature of the hedging activity. The Company elected not to apply hedge accounting for its derivative instruments. Accordingly, the Company records the change in fair value of its derivative instruments, which includes net interest rate swap payments/receipts (including accrued amounts) and net currency payments/receipts (including accrued amounts) related to interest rate swaps and currency

swaps, respectively, in "Gain (loss) on derivative instruments, net" in its Consolidated Statements of Operations.

In January 2017, the CME amended its rulebooks to legally characterize variation margin payments and receipts for over-the-counter derivatives they clear as settlements of the derivatives' exposure rather than collateral against exposure. As a result of the change in legal characterization, effective January 1, 2017, variation margin is no longer classified as collateral in the Consolidated Balance Sheets in either "Due from counterparties" or "Due to counterparties", but rather a component of the respective "Derivative asset, at fair value" or "Derivative liability, at fair value" in the Consolidated Balance Sheets. The variation margin is now considered partial settlements of the derivative contract and will result in realized gains or losses which prior to January 1, 2017 were classified as unrealized gains or losses on derivatives. Prior to the CME rulebook change variation margin was included in financing activities in the Company's Consolidated Statement of Cash Flows in either "Due from counterparties, net" or "Due to counterparties, net". Commencing in January 2017, cash postings for variation margin are included in operating activities in the Consolidated Statements of Cash Flows.

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In the Company’s Consolidated Statements of Cash Flows, premiums received or paid on termination of its interest rate swaps are included in cash flows from operating activities. Notwithstanding the foregoing, proceeds and payments on settlement of swaptions, mortgage put options, futures contracts and TBAs are included in cash flows from investing activities. Proceeds and payments on settlement of forward contracts are reflected in cash flows from financing activities in the Company’s Consolidated Statements of Cash Flows. For Agency and Non-Agency Interest-Only Strips accounted for as derivatives, the purchase, sale and recovery of basis activity is included with MBS and other securities under cash flows from investing activities in the Company’s Consolidated Statements of Cash Flows.

The Company evaluates the terms and conditions of its holdings of Agency and Non-Agency Interest-Only Strips, interest rate swaptions, currency forwards, futures contracts and TBAs to determine if these instruments have the characteristics of an investment or should be considered a derivative under GAAP. In determining the classification of its holdings of Interest-Only Strips, the Company evaluates the securities to determine if the nature of the cash flows have been altered from that of the underlying mortgage collateral. Interest-Only Strips, for which the underlying mortgage collateral has been included into a structured security that alters the cash flows from the underlying mortgage collateral, are accounted for as derivatives. The carrying value of the Agency and Non-Agency Interest-Only Strips, accounted for as derivatives, is included in "Mortgage-backed securities and other securities, at fair value" in the Consolidated Balance Sheets. The carrying value of interest rate swaptions, currency forwards, futures contracts and TBAs is included in "Derivative assets, at fair value" or "Derivative liability, at fair value" in the Consolidated Balance Sheets. Interest earned or paid along with the change in fair value of these instruments accounted for as derivatives is recorded in "Gain (loss) on derivative instruments, net" in its Consolidated Statements of Operations.

The Company evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. An embedded derivative is separated from the host contact and accounted for separately when all of the guidance criteria are met. Hybrid instruments that are remeasured at fair value through earnings, including the fair value option are not bifurcated. Derivative instruments, including derivative instruments accounted for as liabilities, are recorded at fair value and are re-valued at each reporting date, with changes in the fair value together with interest earned or paid (including accrued amounts) reported in "Gain (loss) on derivative instruments, net" in the Consolidated Statements of Operations.

Repurchase Agreements and Reverse Repurchase Agreements

Investments sold under repurchase agreements are treated as collateralized financing transactions, unless they meet all the criteria for sales treatment. Securities financed through a repurchase agreement remain in the Company's Consolidated Balance Sheets as assets and cash received from the lender is recorded in the Company's Consolidated Balance Sheets as a liability. Interest payable in accordance with repurchase agreements is recorded as "Accrued interest payable" in the Consolidated Balance Sheets. Interest paid (including accrued amounts) in accordance with repurchase agreements is recorded as interest expense.

The Company may borrow securities under reverse repurchase agreements to deliver a security owned and sold by the Company but pledged to a different counterparty under a separate repurchase agreement when in the Manager’s view terminating the outstanding repurchase agreement is not in the Company’s best interest. Cash paid to the borrower is recorded in the Company’s Consolidated Balance Sheets as an asset. Interest receivable in accordance with reverse repurchase agreements is recorded as accrued interest receivable in the Consolidated Balance Sheets. The Company reflects all proceeds on reverse repurchase agreement and repayment of reverse repurchase agreement, on a net basis in the Consolidated Statements of Cash Flows. Upon sale of a pledged security, the Company recognizes an obligation to return the borrowed security in the Consolidated Balance Sheet in "Due to counterparties". The

Company establishes haircuts to ensure the market value of the underlying asset remains sufficient to protect the Company in the event of default by the counterparty. Realized gains and losses associated with the sale of the security are recognized in "Realized gain (loss) on sale of investments, net" in the Consolidated Statements of Cash Flows.

Convertible Senior Unsecured Notes

Convertible senior unsecured notes include unsecured convertible debt that is carried at its unpaid principal balance, net of any unamortized deferred issuance costs, in the Company’s Consolidated Balance Sheets. Interest on the notes is payable semiannually until such time the notes mature or are converted into shares of the Company’s common stock. ASC 470-20 "Debt-Debt with Conversion and Other Options" requires that convertible debt instruments with cash settlement features, including partial cash settlement, account for the liability component and equity component (conversion feature) of the instrument separately. The initial value of the liability component will reflect the present value of the discounted cash flows using the nonconvertible debt borrowing rate at the time of issuance. The debt discount represents the difference between the proceeds received from the issuance and the initial carrying value of the liability component, which is accreted back to the notes principal amount through interest expense over the life of the notes.

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Securitized Debt

Securitized debt was issued by consolidating securitization trusts. The Company has chosen to make the fair value election pursuant to ASC 825 for the debt. The debt is recorded at fair value in the Consolidated Balance Sheets with the periodic change in fair value recorded in current period earnings in the Consolidated Statements of Operations as a component of "Unrealized gain (loss), net".

Share-based Compensation

The Company accounts for share-based compensation to its independent directors, its Manager and to employees of its Manager and its affiliates using the fair value based methodology prescribed by GAAP. Compensation cost related to restricted common stock issued to the Company's independent directors and any employee of the Company including any such restricted stock which is subject to a deferred compensation program is measured at its fair value at the grant date, and amortized into expense over the service period on a straight-line basis. Compensation cost related to restricted common stock issued to the Manager and to employees of the Manager, including officers and certain directors, of the Company who are employees of the Manager and its affiliates is initially measured at fair value at the grant date, and amortized into expense over the vesting period on a straight-line basis and re-measured on subsequent dates to the extent the awards are unvested.

Warrants

For the Company's warrants, the Company uses a variation of the adjusted Black-Scholes option valuation model to record the financial instruments at their relative fair values at issuance. The warrants issued with the Company's common stock in the private placement to certain accredited institutional investors on May 15, 2012, were evaluated by the Company and were recorded at their relative fair value as a component of equity at the date of issuance.

Income Taxes

The Company operates and has elected to be taxed as a REIT commencing with its taxable year ended December 31, 2012. Accordingly, the Company will generally not be subject to corporate U.S. federal or state income tax to the extent that the Company makes qualifying distributions to stockholders, and provided that the Company satisfies, on a continuing basis, through actual investment and operating results, the REIT requirements including certain asset, income, distribution and stock ownership tests. If the Company fails to qualify as a REIT, and does not qualify for certain statutory relief provisions, the Company will be subject to U.S. federal, state and local income taxes and may be precluded from qualifying as a REIT for the subsequent four taxable years following the year in which the Company lost its REIT qualification. Accordingly, the failure to qualify as a REIT could have a material adverse impact in the Company's results of operations and amounts available for distribution to stockholders.

As a REIT, if the Company fails to distribute in any calendar year (subject to specific timing rules for certain dividends paid in January) at least the sum of (i) 85% of its ordinary income for such year, (ii) 95% of its capital gain net income for such year, and (iii) any undistributed taxable income from the prior year, the Company would be subject to a non-deductible 4% excise tax on the excess of such required distribution over the sum of (i) the amounts actually distributed and (ii) the amounts of income retained and on which the Company has paid corporate income tax.

The dividends paid deduction for qualifying dividends paid to stockholders is computed using the Company's taxable income as opposed to net income reported in the Consolidated Statements of Operations. Taxable income, generally, will differ from net income reported in the Consolidated Statements of Operations because the determination of taxable income is based on tax regulations and not GAAP.

The Company may create and elect to treat certain subsidiaries as Taxable REIT Subsidiaries ("TRS"). In general, a TRS may hold assets and engage in activities that the Company cannot hold or engage in directly and generally may engage in any real estate or non-real estate-related business. A domestic TRS is subject to U.S. federal, state and local corporate income taxes, and its value may not exceed 20% of the value of the Company. If the TRS generates net income it may declare dividends to the Company, which will be included in the Company’s taxable income and necessitate a distribution to its stockholders. Conversely, if the Company retains earnings at the TRS level, no distribution is required and it can increase book equity of the consolidated entity. As of March 31, 2018, the Company has a single wholly-owned subsidiary which it has elected to treat as a domestic TRS.

Current and deferred taxes are recorded on earnings (losses) recognized by the Company's TRS. Deferred income tax assets and liabilities are calculated based upon temporary differences between the Company's U.S. GAAP consolidated financial

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statements and the federal and state basis of assets and liabilities as of the Consolidated Balance Sheet date. The Company evaluates the realizability of its deferred tax assets and recognizes a valuation allowance if, based on available evidence, it is more likely than not that some or all of its deferred tax assets will not be realized. In evaluating the realizability of the deferred tax asset, the Company will consider the expected future taxable income, existing and projected book to tax differences as well as tax planning strategies. This analysis is inherently subjective, as it is based on forecasted earning and business and economic activity. Changes in estimates of deferred tax asset realizability, if any, are included in "Income tax provision (benefit)" in the Consolidated Statements of Operations.

Comprehensive Income (Loss)

The Company has none of the components of comprehensive income (loss) and therefore comprehensive income (loss) is not presented.

Recently adopted accounting pronouncements

Description	Adoption Date	Effect on Financial Statements
In May 2014, the FASB issued ASU 2014-9, “Revenue from Contracts with Customers (Topic 606).” The guidance changes an entity’s recognition of revenue from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new guidance requires improved disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In March 2016, the FASB issued implementation guidance which clarifies principal versus agent considerations in reporting revenue gross versus net (ASU 2016-8). In April 2016, the FASB issued implementation guidance which clarifies the identification of performance obligations (ASU 2016-10). In May 2016, the FASB issued amendments that affect only the narrow aspects of Topic 606 (ASU2016-12).	First quarter 2018.	The Company's revenue is mainly derived from interest income on our investments and to a lesser extent gains on sales of investments, which are not impacted by this standard. Therefore, the adoption of this standard did not have a material impact on the Company's consolidated financial statements.
In January 2016, the FASB issued ASU 2016-1, “Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.” The guidance improves certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. In February 2018, the FASB issued a separate Update for technical corrections and improvements related to the ASU 2016-01 to increase stakeholders' awareness of the amendments and to expedite the improvements (ASU 2018-3).	First quarter 2018.	The standard does not change the guidance for classifying and measuring investments in debt securities and loans as well nonrecourse liabilities of consolidated collateralized financing entities. Therefore, the adoption of this standard did not have a material impact on the Company's consolidated

		financial statements.
In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments (Topic 230)." The guidance is intended to reduce diversity in practice in how certain transactions are classified on the statement of cash flows.	First quarter 2018 and requires retrospective adoption.	The adoption of this standard did not have a material impact on its Consolidated Statements of Cash Flows.
In November 2016, the FASB issued ASU 2016-18 "Statement of Cash Flows (Topic 230): Restricted Cash, a consensus of the FASB's Emerging Issues Task Force." The guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents as well as disclose information about the nature of the restrictions on its cash and cash equivalents.	First quarter 2018 and requires retrospective adoption.	The adoption of this standard did not have a material impact on its Consolidated Statements of Cash Flows.
In January 2017, the FASB issued ASU 2017-01 "Business Combinations (Topic 805): Clarifying the Definition of a Business." This ASU provides a more robust framework to use in determining when a set of assets and activities constitutes a business.	First quarter 2018. The guidance should be applied prospectively on or after the effective date.	The adoption of this standard did not have a material impact on its Consolidated Statements of Cash Flows.
In May 2017, the FASB issued ASU 2017-09 "Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting." The amendments in this update provide guidance about which changes to the terms or conditions of a shared-based payment award require an entity to apply modification accounting in Topic 718.	First quarter 2018.	There are no changes to the terms and conditions of the Company's share-based compensation. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

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Recently issued accounting pronouncements

Description	Effective Date	Effect on Financial Statements
In June 2016, the FASB issued ASU 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” This standard significantly changes how an entity will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through the income statement. The standard will replace the current "incurred loss" approach with an "expected loss" model for instruments measured at amortized cost. For available for sale debt securities, entities will be required to record an allowance rather than reduce the carrying amount, as is currently done under the other than temporary impairment model. It also simplifies the accounting model for purchased credit impaired debt securities and loans.	First quarter 2020.	The Company is currently evaluating the impact the standard may have on its consolidated financial statements when adopted.
In July 2017, the FASB issued ASU 2017-11 "Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivative and Hedges (Topic 815): Part I - Accounting for Certain Financial Instruments with Down Round Features and Part II - Replacement of the Indefinite Deferral for Mandatory Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatory Redeemable Noncontrolling Interest with a Scope Exception". Part I of this update changes the classification analysis of certain financial instruments (such as warrants and convertible instruments) with down round features. Down round features are features of certain equity-linked financial instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity’s own stock. Entities that present earnings per share are required to recognize the effect of the down round feature when it is triggered. The amendments in Part II of this update recharacterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Codification, to a scope exception. Those amendments do not have an accounting effect.	First quarter 2019.	The Company is evaluating the impact this standard may have on its consolidated financial statements.

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Note 3 — Fair Value of Financial Instruments

The following tables present the Company's financial instruments carried at fair value as of March 31, 2018 and December 31, 2017, based upon the valuation hierarchy (dollars in thousands):

	March 31, 2018			
	Fair Value			
	Level I	Level II	Level III	Total
Assets				
Agency RMBS:				
20-Year mortgage	$—	$50,596	$—	$50,596
30-Year mortgage	—	227,570	—	227,570
40-Year mortgage	—	355,972	—	355,972
Agency RMBS Interest-Only Strips	—	—	15,019	15,019
Agency RMBS Interest-Only Strips accounted for as derivatives, included in MBS	—	—	9,938	9,938
Agency CMBS	—	2,158,848	19,845	2,178,693
Agency CMBS Interest-Only Strips	—	2	—	2
Agency CMBS Interest-Only Strips accounted for as derivatives, included in MBS	—	5,113	—	5,113
Subtotal Agency MBS	—	2,798,101	44,802	2,842,903
Non-Agency RMBS	—	132,783	13	132,796
Non-Agency RMBS Interest-Only Strips	—	—	16,987	16,987
Non-Agency CMBS	—	331,712	—	331,712
Subtotal Non-Agency MBS	—	464,495	17,000	481,495
Other securities	—	122,490	9,113	131,603
Total mortgage-backed securities and other securities	—	3,385,086	70,915	3,456,001
Residential Whole-Loans	—	—	296,719	296,719
Residential Bridge Loan	—	—	129,469	129,469
Securitized commercial loans	—	—	1,383,044	1,383,044
Commercial Loans	—	—	40,455	40,455
Derivative assets	1,618	735	—	2,353
Total Assets	$1,618	$3,385,821	$1,920,602	$5,308,041
Liabilities				
Derivative liabilities	$475	$3,214	$—	$3,689
Securitized debt	—	1,301,038	12	1,301,050
Total Liabilities	$475	$1,304,252	$12	$1,304,739

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	December 31, 2017			
	Fair Value			
	Level	Level II	Level III	Total
Assets				
Agency RMBS:				
20-Year mortgage	$—	$53,783	$—	$53,783
30-Year mortgage	—	241,642	—	241,642
40-Year mortgage	—	376,752	—	376,752
Agency RMBS Interest-Only Strips	—	15,437	—	15,437
Agency RMBS Interest-Only Strips accounted for as derivatives, included in MBS	—	10,419	—	10,419
Agency CMBS	—	2,137,583	17,217	2,154,800
Agency CMBS Interest-Only Strips	—	10	—	10
Agency CMBS Interest-Only Strips accounted for as derivatives, included in MBS	—	5,757	—	5,757
Subtotal Agency MBS	—	2,841,383	17,217	2,858,600
Non-Agency RMBS	—	90,819	13	90,832
Non-Agency RMBS Interest-Only Strips	—	—	8,722	8,722
Non-Agency CMBS	—	278,604	—	278,604
Subtotal Non-Agency MBS	—	369,423	8,735	378,158
Other securities	—	112,826	9,239	122,065
Total mortgage-backed securities and other securities	—	3,323,632	35,191	3,358,823
Residential Whole-Loans	—	—	237,423	237,423
Residential Bridge Loans	—	—	64,526	64,526
Securitized commercial loan	—	—	24,876	24,876
Derivative assets	728	—	—	728
Total Assets	$728	$3,323,632	$362,016	$3,686,376
Liabilities				
Derivative liabilities	$50	$4,296	$—	$4,346
Securitized debt	—	—	10,945	10,945
Total Liabilities	$50	$4,296	$10,945	$15,291

When available, the Company uses quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, the Company will use independent pricing services and if the independent pricing service cannot price a particular asset or liability, the Company will obtain third party broker quotes. The Manager's pricing group, which functions independently from its portfolio management personnel, reviews the third party broker quotes by comparing the broker quotes for reasonableness to alternate sources when available. If independent pricing service, or third party broker quotes are not available, the Company determines the fair value of the securities using valuation techniques that use, when possible, current market-based or independently-sourced market parameters, such as interest rates and when applicable, estimates of prepayments and credit losses.

In instances when the Company is required to consolidate a VIE that is determined to be a qualifying collateralized financing entity ("CFE"), under GAAP, the Company will measure both the financial assets and financial liabilities of the VIE using the fair value of either the VIE's financial assets or financial liabilities, whichever is more observable.

Mortgage-backed securities and other securities

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In determining the proper fair value hierarchy or level, the Company considers the amount of available observable market data for each security. Agency RMBS given the amount of available observable market data are classified in Level II. For Non-Agency RMBS, CMBS and other securities, to determine whether a security should be a Level II, the securities are grouped by security type and the Manager reviews the internal trade history, for the quarter, for each security type. If there is sufficient trade data above a predetermined threshold of a security type, the Manager determines it has sufficient observable market data and the security will be categorized as a Level II.

Values for the Company’s securities are based upon prices obtained from independent third party pricing services. The valuation methodology of the third party pricing services incorporates a commonly used market pricing method. Depending on the type of asset and the underlying collateral, the primary inputs to the model include yields for TBAs, Agency RMBS, the U.S. Treasury market and floating rate indices such as LIBOR, the Constant Maturity Treasury rate and the prime rate as a benchmark yield. In addition, the model may incorporate the current weighted average maturity and additional pool level information such as prepayment speeds, default frequencies and default severities, if applicable. When the third party pricing service cannot adequately price a particular security, the Company utilizes a broker’s quote which is reviewed for reasonableness by the Manager’s pricing group.

Residential Whole-Loans and Residential Bridge Loans

Values for the Company's Residential Whole-Loans and Bridge Loans are based upon prices obtained from an independent third party pricing service that specializes in loan valuation, utilizing a valuation model that is calibrated to recent loan trade execution. Their valuation methodology incorporates commonly used market pricing methods, including loan to value ("LTV"), debt to income, maturity, interest rates, collateral location, and unpaid principal balance, prepayment penalties, FICO scores, lien position and times late. Due to the inherent uncertainty of such valuation, the fair values established for residential loans held by the Company may differ from the fair values that would have been established if a readily available market existed for these loans. Accordingly, the Company's loans are classified as Level III.

Commercial Loans

Values for the Company's Commercial Loans are based upon either prices obtained from an independent third party pricing service that specializes in loan valuation, utilizing a valuation model that is calibrated to recent loan trade execution or a broker quote. The third party pricing service uses a valuation methodology incorporates commonly used market pricing methods, including loan to value ("LTV"), debt to income, maturity, interest rates, collateral location, and unpaid principal balance, prepayment penalties, lien position and times late. Due to the inherent uncertainty of such valuation, the fair values established for commercial loans held by the Company may differ from the fair values that would have been established if a readily available market existed for these loans. Accordingly, the Company's commercial loans are classified as a Level III.

Securitized commercial loans

Values for the Company’s securitized commercial loans are based on the CFE valuation methodology. Since there is an extremely limited market for the securitized commercial loans, the Company determined the the securitized debt is more actively traded and therefore was more observable. Due to the inherent uncertainty of such valuation the Company classifies its securitized commercial loan and securitized debt as Level III.

Securitized debt

In determining the proper fair value hierarchy or level, the Company considers the amount of available observable market data for each security. Since the securitized debt represents traded debt securities, the Manager's pricing team

reviews the trade activity during the quarter for each security to determine the appropriate level within the fair value hierarchy. If there is sufficient trade data above a predetermined threshold, the Manager determines it has sufficient observable market data and the debt security will be categorized as a Level II. If there is not sufficient observable market data the debt security will be categorized as a Level III.

Derivatives

Values for the Company's derivatives are based upon prices from third party pricing services, whose pricing is subject to review by the Manager’s pricing committee. In valuing its over-the-counter interest rate derivatives, such as swaps and swaptions, its currency derivatives, such as swaps and forwards and credit derivatives such as total return swaps, the Company considers the creditworthiness of both the Company and its counterparties, along with collateral provisions contained in each derivative

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agreement, from the perspective of both the Company and its counterparties. No credit valuation adjustment was made in determining the fair value of interest rate and/or currency derivatives for the periods ended March 31, 2018 and December 31, 2017.

The Company performs quarterly reviews of the independent third party pricing data. These reviews may consist of a review of the daily change in the prices provided by the independent pricing vendor which exceed established tolerances or comparisons to executed transaction prices, utilizing the Manager’s pricing group. The Manager’s pricing group, which functions independently from its portfolio management personnel, reviews the price differences or changes in price by comparing the vendor price to alternate sources including other independent pricing services or broker quotations. If the price change or difference cannot be corroborated, the Manager’s pricing group consults with the portfolio management team for market color in reviewing such pricing data as warranted. To the extent that the Manager has information, typically in the form of broker quotations that would indicate that a price received from the independent pricing service is outside of a tolerance range, the Manager generally challenges the independent pricing service price.

The following tables present additional information about the Company's financial instruments which are measured at fair value on a recurring basis for which the Company has utilized Level III inputs to determine fair value:

	Three months ended March 31, 2018								
$ in thousands	Agency MBS	Non-Agency MBS	Other Securities	Residential Whole-Loans	Residential Bridge Loans	Commercial Loans	Securitized commercial loans	Securitized debt	Derivative liability
Beginning balance	$17,217	$8,735	$9,239	$237,423	$64,526	$—	$24,876	$10,945	$—
Transfers into Level III from Level II	22,794	—	—	—	—	—	—	—	—
Transfers from Level III into Level II	(16,805)	—	—	—	—	—	—	(10,899)	—
Purchases	21,767	8,602	—	68,997	83,755	40,406	1,353,019	—	—
Sales and settlements	—	—	—	—	—	—	—	12	—
Principal repayments	(53)	—	(141)	(8,757)	(18,717)		(100)	(44)	—
Total net gains / losses included in net income									
Realized gains/(losses), net on assets	—	—	—	—	—	—	—	—	—
Realized (gains)/losses, net on liabilities	—	—	—	—	—	—	—	—	—
Other than temporary impairment	—	(29)	—	—	—	—	—	—	—
Unrealized gains/(losses), net on assets[1]	(101)	(2)	(29)	(798)	(56)	41	5,249	—	—
Unrealized (gains)/losses, net on liabilities[2]	—	—	—	—	—	—	—	(2)	—
Premium and discount amortization, net	(17)	(306)	44	(146)	(39)	8	—	—	—
Ending balance	$44,802	$17,000	$9,113	$296,719	$129,469	$40,455	$1,383,044	$12	$—

	Three months ended March 31, 2017								
$ in thousands	Agency MBS	Non-Agency MBS	Other Securities	Residential Whole-Loans	Residential Bridge Loans	Commercial Loans	Securitized commercial loan	Securitized debt	Derivative liability
	$73,059	$75,576	$31,356	$192,136	$—	$—	$24,225	$10,659	$1,673

Beginning balance									
Transfers into Level III from Level II	—	15,610	—	—	—	—	—	—	—
Transfers from Level III into Level II	(73,715)	(7,434)	(9,227)	—	—	—	—	—	—
Purchases	50,012	—	—	35,671	—	—	—	—	—
Sales and settlements	—	(60,132)	—	—	—	—	—	—	514
Principal repayments	—	(377)	(172)	(12,137)	—	—	—	—	—
Total net gains / losses included in net income			0						
Realized gains/(losses), net on assets	—	2,623	—	—	—	—	—	—	—
Realized (gains)/losses, net on liabilities	—	—	—	—	—	—	—	—	(514)
Other than temporary impairment	—	—	(1,264)	—	—	—	—	—	—
Unrealized gains/(losses), net on assets(1)	896	(9,399)	(147)	378	—	—	275	—	—
Unrealized (gains)/losses, net on liabilities(2)	—	—	—	—	—	—	—	121	(1,214)
Premium and discount amortization, net	21	(845)	886	(248)	—	—	—	—	—
Ending balance	$50,273	$15,622	$21,432	$215,800	$—	$—	$24,500	$10,780	$459

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(1) For Agency MBS, Non-Agency MBS, Other securities, Residential Whole-Loans, Residential Bridge Loans, Commercial Loans and Securitized commercial loan classified as Level III at March 31, 2018, the Company recorded gross unrealized gains of approximately $257 thousand, $5 thousand, $0, $343 thousand, $692 thousand. $41 thousand and $5.3 million, respectively, and gross unrealized losses of $0, $7 thousand, $29 thousand, $995 thousand, $615 thousand, $0 and $5 thousand, respectively, for the three months ended March 31, 2018. For Agency MBS, Non-Agency MBS, Other securities, Residential Whole-Loans, Residential Bridge Loans and Securitized commercial loan classified as Level III at March 31, 2017, the Company recorded gross unrealized gains of approximately $261 thousand, $0, $0, $699 thousand, $0 and $275 thousand, respectively, and gross unrealized losses of approximately $0, $0, $219 thousand, $172 thousand, $0 and $0, respectively, for the three months ended March 31, 2017. These gains and losses are included in "Unrealized gain (loss), net" in the Consolidated Statements of Operations.

(2) For securitized debt classified as Level III at March 31, 2018, the Company recorded gross unrealized gains of $0 and gross unrealized losses of $0 for the three months ended March 31, 2018. For securitized debt and derivative liability classified as Level III at March 31, 2017, the Company recorded gross unrealized gains of $0 and $1.2 million, respectively, and gross unrealized losses of $121 thousand and $0, respectively, for the three months ended March 31, 2017. These gains and losses are included in "Unrealized gain (loss), net" and "Gain (loss) on derivative instruments, net" in the Consolidated Statements of Operations, respectively.

Transfers between hierarchy levels during operations for the three months ended March 31, 2018 and March 31, 2017 were based on the availability of sufficient observable inputs to meet Level II versus Level III criteria. The leveling of these assets was based on information received from a third party pricing service which, along with the back-testing of historical sales transactions performed by the Manager provided the sufficient observable data for the movement from Level III to Level II. The Company did not have transfers between Level I and Level II for the three months ended March 31, 2018 and March 31, 2017.

Other Fair Value Disclosures

Certain Residential Bridge Loans, repurchase agreement borrowings and convertible senior unsecured notes are not carried at fair value in the consolidated financial statements. The following table presents the carrying value and estimated fair value of the Company's financial instruments that are not carried at fair value as of March 31, 2018 and December 31, 2017 in the consolidated financial statements (dollars in thousands):

	March 31, 2018		December 31, 2017	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Assets				
Residential Bridge Loans	$30,177	$29,886	$42,147	$42,881
Total	$30,177	$29,886	$42,147	$42,881
Liabilities				
Borrowings under repurchase agreements	$3,556,920	$3,557,564	$3,251,686	$3,257,956
Convertible senior unsecured notes	109,072	115,695	108,743	114,819
Total	$3,665,992	$3,673,259	$3,360,429	$3,372,775

"Due from counterparties" and "Due to counterparties" in the Company's Consolidated Balance Sheets are reflected at cost which approximates fair value.

Residential Bridge Loans

The fair values of the Residential Bridge Loans are based upon prices obtained from an independent third party pricing service that specializes in loan valuation, utilizing a valuation model that is calibrated to recent loan trade execution.. Their valuation methodology incorporates commonly used market pricing methods, including loan to value ("LTV"), debt to income, maturity, interest rates, collateral location, and unpaid principal balance, prepayment penalties, FICO scores, lien position and times late. Due to the inherent uncertainty of such valuation, the fair values established for residential bridge loans held by the Company may differ from the fair values that would have been established if a readily available market existed for these loans. Accordingly, the Company's loans are classified as Level III.

Borrowings under repurchase agreements

The fair values of the borrowings under repurchase agreements are based on a net present value technique. This method discounts future estimated cash flows using rates the Company determined best estimates current market interest rates that would be offered for loans with similar characteristics and credit quality. The use of different market assumptions or estimation methodologies could have a material effect on the fair value amounts. This fair value measurement is based on observable inputs, and as such, are classified as Level II.

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Convertible senior unsecured notes

The fair value of the convertible senior unsecured notes is based on quoted market prices. Accordingly, the Company's convertible senior unsecured notes are classified as Level I.

Note 4 – Mortgage-Backed Securities and other securities

The following tables present certain information about the Company's investment portfolio at March 31, 2018 and December 31, 2017 (dollars in thousands):

	March 31, 2018								
	Principal Balance	Unamortized Premium (Discount), net	Discount Designated as Credit Reserve and OTTI	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value	Net Weighted Average Coupon	
Agency RMBS:									
20-Year mortgage	$48,590	$2,334	$—	$50,924	$3	$(331)	$50,596	4.0 %	
30-Year mortgage	215,368	15,647	—	231,015	52	(3,497)	227,570	4.4 %	
40-Year mortgage	355,378	10,518	—	365,896	—	(9,924)	355,972	3.5 %	
Agency RMBS Interest-Only Strips (2)	N/A	N/A	N/A	14,578	947	(506)	15,019	2.5 %	(1)
Agency RMBS Interest-Only Strips, accounted for as derivatives (1) (2)	N/A	N/A	N/A	N/A	N/A	N/A	9,938	2.9 %	(1)
Subtotal Agency RMBS	619,336	28,499	—	662,413	1,002	(14,258)	659,095	3.5 %	
Agency CMBS	2,221,642	3,826	—	2,225,468	469	(47,244)	2,178,693	2.9 %	
Agency CMBS Interest-Only Strips(1)	N/A	N/A	N/A	—	2	—	2	3.2 %	(1)
Agency CMBS Interest-Only Strips accounted for as derivatives(1) (2)	N/A	N/A	N/A	N/A	N/A	N/A	5,113	0.5 %	(1)
Subtotal Agency CMBS	2,221,642	3,826	—	2,225,468	471	(47,244)	2,183,808	2.8 %	
Total Agency MBS	2,840,978	32,325	—	2,887,881	1,473	(61,502)	2,842,903	3.0 %	
Non-Agency RMBS	166,023	2,403	(40,467)	127,959	4,849	(12)	132,796	4.0 %	
Non-Agency RMBS Interest- Only Strips (1)	N/A	N/A	N/A	17,006	3	(22)	16,987	0.5 %	(1)
Subtotal Non-Agency RMBS	166,023	2,403	(40,467)	144,965	4,852	(34)	149,783	1.0 %	
Non-Agency CMBS	428,702	(58,001)	(27,533)	343,168	2,342	(13,798)	331,712	5.1 %	
	594,725	(55,598)	(68,000)	488,133	7,194	(13,832)	481,495	2.2 %	

Total Non-Agency MBS								
Other securities [3]	103,906	4,224	(11,474)	118,275	13,358	(30)	131,603	7.9 %
Total	$3,539,609	$ (19,049)	$ (79,474)	$3,494,289	$ 22,025	$ (75,364)	$3,456,001	2.8 %

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	December 31, 2017							
	Principal Balance	Unamortized Premium (Discount), net	Discount Designated as Credit Reserve and OTTI	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value	Net Weighted Average Coupon
Agency RMBS:								
20-Year mortgage	$50,825	$2,378	$—	$53,203	$592	$(12)	$53,783	4.0 %
30-Year mortgage	224,041	15,710	—	239,751	2,317	(426)	241,642	4.4 %
40-Year mortgage	366,178	10,788	—	376,966	1,662	(1,876)	376,752	3.5 %
Agency RMBS Interest-Only Strips (1)	N/A	N/A	N/A	14,750	878	(191)	15,437	2.9 % (1)
Agency RMBS Interest-Only Strips, accounted for as derivatives (1) (2)	N/A	N/A	N/A	N/A	N/A	N/A	10,419	2.9 % (1)
Subtotal Agency RMBS	641,044	28,876	—	684,670	5,449	(2,505)	698,033	3.6 %
Agency CMBS	2,145,139	2,142	—	2,147,281	16,913	(9,394)	2,154,800	2.9 %
Agency CMBS Interest-Only Strips(1)	N/A	N/A	N/A	—	10	—	10	3.2 % (1)
Agency CMBS Interest-Only Strips accounted for as derivatives (1) (2)	N/A	N/A	N/A	N/A	N/A	N/A	5,757	0.5 % (1)
Subtotal Agency CMBS	2,145,139	2,142	—	2,147,281	16,923	(9,394)	2,160,567	2.7 %
Total Agency MBS	2,786,183	31,018	—	2,831,951	22,372	(11,899)	2,858,600	3.0 %
Non-Agency RMBS	119,748	5,263	(39,491)	85,520	5,473	(161)	90,832	3.8 %
Non-Agency RMBS Interest- Only Strips (1)	N/A	N/A	N/A	8,738	—	(16)	8,722	0.9 % (1)
Subtotal Non-Agency RMBS	119,748	5,263	(39,491)	94,258	5,473	(177)	99,554	1.8 %
Non-Agency CMBS	379,183	(59,129)	(28,020)	292,034	1,702	(15,132)	278,604	4.8 %
Total Non-Agency MBS	498,931	(53,866)	(67,511)	386,292	7,175	(15,309)	378,158	3.3 %
Other securities (3)	86,305	6,300	(5,404)	110,091	12,161	(187)	122,065	7.8 %
Total	$3,371,419	$(16,548)	$(72,915)	$3,328,334	$41,708	$(27,395)	$3,358,823	3.1 %

(1) Os and IIOs have no principal balances and bear interest based on a notional balance. The notional balance is used solely to determine interest distributions on interest-only class of securities. At March 31, 2018, the notional balance for Agency RMBS IOs and IIOs, Non-Agency RMBS IOs and IIOs, Agency RMBS IOs and IIOs, accounted for as derivatives, Agency CMBS IOs and IIOs, accounted for as derivatives and Agency CMBS IOs and IIOs was $186.9 million, $866.6 million, $113.8 million, $184.6 million and $1.8 million, respectively. At December 31, 2017, the

notional balance for Agency RMBS IOs and IIOs, Non-Agency RMBS IOs and IIOs, Agency RMBS IOs and IIOs, accounted for as derivatives, Agency CMBS IOs and IIOs, accounted for as derivatives and Agency CMBS IOs and IIOs was $165.5 million, $278.4 million, $122.0 million, $192.5 million and $3.3 million, respectively.
(2) Interest on these securities is reported as a component of "Gain (loss) on derivative instruments, net" in the Consolidated Statements of Operations.
(3) Other securities include residual interests in asset-backed securities which have no principal balance and an amortized cost of approximately $21.6 million and $22.9 million, as of March 31, 2018 and December 31, 2017, respectively.

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As of March 31, 2018 and December 31, 2017 the weighted average expected remaining term of the MBS and other securities investment portfolio was 8.4 years and 8.6 years, respectively.

The following table presents the changes in the components of the Company's purchase discount and amortizable premium on its Non-Agency RMBS, Non-Agency CMBS and other securities for the three months ended March 31, 2018 and March 31, 2017 (dollars in thousands):

	Three months ended March 31, 2018			Three months ended March 31, 2017		
	Discount Designated as Credit Reserve and OTTI	Accretable Discount[1]	Amortizable Premium[1]	Discount Designated as Credit Reserve and OTTI	Accretable Discount[1]	Amortizable Premium[1]
Balance at beginning of period	$(72,915)	$(68,438)	$20,872	$(130,484)	$(109,822)	$44,527
Accretion of discount	—	2,383	—	—	3,232	—
Amortization of premium	—	—	(141)	—	—	(642)
Realized credit losses	126	—	—	1,781	—	—
Purchases	(7,182)	(6,473)	435	(1,724)	(668)	1,522
Sales	2,574	787	(130)	87,741	29,620	(30,471)
Net impairment losses recognized in earnings	(2,746)	—	—	(4,372)	—	—
Transfers/release of credit reserve[2]	669	(1,127)	458	(459)	(935)	1,394
Balance at end of period	$(79,474)	$(72,868)	$21,494	$(47,517)	$(78,573)	$16,330

(1) Together with coupon interest, accretable purchase discount and amortizable premium is recognized as interest income over the life of the security.

(2) Subsequent reductions of a security's non-accretable discount results in a corresponding reduction in its amortizable premium.

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The following tables present the fair value and contractual maturities of the Company's investment securities at March 31, 2018 and December 31, 2017 (dollars in thousands):

	March 31, 2018				
	< or equal to 10 years	> 10 years and < or equal to 20 years	> 20 years and < or equal to 30 years	> 30 years	Total
Agency RMBS:					
20-Year mortgage	$—	$ 50,596	$ —	$—	$50,596
30-Year mortgage	—	2,340	225,230	—	227,570
40-Year mortgage	—	—	—	355,972	355,972
Agency RMBS Interest-Only Strips	3,607	3,943	7,469	—	15,019
Agency RMBS Interest-Only Strips, accounted for as derivatives	1,532	5,057	3,349	—	9,938
Agency CMBS	1,619,082	559,611	—	—	2,178,693
Agency CMBS Interest-Only Strips	2	—	—	—	2
Agency CMBS Interest-Only Strips accounted for as derivatives	—	—	—	5,113	5,113
Subtotal Agency	1,624,223	621,547	236,048	361,085	2,842,903
Non-Agency RMBS	13	50,877	—	81,906	132,796
Non-Agency RMBS Interest- Only Strips	—	—	—	16,987	16,987
Non-Agency CMBS	—	79,467	140,804	111,441	331,712
Subtotal Non-Agency	13	130,344	140,804	210,334	481,495
Other securities	—	99,426	—	32,177	131,603
Total	$1,624,236	$ 851,317	$ 376,852	$603,596	$3,456,001

	December 31, 2017				
	< or equal to 10 years	> 10 years and < or equal to 20 years	> 20 years and < or equal to 30 years	> 30 years	Total
Agency RMBS:					
20-Year mortgage	$—	$ 53,783	$ —	$—	$53,783
30-Year mortgage	—	2,445	239,197	—	241,642
40-Year mortgage	—	—	—	376,752	376,752
Agency RMBS Interest-Only Strips	3,920	4,591	6,926	—	15,437
Agency RMBS Interest-Only Strips, accounted for as derivatives	1,686	5,139	3,594	—	10,419
Agency CMBS	1,599,620	555,180	—	—	2,154,800
Agency CMBS Interest-Only Strips	10	—	—	—	10
Agency CMBS Interest-Only Strips accounted for as derivatives	—	—	—	5,757	5,757
Subtotal Agency	1,605,236	621,138	249,717	382,509	2,858,600
Non-Agency RMBS	13	51,092	4,184	35,543	90,832
Non-Agency RMBS Interest- Only Strips	—	—	—	8,722	8,722
Non-Agency CMBS	—	60,583	139,209	78,812	278,604
Subtotal Non-Agency	13	111,675	143,393	123,077	378,158
Other securities	—	99,062	—	23,003	122,065
Total	$1,605,249	$ 831,875	$ 393,110	$528,589	$3,358,823

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The following tables present the gross unrealized losses and estimated fair value of the Company's MBS and other securities by length of time that such securities have been in a continuous unrealized loss position at March 31, 2018 and December 31, 2017 (dollars in thousands):

	March 31, 2018								
	Less than 12 Months			12 Months or More			Total		
	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities
Agency RMBS:									
20-Year mortgage	$48,115	$(331)	25	$—	$—	—	$48,115	$(331)	25
30-Year mortgage	209,079	(3,330)	28	1,478	(167)	5	210,557	(3,497)	33
40-Year mortgage	355,972	(9,924)	2	—	—	—	355,972	(9,924)	2
Agency RMBS Interest-Only Strips	3,401	(379)	9	2,325	(127)	4	5,726	(506)	13
Agency CMBS	2,033,383	(47,244)	130	—	—	—	2,033,383	(47,244)	130
Subtotal Agency	2,649,950	(61,208)	194	3,803	(294)	9	2,653,753	(61,502)	203
Non-Agency RMBS	44,566	(12)	5	—	—	—	44,566	(12)	5
Non-Agency RMBS Interest-Only Strips	1,014	(22)	2	—	—	—	1,014	(22)	2
Non-Agency CMBS	137,078	(1,825)	16	114,758	(11,973)	32	251,836	(13,798)	48
Subtotal Non-Agency	182,658	(1,859)	23	114,758	(11,973)	32	297,416	(13,832)	55
Other securities	9,113	(30)	1	—	—	—	9,113	(30)	1
Total	$2,841,721	$(63,097)	218	$118,561	$(12,267)	41	$2,960,282	$(75,364)	259

	December 31, 2017								
	Less than 12 Months			12 Months or More			Total		
	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities
Agency RMBS:									
20-Year mortgage	$3,000	$(12)	3	$—	$—	—	$3,000	$(12)	3
30-Year mortgage	44,072	(291)	7	1,632	(135)	5	45,704	(426)	12
40-Year mortgage	283,187	(1,876)	1	—	—	—	283,187	(1,876)	1
Agency RMBS Interest-Only Strips	3,095	(142)	6	1,703	(49)	3	4,798	(191)	9
Agency CMBS	955,559	(9,394)	57	—	—	—	955,559	(9,394)	57
Subtotal Agency	1,288,913	(11,715)	74	3,335	(184)	8	1,292,248	(11,899)	82
Non-Agency RMBS	28,508	(161)	3	—	—	—	28,508	(161)	3
Non-Agency RMBS Interest-Only Strips	8,722	(16)	3	—	—	—	8,722	(16)	3
Non-Agency CMBS	69,661	(1,753)	15	119,729	(13,379)	35	189,390	(15,132)	50
Subtotal Non-Agency	106,891	(1,930)	21	119,729	(13,379)	35	226,620	(15,309)	56
Other securities	23,800	(187)	3	—	—	—	23,800	(187)	3
Total	$1,419,604	$(13,832)	98	$123,064	$(13,563)	43	$1,542,668	$(27,395)	141

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

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Generally, the Company's records OTTI when the credit quality of the underlying collateral deteriorates and or the scheduled payments are faster than previously projected. The credit deterioration could be as a result of, but not limited to, increased projected realized losses, foreclosures, delinquencies and the likelihood of the borrower being able to make payments in the future. Generally, a prepayment occurs when a loan has a higher interest rate relative to current interest rates and lenders are willing to extend credit at the lower current interest rate or the underlying collateral for the loan is sold or transferred. Refer to Note 2 "Summary of Significant Accounting Policies - Mortgage-Backed Securities and Other Securities."

The following table presents the OTTI the Company recorded on its securities portfolio (dollars in thousands):

	Three months ended March 31, 2018	Three months ended March 31, 2017
Agency RMBS	$ 142	$ 499
Non-Agency RMBS	91	—
Non-Agency CMBS	2,683	4,334
Other securities	—	1,264
Total	$ 2,916	$ 6,097

The following table presents components of interest income on the Company's MBS and other securities (dollars in thousands) for the three months ended March 31, 2018 and March 31, 2017, respectively:

	For the three months ended March 31, 2018			For the three months ended March 31, 2017		
	Coupon Interest	Net (Premium Amortization/Amortization Basis) Discount Amortization	Interest Income	Coupon Interest	Net (Premium Amortization/Amortization Basis) Discount Amortization	Interest Income
Agency RMBS	$7,124	$ (1,269)	$5,855	$11,322	$ (4,028)	$7,294
Agency CMBS	15,998	120	16,118	4,905	269	5,174
Non-Agency RMBS	1,420	132	1,552	3,353	(461)	2,892
Non-Agency CMBS	4,813	1,896	6,709	5,520	2,169	7,689
Other securities	3,756	(1,362)	2,394	1,407	821	2,228
Total	$33,111	$ (483)	$32,628	$26,507	$ (1,230)	$25,277

The following table presents the sales and realized gain (loss) of the Company's MBS and other securities (dollars in thousands) for the three months ended March 31, 2018 and March 31, 2017, respectively:

	For the three months ended March 31, 2018				For the three months ended March 31, 2017			
	Proceeds	Gross Gains	Gross Losses	Net Gain (Loss)	Proceeds	Gross Gains	Gross Losses	Net Gain (Loss)
Agency RMBS	$1,250	$ 18	$ —	$ 18	$550,351	$ 3,531	$ (3,640)	$(109)
Non-Agency RMBS[1]	4,200	894	—	894	243,811	24,389	(2,242)	22,147
Non-Agency CMBS	6,321	61	(398)	(337)	19,817	6	(732)	(726)
Other securities	—	—	—	—	22,946	—	(54)	(54)

Total	$11,771	$ 973	$ (398)	$ 575	$836,925	$ 27,926	$ (6,668)	$21,258

(1) For the three months ended March 31, 2017, excludes proceeds for Non-Agency RMBS Interest-Only Strips, accounted for as derivatives, of approximately $2.2 million, gross realized gains of $274 thousand and gross realized losses of $180 thousand.

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Unconsolidated CMBS VIEs

The Company’s economic interests held in unconsolidated CMBS VIEs are limited in nature to those of a passive holder of CMBS issued by securitization trusts; the Company was not involved in the design or creation of the securitization trusts which issued its investments in MBS. The Company evaluates the CMBS VIE's for consolidation in which it owns the most subordinate tranche or a portion of the controlling class. As of March 31, 2018 , the Company held four variable interest in CMBS VIE's and had three variable interests in CMBS VIE's as of December 31, 2017, in which it either owned the most subordinate class or a portion of the controlling class. The Company determined it was not the primary beneficiary and accordingly, the CMBS VIEs were not consolidated in the Company’s consolidated financial statements. As of March 31, 2018 and December 31, 2017, the Company’s maximum exposure to loss from these variable interests did not exceed the carrying value of these investments of $81.2 million and $62.1 million. These investments are classified in "Non-Agency mortgage-backed securities, at fair value" in the Company’s Consolidated Balance Sheets. Further, as of March 31, 2018 and December 31, 2017, the Company had not guaranteed any obligations of unconsolidated entities or entered into any commitment or intent to provide funding to any such entities.

Note 5 — Residential Whole-Loans and Bridge Loans

Residential Whole-Loan Trust

The consolidated financial statements include the consolidation of a residential whole-loan trust that met the definition of a VIE related to the acquisition of Residential Whole-Loans in which the Company has determined itself to be the primary beneficiary of such trust. The Company determined that it was the primary beneficiary of the Residential Whole-Loan trust because it was involved in certain aspects of the design of the trust, has certain oversight rights on defaulted assets and has other significant decision making powers. In addition, the Company has the obligation to absorb losses to the extent of its ownership interest and the right to receive benefits from the trust that could potentially be significant to the trust. The trust has issued a trust certificate that is wholly owned by the Company and represents the entire beneficial interest in pools of Residential Whole-Loans held by the trust. As of March 31, 2018, the Company financed the trust certificate with $232.4 million of repurchase borrowings, which is a liability held outside the trust. The Company classifies the underlying Residential Whole-Loans owned by the trust in "Residential Whole-Loans, at fair value" in the Consolidated Balance Sheets and has eliminated the intercompany trust certificate in consolidation.

Residential Bridge Loan Trust

In February 2017, Revolving Mortgage Investment Trust 2017-BRQ1 ("RMI Trust") issued a trust certificate to the Company, which represents the beneficial interest in pools of Residential Bridge Loans held by the trust. Residential Bridge Loans are mortgage loans secured by residences, typically short-term. The Company determined that RMI Trust was a VIE and itself the primary beneficiary because it was involved in certain aspects of the design of the trust, has certain oversight rights on defaulted assets and has other significant decision making powers. In addition, the Company has the obligation to absorb losses to the extent of its ownership interest and the right to receive benefits from the trust that could potentially be significant to the trust. As of March 31, 2018, the Company financed the trust certificate with $153.9 million of repurchase borrowings, which is a liability held outside the trust. The Company classifies both the underlying Residential Bridge Loans carried at amortized cost and the Residential Bridge Loans that it elected the fair value option in "Residential Bridge Loans" in the Consolidated Balance Sheets. The Company has eliminated the intercompany trust certificate in consolidation.

Consolidated Residential Whole-Loan and Residential Bridge Loan Trusts

The Company assesses modifications to VIEs on an ongoing basis to determine if a significant reconsideration event has occurred that would change the Company's initial consolidation assessment. The consolidated Residential Whole-Loan Trust holds 731 Residential Whole-Loans and the consolidated Bridge Loan Trust holds 528 Residential Bridge Loans and 13 Residential Whole-Loans as of March 31, 2018.

The following table presents a summary of the assets and liabilities of the consolidated Residential Whole-Loan and Residential Bridge Loan trusts included in the Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017 (dollars in thousands).

	March 31, 2018	December 31, 2017
Cash and cash equivalents	$227	$ —
Residential Whole-Loans, at fair value ($296,719 and $237,423 pledged as collateral, at fair value, respectively)	296,719	237,423
Residential Bridge Loans ($129,469 and $64,526 at fair value and $159,646 and $106,673 pledged as collateral, respectively)	159,646	106,673
Investment related receivable	18,825	7,665
Accrued interest receivable	4,408	3,197
Other assets	57	—
Total assets	$479,882	$ 354,958
Accounts payable and accrued expenses	449	188
Other liabilities	730	—
Total liabilities	$1,179	$ 188

The Company's risk with respect to its investment in each residential loan trust is limited to its direct ownership in the trust. The Residential Whole-Loans and Residential Bridge Loans held by the consolidated trusts are held solely to satisfy the liabilities of the trust, and creditors of the trust have no recourse to the general credit of the Company. The Company is not contractually required and has not provided any additional financial support to the trusts for the three months ended March 31, 2018 and March 31, 2017.

The following table presents the components of the carrying value of Residential Whole-Loans and Residential Bridge Loans as of March 31, 2018 and December 31, 2017 (dollars in thousands):

	Residential Whole-Loans, at Fair Value		Residential Bridge Loans, at Fair Value(1)		Residential Bridge Loans, at Amortized Cost(1)	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Principal balance	$291,161	$ 232,270	$128,640	$63,802	$30,138	$42,066
Unamortized premium	3,413	2,021	749	293	74	122
Unamortized discount	(1,388)	(1,190)	(326)	(128)	(35)	(41)
Amortized cost	293,186	233,101	129,063	63,967	30,177	42,147
Gross unrealized gains	4,174	4,463	989	655	N/A	N/A
Gross unrealized losses	(641)	(141)	(583)	(96)	N/A	N/A
Fair value	$296,719	$ 237,423	$129,469	$64,526	N/A	N/A

(1) These loans are classified in Residential Bridge Loans in the consolidated balance sheets

Residential Whole-Loans

The Residential Whole-Loans are comprised of non-qualifying, mostly adjustable rate mortgages with low loan to values (or "LTV"). The following tables present certain information about the Company's Residential Whole-Loan investment portfolio at March 31, 2018 and December 31, 2017 (dollars in thousands):

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March 31, 2018

Current Coupon Rate	Number of Loans	Principal Balance	Weighted Average Original LTV	Original FICO Score[1]	Expected Life (years)	Contractual Maturity (years)	Coupon Rate
3.01 – 4.00%	143	$56,126	55.7%	750	1.6	28.8	3.9 %
4.01– 5.00%	433	166,871	59.0%	734	1.6	27.3	4.7 %
5.01 – 6.00%	160	64,689	56.9%	736	1.8	27.4	5.3 %
6.01 – 7.00%	6	3,023	68.4%	740	1.5	22.7	6.2 %
7.01 - 8.00%	1	358	70.0%	777	2.2	29.8	7.2 %
8.01 - 9.00%	1	94	70.0%	689	2.2	29.8	8.4 %
Total	744	$291,161	58.0%	738	1.7	27.6	4.7 %

(1) The original FICO score is not available for 138 loans with a principal balance of approximately $54 million at March 31, 2018. The Company has excluded these loans from the weighted average computations.

December 31, 2017

Current Coupon Rate	Number of Loans	Principal Balance	Weighted Average Original LTV	Original FICO Score[1]	Expected Life (years)	Contractual Maturity (years)	Coupon Rate
3.01 – 4.00%	142	$55,593	55.5%	751	1.7	29.1	3.9 %
4.01– 5.00%	338	125,860	56.9%	725	1.4	26.5	4.5 %
5.01 – 6.00%	132	48,553	58.2%	728	1.6	27.0	5.2 %
6.01 – 7.00%	4	2,264	71.1%	758	1.3	20.5	6.3 %
Total	616	$232,270	57.0%	734	1.5	27.1	4.5 %

(1) The original FICO score is not available for 141 loans with a principal balance of approximately $56.5 million at December 31, 2017. The Company has excluded these loans from the weighted average computations.

The following table presents the various states across the United States in which the collateral securing the Company's Residential Whole-Loans at March 31, 2018 and December 31, 2017, based on principal balance, is located (dollars in thousands):

March 31, 2018			December 31, 2017		
State	State Concentration	Principal Balance	State	State Concentration	Principal Balance
California	64.5 %	$ 187,726	California	62.2 %	$ 144,321
New York	21.8 %	63,493	New York	24.4 %	56,631
Georgia	4.1 %	11,877	Georgia	4.3 %	10,061
Washington	3.5 %	10,292	Washington	4.0 %	9,244
Massachusetts	3.0 %	8,849	Massachusetts	3.9 %	9,114
Other	3.1 %	8,924	Other	1.2 %	2,899
Total	100.0 %	$ 291,161	Total	100.0 %	$ 232,270

Residential Bridge Loans

The Residential Bridge Loans are comprised of short-term non-owner occupied fixed rate loans secured by single or multi-unit residential properties, with LTVs generally not to exceed 85%. The following tables present certain information about the Company's Residential Bridge Loan investment portfolio at March 31, 2018 and December 31, 2017 (dollars in thousands):

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March 31, 2018

Current Coupon Rate	Number of Loans	Principal Balance	Weighted Average Original LTV	Weighted Average Contractual Maturity (months)	Coupon Rate
6.01 - 7.00%	37	$10,767	66.8%	9.8	6.7 %
7.01 – 8.00%	101	31,471	66.7%	9.1	7.7 %
8.01 – 9.00%	163	53,300	70.1%	10	8.7 %
9.01 – 10.00%	155	44,781	69.5%	8.5	9.6 %
10.01 – 11.00%	45	11,457	70.3%	6.0	10.7 %
11.01 - 12.00%	5	1,933	80.9%	8.4	11.4 %
12.01 - 13.00%	4	671	64.8%	9.8	12.8 %
14.01 - 15.00%	3	1,215	80.7%	8.7	15.0 %
17.01 – 18.00%	15	3,183	74.6%	9.9	18.0 %
Total	528	$158,778	69.3%	9.1	9.1 %

December 31, 2017

Current Coupon Rate	Number of Loans	Principal Balance	Weighted Average Original LTV	Weighted Average Contractual Maturity (months)	Coupon Rate
5.01 - 6.00%	9	$4,016	64.5%	10.8	5.9 %
6.01 - 7.00%	64	18,420	67.8%	10.6	6.7 %
7.01 – 8.00%	98	25,608	66.4%	9.5	7.6 %
8.01 – 9.00%	56	19,728	70.3%	11.9	8.9 %
9.01 – 10.00%	67	25,001	73.3%	6.8	9.7 %
10.01 – 11.00%	36	10,656	75.4%	5.0	10.8 %
11.01 - 12.00%	2	919	89.8%	8.2	11.4 %
17.01 – 18.00%	8	1,520	73.8%	5.9	18.0 %
Total	340	$105,868	70.1%	9.0	8.6 %

The following table presents the U.S. states in which the collateral securing the Company's Residential Bridge Loans at March 31, 2018, based on principal balance, is located (dollars in thousands):

March 31, 2018			December 31, 2017		
State	Concentration	Principal Balance	State	Concentration	Principal Balance
California	40.3 %	$ 64,085	California	48.2 %	$ 51,080
Florida	9.7 %	15,510	Florida	13.4 %	14,199
Texas	7.4 %	11,780	Washington	6.3 %	6,645
New York	7.3 %	11,647	New York	4.4 %	4,703
Washington	5.1 %	8,095	Texas	4.4 %	4,660
Other	30.2 %	47,661	Other	23.3 %	24,581
Total	100.0 %	$ 158,778	Total	100.0 %	$ 105,868

Non-performing Loans

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Residential Whole-Loans

As of March 31, 2018, there was one Residential Whole-Loan in non-accrual status with a current unpaid principal balance of $579 thousand and a fair value of $569 thousand. This nonperforming loan represents approximately 0.2% of the total outstanding principal balance. No allowance and provision for credit losses was recorded for this loan as of and for the three months ended March 31, 2018 since the Company elected the fair value option. The Company stopped accruing interest income for this loan when it became contractually 90 days delinquent.

Residential Bridge Loans

As of March 31, 2018, there were 13 Residential Bridge Loans, which are carried at amortized cost, in non-accrual status with an unpaid principal balance of approximately $3.4 million. These nonperforming loans represent approximately 2.1% of the total outstanding principal balance. These loans are collateral dependent with a weighted average original LTV of 76%. No allowance and provision for credit losses was recorded for these loans as of and for the three months ended March 31, 2018 since the fair value of the collateral balance less the cost to sell was in excess of the outstanding principal and interest balances.

Note 6 — Commercial Real Estate Investments

Securitized Commercial Loans

Securitized commercial loans is comprised of commercial loans from consolidated third party sponsored CMBS VIE's. At March 31, 2018 the Company had variable interests in two CMBS VIE's CMSC Trust 2015 - Longhouse MZ and RETL 2018- RVP that it determined it was the primary beneficiary and was required to consolidate. The commercial loans that serves as collateral for the securitized debt issued by these VIE's and can only be used to settle the securitized debt. Refer to Note 7 - "Financings" for details on the associated securitized debt. The Company assesses modifications to VIEs on an ongoing basis to determine if a significant reconsideration event has occurred that would change the Company’s initial consolidation assessment.

CMSC Trust 2015 - Longhouse MZ

In November 2015, the Company acquired a $14.0 million interest in the trust certificate issued by CMSC Trust 2015 - Longhouse MZ (“CMSC Trust”), with a fair value of $13.9 million at March 31, 2018. The Company determined that CMSC Trust was a VIE and itself the primary beneficiary because it was involved in certain aspects of the design of the trust, has certain oversight rights on defaulted assets and has other significant decision making powers. In addition, the Company has the obligation to absorb losses to the extent of its ownership interest and the right to receive benefits from the trust that the Company believes could potentially be significant to the trust. As the primary beneficiary the Company was required to consolidate CMSC Trust and accordingly its $14.0 million investment in CMSC Trust was eliminated in consolidation. The CMSC Trust holds a $24.8 million mezzanine loan collateralized by interests in commercial real estate. The mezzanine loan serves as collateral for the $24.7 million of trust certificates issued. Refer to Note 7 - "Financings" for details on the associated securitized debt.

RETL 2018-RVP

In March 2018, the Company acquired a $67.8 million interest in the trust certificate issued by RETL 2018-RVP (“RETL Trust”), which represents the 5% eligible horizontal residual interest under the Credit Risk Retention Rules of Section 15G of the Exchange Act. Under the credit risk retention rules the Company must retain its investment for five years and is limited in its ability to finance and hedge its investment. The trust certificate's pass-through rate is

one month LIBOR plus 9.5%. The fair value of the Company's interest in the trust is $68.1 million at March 31, 2018. The Company determined that RETL Trust was a VIE and itself the primary beneficiary because its Manager was involved in certain aspects of the design of the trust and the Company together with other related party entities own more than 50% of the controlling class. The owner of 50% or more of the controlling class has certain oversight rights on defaulted assets and has other significant decision making powers. In addition, the Company has the obligation to absorb losses to the extent of its ownership interest from the trust that the Company believes could potentially be significant to the trust. As the primary beneficiary the Company was required to consolidate RETL and accordingly its $67.8 million investment in RETL was eliminated in consolidation. The RETL Trust holds a $1.35 billion commercial loan collateralized by first mortgages, deeds of trusts and interests in commercial real estate. The loan's stated maturity date is February 9, 2021 (subject to the borrower's option to extend the initial stated maturity date for two successive one-year terms) and bears an interest

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rate of one month LIBOR plus 3.15%. The commercial loan serves as collateral for the $1.35 billion of securitized debt issued. Refer to Note 7 - "Financings" for details on the associated securitized debt.

Commercial Loans

Revolving Small Balance Commercial Trust 2018-1

In March 2018, the Company formed the Revolving Small Balance Commercial Trust 2018-1 ("RSBC Trust") to acquire a $20.6 million first lien commercial mortgage loan collateralized by three senior care living facilities. The loan matures on March 6, 2019 and bears an interest rate of one month LIBOR plus 4.75%. The Company determined that the wholly owned RSBC Trust was a VIE and itself the primary beneficiary because it was involved in the design of the trust and holds significant decision making powers. In addition, the Company has the obligation to absorb losses to the extent of its ownership interest and the right to receive benefits from the trust that could potentially be significant to the trust. As of March 31, 2018, the Company financed the trust certificate with $12.3 million of repurchase borrowings, which is a liability held outside the trust.

Commercial Mezzanine Loan

In March 2018, the Company acquired a $20.0 million mezzanine loan secured by partnership interest in an entity that owns a hotel. The mezzanine loan has a maturity date of December 9, 2019 with three one year extension options and bears an interest rate of one month LIBOR plus 6.5%.

Consolidated Commercial Loan Trusts

The Company assesses modifications to VIEs on an ongoing basis to determine if a significant reconsideration event has occurred that would change the Company's initial consolidation assessment. The three consolidated commercial loan trusts, CMSC Trust, RETL Trust and RSBC Trust collectively hold three commercial loans as of March 31, 2018.

The following table presents a summary of the assets and liabilities of the three consolidated commercial loan trusts included in the Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017 (dollars in thousands).

	March 31, 2018	December 31, 2017
Restricted cash	$37,034	$ —
Securitized commercial loans, at fair value	1,383,044	24,876
Commercial Loans, at fair value	20,534	—
Accrued interest receivable	1,181	161
Total assets	$1,441,793	$ 25,037
Securitized debt, at fair value	$1,301,050	$ 10,945
Accrued interest payable	887	70
Accounts payable and accrued expenses	6	1
Other liabilities	37,034	—
Total liabilities	$1,338,977	$ 11,016

The Company's risk with respect to its investment in each commercial loan trust is limited to its direct ownership in the trust. The commercial loans held by the consolidated trusts are held solely to satisfy the liabilities of the trust, and creditors of the trust have no recourse to the general credit of the Company. The assets of a consolidated trust can only be used to satisfy the obligations of that trust. The Company is not contractually required and has not provided any

additional financial support to the trusts for the three months ended March 31, 2018 and March 31, 2017. The Company did not deconsolidate any trusts during the three months ended March 31, 2018 and March 31, 2017.

The following table presents the components of the carrying value of the commercial real estate loans as of March 31, 2018 and December 31, 2017 (dollars in thousands):

	CMSC Trust Securitized Commercial Loan, at Fair Value		RETL Trust Securitized Commercial Loan, at Fair Value		RSBC Trust Commercial Loan, at Fair Value		Commercial Mezzanine Loan, at Fair Value	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Principal balance	$24,746	$ 24,846	$1,350,000	$ —	$20,638	$ —	$20,000	$ —
Unamortized premium	—	—	3,019	—	—	—	—	—
Unamortized discount	—	—	—	—	(104)	—	(120)	—
Amortized cost	24,746	24,846	1,353,019	—	20,534	—	19,880	—
Gross unrealized gains	24	30	5,255	—	—	—	41	—
Gross unrealized losses	—	—	—	—	—	—	—	—
Fair value	$24,770	$ 24,876	$1,358,274	$ —	$20,534	$ —	$19,921	$ —

Note 7— Financings

Borrowings Under Repurchase Agreements

The Company primarily finances its investment acquisitions with repurchase agreements. The repurchase agreements bear interest at a contractually agreed-upon rate and typically have terms ranging from one month to three months. The Company's repurchase agreement borrowings are accounted for as secured borrowings when the Company maintains effective control of the financed assets. Under the repurchase agreements, the respective counterparties retain the right to determine the fair value of the underlying collateral. A reduction in the value of pledged assets requires the Company to post additional securities as collateral, pay down borrowings or establish cash margin accounts with the counterparties in order to re-establish the agreed-upon collateral requirements, and is referred to as a margin call. The inability of the Company to post adequate collateral for a margin call by a counterparty, in a timeframe as short as the close of the same business day, could result in a condition of default under the Company's repurchase agreements, thereby enabling the counterparty to liquidate the collateral pledged by the Company, which may have a material adverse effect on the Company's financial position, results of operations and cash flows. Under the terms of the repurchase agreements the Company may rehypothecate pledged U.S. Treasury securities it receives from its repurchase agreement as incremental collateral in order to increase the Company's cash position. At March 31, 2018 and December 31, 2017, the Company did not have any rehypothecated U.S. Treasury securities.

Certain of the repurchase agreements provide the counterparty with the right to terminate the agreement if the Company does not maintain certain equity and leverage metrics, the most restrictive of which include a limit on leverage based on the composition of the Company's portfolio. For all the repurchase agreements with outstanding borrowings, the Company was in compliance with the terms of such financial tests as of March 31, 2018.

As of March 31, 2018, the Company had master repurchase agreements with 28 counterparties. As of March 31, 2018, the Company had borrowings under repurchase agreements with 17 counterparties. The following table summarizes certain characteristics of the Company's repurchase agreements at March 31, 2018 and December 31, 2017 (dollars in thousands):

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Securities Pledged	March 31, 2018 Repurchase Agreement Borrowings	Weighted Average Interest Rate on Borrowings Outstanding at end of period		Weighted Average Remaining Maturity (days)	December 31, 2017 Repurchase Agreement Borrowings	Weighted Average Interest Rate on Borrowings Outstanding at end of period		Weighted Average Remaining Maturity (days)
Agency RMBS	$630,980	1.92	%	65	$665,919	1.62	%	61
Agency CMBS	2,073,029	1.81	%	56	2,035,222	1.53	%	53
Non-Agency RMBS	104,580	3.19	%	28	46,530	2.76	%	41
Non-Agency CMBS	252,121	3.42	%	57	154,325	2.98	%	40
Residential Whole-Loans (1)	234,675	4.13	%	30	189,270	3.66	%	8
Residential Bridge Loans (1)	151,555	4.40	%	59	100,183	4.05	%	59
Commercial loans (1)	12,321	4.61	%	73	—	—	%	—
Securitized commercial loans (1)	7,631	3.72	%	26	—	—	%	—
Other securities	90,028	3.42	%	34	60,237	2.94	%	23
Borrowings under repurchase agreements	$3,556,920	2.31	%	55	$3,251,686	1.86	%	51

(1) Repurchase agreement borrowings on loans owned are through trust certificates. The trust certificates are eliminated upon consolidation.

For the three months ended March 31, 2018 and the year ended December 31, 2017, the Company had average borrowings under its repurchase agreements of approximately $3.3 billion and $2.7 billion, respectively, and had a maximum month-end balance during the periods of approximately $3.6 billion and $3.3 billion, respectively. The Company had accrued interest payable at March 31, 2018 and December 31, 2017 of approximately $9.0 million and $6.3 million, respectively.

At March 31, 2018 and December 31, 2017, repurchase agreements collateralized by investments had the following remaining maturities:

(dollars in thousands)	March 31, 2018	December 31, 2017
Overnight	$—	$ —
1 to 29 days	744,227	1,387,599
30 to 59 days	826,875	665,656
60 to 89 days	1,972,766	871,819
90 to 119 days	—	—
Greater than or equal to 120 days	13,052	326,612
Total	$3,556,920	$ 3,251,686

At March 31, 2018, the following table reflects amounts of collateral at risk under its repurchase agreements greater than 10% of the Company's equity with any counterparty (dollars in thousands):

Counterparty	March 31, 2018

	Amount of Collateral at Risk, at fair value	Weighted Average Remaining Maturity (days)	Percentage of Stockholders' Equity
UBS AG, London Branch	$ 72,931	31	15.4 %
Credit Suisse AG, Cayman Islands Branch	63,356	30	13.4 %

Collateral for Borrowings under Repurchase Agreements

The following table summarizes the Company's collateral positions, with respect to its borrowings under repurchase agreements at March 31, 2018 and December 31, 2017 (dollars in thousands):

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	March 31, 2018			December 31, 2017		
	Assets Pledged	Accrued Interest	Assets Pledged and Accrued Interest	Assets Pledged	Accrued Interest	Assets Pledged and Accrued Interest
Assets pledged for borrowings under repurchase agreements:						
Agency RMBS, at fair value	$656,799	$2,527	$ 659,326	$690,255	$2,601	$ 692,856
Agency CMBS, at fair value	2,163,961	5,653	2,169,614	2,143,340	5,454	2,148,794
Non-Agency RMBS, at fair value	141,171	696	141,867	58,127	160	58,287
Non-Agency CMBS, at fair value	331,441	1,667	333,108	208,062	1,100	209,162
Residential Whole-Loans, at fair value (1)	296,719	2,153	298,872	237,423	1,754	239,177
Residential Bridge Loans (1)	159,646	2,255	161,901	106,673	1,443	108,116
Commercial Loans, at fair value						