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

FORM 10-Q

☑ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED: June 30, 2021
OR
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM ______________ TO ________________
COMMISSION FILE NUMBER: 1-33796

CHIMERA INVESTMENT CORPORATION
(Exact name of Registrant as specified in its Charter)

Maryland	26-0630461
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

520 Madison Avenue 32nd Floor
New York, New York
(Address of principal executive offices)
10022
(Zip Code)
(888) 895-6557
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	**CIM**	**New York Stock Exchange**
8.00% Series A Cumulative Redeemable Preferred Stock	**CIM PRA**	**New York Stock Exchange**
8.00% Series B Cumulative Fixed-to-Floating Rate Redeemable Preferred Stock	**CIM PRB**	**New York Stock Exchange**
7.75% Series C Cumulative Fixed-to-Floating Rate Redeemable Preferred Stock	**CIM PRC**	**New York Stock Exchange**
8.00% Series D Cumulative Fixed-to-Floating Rate Redeemable Preferred Stock	**CIM PRD**	**New York Stock Exchange**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes ☑ No ☐

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☑ No ☐

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 definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Emerging growth company ☐

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

☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☑

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date:

Class	Outstanding at July 31, 2021
Common Stock, $0.01 par value	235,955,784

CHIMERA INVESTMENT CORPORATION

FORM 10-Q

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Part I

Item 1. Consolidated Financial Statements

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

	June 30, 2021	December 31, 2020
Cash and cash equivalents	$ 346,951	$ 269,090
Non-Agency RMBS, at fair value (net of allowance for credit losses of $508 thousand and $180 thousand, respectively)	1,919,668	2,150,714
Agency RMBS, at fair value	76,820	90,738
Agency CMBS, at fair value	1,236,507	1,740,368
Loans held for investment, at fair value	12,150,868	13,112,129
Accrued interest receivable	75,314	81,158
Other assets	53,931	78,822
Total assets (1)	$ 15,860,059	$ 17,523,019
Liabilities:		
Secured financing agreements ($4.8 billion and $6.7 billion pledged as collateral, respectively)	$ 3,554,428	$ 4,636,847
Securitized debt, collateralized by Non-Agency RMBS ($453 million and $505 million pledged as collateral, respectively)	99,559	113,433
Securitized debt at fair value, collateralized by Loans held for investment ($11.5 billion and $12.4 billion pledged as collateral, respectively)	8,371,511	8,711,677
Long term debt	20,550	51,623
Payable for investments purchased	58,467	106,169
Accrued interest payable	23,128	40,950
Dividends payable	87,050	77,213
Accounts payable and other liabilities	17,935	5,721
Total liabilities (1)	$ 12,232,628	$ 13,743,633
Commitments and Contingencies (See Note 16)		
Stockholders' Equity:		
Preferred Stock, par value of $0.01 per share, 100,000,000 shares authorized:		
8.00% Series A cumulative redeemable: 5,800,000 shares issued and outstanding, respectively ($145,000 liquidation preference)	$ 58	$ 58
8.00% Series B cumulative redeemable: 13,000,000 shares issued and outstanding, respectively ($325,000 liquidation preference)	130	130
7.75% Series C cumulative redeemable: 10,400,000 shares issued and outstanding, respectively ($260,000 liquidation preference)	104	104
8.00% Series D cumulative redeemable: 8,000,000 shares issued and outstanding, respectively ($200,000 liquidation preference)	80	80
Common stock: par value $0.01 per share; 500,000,000 shares authorized, 235,557,640 and 230,556,760 shares issued and outstanding, respectively	2,356	2,306
Additional paid-in-capital	4,352,986	4,538,029
Accumulated other comprehensive income	456,113	558,096
Cumulative earnings	4,202,806	3,881,894
Cumulative distributions to stockholders	(5,387,202)	(5,201,311)
Total stockholders' equity	$ 3,627,431	$ 3,779,386
Total liabilities and stockholders' equity	$ 15,860,059	$ 17,523,019

(1) The Company's consolidated statements of financial condition include assets of consolidated variable interest entities ("VIEs") that can only be used to settle obligations and liabilities of the VIE for which creditors do not have recourse to the primary beneficiary (Chimera Investment Corporation). As of June 30, 2021, and December 31, 2020, total assets of consolidated VIEs were $11,090,458 and $12,165,017, respectively, and total liabilities of consolidated VIEs were $7,786,837 and $8,063,110, respectively. See Note 9 for further discussion.

See accompanying notes to consolidated financial statements.

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

	For the Quarters Ended		For the Six Months Ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Net interest income:				
Interest income [1]	$ 252,677	$ 245,922	$ 495,805	$ 546,189
Interest expense [2]	80,610	129,256	188,677	271,339
Net interest income	172,067	116,666	307,128	274,850
Increase/(decrease) in provision for credit losses	453	(4,497)	327	1,817
Other investment gains (losses):				
Net unrealized gains (losses) on derivatives	—	—	—	201,000
Realized gains (losses) on terminations of interest rate swaps	—	—	—	(463,966)
Net realized gains (losses) on derivatives	—	—	—	(41,086)
Net gains (losses) on derivatives	—	—	—	(304,052)
Net unrealized gains (losses) on financial instruments at fair value	36,108	(171,921)	306,120	(432,809)
Net realized gains (losses) on sales of investments	7,517	26,380	45,313	102,234
Gains (losses) on extinguishment of debt	(21,777)	459	(258,914)	459
Total other gains (losses)	21,848	(145,082)	92,519	(634,168)
Other expenses:				
Compensation and benefits	9,230	10,255	22,669	23,190
General and administrative expenses	6,173	5,963	11,371	11,100
Servicing and asset manager fees	9,081	10,072	18,362	20,601
Transaction expenses	5,745	4,710	22,182	9,616
Total other expenses	30,229	31,000	74,584	64,507
Income (loss) before income taxes	163,233	(54,919)	324,736	(425,642)
Income tax expense (benefit)	(88)	36	3,824	68
Net income (loss)	$ 163,321	$ (54,955)	$ 320,912	$ (425,710)
Dividends on preferred stock	18,438	18,438	36,875	36,875
Net income (loss) available to common shareholders	$ 144,883	$ (73,393)	$ 284,037	$ (462,585)
Net income (loss) per share available to common shareholders:				
Basic	$ 0.63	$ (0.37)	$ 1.23	$ (2.39)
Diluted	$ 0.60	$ (0.37)	$ 1.14	$ (2.39)
Weighted average number of common shares outstanding:				
Basic	231,638,042	199,282,790	231,105,595	193,150,696
Diluted	241,739,536	199,282,790	251,723,940	193,150,696

(1) Includes interest income of consolidated VIEs of $149,115 and $169,127 for the quarters ended June 30, 2021 and 2020, respectively, and $307,214 and $343,809 for the six months ended June 30, 2021 and 2020, respectively. See Note 9 to consolidated financial statements for further discussion.

(2) Includes interest expense of consolidated VIEs of $50,935 and $70,816 for the quarters ended June 30, 2021 and 2020, respectively, and $116,141 and $135,445 for the six months ended June 30, 2021 and 2020, respectively. See Note 9 to consolidated financial statements for further discussion.

See accompanying notes to consolidated financial statements.

CHIMERA INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(dollars in thousands, except share and per share data)
(Unaudited)

	For the Quarters Ended		For the Six Months Ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Comprehensive income (loss):				
Net income (loss)	$ 163,321	$ (54,955)	$ 320,912	$ (425,710)
Other comprehensive income:				
Unrealized gains (losses) on available-for-sale securities, net	(26,215)	61,399	(64,867)	(137,805)
Reclassification adjustment for net realized losses (gains) included in net income	(11,323)	(26,380)	(37,116)	(33,021)
Other comprehensive income (loss)	(37,538)	35,019	(101,983)	(170,826)
Comprehensive income (loss) before preferred stock dividends	**$ 125,783**	**$ (19,936)**	**$ 218,929**	**$ (596,536)**
Dividends on preferred stock	$ 18,438	$ 18,438	$ 36,875	$ 36,875
Comprehensive income (loss) available to common stock shareholders	**$ 107,345**	**$ (38,374)**	**$ 182,054**	**$ (633,411)**

See accompanying notes to consolidated financial statements.

CHIMERA INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(dollars in thousands, except per share data)
(Unaudited)

For the Quarter Ended June 30, 2021

	Series A Preferred Stock Par Value	Series B Preferred Stock Par Value	Series C Preferred Stock Par Value	Series D Preferred Stock Par Value	Common Stock Par Value	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Cumulative Earnings	Cumulative Distributions to Stockholders	Total
Balance, March 31, 2021	$ 58	$ 130	$ 104	$ 80	$ 2,306	$ 4,320,419	$ 493,651	$ 4,039,485	$ (5,289,735)	$ 3,566,498
Net income (loss)	—	—	—	—	—	—	—	163,321	—	163,321
Other comprehensive income (loss)	—	—	—	—	—	—	(37,538)	—	—	(37,538)
Settlement of convertible debt	—	—	—	—	49	31,764	—	—	—	31,813
Settlement of warrants	—	—	—	—	—	(1,105)	—	—	—	(1,105)
Stock based compensation	—	—	—	—	1	1,908	—	—	—	1,909
Common dividends declared	—	—	—	—	—	—	—	—	(79,029)	(79,029)
Preferred dividends declared	—	—	—	—	—	—	—	—	(18,438)	(18,438)
Balance, June 30, 2021	$ 58	$ 130	$ 104	$ 80	$ 2,356	$ 4,352,986	$ 456,113	$ 4,202,806	$ (5,387,202)	$ 3,627,431

For the Quarter Ended June 30, 2020

	Series A Preferred Stock Par Value	Series B Preferred Stock Par Value	Series C Preferred Stock Par Value	Series D Preferred Stock Par Value	Common Stock Par Value	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Cumulative Earnings	Cumulative Distributions to Stockholders	Total
Balance, March 31, 2020	$ 58	$ 130	$ 104	$ 80	$ 1,860	$ 4,255,054	$ 502,491	$ 3,422,285	$ (4,938,208)	$ 3,243,854
Net income (loss)	—	—	—	—	—	—	—	(54,955)	—	(54,955)
Other comprehensive income (loss)	—	—	—	—	—	—	35,019	—	—	35,019
Settlement of convertible debt	—	—	—	—	460	292,349	—	—	—	292,809
Purchase of capped call	—	—	—	—	—	(33,750)	—	—	—	(33,750)
Stock based compensation	—	—	—	—	—	1,390	—	—	—	1,390
Common dividends declared	—	—	—	—	—	—	—	—	(70,050)	(70,050)
Preferred dividends declared	—	—	—	—	—	—	—	—	(18,438)	(18,438)
Balance, June 30, 2020	$ 58	$ 130	$ 104	$ 80	$ 2,320	$ 4,515,043	$ 537,510	$ 3,367,330	$ (5,026,696)	$ 3,395,879

For the Six Months Ended June 30, 2021

	Series A Preferred Stock Par Value	Series B Preferred Stock Par Value	Series C Preferred Stock Par Value	Series D Preferred Stock Par Value	Common Stock Par Value	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Cumulative Earnings	Cumulative Distributions to Stockholders	Total
Balance, December 31, 2020	$ 58	$ 130	$ 104	$ 80	$ 2,306	$ 4,538,029	$ 558,096	$ 3,881,894	$ (5,201,311)	$ 3,779,386
Net income (loss)	—	—	—	—	—	—	—	320,912	—	320,912
Other comprehensive income (loss)	—	—	—	—	—	—	(101,983)	—	—	(101,983)
Repurchase of common stock	—	—	—	—	(2)	(1,826)	—	—	—	(1,828)
Settlement of warrants	—	—	—	—	—	(220,945)	—	—	—	(220,945)
Settlement of convertible debt	—	—	—	—	49	31,764	—	—	—	31,813
Stock based compensation	—	—	—	—	3	5,964	—	—	—	5,967
Common dividends declared	—	—	—	—	—	—	—	—	(149,016)	(149,016)
Preferred dividends declared	—	—	—	—	—	—	—	—	(36,875)	(36,875)
Balance, June 30, 2021	$ 58	$ 130	$ 104	$ 80	$ 2,356	$ 4,352,986	$ 456,113	$ 4,202,806	$ (5,387,202)	$ 3,627,431

For the Six Months Ended June 30, 2020

	Series A Preferred Stock Par Value	Series B Preferred Stock Par Value	Series C Preferred Stock Par Value	Series D Preferred Stock Par Value	Common Stock Par Value	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Cumulative Earnings	Cumulative Distributions to Stockholders	Total
Balance, December 31, 2019	$ 58	$ 130	$ 104	$ 80	$ 1,873	$ 4,275,963	$ 708,336	$ 3,793,040	$ (4,826,291)	$ 3,953,293
Net income (loss)	—	—	—	—	—	—	—	(425,710)	—	(425,710)
Other comprehensive income (loss)	—	—	—	—	—	—	(170,826)	—	—	(170,826)
Repurchase of common stock	—	—	—	—	(14)	(22,052)	—	—	—	(22,066)
Settlement of convertible debt	—	—	—	—	460	292,349	—	—	—	292,809
Purchase of capped call	—	—	—	—	—	(33,750)	—	—	—	(33,750)
Stock based compensation	—	—	—	—	1	2,533	—	—	—	2,534
Common dividends declared	—	—	—	—	—	—	—	—	(163,530)	(163,530)
Preferred dividends declared	—	—	—	—	—	—	—	—	(36,875)	(36,875)
Balance, June 30, 2020	$ 58	$ 130	$ 104	$ 80	$ 2,320	$ 4,515,043	$ 537,510	$ 3,367,330	$ (5,026,696)	$ 3,395,879

See accompanying notes to consolidated financial statements.

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

	For the Six Months Ended	
	June 30, 2021	June 30, 2020
Cash Flows From Operating Activities:		
Net income (loss)	$ 320,912	$ (425,710)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
(Accretion) amortization of investment discounts/premiums, net	38,546	60,974
Accretion (amortization) of deferred financing costs, debt issuance costs, and securitized debt discounts/premiums, net	11,179	(35,148)
Net unrealized losses (gains) on derivatives	—	(201,000)
Margin (paid) received on derivatives	—	325,594
Net unrealized losses (gains) on financial instruments at fair value	(306,120)	432,809
Net realized losses (gains) on sales of investments	(45,313)	(102,234)
Net increase (decrease) in provision for credit losses	327	1,817
(Gain) loss on extinguishment of debt	258,914	(459)
Equity-based compensation expense	5,967	2,534
Changes in operating assets:		
Decrease (increase) in accrued interest receivable, net	5,843	27,718
Decrease (increase) in other assets	(25,599)	(56,146)
Changes in operating liabilities:		
Increase (decrease) in accounts payable and other liabilities	12,656	12,123
Increase (decrease) in accrued interest payable, net	(17,823)	(24,765)
Net cash provided by (used in) operating activities	$ 259,489	$ 18,107
Cash Flows From Investing Activities:		
Agency MBS portfolio:		
Purchases	$ (169,287)	$ (292,379)
Sales	201,653	6,466,990
Principal payments	368,791	596,564
Non-Agency RMBS portfolio:		
Purchases	(9,766)	(19,503)
Sales	47,674	141,912
Principal payments	170,247	124,351
Loans held for investment:		
Purchases	(1,431,377)	(884,708)
Sales	1,227,864	—
Principal payments	1,260,128	895,764
Net cash provided by (used in) investing activities	$ 1,665,927	$ 7,028,991
Cash Flows From Financing Activities:		
Proceeds from secured financing agreements	$ 24,499,818	$ 57,804,851
Payments on secured financing agreements	(25,585,419)	(65,275,151)
Payments on repurchase of common stock	(1,828)	(22,066)
Proceeds from securitized debt borrowings, collateralized by Loans held for investment	4,677,423	1,462,500
Payments on securitized debt borrowings, collateralized by Loans held for investment	(5,028,491)	(920,083)
Payments on securitized debt borrowings, collateralized by Non-Agency RMBS	(12,060)	(8,445)
Net proceeds from issuance of convertible debt	—	361,139
Purchase of capped call	—	(33,750)
Settlement of warrants	(220,945)	—
Common dividends paid	(139,178)	(186,543)

Preferred dividends paid		(36,875)		(36,875)
Net cash provided by (used in) financing activities	$	(1,847,555)	$	(6,854,423)
Net increase (decrease) in cash and cash equivalents		77,861		192,675
Cash and cash equivalents at beginning of period		269,090		109,878
Cash and cash equivalents at end of period	$	346,951	$	302,553
Supplemental disclosure of cash flow information:				
Interest received	$	540,193	$	634,199
Interest paid	$	195,321	$	328,753
Non-cash investing activities:				
Payable for investments purchased	$	58,467	$	246,770
Net change in unrealized gain (loss) on available-for sale securities	$	(101,983)	$	(170,826)
Non-cash financing activities:				
Dividends declared, not yet paid	$	87,050	$	75,554
Conversion of convertible debt	$	31,813	$	289,331

See accompanying notes to consolidated financial statements.

CHIMERA INVESTMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

Chimera Investment Corporation, or the Company, was organized in Maryland on June 1, 2007. The Company commenced operations on November 21, 2007 when it completed its initial public offering. The Company elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder, or the Code.

The Company is an internally managed real estate investment trust, or REIT, that is primarily engaged, through its subsidiaries, in the business of investing in a diversified portfolio of mortgage assets, including residential mortgage loans, Agency RMBS, Non-Agency RMBS, Agency CMBS, and other real estate-related assets. The following defines certain of the commonly used terms in this Quarterly Report on Form 10-Q: Agency refers to a federally chartered corporation, such as Fannie Mae or Freddie Mac, or an agency of the U.S. Government, such as Ginnie Mae; MBS refers to mortgage-backed securities secured by pools of residential or commercial mortgage loans; Agency RMBS and Agency CMBS refer to MBS that are secured by pools of residential and commercial mortgage loans, respectively, and are issued or guaranteed by an Agency; Agency MBS refers to MBS that are issued or guaranteed by an Agency and includes Agency RMBS and Agency CMBS collectively; Non-Agency RMBS refers to residential MBS that are not guaranteed by any agency of the U.S. Government or any Agency. IO refers to Interest-only securities.

The Company conducts its operations through various subsidiaries including subsidiaries it treats as taxable REIT subsidiaries, or TRSs. In general, a TRS may hold assets and engage in activities that the Company cannot hold or engage in directly and generally may engage in any real estate or non-real estate related business. The Company currently has thirteen wholly-owned direct subsidiaries: Chimera RMBS Whole Pool LLC and Chimera RMBS LLC formed in June 2009; CIM Trading Company LLC, or CIM Trading, formed in July 2010; Chimera Funding TRS LLC, or CIM Funding TRS, a TRS formed in October 2013; Chimera CMBS Whole Pool LLC and Chimera RMBS Securities LLC formed in March 2015; Chimera Insurance Company, LLC formed in July 2015; Chimera RR Holding LLC formed in April 2016; Anacostia LLC, a TRS formed in June 2018; NYH Funding LLC, a TRS formed in May 2019; Kali 2020 Holdings LLC formed in May 2020; Varuna Capital Partners LLC formed in September 2020; and Aarna Holdings LLC formed in November 2020.

The Company holds a non-consolidated interest in Kah Capital Management, which is treated as an equity method investment. The Company paid $351 thousand and $250 thousand during the quarters, and $697 thousand and $500 thousand during the six months ended June 30, 2021 and 2020, respectively, in fees to Kah Capital Management for investment services provided.

2. Summary of the Significant Accounting Policies

(a) Basis of Presentation and Consolidation

The accompanying consolidated financial statements and related notes of the Company have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. In the opinion of the Company, all normal and recurring adjustments considered necessary for a fair presentation of its financial position, results of operations and cash flows have been included. Investment securities transactions are recorded on the trade date. Certain prior period amounts have been reclassified to conform to the current period's presentation.

The consolidated financial statements include the Company’s accounts, the accounts of its wholly-owned subsidiaries, and variable interest entities, or VIEs, in which the Company is the primary beneficiary. All intercompany balances and transactions have been eliminated in consolidation.

The Company uses securitization trusts considered to be VIEs in its securitization transactions. VIEs are defined as entities in which equity investors (i) do not have the characteristics of a controlling financial interest, or (ii) do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The entity that consolidates a VIE is known as its primary beneficiary and is generally the entity with (i) the power to direct the activities that most significantly impact the VIEs’ economic performance, and (ii) the right to receive benefits from the VIE or the obligation to absorb losses of the VIE that could be significant to the VIE. For VIEs that do not have substantial on-going activities, the power to direct the activities that most significantly impact the VIEs’ economic performance may be determined by an entity’s involvement with the design and structure of the VIE.

The trusts are structured as entities that receive principal and interest on the underlying collateral and distribute those payments to the security holders. The assets held by the securitization entities are restricted in that they can only be used to fulfill the obligations of the securitization entity. The Company's risks associated with its involvement with these VIEs are limited to its risks and rights as a holder of the security it has retained as well as certain risks associated with being the sponsor and depositor of and the seller, directly or indirectly to, the securitizations entities.

Determining the primary beneficiary of a VIE requires judgment. The Company determined that for the securitizations it consolidates, its ownership provides the Company with the obligation to absorb losses or the right to receive benefits from the VIE that could be significant to the VIE. In addition, the Company has the power to direct the activities of the VIEs that most significantly impact the VIEs' economic performance, or power, such as rights to replace the servicer without cause, or the Company was determined to have power in connection with its involvement with the structure and design of the VIE.

The Company's interest in the assets held by these securitization vehicles, which are consolidated on the Company's Consolidated Statements of Financial Condition, is restricted by the structural provisions of these trusts, and a recovery of the Company's investment in the vehicles will be limited by each entity's distribution provisions. Generally, the securities retained by the Company are the most subordinate in the capital structure, which means those securities receive distributions after the senior securities have been paid. The liabilities of the securitization vehicles, which are also consolidated on the Company's Consolidated Statements of Financial Condition, are non-recourse to the Company, and can only be satisfied using proceeds from each securitization vehicle's respective asset pool.

The assets of securitization entities are comprised of residential mortgage-backed securities (or RMBS), or residential mortgage loans. See Notes 3, 4 and 9 for further discussion of the characteristics of the securities and loans in the Company's portfolio.

(b) Statements of Financial Condition Presentation

The Company's Consolidated Statements of Financial Condition include both the Company's direct assets and liabilities and the assets and liabilities of consolidated securitization vehicles. Retained beneficial interests of the consolidated securitization vehicles are eliminated on consolidation. Assets of each consolidated VIE can only be used to satisfy the obligations of that VIE, and the liabilities of consolidated VIEs are non-recourse to the Company. The Company is not obligated to provide, nor does it intend to provide, any financial support to these consolidated securitization vehicles. The notes to the consolidated financial statements describe the Company's assets and liabilities including the assets and liabilities of consolidated securitization vehicles. See Note 9 for additional information related to the Company's investments in consolidated securitization vehicles.

(c) Use of Estimates

The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although the Company's estimates contemplate current conditions and how it expects them to change in the future, it is reasonably possible that actual conditions could be materially different than anticipated in those estimates, which could have a material adverse impact on the Company's results of operations and its financial condition.

The Company has made significant estimates including in accounting for income recognition on Agency MBS, Non-Agency RMBS, IO MBS (Note 3) and residential mortgage loans (Note 4), valuation of Agency MBS and Non-Agency RMBS (Notes 3 and 5), residential mortgage loans (Note 4 and 5), securitized debt (Note 5 and 7) and derivative instruments (Notes 5 and 10). Actual results could differ materially from those estimates.

(d) Significant Accounting Policies

There have been no significant changes to the Company's accounting policies included in Note 2 to the consolidated financial statements of the Company's Form 10-K for the year ended December 31, 2020, other than the significant accounting policies discussed below.

Fair Value Disclosure

A complete discussion of the methodology utilized by the Company to estimate the fair value of its financial instruments is included in Note 5 to these consolidated financial statements.

Income Taxes

The Company does not have any material unrecognized tax positions that would affect its financial statements or require disclosure. No accruals for penalties and interest were necessary as of June 30, 2021 or December 31, 2020.

(e) Recent Accounting Pronouncements

Reference Rate Reform (Topic 848)

In March 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2020-4, *Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting.* The amendments in this update provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this update apply only to contracts, hedging relationships, and other transactions that reference London Inter Bank Offering Rate (or LIBOR) or another reference rate expected to be discontinued because of reference rate reform. The amendments in this update are effective for contracts held by the Company subject to reference rate reform that fall within the scope of this update beginning immediately through December 31, 2022 at which time the transition is expected to be complete. The Company has not yet had any contracts modified to adopt reference rate reform. When a contract within the scope of this update is updated for reference rate reform, the Company will evaluate the impact in accordance with this update.

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

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

3. Mortgage-Backed Securities

The Company classifies its Non-Agency RMBS as senior, subordinated, or Interest-only. The Company also invests in Agency MBS which it classifies as Agency RMBS to include residential and residential interest-only MBS and Agency CMBS to include commercial and commercial interest-only MBS. Senior interests in Non-Agency RMBS are generally entitled to the first principal repayments in their pro-rata ownership interests at the acquisition date. The tables below present amortized cost, allowance for credit losses, fair value and unrealized gain/losses of Company's MBS investments as of June 30, 2021 and December 31, 2020.

June 30, 2021
(dollars in thousands)

	Principal or Notional Value	Total Premium	Total Discount	Amortized Cost	Allowance for credit losses	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gain/(Loss)
Non-Agency RMBS									
Senior	$ 1,405,783	$ 3,939	$ (711,225)	$ 698,497	$ (508)	$ 1,116,871	$ 418,984	$ (102)	$ 418,882
Subordinated	827,198	6,093	(276,574)	556,717	—	604,208	71,724	(24,233)	47,491
Interest-only	4,217,507	213,510	—	213,510	—	198,589	41,498	(56,419)	(14,921)
Agency RMBS									
Interest-only	1,164,844	110,275	—	110,275	—	76,820	219	(33,674)	(33,455)
Agency CMBS									
Project loans	974,756	18,194	(829)	992,121	—	1,094,145	102,031	(7)	102,024
Interest-only	2,412,480	137,809	—	137,809	—	142,362	5,090	(537)	4,553
Total	$ 11,002,568	$ 489,820	$ (988,628)	$ 2,708,929	$ (508)	$ 3,232,995	$ 639,546	$ (114,972)	$ 524,574

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

The following tables present the gross unrealized losses and estimated fair value of the Company’s Agency and Non-Agency MBS by length of time that such securities have been in a continuous unrealized loss position at June 30, 2021 and December 31, 2020. All available for sale Non-Agency RMBS not accounted under the fair value option election in an unrealized loss position have been evaluated by the Company for current expected credit losses.

June 30, 2021 (dollars in thousands)	Unrealized Loss Position for Less than 12 Months			Unrealized Loss Position for 12 Months or More			Total		
	Estimated Fair Value	Unrealized Losses	Number of Positions	Estimated Fair Value	Unrealized Losses	Number of Positions	Estimated Fair Value	Unrealized Losses	Number of Positions
Non-Agency RMBS									
Senior	$ 27,428	$ —	2	$ 9,952	$ (102)	1	$ 37,380	$ (102)	3
Subordinated	8,201	(70)	1	42,355	(24,163)	12	50,556	(24,233)	13
Interest-only	33,699	(9,867)	32	18,334	(46,552)	46	52,033	(56,419)	78
Agency RMBS									
Interest-only	20,151	(3,509)	5	54,682	(30,165)	18	74,833	(33,674)	23
Agency CMBS									
Project loans	—	—	—	8,514	(7)	1	8,514	(7)	1
Interest-only	2,420	(537)	4	—	—	—	2,420	(537)	4
Total	$ 91,899	$ (13,983)	44	$ 133,837	$ (100,989)	78	$ 225,736	$ (114,972)	122

December 31, 2020 (dollars in thousands)									
	Unrealized Loss Position for Less than 12 Months			Unrealized Loss Position for 12 Months or More			Total		
	Estimated Fair Value	Unrealized Losses	Number of Positions	Estimated Fair Value	Unrealized Losses	Number of Positions	Estimated Fair Value	Unrealized Losses	Number of Positions
Non-Agency RMBS									
Senior	$ 11,985	$ (248)	2	$ —	$ —	—	$ 11,985	$ (248)	2
Subordinated	253,822	(8,711)	5	34,697	(29,318)	15	288,519	(38,029)	20
Interest-only	38,604	(8,682)	34	22,761	(46,537)	43	61,365	(55,219)	77
Agency RMBS									
Interest-only	31,059	(4,938)	6	54,153	(23,461)	16	85,212	(28,399)	22
Agency CMBS									
Project loans	—	—	—	8,581	(69)	1	8,581	(69)	1
Interest-only	4,052	(346)	6	—	—	—	4,052	(346)	6
Total	$ 339,522	$ (22,925)	53	$ 120,192	$ (99,385)	75	$ 459,714	$ (122,310)	128

At June 30, 2021, the Company did not intend to sell any of its Agency and Non-Agency MBS that were in an unrealized loss position, and it was not more likely than not that the Company would be required to sell these MBS investments before recovery of their amortized cost basis, which may be at their maturity. With respect to RMBS held by consolidated VIEs, the ability of any entity to cause the sale by the VIE prior to the maturity of these RMBS is either expressly prohibited, not probable, or is limited to specified events of default, none of which have occurred as of June 30, 2021.

Gross unrealized losses on the Company’s Agency MBS (excluding Agency MBS which are reported at fair value with changes in fair value recorded in earnings) were $7 thousand and $69 thousand as of June 30, 2021 and December 31, 2020, respectively. Given the inherent credit quality of Agency MBS, the Company does not consider any of the current impairments on its Agency MBS to be credit related. In evaluating whether it is more likely than not that it will be required to sell any impaired security before its anticipated recovery, which may be at their maturity, the Company considers the significance of each investment, the amount of impairment, the projected future performance of such impaired securities, as well as the Company’s current and anticipated leverage capacity and liquidity position. Based on these analyses, the Company determined that at June 30, 2021 and December 31, 2020, unrealized losses on its Agency MBS were temporary.

Gross unrealized losses on the Company’s Non-Agency RMBS (excluding Non-Agency RMBS which are reported at fair value with changes in fair value recorded in earnings), net of any allowance for credit losses, were $102 thousand and $248 thousand, at June 30, 2021 and December 31, 2020, respectively. After evaluating the securities and recording the allowance for credit losses, the Company concluded that the remaining unrealized losses reflected above were non-credit related and would be recovered from the securities' estimated future cash flows. The Company considered a number of factors in reaching this conclusion, including that it did not intend to sell the securities, it was not considered more likely than not that it would be forced to sell the securities prior to recovering the amortized cost, and there were no material credit events that would have caused the Company to otherwise conclude that it would not recover the amortized cost. The allowance for credit losses are calculated by comparing the estimated future cash flows of each security discounted at the yield determined as of the initial acquisition date or, if since revised, as of the last date previously revised, to the net amortized cost basis. Significant judgment is used in projecting cash flows for Non-Agency RMBS.

The Company has reviewed its Non-Agency RMBS that are in an unrealized loss position to identify those securities with losses that are credit related based on an assessment of changes in cash flows expected to be collected for such RMBS, which considers recent bond performance and expected future performance of the underlying collateral. A summary of the credit losses allowance on available-for-sale securities for quarters and six months ended June 30, 2021 and 2020 is presented below.

	For the Quarter Ended		For the Six Months Ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
	(dollars in thousands)		(dollars in thousands)	
Beginning allowance for credit losses	$ 54	$ 6,314	$ 180	$ —
Additions to the allowance for credit losses on securities for which credit losses were not previously recorded	468	247	468	6,561
Allowance on purchased financial assets with credit deterioration	—	—	—	—
Reductions for the securities sold during the period	—	(321)	—	(321)
Increase/(decrease) on securities with an allowance in the prior period	(14)	(2,703)	(179)	(2,703)
Write-offs charged against the allowance	—	(1,748)	(62)	(1,748)
Recoveries of amounts previously written off	—	28	101	28
Ending allowance for credit losses	$ 508	$ 1,817	$ 508	$ 1,817

The following table presents significant credit quality indicators used for the credit loss allowance on our Non-Agency RMBS investments as of June 30, 2021 and December 31, 2020.

	June 30, 2021			
	(dollars in thousands)			
		Prepay Rate	CDR	Loss Severity
	Amortized Cost	Weighted Average	Weighted Average	Weighted Average
Non-Agency RMBS				
Senior	37,989,049	9.7%	3.7%	56.0%

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

The decrease in the allowance for credit losses for the quarter and six months ended June 30, 2021 is primarily due to a reduction in expected losses and delinquencies as compared to the same periods of 2020.

The following tables present a summary of unrealized gains and losses at June 30, 2021 and December 31, 2020.

	June 30, 2021 (dollars in thousands)					
	Gross Unrealized Gain Included in Accumulated Other Comprehensive Income	Gross Unrealized Gain Included in Cumulative Earnings	Total Gross Unrealized Gain	Gross Unrealized Loss Included in Accumulated Other Comprehensive Income	Gross Unrealized Loss Included in Cumulative Earnings	Total Gross Unrealized Loss
Non-Agency RMBS						
Senior	$ 418,984	$ —	$ 418,984	$ (102)	$ —	$ (102)
Subordinated	34,147	37,577	71,724	—	(24,233)	(24,233)
Interest-only	—	41,498	41,498	—	(56,419)	(56,419)
Agency RMBS						
Interest-only	—	219	219	—	(33,674)	(33,674)
Agency CMBS						
Project loans	3,091	98,940	102,031	(7)	—	(7)
Interest-only	—	5,090	5,090	—	(537)	(537)
Total	$ 456,222	$ 183,324	$ 639,546	$ (109)	$ (114,863)	$ (114,972)

	December 31, 2020 (dollars in thousands)					
	Gross Unrealized Gain Included in Accumulated Other Comprehensive Income	Gross Unrealized Gain Included in Cumulative Earnings	Total Gross Unrealized Gain	Gross Unrealized Loss Included in Accumulated Other Comprehensive Income	Gross Unrealized Loss Included in Cumulative Earnings	Total Gross Unrealized Loss
Non-Agency RMBS						
Senior	$ 487,963	$ —	$ 487,963	$ (248)	$ —	$ (248)
Subordinated	65,043	17,964	83,007	—	(38,029)	(38,029)
Interest-only	—	67,868	67,868	—	(55,219)	(55,219)
Agency RMBS						
Interest-only	—	270	270	—	(28,399)	(28,399)
Agency CMBS						
Project loans	5,407	153,826	159,233	(69)	—	(69)
Interest-only	—	2,659	2,659	—	(346)	(346)
Total	$ 558,413	$ 242,587	$ 801,000	$ (317)	$ (121,993)	$ (122,310)

Changes in prepayments, actual cash flows, and cash flows expected to be collected, among other items, are affected by the collateral characteristics of each asset class. The Company chooses assets for the portfolio after carefully evaluating each investment's risk profile.

The following tables provide a summary of the Company's MBS portfolio at June 30, 2021 and December 31, 2020.

	June 30, 2021				
	Principal or Notional Value at Period-End (dollars in thousands)	Weighted Average Amortized Cost Basis	Weighted Average Fair Value	Weighted Average Coupon	Weighted Average Yield at Period-End (1)
Non-Agency RMBS					
Senior	$ 1,405,783	$ 49.69	79.45	4.4 %	17.4 %
Subordinated	827,198	67.30	73.04	3.9 %	6.5 %
Interest-only	4,217,507	5.06	4.71	1.7 %	12.7 %
Agency RMBS					
Interest-only	1,164,844	9.47	6.60	1.3 %	1.4 %
Agency CMBS					
Project loans	974,756	101.78	112.25	4.2 %	4.1 %
Interest-only	2,412,480	5.71	5.90	0.7 %	4.6 %

(1) Bond Equivalent Yield at period end.

	December 31, 2020				
	Principal or Notional Value at Period-End (dollars in thousands)	Weighted Average Amortized Cost Basis	Weighted Average Fair Value	Weighted Average Coupon	Weighted Average Yield at Period-End [(1)]
Non-Agency RMBS					
Senior	$ 1,560,135	$ 50.65	$ 81.90	4.5 %	16.9 %
Subordinated	905,674	62.46	67.43	3.8 %	6.3 %
Interest-only	5,628,240	4.43	4.66	1.5 %	16.2 %
Agency RMBS					
Interest-only	1,262,963	9.41	7.18	1.7 %	1.6 %
Agency CMBS					
Project loans	1,527,621	101.81	112.23	4.1 %	3.8 %
Interest-only	1,326,665	1.78	1.95	0.6 %	8.4 %

(1) Bond Equivalent Yield at period end.

The following table presents the weighted average credit rating of the Company's Non-Agency RMBS portfolio at June 30, 2021 and December 31, 2020.

	June 30, 2021	December 31, 2020
AAA	0.1 %	0.2 %
AA	0.1 %	0.1 %
A	1.6 %	1.2 %
BBB	2.1 %	1.9 %
BB	4.5 %	4.3 %
B	2.1 %	2.0 %
Below B	26.6 %	31.9 %
Not Rated	62.9 %	58.4 %
Total	100.0 %	100.0 %

Actual maturities of MBS are generally shorter than the stated contractual maturities. Actual maturities of the Company's MBS are affected by the underlying mortgages, periodic payments of principal, realized losses and prepayments of principal. The following tables provide a summary of the fair value and amortized cost of the Company's MBS at June 30, 2021 and December 31, 2020 according to their estimated weighted-average life classifications. The weighted-average lives of the MBS in the tables below are based on lifetime expected prepayment rates using the Company's prepayment assumptions for the Agency MBS and Non-Agency RMBS. The prepayment model considers current yield, forward yield, steepness of the interest rate curve, current mortgage rates, mortgage rates of the outstanding loan, loan age, margin, and volatility.

	June 30, 2021 (dollars in thousands) Weighted Average Life				
	Less than one year	Greater than one year and less than five years	Greater than five years and less than ten years	Greater than ten years	Total
Fair value					
Non-Agency RMBS					
Senior	$ 9,083	$ 366,593	$ 331,708	$ 409,487	$ 1,116,871
Subordinated	6,845	140,914	26,984	429,465	604,208
Interest-only	4,495	160,365	33,125	604	198,589
Agency RMBS					
Interest-only	—	—	76,820	—	76,820
Agency CMBS					
Project loans	8,514	—	—	1,085,631	1,094,145
Interest-only	1,805	136,990	3,567	—	142,362
Total fair value	$ 30,742	$ 804,862	$ 472,204	$ 1,925,187	$ 3,232,995
Amortized cost					
Non-Agency RMBS					
Senior	$ 7,048	$ 256,293	$ 184,278	$ 250,878	$ 698,497
Subordinated	2,483	122,434	19,445	412,355	556,717
Interest-only	30,410	155,661	27,220	219	213,510
Agency RMBS					
Interest-only	—	—	110,275	—	110,275
Agency CMBS					
Project loans	8,521	—	—	983,600	992,121
Interest-only	2,277	132,181	3,351	—	137,809
Total amortized cost	$ 50,739	$ 666,569	$ 344,569	$ 1,647,052	$ 2,708,929

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

The Non-Agency RMBS investments are secured by pools of mortgage loans which are subject to credit risk. The following table summarizes the delinquency, bankruptcy, foreclosure and Real estate owned, or REO, total of the pools of mortgage loans securing the Company's investments in Non-Agency RMBS at June 30, 2021 and December 31, 2020. When delinquency rates increase, it is expected that the Company will incur additional credit losses.

June 30, 2021	30 Days Delinquent	60 Days Delinquent	90+ Days Delinquent	Bankruptcy	Foreclosure	REO	Total
% of Unpaid Principal Balance	3.0 %	1.3 %	6.5 %	1.4 %	3.2 %	0.3 %	15.7 %

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

The Non-Agency RMBS in the Portfolio have the following collateral characteristics at June 30, 2021 and December 31, 2020.

	June 30, 2021		December 31, 2020	
Weighted average maturity (years)		21.4		22.2
Weighted average amortized loan to value (1)		60.6 %		61.4 %
Weighted average FICO (2)		718		714
Weighted average loan balance (in thousands)	$	263	$	291
Weighted average percentage owner-occupied		83.0 %		81.8 %
Weighted average percentage single family residence		62.6 %		61.7 %
Weighted average current credit enhancement		1.0 %		0.9 %
Weighted average geographic concentration of top four states	CA	31.5 %	CA	33.8 %
	NY	10.0 %	NY	8.7 %
	FL	8.3 %	FL	7.9 %
	NJ	4.6 %	NJ	4.3 %

(1) Value represents appraised value of the collateral at the time of loan origination.
(2) FICO as determined at the time of loan origination.

The table below presents the origination year of the underlying loans related to the Company's portfolio of Non-Agency RMBS at June 30, 2021 and December 31, 2020.

Origination Year	June 30, 2021	December 31, 2020
2003 and prior	1.5 %	1.7 %
2004	1.4 %	1.4 %
2005	9.6 %	10.3 %
2006	53.2 %	52.1 %
2007	26.3 %	27.2 %
2008 and later	8.0 %	7.3 %
Total	100.0 %	100.0 %

Gross realized gains and losses are recorded in "Net realized gains (losses) on sales of investments" on the Company's Consolidated Statements of Operations. The proceeds and gross realized gains and gross realized losses from sales of investments for the quarters and six months ended June 30, 2021 and 2020 are as follows:

	For the Quarters		For the Six Months	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
	(dollars in thousands)		(dollars in thousands)	
Proceeds from sales:				
Non-Agency RMBS	15,418	108,163	47,877	141,960
Agency RMBS	626	—	626	5,710,134
Agency CMBS	—	221,651	201,037	326,668
Gross realized gains:				
Non-Agency RMBS	11,229	20,017	37,742	21,274
Agency RMBS	—	—	—	74,264
Agency CMBS	—	12,542	13,735	18,691
Gross realized losses:				
Non-Agency RMBS	(2,503)	(6,179)	(4,955)	(6,179)
Agency RMBS	(1,209)	—	(1,209)	(5,816)
Agency CMBS	—	—	—	—
Net realized gain (loss)	$ 7,517	$ 26,380	$ 45,313	$ 102,234

4. Loans Held for Investment

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

At June 30, 2021, all Loans held for investment are carried at fair value. See Note 5 for a discussion on how the Company determines the fair values of the Loans held for investment. As changes in the fair value of these loans are reflected in earnings, the Company does not estimate or record a loan loss provision. The total amortized cost of the Company's Loans held for investment was $11.4 billion and $12.5 billion as of June 30, 2021 and December 31, 2020, respectively.

The following table provides a summary of the changes in the carrying value of Loans held for investment at fair value at June 30, 2021 and December 31, 2020:

	For the Six Months Ended	For the Year Ended
	June 30, 2021	December 31, 2020
	(dollars in thousands)	
Balance, beginning of period	$ 13,112,129	$ 14,292,815
Purchases	1,480,958	1,860,998
Principal paydowns	(1,260,128)	(1,966,590)
Sales and settlements	(1,226,954)	(1,053,943)
Net periodic accretion (amortization)	(55,862)	(85,794)
Realized gains (losses) on sales and settlements	—	—
Change in fair value	100,725	64,643
Balance, end of period	$ 12,150,868	$ 13,112,129

The primary cause of the change in fair value is due to market demand, interest rates and changes in credit risk of mortgage loans. During the year ended December 31, 2020, the Company sold $1.1 billion of loans, with the Company retaining $22 million of beneficial interests. The Company did not retain any beneficial interests on loan sales during the quarter and six months ended June 30, 2021.

Residential mortgage loans

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

Origination Year	June 30, 2021	December 31, 2020
2002 and prior	6.8 %	6.9 %
2003	5.9 %	5.9 %
2004	11.8 %	12.0 %
2005	17.9 %	18.2 %
2006	22.5 %	22.7 %
2007	22.4 %	22.4 %
2008	6.5 %	6.4 %
2009	1.3 %	1.3 %
2010 and later	4.9 %	4.2 %
Total	100.0 %	100.0 %

The following table presents a summary of key characteristics of the residential loan portfolio at June 30, 2021 and December 31, 2020:

	June 30, 2021		December 31, 2020	
Number of loans		121,982		132,134
Weighted average maturity (years)		19.6		19.6
Weighted average loan to value		86.4 %		86.1 %
Weighted average FICO		655		630
Weighted average loan balance (in thousands)	$	95	$	96
Weighted average percentage owner occupied		88.5 %		87.7 %
Weighted average percentage single family residence		83.0 %		83.3 %
Weighted average geographic concentration of top five states	CA	12.5 %	CA	12.4 %
	FL	8.0 %	FL	8.0 %
	NY	7.6 %	NY	7.3 %
	PA	5.0 %	PA	5.0 %
	VA	4.9 %	VA	4.9 %

The following table summarizes the outstanding principal balance of the residential loan portfolio which are 30 days delinquent and greater as reported by the servicers at June 30, 2021 and December 31, 2020, respectively.

	30 Days Delinquent	60 Days Delinquent	90+ Days Delinquent	Bankruptcy	Foreclosure	REO	Total	Unpaid Principal Balance
			(dollars in thousands)					
June 30, 2021	$580,778	$183,728	$598,489	$222,184	$324,081	$24,781	$1,934,041	$11,549,915
% of Unpaid Principal Balance	5.0 %	1.6 %	5.2 %	1.9 %	2.8 %	0.2 %	16.7 %	
December 31, 2020	$727,012	$289,966	$729,713	$277,098	$297,509	$29,852	$2,351,150	12,640,193
% of Unpaid Principal Balance	5.8 %	2.3 %	5.8 %	2.2 %	2.4 %	0.2 %	18.6 %	

The fair value of residential mortgage loans 90 days or more past due was $848 million and $910 million as of June 30, 2021 and December 31, 2020, respectively.

5. Fair Value Measurements

The Company applies fair value guidance in accordance with GAAP to account for its financial instruments. The Company categorizes its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Financial assets and liabilities recorded at fair value on the Consolidated Statements of Financial Condition or disclosed in the related notes are categorized based on the inputs to the valuation techniques as follows:

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

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

Level 3 – inputs to the valuation methodology are unobservable and significant to fair value.

Fair value measurements categorized within Level 3 are sensitive to changes in the assumptions or methodology used to determine fair value and such changes could result in a significant increase or decrease in the fair value. Any changes to the valuation methodology are reviewed by the Company to ensure the changes are appropriate. As markets and products evolve and the pricing for certain products becomes more transparent, the Company will continue to refine its valuation methodologies. The methodology utilized by the Company for the periods presented is unchanged. The methods used to produce a fair value calculation may not be indicative of net realizable value or reflective of future fair values. Furthermore, the Company believes its valuation methods are appropriate and consistent with other market participants. Using different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. The Company uses inputs that are current as of the measurement date, which may include periods of market dislocation, during which price transparency may be reduced.

The Company determines the fair values of its investments using internally developed processes and validates them using a third-party pricing service. During times of market dislocation, the observability of prices and inputs can be difficult for certain investments. If the third-party pricing service is unable to provide a price for an asset, or if the price provided by them is deemed unreliable by the Company, then the asset will be valued at its fair value as determined by the Company without validation to third-party pricing. Illiquid investments typically experience greater price volatility as an active market does not exist. Observability of prices and inputs can vary significantly from period to period and may cause instruments to change classifications within the three level hierarchy.

A description of the methodologies utilized by the Company to estimate the fair value of its financial instruments by instrument class follows:

Agency MBS and Non-Agency RMBS

The Company determines the fair value of all of its investment securities based on discounted cash flows utilizing an internal pricing model that incorporates factors such as coupon, prepayment speeds, loan size, collateral composition, borrower characteristics, expected interest rates, life caps, periodic caps, reset dates, collateral seasoning, delinquency, expected losses, expected default severity, credit enhancement, and other pertinent factors. To corroborate that the estimates of fair values generated by these internal models are reflective of current market prices, the Company compares the fair values generated by the model to non-binding independent prices provided by an independent third-party pricing service. For certain highly liquid asset classes, such as Agency fixed-rate pass-through bonds, the Company's valuations are also compared to quoted prices for To-Be-Announced, or TBA, securities.

Each quarter the Company develops thresholds generally using market factors or other assumptions, as appropriate. If internally developed model prices differ from the independent prices by greater than these thresholds for the period, the Company conducts a further review, both internally and with third-party pricing service of the prices of such securities. First, the Company obtains the inputs used by the third-party pricing service and compares them to the Company's inputs. The Company then updates its own inputs if the Company determines the third-party pricing inputs more accurately reflect the current market environment. If the Company believes that its internally developed inputs more accurately reflect the current market environment, it will request that the third-party pricing service review market factors that may not have been considered by the third-party pricing service and provide updated prices. The Company reconciles and resolves all pricing differences in excess of the thresholds before a final price is established. After the review for the period ended June 30, 2021, 10 investment holdings with an internally developed fair value of $176 million had a difference between the model generated prices and third-party prices provided in excess of the thresholds for the period. The internally developed prices were $8 million higher, in the aggregate, than the third-party prices provided of $168 million. After review and discussion, the Company affirmed and valued the investments at the higher internally developed prices. No other differences were noted at June 30, 2021 in excess of the thresholds for the period. At December 31, 2020, 23 investment holdings with an internally developed fair value of $389 million had a difference between the model generated prices and third-party prices provided in excess of the thresholds for the period. The internally developed prices were $3 million lower, in the aggregate, than the third-party prices provided of $392 million. After review and discussion, the Company affirmed and valued the investments at the lower internally developed prices. No other differences were noted at December 31, 2020 in excess of the thresholds for the period.

The Company's estimate of prepayment, default and severity curves all involve judgment and assumptions that are deemed to be significant to the fair value measurement process. This subjective estimation process renders the majority of the Non-Agency RMBS fair value estimates as Level 3 in the fair value hierarchy. As the fair values of Agency MBS are more observable, these investments are classified as Level 2 in the fair value hierarchy.

Loans Held for Investment

Loans held for investment is comprised primarily of seasoned reperforming residential mortgage loans. Loans held for investments also includes jumbo, prime residential mortgage and business purpose loans. A description of how fair values for each of these loan groups is below.

Loans consisting of seasoned reperforming residential mortgage loans:

The Company estimates the fair value of its Loans held for investment consisting of seasoned reperforming residential mortgage loans on a loan by loan basis using an internally developed model which compares the loan held by the Company with a loan currently offered in the market. The loan price is adjusted in the model by considering the loan factors which would impact the value of a loan. These loan factors include loan coupon as compared to coupon currently available in the market, FICO, loan-to-value ratios, delinquency history, owner occupancy, and property type, among other factors. A baseline is developed for each significant loan factor and adjusts the price up or down depending on how that factor for each specific loan compares to the baseline rate. Generally, the most significant impact on loan value is the loan interest rate as compared to interest rates currently available in the market and delinquency history.

The Company also monitors market activity to identify trades which may be used to compare internally developed prices; however, as the portfolio of loans held at fair value is a seasoned subprime pool of mortgage loans, comparable loan pools are not common or directly comparable. There are limited transactions in the marketplace to develop a comprehensive direct range of values.

The Company reviews the fair values generated by the model to determine whether prices are reflective of the current market by corroborating its estimates of fair value by comparing the results to non-binding independent prices provided by an independent third-party pricing service for the loan portfolio. Each quarter the Company develops thresholds generally using market factors or other assumptions as appropriate.

If the internally developed fair values of the loan pools differ from the independent third-party prices by greater than the threshold for the period, the Company highlights these differences for further review, both internally and with the third-party pricing service. The Company obtains certain inputs used by the third-party pricing service and evaluates them for reasonableness. Then the Company updates its own model if the Company determines the third-party pricing inputs more accurately reflect the current market environment or observed information from the third-party vendor. If the Company believes that its internally developed inputs more accurately reflect the current market environment, it will request that the third-party pricing service review market factors that may not have been considered by the third-party pricing service. The Company reconciles and resolves all pricing differences in excess of the thresholds before a final price is established.

After the review for the period ended June 30, 2021, 2 loan pools with an internally developed fair value of $436 million had a difference between the model generated prices and third-party prices provided in excess of the threshold for the period. The internally developed prices were $2 million higher than the third-party prices provided of $434 million. After review and discussion, the Company affirmed and valued the investments at the higher internally developed prices. No other differences were noted at June 30, 2021 in excess of the threshold for the period. At December 31, 2020, 3 loan pools with an internally developed fair value of $503 million had a difference between the model generated prices and third-party prices provided in excess of the threshold for the period. The internally developed prices were $55 million higher than the third-party prices provided of $448 million. After review and discussion, the Company affirmed and valued the investments at the higher internally developed prices. No other differences were noted at December 31, 2020 in excess of the threshold for the period.

The Company's estimates of fair value of Loans held for investment involve judgment and assumptions that are deemed to be significant to the fair value measurement process, which renders the resulting fair value estimates Level 3 inputs in the fair value hierarchy.

Loans collateralized by jumbo, prime residential mortgages:

The loans collateralized by jumbo, prime residential mortgages are carried at fair value. The loans are held as part of a consolidated Collateralized Financing Entity, or a CFE. A CFE is a variable interest entity that holds financial assets, issues beneficial interests in those assets and has no more than nominal equity and the beneficial interests have contractual recourse only to the related assets of the CFE. Accounting guidance for CFEs allows the Company to elect to measure the CFE’s financial assets using the fair value of the CFE’s financial liabilities, as the fair values of the financial liabilities of the CFE are more observable. Therefore, the fair value of the loans collateralized by jumbo, prime residential mortgages is based on the fair value of the financial liabilities. See discussion of the fair value of Securitized Debt, collateralized by Loans held for investment at fair value below. Jumbo, prime residential mortgage loans have a fair value of $49 million at June 30, 2021.

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

Business purpose loans:

Business purpose loans are loans to businesses that are secured by real property which will be renovated by the borrower. Upon completion of the renovation the property will be either sold by the borrower or refinanced by the borrower who may subsequently sell or rent the property. Most, but not all, of the properties securing this loans are residential and a portion of the loan is used to cover renovation costs. The business purpose loans are included as a part of the Company's Loans held for investment portfolio and are carried at fair value. These loans tend to be short duration, often less than one year, and generally the coupon rate is higher than the Company's residential mortgage loans. As these loans are generally short-term in nature and there is an active market for these loans, the Company estimates fair value of the business purpose loans based on the recent purchase price of the loan, adjusted for observable market activity for similar assets offered in the market. Business purpose loans have a fair value of $272 million at June 30, 2021.

As the fair value prices of the business purpose loans are based on the recent trades of similar assets in an active market, the Company has transferred them to Level 2 in the fair value hierarchy as of June 30, 2021.

Securitized Debt, collateralized by Loans Held for Investment

The process for determining the fair value of securitized debt, collateralized by Loans held for investment is based on discounted cash flows utilizing an internal pricing model that incorporates factors such as coupon, prepayment speeds, loan size, collateral composition, borrower characteristics, expected interest rates, life caps, periodic caps, reset dates, collateral seasoning, expected losses, expected default severity, credit enhancement, and other pertinent factors. This process, including the review process, is consistent with the process used for Agency MBS and Non-Agency RMBS using internal models. For further discussion of the valuation process and benchmarking process, see *Agency MBS and Non-Agency RMBS* discussion herein. The primary cause of the change in fair value is due to market demand and changes in credit risk of mortgage loans.

After the review for the period ended June 30, 2021, there were no pricing differences in excess of the predetermined thresholds between the model generated prices and independent third-party prices. At December 31, 2020, 2 securitized debt positions with an internally developed fair value of $209 million had a difference between the model generated prices and third-party prices provided in excess of the derived predetermined threshold for the period. The internally developed prices were $17 million higher than the third-party prices provided of $192 million. After review and discussion, the Company affirmed and valued the securitized debt positions at the higher internally developed prices. No other differences were noted at December 31, 2020 in excess of the derived predetermined threshold for the period.

The Company’s estimates of fair value of securitized debt, collateralized by Loans held for investment involve judgment and assumptions that are deemed to be significant to the fair value measurement process, which renders the resulting fair value estimates Level 3 inputs in the fair value hierarchy.

Securitized Debt, collateralized by Non-Agency RMBS

The Company carries securitized debt, collateralized by Non-Agency RMBS at the principal balance outstanding plus unamortized premiums, less unaccreted discounts recorded in connection with the financing of the loans or RMBS with third parties. For disclosure purposes, the Company estimates the fair value of securitized debt, collateralized by Non-Agency RMBS by estimating the future cash flows associated with the underlying assets collateralizing the secured debt outstanding. The Company models the fair value of each underlying asset by considering, among other items, the structure of the underlying security, coupon, servicer, delinquency, actual and expected defaults, actual and expected default severities, reset indices, and prepayment speeds in conjunction with market research for similar collateral performance and the Company's expectations of general economic conditions in the sector and other economic factors. This process, including the review process, is consistent with the process used for Agency MBS and Non-Agency RMBS using internal models. For further discussion of the valuation process and benchmarking process, see *Agency MBS and Non-Agency RMBS* discussion herein.

The Company's estimates of fair value of securitized debt, collateralized by Non-Agency RMBS involve judgment and assumptions that are deemed to be significant to the fair value measurement process, which renders the resulting fair value estimates Level 3 inputs in the fair value hierarchy.

Fair value option

The table below shows the unpaid principal and fair value of the financial instruments carried at fair value with changes in fair value reflected in earnings under the fair value option election as of June 30, 2021 and December 31, 2020, respectively:

	June 30, 2021		December 31, 2020	
	(dollars in thousands)			
	Unpaid Principal/ Notional	**Fair Value**	**Unpaid Principal/ Notional**	**Fair Value**
Assets:				
Non-Agency RMBS				
Subordinated	629,253	448,164	632,335	416,745
Interest-only	4,217,507	198,589	5,628,240	262,259
Agency RMBS				
Interest-only	1,164,844	76,820	1,262,963	90,738
Agency CMBS				
Project loans	894,704	1,009,089	1,413,719	1,592,473
Interest-only	2,412,480	142,362	1,326,665	25,885
Loans held for investment, at fair value	11,549,915	12,150,868	12,640,195	13,112,129
Liabilities:				
Securitized debt at fair value, collateralized by Loans held for investment	8,365,980	8,371,511	8,705,200	8,711,677

The table below shows the impact of change in fair value on each of the financial instruments carried at fair value with changes in fair value reflected in earnings under the fair value option election in statement of operations as of June 30, 2021 and 2020, respectively:

	For the Quarter Ended		For the Six Months Ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
	(dollars in thousands)		(dollars in thousands)	
	Gain/(Loss) on Change in Fair Value		Gain/(Loss) on Change in Fair Value	
Assets:				
Non-Agency RMBS				
Senior	—	—	—	—
Subordinated	24,145	(7,157)	33,411	(87,960)
Interest-only	(1,720)	105,772	(27,571)	56,946
Agency RMBS				
Pass-through	—	—	—	(151,056)
Interest-only	(5,564)	6,187	(5,326)	(11,478)
Agency CMBS				
Project loans	(14,334)	12,348	(54,884)	88,011
Interest-only	2,318	484	2,240	1,627
Loans held for investment, at fair value	16,679	185,842	100,727	(495,673)
Liabilities:				
Securitized debt at fair value, collateralized by Loans held for investment	14,584	(475,397)	257,523	166,774

Secured Financing Agreements

Secured financing agreements are collateralized financing transactions utilized by the Company to acquire investment securities. For short term secured financing agreements and longer term floating rate secured financing agreements, the Company estimates fair value using the contractual obligation plus accrued interest payable. The fair value of longer term fixed rate secured financing agreements is determined using present value of discounted cash flows based on the imputed market rates. The Company has classified the characteristics used to determine the fair value of Secured Financing Agreements as Level 2 inputs in the fair value hierarchy.

Long Term Debt

Convertible Senior Notes

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

Short-term Financial Instruments

The carrying value of cash and cash equivalents, accrued interest receivable, dividends payable, payable for investments purchased, receivable for investments sold and accrued interest payable are considered to be a reasonable estimate of fair value due to the short term nature and low credit risk of these short-term financial instruments.

The Company’s financial assets and liabilities carried at fair value on a recurring basis, including the level in the fair value hierarchy, at June 30, 2021 and December 31, 2020 are presented below.

	June 30, 2021 (dollars in thousands)				
	Level 1	Level 2	Level 3	Counterparty and Cash Collateral, netting	Total
Assets:					
Non-Agency RMBS, at fair value	$ —	$ —	$ 1,919,668	$ —	$ 1,919,668
Agency RMBS, at fair value	—	76,820	—	—	76,820
Agency CMBS, at fair value	—	1,236,507	—	—	1,236,507
Loans held for investment, at fair value	—	272,198	11,878,670	—	12,150,868
Liabilities:					
Securitized debt at fair value, collateralized by Loans held for investment	—	—	8,371,511	—	8,371,511

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

The table below provides a summary of the changes in the fair value of financial instruments classified as Level 3 at June 30, 2021 and December 31, 2020.

Fair Value Reconciliation, Level 3

	For the Six Months Ended June 30, 2021 (dollars in thousands)		
	Non-Agency RMBS	Loans held for investment	Securitized Debt
Beginning balance Level 3	$ 2,150,714	$ 13,112,129	$ 8,711,677
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	(272,198)	—
Purchases of assets/ issuance of debt	9,766	1,480,958	4,677,423
Principal payments	(170,247)	(1,260,128)	(1,051,306)
Sales and Settlements	(47,674)	(1,226,954)	(3,976,979)
Net accretion (amortization)	38,518	(55,862)	12,697
Gains (losses) included in net income			
(Increase) decrease in provision for credit losses	(327)	—	—
Realized gains (losses) on sales and settlements	32,807	—	255,523
Net unrealized gains (losses) included in income	5,840	100,725	(257,524)
Gains (losses) included in other comprehensive income			
Total unrealized gains (losses) for the period	(99,729)	—	—
Ending balance Level 3	$ 1,919,668	$ 11,878,670	$ 8,371,511

Fair Value Reconciliation, Level 3

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

During the second quarter of 2021 there were transfers out of $272 million Loans held for investments from Level 3 into Level 2, relating to business purpose loans as these assets are valued based on recent trades of similar assets within an active market. During the first quarter of 2020 there were transfers out of Level 3 to Level 2 of $135 million, as prices were based on unadjusted quoted prices on these assets. These investments of $135 million were transferred into Level 3 during the second quarter of 2020, as unadjusted quoted prices were unavailable and the Company used internal pricing model to value them. The Company determines when transfers have occurred between levels of the fair value hierarchy based on the date of the event or change in circumstances that caused the transfer.

The significant unobservable inputs used in the fair value measurement of the Company's Non-Agency RMBS and securitized debt are the weighted average discount rates, prepayment rate, constant default rate, and the loss severity.

Discount Rate

The discount rate refers to the interest rate used in the discounted cash flow analysis to determine the present value of future cash flows. The discount rate takes into account not just the time value of money, but also the risk or uncertainty of future cash flows. An increased uncertainty of future cash flows results in a higher discount rate. The discount rate used to calculate the present value of the expected future cash flows is based on the discount rate implicit in the security as of the last measurement date. As discount rates move up, the values of the discounted cash flows are reduced.

The discount rates applied to the expected cash flows to determine fair value are derived from a range of observable prices on securities backed by similar collateral. As the market becomes more or less liquid, the availability of these observable inputs will change.

Prepayment Rate

The prepayment rate specifies the percentage of the collateral balance that is expected to prepay at each point in the future. The prepayment rate is based on factors such as interest rates, loan-to-value ratio, debt-to-income ratio, and is scaled up or down to reflect recent collateral-specific prepayment experience as obtained from remittance reports and market data services.

Constant Default Rate

Constant default rate represents an annualized rate of default on a group of mortgages. The constant default rate, or CDR, represents the percentage of outstanding principal balances in the pool that are in default, which typically equates to the home being past 60-day and 90-day notices and in the foreclosure process. When default rates increase, expected cash flows on the underlying collateral decreases. When default rates decrease, expected cash flows on the underlying collateral increases.

Default vectors are determined from the current “pipeline” of loans that are more than 30 days delinquent, in foreclosure, bankruptcy, or are REO. These delinquent loans determine the first 30 months of the default curve. Beyond month 30, the default curve transitions to a value that is reflective of a portion of the current delinquency pipeline.

Loss Severity

Loss severity rates reflect the amount of loss expected from a foreclosure and liquidation of the underlying collateral in the mortgage loan pool. When a mortgage loan is foreclosed the collateral is sold and the resulting proceeds are used to settle the outstanding obligation. In many circumstances, the proceeds from the sale do not fully repay the outstanding obligation. In these cases, a loss is incurred by the lender. Loss severity is used to predict how costly future losses are likely to be. An increase in loss severity results in a decrease in expected future cash flows. A decrease in loss severity results in an increase in expected future cash flows.

The curve generated to reflect the Company’s expected loss severity is based on collateral-specific experience with consideration given to other mitigating collateral characteristics. Collateral characteristics such as loan size, loan-to-value, seasoning or loan age and geographic location of collateral also effect loss severity.

Sensitivity of Significant Inputs – Non-Agency RMBS and securitized debt, collateralized by Loans held for investment

Prepayment rates vary according to interest rates, the type of financial instrument, conditions in financial markets, and other factors, none of which can be predicted with any certainty. In general, when interest rates rise, it is relatively less attractive for borrowers to refinance their mortgage loans, and as a result, prepayment speeds tend to decrease. When interest rates fall, prepayment speeds tend to increase. For RMBS investments purchased at a premium, as prepayment rates increase, the amount of income the Company earns decreases as the purchase premium on the bonds amortizes faster than expected. Conversely, decreases in prepayment rates result in increased income and can extend the period over which the Company amortizes the purchase premium. For RMBS investments purchased at a discount, as prepayment rates increase, the amount of income the Company earns increases from the acceleration of the accretion of the purchase discount into interest income. Conversely, decreases in prepayment rates result in decreased income as the accretion of the purchase discount into interest income occurs over a longer period.

For securitized debt carried at fair value issued at a premium, as prepayment rates increase, the amount of interest expense the Company recognizes decreases as the issued premium on the debt amortizes faster than expected. Conversely, decreases in prepayment rates result in increased expense and can extend the period over which the Company amortizes the premium.

For debt issued at a discount, as prepayment rates increase, the amount of interest the Company expenses increases from the acceleration of the accretion of the discount into interest expense. Conversely, decreases in prepayment rates result in decreased expense as the accretion of the discount into interest expense occurs over a longer period.

A summary of the significant inputs used to estimate the fair value of Level 3 Non-Agency RMBS held for investment at fair value as of June 30, 2021 and December 31, 2020 follows. The weighted average discount rates are based on fair value.

June 30, 2021
Significant Inputs

	Discount Rate		Prepay Rate		CDR		Loss Severity	
	Range	Weighted Average	Range	Weighted Average	Range	Weighted Average	Range	Weighted Average
Non-Agency RMBS								
Senior	1%-10%	3.6%	1%-30%	11.2%	0%-10%	2.0%	26%-65%	39.4%
Subordinated	2%-10%	5.6%	1%-50%	16.5%	0%-7%	1.1%	0%-47%	40.0%
Interest-only	0%-100%	10.2%	1%-60%	28.0%	0%-8%	1.4%	0%-85%	32.6%

December 31, 2020
Significant Inputs

	Discount Rate		Prepay Rate		CDR		Loss Severity	
	Range	Weighted Average	Range	Weighted Average	Range	Weighted Average	Range	Weighted Average
Non-Agency RMBS								
Senior	2% -10%	3.3%	1% -25%	9.5%	1% -10%	2.0%	26% -82%	41.5%
Subordinated	2% -10%	6.1%	2% -42%	13.6%	0% -6%	1.3%	10% -77%	39.8%
Interest-only	0% -100%	10.2%	6% -47%	26.3%	0% -8%	1.4%	0% -79%	33.6%

A summary of the significant inputs used to estimate the fair value of securitized debt at fair value, collateralized by Loans held for investment, as of June 30, 2021 and December 31, 2020 follows:

June 30, 2021
Significant Inputs

	Discount Rate		Prepay Rate		CDR		Loss Severity	
	Range	Weighted Average	Range	Weighted Average	Range	Weighted Average	Range	Weighted Average
Securitized debt at fair value, collateralized by Loans held for investment	0%-10%	2.3%	5%-40%	12.8%	0%-7%	1.2%	30%-75%	59.7%

December 31, 2020
Significant Inputs

	Discount Rate		Prepay Rate		CDR		Loss Severity	
	Range	Weighted Average	Range	Weighted Average	Range	Weighted Average	Range	Weighted Average
Securitized debt at fair value, collateralized by Loans held for investment	0% -10%	2.5%	4% - 40%	10.5%	0% - 7%	1.3%	30% - 75%	57.6%

All of the significant inputs listed have some degree of market observability based on the Company's knowledge of the market, information available to market participants, and use of common market data sources. Collateral default and loss severity projections are in the form of "curves" that are updated quarterly to reflect the Company's collateral cash flow projections. Methods used to develop these projections conform to industry conventions. The Company uses assumptions it considers its best estimate of future cash flows for each security.

Sensitivity of Significant Inputs – Loans held for investment

The Loans held for investment are comprised of loans collateralized by seasoned reperforming residential mortgages. Additionally, it includes non-conforming, single family, owner occupied, jumbo and prime residential mortgages. The significant unobservable factors used to estimate the fair value of the Loans held for investment collateralized by seasoned reperforming residential mortgage loans, as of June 30, 2021 and December 31, 2020, include coupon, FICO score at origination, loan-to-value, or LTV ratios, owner occupancy status, and property type. A summary of the significant factors used to estimate the fair value of Loans held for investment collateralized primarily by seasoned reperforming mortgages at fair value as of June 30, 2021 and December 31, 2020 follows:

	June 30, 2021	December 31, 2020
Factor:		
Coupon		
Base Rate	3.4%	3.4%
Actual	6.3%	6.3%
FICO		
Base Rate	640	640
Actual	652	627
Loan-to-value (LTV)		
Base Rate	87%	85%
Actual	86%	86%
Loan Characteristics:		
Occupancy		
Owner Occupied	90%	89%
Investor	3%	2%
Secondary	7%	9%
Property Type		
Single family	85%	84%
Manufactured housing	4%	4%
Multi-family/mixed use/other	11%	12%

The loan factors are generally not observable for the individual loans and the base rates developed by the Company's internal model are subjective and change as market conditions change. The impact of the loan coupon on the value of the loan is dependent on the loan history of delinquent payments. A loan with no history of delinquent payments would result in a higher overall value than a loan which has a history of delinquent payments. Similarly, a higher FICO score and a lower LTV ratio results in increases in the fair market value of the loan and a lower FICO score and a higher LTV ratio results in a lower value.

Property types also affect the overall loan values. Property types include single family, manufactured housing and multi-family/mixed use and other types of properties. Single family homes represent properties which house one to four family units. Manufactured homes include mobile homes and modular homes. Loan value for properties that are investor or secondary homes have a reduced value as compared to the baseline loan value. Additionally, single family homes will result in an increase to the loan value, whereas manufactured and multi-family/mixed use and other properties will result in a decrease to the loan value, as compared to the baseline.

Financial instruments not carried at fair value

The following table presents the carrying value and fair value, as described above, of the Company's financial instruments not carried at fair value on a recurring basis at June 30, 2021 and December 31, 2020.

	June 30, 2021 (dollars in thousands)		
	Level in Fair Value Hierarchy	Carrying Amount	Fair Value
Secured financing agreements	2	3,554,428	3,558,932
Securitized debt, collateralized by Non-Agency RMBS	3	99,559	81,400
Long Term Debt	2	20,550	48,315

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

6. Secured Financing Agreements

Secured financing agreements include short term repurchase agreements with original maturity dates of less than one-year, long-term financing agreements with original maturity dates of more than one year and loan warehouse credit facilities collateralized by loans acquired by the Company.

The repurchase agreements are collateralized by Agency and Non-Agency mortgage-backed securities with interest rates generally indexed to the one-month and three-month LIBOR rates and re-price accordingly. The maturity dates on the repurchase agreements are all less than one year and generally are less than 180 days. The collateral pledged as security on the repurchase agreements may include the Company’s investments in bonds issued by consolidated VIEs, which are eliminated in consolidation.

The long-term financing agreements include long-term repurchase agreements and secured financing arrangements with an original term of one year or greater which are secured by Non-Agency RMBS pledged as collateral. Maturity dates on these long-term financing agreements range from July 2021 through April 2025. The collateral pledged as security on the long-term financing agreements may include the Company’s investments in bonds issued by consolidated VIEs, which are eliminated in consolidation. The interest rates on the long-term financing agreements are generally indexed to one-month and three-month LIBOR rates.

The warehouse credit facilities collateralized by loans are repurchase agreements intended to finance loans until they can be sold into a longer-term securitization structure. The maturity dates on the warehouse credit facilities range from 30 days to one year with interest rates indexed to the one-month and three-month LIBOR rates.

The secured financing agreements generally require the Company to post collateral at a specific rate in excess of the unpaid principal balance of the agreement. For certain secured financing agreements, this may require the Company to post additional margin if the fair value of the assets were to drop. To mitigate this risk, the Company has negotiated several long-term financing agreements which are not subject to additional margin requirements upon a drop in the fair value of the collateral pledged or until the drop is greater than a threshold. At June 30, 2021, the Company has $1.4 billion of secured financing agreements which are not subject to additional margin requirements upon a change in the fair value of the collateral pledged. At June 30, 2021, the Company has $121 million of secured financing agreements which are not subject to additional margin requirements until the drop in the fair value of collateral is greater than a threshold. Repurchase agreements may allow the credit counterparty to avoid the automatic stay provisions of the Bankruptcy Code, in the event of a bankruptcy of the Company, and take possession of, and liquidate, the collateral under such repurchase agreements without delay.

The secured financing agreements outstanding, weighted average borrowing rates, weighted average remaining maturities, average balances and the fair value of the collateral pledged as of June 30, 2021 and December 31, 2020 were:

	June 30, 2021	December 31, 2020
Secured financing agreements outstanding secured by:		
Agency RMBS (in thousands)	$ 57,025	$ 69,180
Agency CMBS (in thousands)	943,213	1,333,799
Non-Agency RMBS and Loans held for investment (in thousands) (1)	2,554,190	3,233,868
Total:	$ 3,554,428	$ 4,636,847
MBS pledged as collateral at fair value on Secured financing agreements:		
Agency RMBS (in thousands)	$ 61,884	$ 86,160
Agency CMBS (in thousands)	989,368	1,382,783
Non-Agency RMBS and Loans held for investment (in thousands)	3,703,797	5,227,271
Total:	$ 4,755,049	$ 6,696,214
Average balance of Secured financing agreements secured by:		
Agency RMBS (in thousands)	$ 63,566	$ 1,407,713
Agency CMBS (in thousands)	1,126,446	1,818,721
Non-Agency RMBS and Loans held for investment (in thousands)	3,004,918	4,089,911
Total:	$ 4,194,930	$ 7,316,345
Average borrowing rate of Secured financing agreements secured by:		
Agency RMBS (in thousands)	0.74 %	0.90 %
Agency CMBS (in thousands)	0.14 %	0.21 %
Non-Agency RMBS and Loans held for investment (in thousands)	3.13 %	4.78 %
Average remaining maturity of Secured financing agreements secured by:		
Agency RMBS (in thousands)	1 Days	12 days
Agency CMBS (in thousands)	12 Days	11 days
Non-Agency RMBS and Loans held for investment (in thousands)	363 Days	458 days
Average original maturity of Secured financing agreements secured by:		
Agency RMBS (in thousands)	22 Days	14 days
Agency CMBS (in thousands)	29 Days	30 days
Non-Agency RMBS and Loans held for investment (in thousands)	387 Days	492 days

(1) The values for secured financing agreements in the table above is net of $4 million and $8 million of deferred financing cost as of June 30, 2021 and December 31, 2020, respectively.

At June 30, 2021 and December 31, 2020, we pledged $18 million and $42 million, respectively, of margin cash collateral to the Company's secured financing agreement counterparties. At June 30, 2021 and December 31, 2020, the secured financing agreements collateralized by MBS and Loans held for investment had the following remaining maturities and borrowing rates.

	June 30, 2021			December 31, 2020		
	(dollars in thousands)					
	Principal [(1)]	Weighted Average Borrowing Rates	Range of Borrowing Rates	Principal [(1)]	Weighted Average Borrowing Rates	Range of Borrowing Rates
Overnight	$ 105,673	0.73%	0.70% - 0.78%	$ —	NA	NA
1 to 29 days	1,248,179	0.84%	0.08% - 3.25%	1,521,134	0.38%	0.20% - 2.72%
30 to 59 days	267,897	1.57%	1.38% - 1.96%	481,257	4.35%	2.42% - 6.61%
60 to 89 days	459,140	2.16%	1.38% - 2.44%	352,684	2.78%	1.34% - 6.30%
90 to 119 days	51,944	1.82%	1.82% - 1.82%	301,994	7.97%	7.97% - 7.97%
120 to 180 days	122,765	1.77%	1.77% - 1.77%	595,900	5.29%	2.40% - 6.26%
180 days to 1 year	146,296	1.79%	0.95% - 1.95%	345,204	3.60%	3.25% - 4.50%
1 to 2 years	837,513	3.96%	2.85% - 4.38%	—	NA	NA
2 to 3 years	—	NA	NA	642,696	4.91%	1.65% - 7.00%
Greater than 3 years	315,021	5.56%	5.56% - 5.56%	395,978	5.56%	5.56% - 5.56%
Total	$ 3,554,428	2.30%		$ 4,636,847	3.41%	

(1) The values for secured financing agreements in the table above is net of $4 million and $8 million of deferred financing cost as of June 30, 2021 and December 31, 2020, respectively.

Certain of the long-term financing agreements and warehouse credit facilities are subject to certain covenants. These covenants include that the Company maintain its REIT status as well as maintain a net asset value or GAAP equity greater than a certain level. If the Company fails to comply with these covenants at any time, the financing may become immediately due in full. Additionally, certain financing agreements become immediately due if the total stockholders' equity of the Company drops by 50% from the most recent year end. Currently, the Company is in compliance with all covenants and does not expect to fail to comply with any of these covenants within the next twelve months. The Company has a total of $592 million unused uncommitted warehouse credit facilities as of June 30, 2021.

At June 30, 2021, there was no amount at risk with any counterparty greater than 10% of the Company's equity. At December 31, 2020, the Company had amounts at risk with Goldman Sachs and Nomura of 17% and 11%, respectively, of its equity related to the collateral posted on secured financing agreements. The weighted average maturities of the secured financing agreements with Goldman Sachs and Nomura were 938 and 106 days, respectively. The amounts at risk with Goldman Sachs and Nomura were $649 million and $421 million, respectively.

7. Securitized Debt

All of the Company’s securitized debt is collateralized by residential mortgage loans or Non-Agency RMBS. For financial reporting purposes, the Company’s securitized debt is accounted for as secured borrowings. Thus, the residential mortgage loans or RMBS held as collateral are recorded in the assets of the Company as Loans held for investment or Non-Agency RMBS and the securitized debt is recorded as a non-recourse liability in the accompanying Consolidated Statements of Financial Condition.

Securitized Debt Collateralized by Non-Agency RMBS

At June 30, 2021 and December 31, 2020, the Company’s securitized debt collateralized by Non-Agency RMBS was carried at amortized cost and had a principal balance of $123 million and $135 million, respectively. At June 30, 2021 and December 31, 2020, the debt carried a weighted average coupon of 6.6% and 6.5% respectively. As of June 30, 2021, the maturities of the debt range between the years 2035 and 2037. None of the Company’s securitized debt collateralized by Non-Agency RMBS is callable.

The Company did not acquire any securitized debt collateralized by Non-Agency RMBS during the quarters ended June 30, 2021 and 2020.

The following table presents the estimated principal repayment schedule of the securitized debt collateralized by Non-Agency RMBS at June 30, 2021 and December 31, 2020, based on expected cash flows of the residential mortgage loans or RMBS, as adjusted for projected losses on the underlying collateral of the debt. All of the securitized debt recorded in the Company’s Consolidated Statements of Financial Condition is non-recourse to the Company.

	June 30, 2021	December 31, 2020
	(dollars in thousands)	
Within One Year	$ 10,378	$ 13,552
One to Three Years	4,833	11,229
Three to Five Years	1,273	1,589
Greater Than Five Years	120	305
Total	$ 16,604	$ 26,675

Maturities of the Company's securitized debt collateralized by Non-Agency RMBS are dependent upon cash flows received from the underlying collateral. The estimate of their repayment is based on scheduled principal payments on the underlying collateral. This estimate will differ from actual amounts to the extent prepayments or losses are experienced. See Note 3 for a more detailed discussion of the securities collateralizing the securitized debt.

Securitized Debt Collateralized by Loans Held for Investment

At June 30, 2021 and December 31, 2020, the Company's securitized debt collateralized by Loans held for investment had a principal balance of $8.4 billion and 8.7 billion, respectively. At June 30, 2021 and December 31, 2020, the total securitized debt collateralized by Loans held for investment carried a weighted average coupon equal to 2.5% and 3.4%, respectively. As of June 30, 2021, the maturities of the debt range between the years 2023 and 2067.

During the quarter ended June 30, 2021, the Company acquired securitized debt collateralized by Loans held for investment with an amortized cost balance of $1.0 billion for $1.1 billion. This transaction resulted in net loss on extinguishment of debt of $22 million. During the six months ended June 30, 2021, the Company acquired securitized debt collateralized by Loans held for investment with an amortized cost balance of $3.7 billion for $4.0 billion. This transaction resulted in net loss on extinguishment of debt of $256 million. During the quarter and six months ended June 30, 2020, the Company acquired securitized debt collateralized by Loans held for investment with an amortized cost balance of $147 million. This transaction resulted in a net gain on extinguishment of debt of $459 thousand.

The following table presents the estimated principal repayment schedule of the securitized debt collateralized by Loans held for investment at June 30, 2021 and December 31, 2020, based on expected cash flows of the residential mortgage loans or RMBS, as adjusted for projected losses on the underlying collateral of the debt. All of the securitized debt recorded in the Company's Consolidated Statements of Financial Condition is non-recourse to the Company.

	June 30, 2021	December 31, 2020
	(dollars in thousands)	
Within One Year	$ 1,869,298	$ 1,837,055
One to Three Years	2,813,068	2,819,646
Three to Five Years	1,838,129	1,774,273
Greater Than Five Years	1,802,739	2,170,253
Total	$ 8,323,234	$ 8,601,227

Maturities of the Company's securitized debt collateralized by Loans held for investment are dependent upon cash flows received from the underlying loans. The estimate of their repayment is based on scheduled principal payments on the underlying loans. This estimate will differ from actual amounts to the extent prepayments or loan losses are experienced. See Note 4 for a more detailed discussion of the loans collateralizing the securitized debt.

Certain of the securitized debt collateralized by Loans held for investment contain call provisions at the option of the Company. The following table presents the par value of the callable debt by year at June 30, 2021.

June 30, 2021	
(dollars in thousands)	
Year	**Principal**
Currently callable	201,418
2021	411,620
2022	1,616,063
2023	1,126,194
2024	1,160,107
2025	2,798,532
Total	$ 7,313,934

8. Long Term Debt

Convertible Senior Notes

In April 2020, the Company completed its registered underwritten public offering of $374 million (including exercise of the underwriters' overallotment option) aggregate principal amount of 7.0% convertible senior notes due 2023 (the "Notes" or "Note Offering"). These Notes require semi-annual interest payments at a fixed coupon rate of 7.0% until maturity or conversion, which will be no later than April 1, 2023. After deducting the underwriting discount and offering costs, the Company received $362 million. At completion of the offering, these notes were convertible at the option of the holder at a conversion rate of 153.8461 common shares per $1,000 principal amount of convertible senior notes (equivalent to a conversion price of $6.50 per common share). On June 29, 2021, as a result in the change in the dividend, the conversion rate was updated to 154.1546 common shares per $1,000 principal amount of convertible senior notes (equivalent to a conversion price of $6.49 per common share).Upon conversion of these notes by a holder, the holder will receive shares of the Company's common stock.

As of June 30, 2021, approximately $353 million of the Notes have been converted into approximately 54 million shares of common stock of the Company. At June 30, 2021 and December 31, 2020, the outstanding principal amount of these Notes was $21 million and $53 million, respectively, and there was $367 thousand and $1 million of accrued interest payable, respectively. At June 30, 2021 and December 31, 2020, the unamortized deferred debt issuance cost was $413 thousand and $1 million, respectively. The net interest expense for the quarter and six months ended June 30, 2021 was $1 million and $2 million, respectively. The net interest expense for the quarter and six months ended June 30, 2020 was $4 million. The unamortized deferred debt issuance costs will be amortized until maturity or conversion, which will be no later than April 1, 2023.

9. Consolidated Securitization Vehicles and Other Variable Interest Entities

Since its inception, the Company has utilized VIEs for the purpose of securitizing whole mortgage loans or re-securitizing RMBS and obtaining long-term, non-recourse financing. The Company evaluated its interest in each VIE to determine if it is the primary beneficiary.

During the quarter and six months ended June 30, 2021, the Company securitized and consolidated approximately $1.5 billion and $5.6 billion, respectively, unpaid principal balance of seasoned residential subprime mortgage loans. During the quarter and six months ended June 30, 2020, the Company securitized and consolidated approximately $715 million and $1.6 billion, respectively, unpaid principal balance of seasoned residential subprime mortgage loans.

VIEs for Which the Company is the Primary Beneficiary

The retained beneficial interests in VIEs for which the Company is the primary beneficiary are typically the subordinated tranches of these securitizations and in some cases the Company may hold interests in additional tranches. The table below reflects the assets and liabilities recorded in the Consolidated Statements of Financial Condition related to the consolidated VIEs as of June 30, 2021 and December 31, 2020.

	June 30, 2021	December 31, 2020
	(dollars in thousands)	
Assets:		
Non-Agency RMBS, at fair value [1]	$ 452,889	$ 505,479
Loans held for investment, at fair value	10,576,592	11,591,598
Accrued interest receivable	50,624	53,804
Other assets	10,353	14,136
Total Assets:	$ 11,090,458	$ 12,165,017
Liabilities:		
Securitized debt, collateralized by Non-Agency RMBS	$ 99,559	$ 113,433
Securitized debt at fair value, collateralized by Loans held for investment	7,668,480	7,923,523
Accrued interest payable	16,594	23,677
Other liabilities	2,204	2,477
Total Liabilities:	7,786,837	8,063,110

(1) The June 30, 2021 and December 31, 2020 balance includes allowance for credit losses of $365 thousand and $117 thousand, respectively.

Income and expense amounts related to consolidated VIEs recorded in the Consolidated Statements of Operations is presented in the tables below.

	For the Quarters ended	
	June 30, 2021	June 30, 2020
	(dollars in thousands)	
Interest income, Assets of consolidated VIEs	$ 149,115	$ 169,127
Interest expense, Non-recourse liabilities of VIEs	50,935	70,816
Net interest income	$ 98,180	$ 98,311
(Increase) decrease in provision for credit losses	$ (365)	$ (75)
Servicing fees	$ 6,640	$ 8,145

	For the Six Months ended	
	June 30, 2021	June 30, 2020
	(dollars in thousands)	
Interest income, Assets of consolidated VIEs	$ 307,214	$ 343,809
Interest expense, Non-recourse liabilities of VIEs	116,141	135,445
Net interest income	$ 191,073	$ 208,364
(Increase) decrease in provision for credit losses	$ (248)	$ (216)
Servicing fees	$ 13,683	$ 16,382

VIEs for Which the Company is Not the Primary Beneficiary

The Company is not required to consolidate VIEs in which it has concluded it does not have a controlling financial interest, and thus is not the primary beneficiary. In such cases, the Company does not have both the power to direct the entities' most significant activities, such as rights to replace the servicer without cause, and the obligation to absorb losses or right to receive benefits that could potentially be significant to the VIEs. The Company's investments in these unconsolidated VIEs are carried in Non-Agency RMBS on the Consolidated Statements of Financial Condition and include senior and subordinated bonds issued by the VIEs. The fair value of the Company's investments in each unconsolidated VIEs at June 30, 2021, ranged from less than $1 million to $202 million, with an aggregate amount of $1.5 billion. The fair value of the Company's investments in each unconsolidated VIEs at December 31, 2020, ranged from less than $1 million to $190 million, with an aggregate amount of $1.6 billion. The Company's maximum exposure to loss from these unconsolidated VIEs was $1.2 billion and $1.3 billion at June 30, 2021 and December 31, 2020, respectively. The maximum exposure to loss was determined as the amortized cost of the unconsolidated VIE, which represents the purchase price of the investment adjusted by any unamortized premiums or discounts as of the reporting date.

10. Derivative Instruments

In connection with the Company's interest rate risk strategy, the Company may economically hedges a portion of its interest rate risk by entering into derivative financial instrument contracts in the form of interest rate swaps, swaptions, and Treasury futures. Swaps are used to lock in a fixed rate related to a portion of its current and anticipated payments on its secured financing agreements. The Company typically agrees to pay a fixed rate of interest, or pay rate, in exchange for the right to receive a floating rate of interest, or receive rate, over a specified period of time. Treasury futures are derivatives which track the prices of generic benchmark Treasury securities with identical maturity and are traded on an active exchange. It is generally the Company's policy to close out any Treasury futures positions prior to delivering the underlying security. Treasury futures lock in a fixed rate related to a portion of its current and anticipated payments on its secured financing agreements.

The use of derivatives creates exposure to credit risk relating to potential losses that could be recognized if the counterparties to these instruments fail to perform their obligations under the contracts. In the event of a default by the counterparty, the Company could have difficulty obtaining its RMBS or cash pledged as collateral for these derivative instruments. The Company periodically monitors the credit profiles of its counterparties to determine if it is exposed to counterparty credit risk. See Note 15 for further discussion of counterparty credit risk.

The Company did not have any derivative instruments as of June 30, 2021 and December 31, 2020. There were no Net gains (losses) on derivatives for the quarter ended June 30, 2021 and June 30, 2020.

The effect of the Company's derivatives on the Consolidated Statements of Operations for the six months ended June 30, 2021 and June 30, 2020 is presented below.

Derivative Instruments	Location on Consolidated Statements of Operations and Comprehensive Income	Net gains (losses) on derivatives for the six months ended June 30, 2021	Net gains (losses) on derivatives for the six months ended June 30, 2020
		(dollars in thousands)	
Interest Rate Swaps	Net unrealized gains (losses) on derivatives	$ —	$ 204,611
Interest Rate Swaps	Net realized gains (losses) on derivatives [1]	—	(470,352)
Treasury Futures	Net unrealized gains (losses) on derivatives	—	(3,611)
Treasury Futures	Net realized gains (losses) on derivatives	—	(34,700)
Swaptions	Net unrealized gains (losses) on derivatives	—	—
Swaptions	Net realized gains (losses) on derivatives	—	—
Total		$ —	$ (304,052)

(1) Includes loss on termination of interest rate swaps of $464 million during the six months ended June 30, 2020.

There were no swap terminations during the quarter ended June 30, 2021. The company paid $464 million to terminate interest rate swaps with a notional value of $4.1 billion during the six months ended June 30, 2020. The terminated swaps had original maturities from 2023 to 2048.

When the Company enters into derivative contracts, they are typically subject to International Swaps and Derivatives Association Master Agreements or other similar agreements which may contain provisions that grant counterparties certain rights with respect to the applicable agreement upon the occurrence of certain events such as (i) a decline in stockholders' equity in excess of specified thresholds or dollar amounts over set periods of time, (ii) the Company's failure to maintain its REIT status, (iii) the Company's failure to comply with limits on the amount of leverage, and (iv) the Company's stock being delisted from the New York Stock Exchange, or NYSE. Upon the occurrence of any one of items (i) through (iv), or another default under the agreement, the counterparty to the applicable agreement has a right to terminate the agreement in accordance with its provisions. Certain of the Company's interest rate swaps are cleared through a registered commodities exchange. Each of the Company's International Swaps and Derivative Association, or ISDA, and clearing exchange agreements contains provisions under which the Company is required to fully collateralize its obligations under the interest rate swap agreements if at any point the fair value of the swap represents a liability greater than the minimum transfer amount contained within the agreements. The Company is also required to post initial collateral upon execution of certain of its swap transactions. If the Company breaches any of these provisions, it will be required to settle its obligations under the agreements at their termination values, which approximates fair value. The Company uses clearing exchange market prices to determine the fair value of its interest rate swaps.

11. Capital Stock

Preferred Stock

The Company declared dividends to Series A preferred stockholders of $3 million and $6 million, or $0.50 and $1.00 per preferred share, during the quarter and six months ended June 30, 2021, respectively. The Company declared dividends to Series A preferred stockholders of $3 million and $6 million, or $0.50 and $1.00 per preferred share, during the quarter and six months ended June 30, 2020, respectively.

The Company declared dividends to Series B preferred stockholders of $7 million and $13 million, or $0.50 and $1.00 per preferred share, during the quarter and six months ended June 30, 2021, respectively. The Company declared dividends to Series B preferred stockholders of $7 million and $13 million, or $0.50 and $1.00 per preferred share, during the quarter and six months ended June 30, 2020, respectively.

The Company declared dividends to Series C preferred stockholders of $5 million and $10 million, or $0.484375 and $0.968750 per preferred share, during the quarter and six months ended June 30, 2021, respectively. The Company declared dividends to Series C preferred stockholders of $5 million and $10 million, or $0.484375 and $0.968750 per preferred share, during the quarter and six months ended June 30, 2020, respectively.

The Company declared dividends to Series D preferred stockholders of $4 million and $8 million, or $0.50 and $1.00 per preferred share, during the quarter and six months ended June 30, 2021, respectively. The Company declared dividends to Series D preferred stockholders of $4 million and $8 million, or $0.50 and $1.00 per preferred share, during the quarter and six months ended June 30, 2020, respectively.

Common Stock

In February 2021, our Board of Directors increased the authorization of the Company's share repurchase program to $250 million, or the Repurchase Program. Such authorization does not have an expiration date, and at present, there is no intention to modify or otherwise rescind such authorization. Shares of the Company's common stock may be purchased in the open market, including through block purchases, through privately negotiated transactions, or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended, or the Exchange Act. The timing, manner, price and amount of any repurchases will be determined at the Company's discretion and the program may be suspended, terminated or modified at any time, for any reason. Among other factors, the Company intends to only consider repurchasing shares of its common stock when the purchase price is less than the last publicly reported book value per common share. In addition, the Company does not intend to repurchase any shares from directors, officers or other affiliates. The program does not obligate the Company to acquire any specific number of shares, and all repurchases will be made in accordance with Rule 10b-18, which sets certain restrictions on the method, timing, price and volume of stock repurchases.

The Company did not repurchase any of its common stock during the quarter ended June 30, 2021. The Company repurchased approximately 161 thousand shares of its common stock at an average price of $11.39 per share for a total of $2 million during the six months ended June 30, 2021. The Company did not repurchase any of its common stock during the quarter ended June 30, 2020. The Company repurchased approximately 1.4 million shares of its common stock at an average price of $15.34 per share for a total of $22 million during the six months ended June 30, 2020. The approximate dollar value of shares that may yet be purchased under the Repurchase Program is $226 million as of June 30, 2021.

During the quarter and six months ended June 30, 2021, the Company declared dividends to common shareholders of $79 million and $149 million, or $0.33 and $0.63 per share, respectively. During the quarter and six months ended June 30, 2020, the Company declared dividends to common shareholders of $70 million and $164 million, or $0.30 and $0.80 per share, respectively.

Warrants

During the six months ended June 30, 2021, the Company settled the $400 million financed under the senior secured, non-mark-to market credit agreement in full and the Warrant Shares became exercisable. The Company then settled the exercise of 20 million Warrant Shares in cash at a price of 90% of fair market value of the Company's common stock for $221 million.

EPS for the quarters and six months ended June 30, 2021 and 2020 respectively, are computed as follows:

	For the Quarters Ended	
	June 30, 2021	June 30, 2020
	(dollars in thousands)	
Numerator:		
Net income (loss) available to common shareholders - Basic	$ 144,883	$ (73,393)
Effect of dilutive securities:		
Interest expense attributable to convertible notes	959	—
Net income (loss) available to common shareholders - Diluted	$ 145,842	$ (73,393)
Denominator:		
Weighted average basic shares	231,638,042	199,282,790
Effect of dilutive securities	10,101,494	—
Weighted average dilutive shares	241,739,536	199,282,790
Net income (loss) per average share attributable to common stockholders - Basic	$ 0.63	$ (0.37)
Net income (loss) per average share attributable to common stockholders - Diluted	$ 0.60	$ (0.37)

	For the Six Months ended	
	June 30, 2021	June 30, 2020
	(dollars in thousands)	
Numerator:		
Net income (loss) available to common shareholders - Basic	$ 284,037	$ (462,585)
Effect of dilutive securities:		
Interest expense attributable to convertible notes	2,035	—
Net income (loss) available to common shareholders - Diluted	$ 286,072	$ (462,585)
Denominator:		
Weighted average basic shares	231,105,595	193,150,696
Effect of dilutive securities	20,618,345	—
Weighted average dilutive shares	251,723,940	193,150,696
Net income (loss) per average share attributable to common stockholders - Basic	$ 1.23	$ (2.39)
Net income (loss) per average share attributable to common stockholders - Diluted	$ 1.14	$ (2.39)

At June 30, 2021 potentially dilutive shares of 59 thousand were excluded from the computation of fully diluted EPS because their effect would have been anti-dilutive. For the quarter and six months ended June 30, 2020 potentially dilutive shares of 42.9 million and 22.5 million, respectively, were excluded from the computation of fully diluted EPS because their effect would have been anti-dilutive. Anti-dilutive shares for the quarters and six months ended June 30, 2021 and 2020, comprised of restricted stock units and performance stock units, warrants and shares from the assumed conversion of convertible debt.

12. Accumulated Other Comprehensive Income

The following table presents the changes in the components of Accumulated Other Comprehensive Income, or the AOCI, for the six months ended June 30, 2021 and 2020:

	June 30, 2021 (dollars in thousands)	
	Unrealized gains (losses) on available-for-sale securities, net	Total Accumulated OCI Balance
Balance as of December 31, 2020	$ 558,096	$ 558,096
OCI before reclassifications	(64,867)	(64,867)
Amounts reclassified from AOCI	(37,116)	(37,116)
Net current period OCI	(101,983)	(101,983)
Balance as of June 30, 2021	$ 456,113	$ 456,113

	June 30, 2020 (dollars in thousands)	
	Unrealized gains (losses) on available-for-sale securities, net	Total Accumulated OCI Balance
Balance as of December 31, 2019	$ 708,336	$ 708,336
OCI before reclassifications	(137,805)	(137,805)
Amounts reclassified from AOCI	(33,021)	(33,021)
Net current period OCI	(170,826)	(170,826)
Balance as of June 30, 2020	$ 537,510	$ 537,510

The amounts reclassified from AOCI balance comprised of $37 million and $33 million net unrealized gains on available-for-sale securities sold for the six months ended June 30, 2021 and June 30, 2020, respectively.

13. Equity Compensation, Employment Agreements and other Benefit Plans

In accordance with the terms of the Company's 2007 Equity Incentive Plan (as amended and restated on December 10, 2015), or the Incentive Plan, directors, officers and employees of the Company are eligible to receive restricted stock grants. These awards generally have a vesting period lasting three years. During the vesting period, these shares may not be sold. There were approximately 1 million shares available for future grants under the Incentive Plan as of June 30, 2021.

The Compensation Committee of the Board of Directors of the Company has approved a Stock Award Deferral Program, or the Deferral Program. Under the Deferral Program, non-employee directors and certain executive officers can elect to defer payment of certain stock awards made pursuant to the Incentive Plan. Deferred awards are treated as deferred stock units and paid at the earlier of separation from service or a date elected by the participant who is separating. Payments are generally made in a lump sum or, if elected by the participant, in five annual installments. Deferred awards receive dividend equivalents during the deferral period in the form of additional deferred stock units. Amounts are paid at the end of the deferral period by delivery of shares from the Incentive Plan (plus cash for any fractional deferred stock units), less any applicable tax withholdings. Deferral elections do not alter any vesting requirements applicable to the underlying stock award.

Grants of Restricted Stock Units, or RSUs

During the six months ended June 30, 2021 and 2020, the Company granted RSU awards to senior management. These RSU awards are designed to reward senior management of the Company for services provided to the Company. Generally, the RSU awards vest equally over a three-year period beginning from the grant date and will fully vest after three years. For employees who are retirement eligible, defined as years of service to the Company plus age, is equal to or greater than 65, the service period is considered to be fulfilled and all grants are expensed immediately. The RSU awards are valued at the market price of the Company's common stock on the grant date and generally the employees must be employed by the Company on the vesting dates to receive the RSU awards. The Company granted 62 thousand and 244 thousand RSU awards during the quarter and six months ended June 30, 2021, with a grant date fair value of $1 million and $3 million, respectively, for the 2021 performance year. The Company granted 171 thousand and 306 thousand RSU awards during the quarter and six months ended June 30, 2020, with a grant date fair value of $1 million and $4 million, respectively, for the 2020 performance year.

In addition, during the six months ended June 30, 2021, the Company granted certain of its senior management 1 million RSU awards that vest in five equal tranches with one tranche vested immediately and the remaining four will vest equally over a four year period. These additional RSUs are not subject to retirement eligible provisions and had a grant date fair value of $10 million.

Grants of Performance Share Units, or PSUs

PSU awards are designed to align compensation with the Company's future performance. The PSU awards granted during the first quarter of 2021 and 2020 include a three-year performance period ending on December 31, 2023 and December 31, 2022, respectively. The final number of shares awarded will be between 0% and 200% of the PSUs granted based on the Company Economic Return compared to a peer group. The Company's three-year Company Economic Return is equal to the Company's change in book value per common share plus common stock dividends. Compensation expense will be recognized on a straight-line basis over the three-year vesting period based on an estimate of the Company Economic Return in relation to the entities in the peer group and will be adjusted each period based on the Company's best estimate of the actual number of shares which will vest. During the six months ended June 30, 2021, the Company granted 182 thousand PSU awards to senior management with a grant date fair value of $2 million. During the six months ended June 30, 2020, the Company granted 135 thousand PSU awards to senior management with a grant date fair value of $3 million.

The Company recognized stock based compensation expenses of $2 million and $7 million, respectively, and $1 million and $5 million, respectively, for the quarters and six months ended June 30, 2021 and 2020, respectively.

The Company also maintains a qualified 401(k) plan. The plan is a retirement savings plan that allows eligible employees to contribute a portion of their wages on a tax-deferred basis under Section 401(k) of the Code. For the quarter ended June 30, 2021, employees may contribute, through payroll deductions, up to $19,500 if under the age of 50 years and an additional $6,500 "catch-up" contribution for employees 50 years or older. The Company matches 100% of the first 6% of the eligible compensation deferred by employee contributions. The employer funds the 401(k) matching contributions in the form of cash, and participants may direct the Company match to an investment of their choice. The benefit of the Company's contributions vests immediately. Generally, a participating employee is entitled to distributions from the plans upon termination of employment, retirement, death or disability. The 401(k) expenses related to the Company's qualified plan for the quarters ended June 30, 2021 and 2020, were $111 thousand and $118 thousand, respectively. For the six months ended June 30, 2021 and 2020, the 401(k) expenses were $236 thousand and $266 thousand, respectively.

14. Income Taxes

For the quarter ended June 30, 2021 and the year ended December 31, 2020, the Company qualified to be taxed as a REIT under Code Sections 856 through 860. As a REIT, the Company is not subject to U.S. federal income tax to the extent that it makes qualifying distributions of taxable income to its stockholders. To maintain qualification as a REIT, the Company must distribute at least 90% of its annual REIT taxable income (subject to certain adjustments) to its shareholders and meet certain other requirements such as assets it may hold, income it may generate and its shareholder composition. It is generally the Company's policy to distribute to its shareholders all of the Company's taxable income.

The state and local tax jurisdictions in which the Company is subject to tax-filing obligations recognize the Company's status as a REIT and therefore the Company generally does not pay income tax in such jurisdictions. The Company may, however, be subject to certain minimum state and local tax filing fees and its TRSs are subject to U.S. federal, state and local taxes. The Company recorded current income tax benefit of $200 thousand for the quarter ended June 30, 2021 and current income tax expense of $4 million for the six months ended June 30, 2021. There were no significant income tax expenses for the quarter and six months ended June 30, 2020.

The Company's effective tax rate differs from its combined U.S. federal, state and city corporate statutory tax rate primarily due to the deduction of dividend distributions required to be paid under Code Section 857(a).

The Company's U.S. federal, state and local tax returns for the tax years ending on or after December 31, 2017 remain open for examination.

15. Credit Risk and Interest Rate Risk

The Company's primary components of market risk are credit risk and interest rate risk. The Company is subject to interest rate risk in connection with its investments in Agency MBS and Non-Agency RMBS, residential mortgage loans, borrowings under secured financing agreements and securitized debt. When the Company assumes interest rate risk, it attempts to minimize interest rate risk through asset selection, hedging and matching the income earned on mortgage assets with the cost of related financing.

The Company attempts to minimize credit risk through due diligence, asset selection and portfolio monitoring. The Company has established a whole loan target market including qualified mortgages, non-qualified mortgages and reperforming loans. Additionally, the Company seeks to minimize credit risk through compliance with regulatory requirements, geographic diversification, owner occupied property, and moderate loan-to-value ratios. These factors are considered to be important indicators of credit risk.

By using derivative instruments and secured financing agreements, the Company is exposed to counterparty credit risk if counterparties to the contracts do not perform as expected. If a counterparty fails to perform on a derivative hedging instrument, the Company's counterparty credit risk is equal to the amount reported as a derivative asset on its balance sheet to the extent that amount exceeds collateral obtained from the counterparty or, if in a net liability position, the extent to which collateral posted exceeds the liability to the counterparty. The amounts reported as a derivative asset/(liability) are derivative contracts in a gain/(loss) position, and to the extent subject to master netting arrangements, net of derivatives in a loss/(gain) position with the same counterparty and collateral received/(pledged). If the counterparty fails to perform on a secured financing agreement, the Company is exposed to a loss to the extent that the fair value of collateral pledged exceeds the liability to the counterparty. The Company attempts to minimize counterparty credit risk by evaluating and monitoring the counterparty's credit, executing master netting arrangements and obtaining collateral, and executing contracts and agreements with multiple counterparties to reduce exposure to a single counterparty.

The Company's secured financing agreements transactions are governed by underlying agreements that provide for a right of setoff by the lender, including in the event of default or in the event of bankruptcy of the borrowing part to the transactions. The Company's derivative transactions are governed by underlying agreements that provide for a right of setoff under master netting arrangements, including in the event of default or in the event of bankruptcy of either party to the transactions. The Company presents its assets and liabilities subject to such arrangements on a net basis in the Consolidated Statements of Financial Condition. As of June 30, 2021, the Company is not a party to any derivative instrument and not subject to this risk.

The Company had $3.6 billion and $4.6 billion of secured financing agreements that are subject to such arrangements and can potentially be offset on the consolidated statement of financial condition as of June 30, 2021 and December 31, 2020, respectively. These amounts were not offset in consolidated statement of financial position as of June 30, 2021 and December 31, 2020 against any assets or liabilities. The Company had $4.8 billion and $6.7 billion of financial instruments, and $18 million and $42 million of cash collateral pledged against those secured financing agreements as of June 30, 2021 and December 31, 2020, respectively, and were not offset with the secured financing agreements. The Company had net amount at risk of $1.2 billion and $2.1 billion as of June 30, 2021 and December 31, 2020, respectively.

16. Commitments and Contingencies

From time to time, the Company may become involved in various claims and legal actions arising in the ordinary course of business. In connection with certain securitization transactions engaged in by the Company, it has the obligation under certain circumstances to repurchase assets from the VIE upon breach of certain representations and warranties.

17. Subsequent Events

Subsequent to June 30, 2021, the Company exercised its call option to retire securitized debt, collateralized by Loans held for investment with an unpaid principal amount of $188 million at par.

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

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and notes to those statements included in Item 1 of this Quarterly Report on Form 10-Q.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this report that are subject to risks and uncertainties. These forward-looking statements include information about, among other things, possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. When we use the words ‘‘believe,’’ ‘‘expect,’’ ‘‘anticipate,’’ ‘‘estimate,’’ ‘‘plan,’’ ‘‘continue,’’ ‘‘intend,’’ ‘‘should,’’ ‘‘may,’’ ‘‘would,’’ ‘‘will’’ or similar expressions, we intend to identify forward-looking statements. Statements regarding the following subjects, among others, are forward-looking by their nature:

- our business and investment strategy;
- our ability to accurately forecast the payment of future dividends on our common and preferred stock, and the amount of such dividends;
- our ability to determine accurately the fair market value of our assets;
- availability of investment opportunities in real estate-related and other securities, including our valuation of potential opportunities that may arise as a result of current and future market dislocations;
- effect of the novel coronavirus, or COVID-19, pandemic on real estate market, financial markets and our Company, including the impact on the value, availability, financing and liquidity of mortgage assets;
- how COVID-19 may affect us, our operations and our personnel;
- our expected investments;
- changes in the value of our investments, including negative changes resulting in margin calls related to the financing of our assets;
- changes in interest rates and mortgage prepayment rates;
- prepayments of the mortgage and other loans underlying our mortgage-backed securities, or RMBS, or other asset-backed securities, or ABS;
- rates of default, delinquencies, forbearance, deferred payments or decreased recovery rates on our investments;
- general volatility of the securities markets in which we invest;
- our ability to maintain existing financing arrangements and our ability to obtain future financing arrangements;
- our ability to effect our strategy to securitize residential mortgage loans;
- interest rate mismatches between our investments and our borrowings used to finance such purchases;
- effects of interest rate caps on our adjustable-rate investments;
- the degree to which our hedging strategies may or may not protect us from interest rate volatility;
- the impact of and changes to various government programs, including in response to COVID-19;
- impact of and changes in governmental regulations, tax law and rates, accounting guidance, and similar matters;
- market trends in our industry, interest rates, the debt securities markets or the general economy;
- estimates relating to our ability to make distributions to our stockholders in the future;
- our understanding of our competition;
- our ability to find and retain qualified personnel;
- our ability to maintain our classification as a real estate investment trust, or REIT, for U.S. federal income tax purposes;
- our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended, or 1940 Act;
- our expectations regarding materiality or significance; and
- the effectiveness of our disclosure controls and procedures.

Special Note Regarding COVID-19 pandemic

During the first six months of 2021, the financial markets showed signs of improvement from the disruptions driven by the COVID-19 pandemic during previous year. However, there is still uncertainty about the future of COVID-19 and the Delta variant and it impacts on our business, operations, personnel, or the U.S. economy as a whole. Any forecasts in this regard would be highly uncertain and could be predicted with any certainty, including the scope and duration of the pandemic, the effectiveness of our work from home or remote work arrangements, third-party providers' ability to support our operation, and any actions taken by governmental authorities and other third parties in response to the pandemic, and the other factors discussed above and throughout this Quarterly Report on Form 10-Q. The uncertain future development of this crisis could materially and adversely affect our business, operations, operating results, financial condition, liquidity or capital levels.

These forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. You should not place undue reliance on these forward-looking statements. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. Some of these factors are described under the caption ''Risk Factors'' in our Form 10-K for fiscal year ended December 31, 2020. If a change occurs, our business, financial condition, liquidity, results of operations and prospects may vary materially from those expressed in our forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise from time to time, and it is impossible for us to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Executive Summary

We are a publicly traded REIT that is primarily engaged in the business of investing directly or having a beneficial interest in a diversified portfolio of mortgage assets, including residential mortgage loans, Agency RMBS, Non-Agency RMBS, Agency CMBS, and other real estate-related assets. We use leverage to increase returns while managing the difference or spread between longer duration assets and shorter duration financing. Our principal business objective is to deliver shareholder value through the generation of distributable income and through asset performance linked to residential mortgage credit fundamentals. We selectively invest in residential mortgage assets with a focus on credit analysis, projected prepayment rates, interest rate sensitivity and expected return.

We currently focus our investment activities primarily on acquiring residential mortgage loans, Non-Agency RMBS and Agency mortgage-backed securities, or MBS. At June 30, 2021, based on the fair value of our interest earning assets, approximately 79% of our investment portfolio was residential mortgage loans, 13% of our investment portfolio was Non-Agency RMBS, and 9% of our investment portfolio was Agency MBS. At December 31, 2020, based on the fair value of our interest earning assets, approximately 77% of our investment portfolio was residential mortgage loans, 13% of our investment portfolio was Non-Agency RMBS, and 10% of our investment portfolio was Agency MBS.

We use leverage to increase returns and to finance the acquisition of our assets. We expect to finance our investments using a variety of financing sources including, when available, securitizations, warehouse facilities, repurchase agreements, structured asset financing and offerings of our securities. We may manage our debt and interest rate risk by utilizing interest rate hedges, such as interest rate swaps, caps, options, swaptions and futures to reduce the effect of interest rate fluctuations related to our financing sources. As of June 30, 2021, we did not own any interest rate hedges.

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

Market Conditions and our Strategy

The second quarter of 2021 marked a continued recovery in financial markets since the pandemic started over one year ago. Unemployment rates are down from the peaks experienced in 2020 and housing fundamentals remained strong buoyed by historically low mortgage rates, home price appreciation and increased household formation. Additional government stimulus and positive vaccination news has added to market confidence. Given a low yield environment, we experienced asset appreciation in our loan portfolio as well as our Agency and Non-Agency portfolios as the US Treasury yields declined over the second quarter of 2021, with the 10-year Treasury Note falling from 1.74% to 1.47% and the 2 to 10-year yield curve flattening by 36 basis points.

We took advantage of a low rate environment and demand for securitized debt to call and terminate six loan securitizations during the second quarter of 2021 and issued three new loan securitizations at lower rates, which reduced our cost of funding. In April 2021, we sponsored CIM 2021-R3, a $860 million securitization of seasoned reperforming residential mortgage loans, and CIM 2021-NR3, a $117 million securitization of seasoned residential mortgage loans. We estimate that the April 2021 deals will save approximately 200 basis points compared to the prior securitizations that were collapsed. In June of 2021, we sponsored CIM 2021-R4, a $546 million securitization of seasoned reperforming residential mortgage loans. We estimate that the June deal will save approximately 180 basis points compared to the prior securitizations that were collapsed. In addition to lower financing costs, these deals added to our liquidity as the advance rates provided by the buyer of the senior debt is higher. We were able to use some of the additional liquidity to pay down secured financing further reducing our rate risk and exposure to mark to market financing. We retained options to call these securitized mortgage loans at par three years from issue. We currently have approximately $600 million of securitized debt collateralized by loans which are currently callable or callable during the second half of 2021. Due to this, we believe there will be more opportunities to continue to take advantage of the low rate environment.

In addition, during the second quarter of 2021, we sponsored our third prime jumbo securitization, $320 million of CIM 2021-J3 in June, 2021. The securitization is rated by Moody’s and Fitch. Also during the second quarter of 2021, we continued to add to our business purpose loan portfolio by acquiring $37 million of additional loans with a weighted average coupon of 8.4%. This brings total business purpose loan acquisitions for 2021 up to $203 million. We continue to look for opportunities to increase our acquisition of high coupon business purpose loans.

Delinquency rates have continued to drop as economic conditions and unemployment rates have continued to improve. Despite improving conditions, there is still significant uncertainty and risks related to the COVID-19 pandemic and the risk of new variants which appear to be more infectious. See “Form 10-K Part I. Item 1A Risk Factors” for additional details on the

COVID-19 pandemic's impact on our business. In particular, our residential mortgage loans and Non-Agency MBS are subject to significant credit risk, and it is unclear how the conditions created by the COVID-19 pandemic may impact the credit quality of these assets over time.

We have been working remotely since March 2020 and expect that to continue. We have the technology in place for all employees to work remotely with limited change in normal working patterns. We have exercised our business continuity plans effectively to date, with limited operational impact.

Our book value per common share was $11.45 as of June 30, 2021, down from $12.36 as of December 31, 2020 based on a number of factors including the settlement of the warrants and conversion of long term debt to common stock. Our book value is based on June 30, 2021 issued and outstanding common shares.

Business Operations

Net Income Summary

The table below presents our net income on a GAAP basis for the quarters and six months ended June 30, 2021 and 2020.

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

	For the Quarters Ended		For the Six Months Ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Net interest income:				
Interest income [1]	$ 252,677	$ 245,922	$ 495,805	$ 546,189
Interest expense [2]	80,610	129,256	188,677	271,339
Net interest income	172,067	116,666	307,128	274,850
Increase (decrease) in provision for credit losses	453	(4,497)	327	1,817
Other investment gains (losses):				
Net unrealized gains (losses) on derivatives	—	—	—	201,000
Realized gains (losses) on terminations of interest rate swaps	—	—	—	(463,966)
Net realized gains (losses) on derivatives	—	—	—	(41,086)
Net gains (losses) on derivatives	—	—	—	(304,052)
Net unrealized gains (losses) on financial instruments at fair value	36,108	(171,921)	306,120	(432,809)
Net realized gains (losses) on sales of investments	7,517	26,380	45,313	102,234
Gains (losses) on extinguishment of debt	(21,777)	459	(258,914)	459
Total other gains (losses)	21,848	(145,082)	92,519	(634,168)
Other expenses:				
Compensation and benefits	9,230	10,255	22,669	23,190
General and administrative expenses	6,173	5,963	11,371	11,100
Servicing and asset manager fees	9,081	10,072	18,362	20,601
Transaction expenses	5,745	4,710	22,182	9,616
Total other expenses	30,229	31,000	74,584	64,507
Income (loss) before income taxes	163,233	(54,919)	324,736	(425,642)
Income taxes	(88)	36	3,824	68
Net income (loss)	$ 163,321	$ (54,955)	$ 320,912	$ (425,710)
Dividends on preferred stock	18,438	18,438	36,875	36,875
Net income (loss) available to common shareholders	$ 144,883	$ (73,393)	$ 284,037	$ (462,585)
Net income (loss) per share available to common shareholders:				
Basic	$ 0.63	$ (0.37)	$ 1.23	$ (2.39)
Diluted	$ 0.60	$ (0.37)	$ 1.14	$ (2.39)
Weighted average number of common shares outstanding:				
Basic	231,638,042	199,282,790	231,105,595	193,150,696
Diluted	241,739,536	199,282,790	251,723,940	193,150,696
Dividends declared per share of common stock	$ 0.33	$ 0.30	$ 0.63	$ 0.80

(1) Includes interest income of consolidated VIEs of $149,115 and $169,127 for the quarters ended June 30, 2021 and 2020, respectively, and $307,214 and $343,809 for the six months ended June 30, 2021 and 2020, respectively.

(2) Includes interest expense of consolidated VIEs of $50,935 and $70,816 for the quarters ended June 30, 2021 and 2020, respectively, and $116,141 and $135,445 for the six months ended June 30, 2021 and 2020, respectively.

Results of Operations for the Quarters and Six Months Ended June 30, 2021 and 2020

Our primary source of income is interest income earned on our assets, net of interest expense paid on our financing liabilities.
For the quarter ended June 30, 2021, our net income available to common shareholders was $145 million, or $0.63 per average basic common share, compared to a net loss of $73 million, or $0.37 per average basic common share, for the same period in 2020. The higher net income available to common shareholders for the quarter ended June 30, 2021 was primarily driven by lower interest expense due to lower funding rates and improvements in our portfolio's asset prices as compared to the same period of 2020. We had net interest income of $172 million and unrealized gains on financial instruments at fair value of $36 million, partially offset by losses on extinguishment of debt of $22 million and other expenses of $30 million during the quarter ended June 30, 2021.

For the six months ended June 30, 2021, our net income available to common shareholders was $284 million, or $1.23 per average basic common share, compared to a net loss of $463 million, or $2.39 per average basic common share, for the same period in 2020. The higher net income available to common shareholders for the six months ended June 30, 2021 was primarily driven by lower interest expense due to lower funding rates, improvements in our portfolio's asset prices due to continuing recovery in financial markets and no hedge losses as compared to the same period in 2020. We had unrealized gains on financial instruments at fair value of $306 million and net interest income of $307 million, partially offset by losses on extinguishment of debt of $259 million during the six months ended June 30, 2021. Additionally, there were no losses on derivatives for the six months ended June 30, 2021 as compared to a $304 million net losses on derivatives for the same period in 2020.

Interest Income

The changes in our interest income for the quarter and six months ended June 30, 2021, as compared to the same period in 2020, were primarily driven by the selling of our Agency RMBS portfolio and reducing our Agency CMBS and Loans held for investment portfolios during 2020.

Interest income increased by $7 million, or 3%, to $253 million for the quarter ended June 30, 2021, as compared to $246 million for the same period in 2020. The increase was primarily driven by prepayment penalties and early paydowns received of $38 million on our Agency CMBS and Non-Agency RMBS portfolios, which was offset by a decrease in interest income on Loans held for investments of $15 million during the quarter ended June 30, 2021.

For the six months ended June 30, 2021, interest income decreased by $50 million, or 9%, to $496 million as compared to $546 million for the same period of 2020. We reduced our average interest earning asset balances by $5.3 billion to $14.9 billion as compared to $20.2 billion from the same period of 2020 to respond to market conditions driven by COVID-19 disruptions. The sale of the Agency RMBS portfolio and reduction in our Loans held for investment portfolio reduced our interest income earned on Agency RMBS by $43 million, and Loans held for investment by $29 million for the six months ended June 30, 2021, as compared to the same period in 2020. This decrease was partially offset by prepayment penalties and early paydowns received of $53 million on Agency CMBS and Non-Agency RMBS portfolios during the six months ended June 30, 2021.

Interest Expense

The changes in our interest expense for the quarter and six months ended June 30, 2021, as compared to the same period in 2020, were primarily driven by our de-levering efforts to reduce secured financing agreements balances, lower financing rates on secured financing agreements and calls of our higher rate securitized debt financing, replacing it with lower rates currently available.

Interest expense decreased by $49 million, or 38%, to $81 million for the quarter ended June 30, 2021, as compared to $129 million for the same period in 2020. For the six months ended June 30, 2021, interest expense decreased by $82 million, or 30%, to $189 million as compared to $271 million for the same period of 2020. During the quarter and six months ended June 30, 2021 we reduced our average interest bearing liability balances by $2.6 billion and $4.9 billion to $12.4 billion and $12.8 billion, respectively, as compared to $15.0 billion and $17.7 billion, respectively, from the same periods of 2020.

During the quarter and six months ended June 30, 2021 interest expense on securitized debt decreased by $17 million and $14 million, respectively, and the average cost of funding on this same debt decreased by 80 and 50 basis points, respectively as compared to the same period of 2020.

During the quarter ended June 30, 2021 interest expense on secured financing agreements collateralized by Non-Agency RMBS and Loans held for investments decreased by $15 million and $11 million, respectively as compared to the same period of 2020. During the six months ended June 30, 2021 interest expense on secured financing agreements collateralized by Agency RMBS, Agency CMBS, Non-Agency RMBS and Loans held for investments decreased by $27 million, $14 million, $12 million and $20 million, respectively, as compared to the same period of 2020 due to the same factors discussed above.

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

Economic Net Interest Income

Our Economic net interest income is a non-GAAP financial measure that equals GAAP net interest income adjusted for net realized gains or losses on interest rate swaps, interest expense on long term debt and any interest earned on cash. Realized gains or losses on our interest rate swaps are the periodic net settlement payments made or received. We believe this presentation is useful to investors because it depicts the economic value of our investment strategy by showing all components of interest expense and net interest income. However, Economic net interest income should not be viewed in isolation and is not a substitute for net interest income computed in accordance with GAAP. Where indicated, interest expense, adjusting for interest payments on interest rate swaps, is referred to as Economic interest expense.

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

	GAAP Interest Income	GAAP Interest Expense	Net Realized (Gains) Losses on Interest Rate Swaps	Interest Expense on Long Term Debt	Economic Interest Expense	GAAP Net Interest Income	Net Realized Gains (Losses) on Interest Rate Swaps	Other [(1)]	Economic Net Interest Income
For the Quarter Ended June 30, 2021	$ 252,677	$ 80,610	$ —	$ (959)	$ 79,651	$ 172,067	$ —	$ 936	$ 173,003
For the Quarter Ended March 31, 2021	$ 243,127	$ 108,066	$ —	$ (1,076)	$ 106,990	$ 135,061	$ —	$ 1,065	$ 136,126
For the Quarter Ended December 31, 2020	$ 236,156	$ 120,285	$ —	$ (1,197)	$ 119,088	$ 115,871	$ —	$ 1,177	$ 117,048
For the Quarter Ended September 30, 2020	$ 247,905	$ 124,557	$ —	$ (1,495)	$ 123,062	$ 123,348	$ —	$ 1,487	$ 124,835
For the Quarter Ended June 30, 2020	$ 245,922	$ 129,256	$ —	$ (4,391)	$ 124,865	$ 116,666	$ —	$ 4,358	$ 121,024

(1) Primarily interest expense on Long term debt and interest income on cash and cash equivalents.

Net Interest Rate Spread

The following table shows our average earning assets held, interest earned on assets, yield on average interest earning assets, average debt balance, economic interest expense, economic average cost of funds, economic net interest income and net interest rate spread for the periods presented.

	For the Quarter Ended					
	June 30, 2021 (dollars in thousands)			June 30, 2020 (dollars in thousands)		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Assets:						
Interest-earning assets [1]:						
Agency RMBS	$ 111,271	$ 346	1.2 %	$ 132,915	$ 682	2.1 %
Agency CMBS	1,106,926	29,985	10.8 %	2,223,629	20,161	3.6 %
Non-Agency RMBS	1,499,262	69,716	18.6 %	1,758,255	57,515	13.1 %
Loans held for investment	11,744,270	152,607	5.2 %	13,202,723	167,531	5.1 %
Total	$ 14,461,729	$ 252,654	7.0 %	$ 17,317,522	$ 245,889	5.7 %
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Secured financing agreements collateralized by:						
Agency RMBS	$ 60,528	$ 116	0.8 %	$ 77,114	$ 228	1.2 %
Agency CMBS	1,004,043	296	0.1 %	2,188,202	2,346	0.4 %
Non-Agency RMBS	852,582	7,616	3.6 %	1,292,934	22,408	6.9 %
Loans held for investment	1,875,395	16,483	3.5 %	2,978,013	27,338	3.7 %
Securitized debt	8,629,541	55,140	2.6 %	8,459,641	72,545	3.4 %
Total	$ 12,422,089	$ 79,651	2.6 %	$ 14,995,904	$ 124,865	3.3 %
Economic net interest income/net interest rate spread		$ 173,003	4.4 %		$ 121,024	2.4 %
Net interest-earning assets/net interest margin	$ 2,039,640		4.8 %	$ 2,321,618		2.8 %
Ratio of interest-earning assets to interest bearing liabilities	1.16			1.15		

(1) Interest-earning assets at amortized cost

	For the Six Months Ended					
	June 30, 2021 (dollars in thousands)			June 30, 2020 (dollars in thousands)		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Assets:						
Interest-earning assets [1]:						
Agency RMBS	$ 113,844	$ 663	1.2 %	$ 2,715,407	$ 43,345	3.2 %
Agency CMBS	1,244,370	56,592	9.1 %	2,213,342	40,860	3.7 %
Non-Agency RMBS	1,537,031	125,517	16.3 %	1,816,723	118,529	13.0 %
Loans held for investment	11,985,846	312,998	5.2 %	13,430,616	342,157	5.1 %
Total	$ 14,881,091	$ 495,770	6.7 %	$ 20,176,088	$ 544,891	5.4 %
Liabilities and stockholders' equity:						
Interest-bearing liabilities[2]:						
Secured financing agreements collateralized by:						
Agency RMBS	$ 63,566	$ 265	0.8 %	$ 2,551,002	$ 27,342	2.1 %
Agency CMBS	1,126,446	876	0.2 %	2,142,221	14,706	1.4 %
Non-Agency RMBS	937,280	20,095	4.3 %	1,320,438	32,073	4.9 %
Loans held for investment	2,067,638	40,699	3.9 %	3,417,370	60,229	3.5 %
Securitized debt	8,582,254	124,706	2.9 %	8,251,762	138,984	3.4 %
Total	$ 12,777,184	$ 186,641	2.9 %	$ 17,682,793	$ 273,334	3.1 %
Economic net interest income/net interest rate spread		$ 309,129	3.8 %		$ 271,557	2.3 %
Net interest-earning assets/net interest margin	$ 2,103,907		4.2 %	$ 2,493,295		2.7 %
Ratio of interest-earning assets to interest bearing liabilities	1.16			1.14		

(1) Interest-earning assets at amortized cost
(2) Interest includes net cash paid/received on swaps

Economic Net Interest Income and the Average Earning Assets

Our Economic net interest income (which is a non-GAAP measure, see "Economic net interest income" discussion earlier for details) increased by $52 million to $173 million for the quarter ended June 30, 2021 from $121 million for the same period of 2020. Our Economic net interest income increased by $37 million to $309 million for the six months ended June 30, 2021 from $272 million for the same period of 2020. Our net interest rate spread, which equals the yield on our average interest-earning assets less the economic average cost of funds, increased by 200 and 150 basis points for the quarter and six months ended June 30, 2021, as compared to the same periods of 2020. The net interest margin, which equals the Economic net interest income as a percentage of the net average balance of our interest-earning assets less our interest-bearing liabilities, increased by 200 and 150 basis points for the quarter and six months ended June 30, 2021, as compared to the same periods of 2020. Our Average net interest-earning assets decreased by $282 million to $2.0 billion for the quarter ended June 30, 2021, compared to $2.3 billion for the same period of 2020. Our Average net interest-earning assets decreased by $389 million to $2.1 billion for the six months ended June 30, 2021, compared to $2.5 billion for the same period of 2020. The increase in our net interest rate spread is primarily due to the change in our portfolio composition and a combination of prepayment penalties and early paydowns received on our Agency CMBS and Non-Agency RMBS portfolios during quarter and six months ended June 30, 2021. We sold lower yielding Agency assets and retained higher yielding Non-Agency RMBS and Loans held for investment. Following the sale of our Agency RMBS portfolio and reduction in our Agency CMBS and Loans held for investments, we have worked to replace higher cost funding with more efficient and lower cost financing during six months ended June 30, 2021.

Economic Interest Expense and the Cost of Funds

The borrowing rate at which we are able to finance our assets using secured financing agreements and securitized debt is typically correlated to LIBOR and the term of the financing. The table below shows our average borrowed funds, Economic interest expense, average cost of funds (inclusive of realized losses on interest rate swaps), average one-month LIBOR, average three-month LIBOR and average one-month LIBOR relative to average three-month LIBOR.

	Average Debt Balance	Economic Interest Expense (1)	Average Cost of Funds	Average One-Month LIBOR	Average Three-Month LIBOR	Average One-Month LIBOR Relative to Average Three-Month LIBOR
	(Ratios have been annualized, dollars in thousands)					
For the Quarter Ended June 30, 2021	$ 12,422,089	$ 79,651	2.56 %	0.10 %	0.16 %	(0.06)%
For the Quarter Ended March 31, 2021	$ 13,148,481	$ 106,990	3.25 %	0.12 %	0.20 %	(0.08)%
For the Quarter Ended December 31, 2020	$ 13,296,177	$ 119,088	3.58 %	0.15 %	0.22 %	(0.07)%
For the Quarter Ended September 30, 2020	$ 13,981,065	$ 123,062	3.52 %	0.16 %	0.25 %	(0.09)%
For the Quarter Ended June 30, 2020	$ 14,995,904	$ 124,865	3.33 %	0.35 %	0.60 %	(0.25)%

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

Average interest-bearing liabilities decreased by $2.6 billion for the quarter ended June 30, 2021, as compared to the same period of 2020. Economic interest expense decreased by $45 million for the quarter ended June 30, 2021, as compared to the same period of 2020. The decrease in average interest-bearing liabilities and Economic interest expense is a result of the decrease in the amount of our secured financing agreements collateralized by Agency MBS, the decrease in average one-month and three-month LIBOR, and the sale of our Agency RMBS portfolio during first quarter of 2020. While we may use interest rate hedges to mitigate changes in interest rate risks, the hedges may not fully offset interest expense movements.

Provision for Credit Losses

For the quarter ended June 30, 2021, we recorded an increase in provision for credit losses of $453 thousand as compared to a decrease in allowance for credit losses of $4 million the same period of 2020. For the six months ended June 30, 2021 and 2020, we recorded an increase in provision for credit losses of $327 thousand and $2 million, respectively. The increase in provision for credit losses was primarily driven by changes in expected losses and delinquencies during the quarter and six months ended June 30, 2021 as compared to the same periods of 2020.

Net Gains (losses) on derivatives

We did not have any derivative positions during the quarter and six months ended June 30, 2021. Our interest rate swaps are primarily used to economically hedge the effects of changes in interest rates on our portfolio, specifically our secured financing agreements. Therefore, we included the periodic interest costs of the interest rate swaps for the six months ended June 30, 2020 on these economic hedges in our presentation of economic net interest income and our net interest spreads. As we do not account for these as hedges for GAAP presentation, we present these gains and losses separately in the Consolidated Statements of Operations. We had no net gains (losses) on derivatives instruments for the quarter and six months ended June 30, 2021. We had no net gains (losses) on derivative instruments for the quarter ended June 30, 2020 and $304 million net losses on derivative instruments for the six months ended June 30, 2020.

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

Unrealized gains and losses include the change in market value, period over period, on our derivatives portfolio, including reversals of any mark-to-market losses taken on derivatives in prior periods upon settlement. We paid $464 million to terminate interest rate swaps with a notional value of $4.1 billion during the six months ended June 30, 2020. The terminated swaps had original maturities from 2023 to 2048. We closed our short Treasury futures positions during the first quarter of 2020. We had net realized losses of $35 million on our short Treasury futures positions for the six months ended June 30, 2020. The realized loss on Treasury futures was driven by the declines in interest rates which reduces the value of our short Treasury futures. Treasury futures are not included in our economic interest expense and economic net interest income.

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

The continued recovery of financial markets as well as the decline in interest rates helped asset pricing, primarily in our Loans held for investment portfolio. We recorded Net unrealized gains on financial instruments at fair value of $36 million and $306 million for the quarter and six months ended June 30, 2021, respectively, as compared to the Net unrealized losses of $172 million and $433 million for the quarter and six months ended June 30, 2020, respectively.

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

We do not forecast sales of investments as we generally expect to invest for long term gains. However, from time to time, we may sell assets to create liquidity necessary to pursue new opportunities, achieve targeted leverage ratios as well as for gains when prices indicate a sale is most beneficial to us, or is the most prudent course of action to maintain a targeted risk adjusted yield for our investors.

In response to the disruptions in the financial market and to strengthen our liquidity position, we sold all of our Agency RMBS portfolio during the first quarter of 2020. Additionally, we sold some of our Agency CMBS and Non-Agency RMBS investments during the quarter and six months ended June 30, 2021. We had net realized gains on sales of investments of $8 million and $45 million for the quarter and six months ended June 30, 2021, as compared to $26 million and $102 million during the quarter and six months ended June 30, 2020.

When we acquire our outstanding securitized debt, we extinguish the outstanding debt and recognize a gain or loss based on the difference between the carrying value of the debt and the cost to acquire the debt which is reflected in the Consolidated Statements of Operations as a gain or loss on extinguishment of debt. We did not acquire any securitized debt collateralized by Non-Agency RMBS during the quarters and six months ended June 30, 2021 and 2020, respectively.

During the quarter ended June 30, 2021, we acquired securitized debt collateralized by Loans held for investment with an amortized cost balance of $1.0 billion for $1.1 billion. This transaction resulted in net loss on extinguishment of debt of $22 million. During the six months ended June 30, 2021, we acquired securitized debt collateralized by Loans held for investment with an amortized cost balance of $3.7 billion for $4.0 billion. This transaction resulted in net loss on extinguishment of debt of $256 million. During the quarter and six months ended June 30, 2020, we acquired securitized debt collateralized by Loans held for investment with an amortized cost balance of $147 million. This transaction resulted in a net gain on extinguishment of debt of $459 thousand.

Long Term Debt Expense

As of June 30, 2021, approximately $353 million of our Notes have been converted into approximately 54 million shares of our common stock. At June 30, 2021 and December 31, 2020, the outstanding principal amount of these Notes was $21 million and $53 million, respectively, and there was $367 thousand and $1 million of accrued interest payable, respectively. At June 30, 2021 and December 31, 2020, the unamortized deferred debt issuance cost was $413 thousand and $1 million, respectively. The net interest expense for the quarter and six months ended June 30, 2021 was $1 million and $2 million, respectively. The net interest expense for the quarter and six months ended June 30, 2020 was $4 million. The unamortized deferred debt issuance costs will be amortized until maturity or conversion, which will be no later than April 1, 2023.

Compensation, General and Administrative Expenses and Transaction Expenses

The table below shows our total compensation and benefit expense, general and administrative, or G&A expenses, and transaction expenses as compared to average total assets and average equity for the periods presented.

	Total Compensation, G&A and Transaction Expenses	Total Compensation, G&A and Transaction Expenses/Average Assets	Total Compensation, G&A and Transaction Expenses/Average Equity
	(Ratios have been annualized, dollars in thousands)		
For the Quarter Ended June 30, 2021	$ 21,148	0.52 %	2.35 %
For the Quarter Ended March 31, 2021	$ 35,074	0.82 %	3.82 %
For the Quarter Ended December 31, 2020	$ 20,741	0.47 %	2.22 %
For the Quarter Ended September 30, 2020	$ 18,147	0.40 %	2.05 %
For the Quarter Ended June 30, 2020	$ 20,928	0.44 %	2.52 %

Compensation and benefit costs were approximately $9 million and $10 million for the quarters ended June 30, 2021 and 2020, respectively, and remained unchanged at $23 million for the six months ended June 30, 2021 and 2020.

G&A expenses were approximately $6 million for the quarters ended June 30, 2021 and 2020, and $11 million for the six months ended June 30, 2021 and 2020. The G&A expenses are primarily comprised of legal, market data and research, auditing, consulting, information technology, and independent investment consulting expenses.

We incurred transaction expenses in relation to securitizations of $6 million and $5 million for the quarters and $22 million and $10 million for the six months ended June 30, 2021 and 2020, respectively. The increase in transaction expenses for the quarter and six months ended June 30, 2021 is driven by higher call and securitization activity as compared to the same period of 2020.

Servicing and Asset Manager Fees

Servicing fees and asset manager expenses were $9 million and $10 million for the quarters ended June 30, 2021 and 2020. For the six months ended June 30, 2021 and 2020, servicing fees were $18 million and $21 million, respectively. These servicing fees are primarily related to the servicing costs of the whole loans held in consolidated securitization vehicles and are paid from interest income earned by the VIEs. The servicing fees generally range from 11 to 50 basis points of unpaid principal balances of our consolidated VIEs.

Core earnings

Core earnings is a non-GAAP measure and is defined as GAAP net income excluding unrealized gains or losses on financial instruments carried at fair value with changes in fair value recorded in earnings, realized gains or losses on the sales of investments, gains or losses on the extinguishment of debt, interest expense on long term debt, changes in the provision for credit losses, and transaction expenses incurred. In addition, stock compensation expense charges incurred on awards to retirement eligible employees is reflected as an expense over a vesting period (36 months) rather than reported as an immediate expense.

As defined, core earnings is the Economic net interest income, as defined previously, reduced by compensation and benefits expenses (adjusted for awards to retirement eligible employees), general and administrative expenses, servicing and asset manager fees, income tax benefits or expenses incurred during the period, as well as the preferred dividend charges. We believe that the presentation of core earnings provides us and investors with a useful measure, but has important limitations. We believe core earnings as described above helps us and investors evaluate our financial performance period over period without the impact of certain transactions but, is of limited usefulness as an analytical tool. Therefore, core earnings should not be viewed in isolation and is not a substitute for net income or net income per basic share computed in accordance with GAAP. In addition, our methodology for calculating core earnings may differ from the methodologies employed by other REITs to calculate the same or similar supplemental performance measures, and accordingly, our reported core earnings may not be comparable to the core earnings reported by other REITs.

The following table provides GAAP measures of net income and net income per diluted share available to common stockholders for the periods presented and details with respect to reconciling the line items to core earnings and related per average diluted common share amounts. Core earnings is presented on an adjusted dilutive shares basis. Certain prior period amounts have been reclassified to conform to the current period's presentation.

	For the Quarters Ended				
	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020
	(dollars in thousands, except per share data)				
GAAP Net income available to common stockholders	$ 144,883	$ 139,153	$ 128,797	$ 348,891	$ (73,393)
Adjustments:					
Net unrealized (gains) losses on financial instruments at fair value	(36,108)	(270,012)	(61,379)	(260,766)	171,921
Net realized (gains) losses on sales of investments	(7,517)	(37,796)	329	(65,041)	(26,380)
(Gains) losses on extinguishment of debt	21,777	237,137	(919)	55,794	(459)
Interest expense on long term debt	959	1,076	1,197	1,495	4,391
Increase (decrease) in provision for credit losses	453	(126)	13	(1,650)	(4,497)
Transaction expenses	5,745	16,437	3,827	1,624	4,710
Stock Compensation expense for retirement eligible awards	(361)	661	(225)	(275)	(273)
Core Earnings	$ 129,831	$ 86,530	$ 71,640	$ 80,072	$ 76,020
GAAP net income per diluted common share	$ 0.60	$ 0.54	$ 0.49	$ 1.32	$ (0.37)
Core earnings per adjusted diluted common share	$ 0.54	$ 0.36	$ 0.29	$ 0.33	$ 0.32

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

	For the Quarters Ended				
	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020
Weighted Average diluted shares - GAAP	241,739,536	261,435,081	264,882,701	265,346,359	199,282,790
Conversions from Convertible Debt	—	—	—	—	42,910,191
Non-participating Warrants	—	(20,282,173)	(20,278,970)	(20,277,134)	(4,901,962)
Weighted Average diluted shares - Core earnings	241,739,536	241,152,908	244,603,731	245,069,225	237,291,019

Our core earnings for the quarter ended June 30, 2021 were $130 million, or $0.54 per average diluted common share, and increased by $54 million, or $0.22 per average diluted common share, as compared to $76 million, or $0.32 per average diluted common share, for the quarter ended June 30, 2020. The increase in core earnings was driven by higher interest income due to prepayment penalties, early paydowns and lower interest expense driven by lower financing rate on our securitized debt and secured financing agreements.

Net Income (Loss) and Return on Total Stockholders' Equity

The table below shows our Net Income and Economic net interest income as a percentage of average stockholders' equity and Core Earnings as a percentage of average common stockholders' equity. Return on average equity is defined as our GAAP net income (loss) as a percentage of average equity. Average equity is defined as the average of our beginning and ending stockholders' equity balance for the period reported. Economic Net Interest Income and Core Earnings are non-GAAP measures as defined in previous sections.

	Return on Average Equity	Economic Net Interest Income/Average Equity *	Core Earnings/Average Common Equity
	(Ratios have been annualized)		
For the Quarter Ended June 30, 2021	18.16 %	19.24 %	19.47 %
For the Quarter Ended March 31, 2021	17.16 %	14.82 %	12.62 %
For the Quarter Ended December 31, 2020	15.76 %	12.53 %	10.21 %
For the Quarter Ended September 30, 2020	41.43 %	14.08 %	12.24 %
For the Quarter Ended June 30, 2020	(6.62)%	14.58 %	12.72 %

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

Return on average equity increased by 2,478 basis points for the quarter ended June 30, 2021, as compared to the same period of 2020. This increase is driven primarily by unrealized asset pricing gains on our financial instruments and higher net interest income during quarter ended June 30, 2021, as compared to unrealized losses on financial instruments and losses on derivatives during the quarter ended June 30, 2020. Economic net interest income as a percentage of average equity increased by 466 basis points for the quarter ended June 30, 2021 compared to the quarter ended June 30, 2020. Core earnings as a percentage of average common equity increased by 675 basis points for the quarter ended June 30, 2021 compared to the same period of 2020. This increase for the quarter ended June 30, 2021 was primarily driven by higher interest income due to prepayment penalties and early paydowns received and lower interest expense driven by lower financing rates on secured debt and secured financing agreements.

Financial Condition

Portfolio Review

During the first six months of 2021, the financial markets showed signs of improvement from the disruptions driven by the COVID-19 pandemic during previous year. We focused our efforts on reducing the cost of funding by calling and resecuritizing certain of our higher rate debt with lower rates available in the financing markets. During the quarter ended June 30, 2021, on an aggregate basis, we purchased $1.6 billion of investments, sold $1.5 billion of investments and received $1.8 billion in principal payments related to our Agency MBS, Non-Agency RMBS and Loans held for investments portfolio.

The following table summarizes certain characteristics of our portfolio at June 30, 2021 and December 31, 2020.

	June 30, 2021	December 31, 2020
Interest earning assets at period-end [1]	$ 15,383,863	$ 17,093,949
Interest bearing liabilities at period-end	$ 12,046,048	$ 13,513,580
GAAP Leverage at period-end	3.3:1	3.6:1
GAAP Leverage at period-end (recourse)	1.0:1	1.2:1

(1) Excludes cash and cash equivalents.

	June 30, 2021	December 31, 2020	June 30, 2021	December 31, 2020
Portfolio Composition	Amortized Cost		Fair Value	
Non-Agency RMBS	10.4 %	10.2 %	12.5 %	12.6 %
Senior	5.0 %	5.0 %	7.3 %	7.5 %
Subordinated	3.9 %	3.6 %	3.9 %	3.6 %
Interest-only	1.5 %	1.6 %	1.3 %	1.5 %
Agency RMBS	0.8 %	0.7 %	0.5 %	0.5 %
Pass-through	— %	— %	— %	— %
Interest-only	0.8 %	0.7 %	0.5 %	0.5 %
Agency CMBS	8.0 %	10.0 %	8.0 %	10.2 %
Project loans	7.0 %	9.9 %	7.1 %	10.0 %
Interest-only	1.0 %	0.1 %	0.9 %	0.2 %
Loans held for investment	80.8 %	79.1 %	79.0 %	76.7 %
Fixed-rate percentage of portfolio	95.0 %	94.9 %	93.7 %	93.2 %
Adjustable-rate percentage of portfolio	5.0 %	5.1 %	6.3 %	6.8 %

GAAP leverage at period-end is calculated as a ratio of our secured financing agreements and securitized debt liabilities over GAAP book value. GAAP recourse leverage is calculated as a ratio of our secured financing agreements over stockholders equity.

The following table presents details of each asset class in our portfolio at June 30, 2021 and December 31, 2020. The principal or notional value represents the interest income earning balance of each class. The weighted average figures are weighted by each investment's respective principal/notional value in the asset class.

June 30, 2021

	Principal or Notional Value at Period-End (dollars in thousands)	Weighted Average Amortized Cost Basis	Weighted Average Fair Value	Weighted Average Coupon	Weighted Average Yield at Period-End [1]	Weighted Average 3 Month Prepay Rate at Period-End	Weighted Average 12 Month Prepay Rate at Period-End	Weighted Average 3 Month CDR at Period-End	Weighted Average 12 Month CDR at Period-End	Weighted Average Loss Severity[2]	Weighted Average Credit Enhancement
Non-Agency Mortgage-Backed Securities											
Senior	$ 1,405,784	$ 49.69	$ 79.45	4.4 %	17.4 %	14.6 %	13.2 %	3.4 %	2.8 %	31.8 %	2.9 %
Subordinated	$ 827,198	$ 67.30	$ 73.04	3.9 %	6.5 %	20.3 %	16.1 %	0.8 %	0.8 %	26.9 %	3.3 %
Interest-only	$ 4,217,507	$ 5.06	$ 4.71	1.7 %	12.7 %	30.2 %	25.4 %	2.5 %	2.4 %	27.3 %	— %
Agency RMBS											
Interest-only	$ 1,164,844	$ 9.47	$ 6.60	1.3 %	1.4 %	27.6 %	23.5 %	N/A	N/A	N/A	N/A
Agency CMBS											
Project loans	$ 974,755	$ 101.78	$ 112.25	4.2 %	4.1 %	3.2 %	3.6 %	N/A	N/A	N/A	N/A
Interest-only	$ 2,412,480	$ 5.71	$ 5.90	0.7 %	4.6 %	4.0 %	10.1 %	N/A	N/A	N/A	N/A
Loans held for investment	$ 11,549,915	$ 98.81	$ 105.32	5.8 %	5.2 %	14.9 %	10.4 %	0.6 %	0.3 %	36.0 %	N/A

(1) Bond Equivalent Yield at period end. Weighted Average Yield is calculated using each investment's respective amortized cost.
(2) Calculated based on reported losses to date, utilizing widest data set available (i.e., life-time losses, 12-month loss, etc.)

	December 31, 2020										
	Principal or Notional Value at Period-End (dollars in thousands)	Weighted Average Amortized Cost Basis	Weighted Average Fair Value	Weighted Average Coupon	Weighted Average Yield at Period-End (1)	Weighted Average 3 Month Prepay Rate at Period-End	Weighted Average 12 Month Prepay Rate at Period-End	Weighted Average 3 Month CDR at Period-End	Weighted Average 12 Month CDR at Period-End	Weighted Average Loss Severity(2)	Weighted Average Credit Enhancement
Non-Agency Mortgage-Backed Securities											
Senior	$ 1,560,136	$ 50.65	$ 81.90	4.5 %	16.9 %	13.4 %	11.0 %	2.8 %	2.9 %	47.2 %	2.8 %
Subordinated	$ 905,674	$ 62.46	$ 67.43	3.8 %	6.3 %	16.0 %	12.5 %	0.8 %	0.7 %	22.1 %	3.3 %
Interest-only	$ 5,628,240	$ 4.43	$ 4.66	1.5 %	16.2 %	27.3 %	23.0 %	2.1 %	1.8 %	27.8 %	— %
Agency RMBS											
Interest-only	$ 1,262,963	$ 9.41	$ 7.18	1.7 %	1.6 %	23.8 %	20.6 %	N/A	N/A	N/A	N/A
Agency CMBS											
Project loans	$ 1,527,621	$ 101.81	$ 112.23	4.1 %	3.8 %	— %	— %	N/A	N/A	N/A	N/A
Interest-only	$ 1,326,665	$ 1.78	$ 1.95	0.6 %	8.4 %	10.0 %	8.0 %	N/A	N/A	N/A	N/A
Loans held for investment	$ 12,640,195	$ 98.69	$ 103.85	5.6 %	5.2 %	11.9 %	9.7 %	0.9 %	1.2 %	39.6 %	N/A

(1) Bond Equivalent Yield at period end. Weighted Average Yield is calculated using each investment's respective amortized cost.
(2) Calculated based on reported losses to date, utilizing widest data set available (i.e., life-time losses, 12-month loss, etc.)

Based on the projected cash flows for our Non-Agency RMBS that are not of high credit quality, a portion of the original purchase discount is designated as Accretable Discount, which reflects the purchase discount expected to be accreted into interest income, and a portion is designated as Non-Accretable Difference, which represents the contractual principal on the security that is not expected to be collected. The amount designated as Non-Accretable Difference may be adjusted over time, based on the actual performance of the security, its underlying collateral, actual and projected cash flow from such collateral, economic conditions and other factors. If the performance of a security is more favorable than previously estimated, a portion of the amount designated as Non-Accretable Difference may be transferred to accretable discount and accreted into interest income over time. Conversely, if the performance of a security is less favorable than previously estimated, a provision for credit loss may be recognized resulting in an increase in the amounts designated as Non-Accretable Difference.

The following table presents changes to Accretable Discount (net of premiums) as it pertains to our Non-Agency RMBS portfolio, excluding premiums on interest-only investments, during the previous five quarters.

	For the Quarters Ended (dollars in thousands)				
Accretable Discount (Net of Premiums)	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020
Balance, beginning of period	$ 358,562	$ 409,690	$ 422,981	$ 410,447	$ 438,232
Accretion of discount	(37,986)	(24,023)	(21,281)	(20,045)	(22,508)
Purchases	(3,453)	—	758	2,096	—
Sales and deconsolidation	(17,123)	(41,651)	98	—	(23,425)
Transfers from/(to) credit reserve, net	38,024	14,546	7,134	30,483	18,148
Balance, end of period	$ 338,024	$ 358,562	$ 409,690	$ 422,981	$ 410,447

We invest a significant majority of the Company's capital in pools of Non-Agency RMBS and Loans held for investment. These investments carry risk for credit losses. As we are exposed to risk for credit losses, it is important for us to closely monitor credit losses incurred, as well as how expectations of credit losses are expected to change. We estimate future credit losses based on historical experience, market trends, current delinquencies as well as expected recoveries. The net present value of these expected credit losses can change, sometimes significantly from period to period as new information becomes available. When credit loss experience and expectations improve, we will collect more principal on our investments. If credit loss experience deteriorates, we will collect less principal on our investments. The favorable or unfavorable changes in credit losses are reflected in the yield on our investments in mortgage loans and recognized in earnings over the remaining life of our investments. The following table presents changes to net present value of expected credit losses for our Non-Agency RMBS and Loans held for investment portfolios during the previous five quarters. Gross losses are discounted at the rate used to amortize any discounts or premiums on our investments into income. A decrease (negative balance) in the "Increase/(decrease)" line item in the tables below represent a favorable change in expected credit losses. An increase (positive balance) in the "Increase/(decrease)" line item in the tables below represent an unfavorable change in expected credit losses.

	For the Quarters Ended (dollars in thousands)				
Non-Agency RMBS	**June 30, 2021**	**March 31, 2021**	**December 31, 2020**	**September 30, 2020**	**June 30, 2020**
Balance, beginning of period	$ 133,607	$ 157,527	$ 163,369	$ 181,865	$ 204,831
Realized losses	(2,482)	(3,927)	(4,984)	(7,060)	(7,110)
Accretion	3,466	4,152	4,242	4,865	5,823
Purchased losses	3,066	—	4,007	1,338	—
Sold losses	(678)	(733)	(2,928)	—	(6,144)
Increase/(decrease)	(7,926)	(23,412)	(6,179)	(17,639)	(15,535)
Balance, end of period	$ 129,053	$ 133,607	$ 157,527	$ 163,369	$ 181,865

	For the Quarters Ended (dollars in thousands)				
Loans held for investments	**June 30, 2021**	**March 31, 2021**	**December 31, 2020**	**September 30, 2020**	**June 30, 2020**
Balance, beginning of period	$ 448,763	$ 511,190	$ 536,016	$ 603,195	$ 672,632
Realized losses	(13,244)	(8,512)	(14,373)	(20,501)	(22,362)
Accretion	4,795	3,420	5,702	6,608	7,248
Increase/(decrease) (1)	(19,991)	(57,335)	(16,155)	(53,286)	(54,323)
Balance, end of period	$ 420,323	$ 448,763	$ 511,190	$ 536,016	$ 603,195

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

Liquidity and Capital Resources

General

Liquidity measures our ability to meet cash requirements, including ongoing commitments to repay our borrowings, purchase RMBS, residential mortgage loans and other assets for our portfolio, pay dividends and other general business needs. Our principal sources of capital and funds for additional investments primarily include earnings, principal paydowns and sales from our investments, borrowings under securitizations and re-securitizations, secured financing agreements and other financing facilities including warehouse facilities, and proceeds from equity or other securities offerings.

As discussed throughout this Quarterly Report on Form 10-Q, the financial markets have continued to show improvements with continued declines in unemployment rates and a strong real estate market. During the quarter ended June 30, 2021, we have observed price appreciation in our Loans held for investment portfolio and as well as in our Agency MBS and Non-Agency RMBS portfolio as delinquency rates have continued to drop from prior year highs and interest rates have lowered from prior periods. Despite improving conditions, there is still significant uncertainty and risks related to the COVID-19 pandemic and potentially new, more infectious variants. If infection rates become more pronounced, we may experience an adverse impact on our liquidity. See the "Market Conditions and our Strategy" section of this "Part I. Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations" and related "Special Note Regarding Forward-Looking Statements" for more information on how the COVID-19 pandemic may impact our liquidity and capital resources. As discussed in greater detail above in "Part I. Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Market Conditions and our Strategy," we have sought longer-term, more durable financing since 2020 to reduce our risk to margin calls related to shorter-term repurchase financing.

Our ability to fund our operations, meet financial obligations and finance target asset acquisitions may be impacted by our ability to secure and maintain our master secured financing agreements, warehouse facilities and secured financing agreements facilities with our counterparties. Because secured financing agreements and warehouse facilities are short-term commitments of capital, lenders may respond to market conditions making it more difficult for us to renew or replace on a continuous basis our maturing short-term borrowings and have and may continue to impose more onerous conditions when rolling such financings. If we are not able to renew our existing facilities or arrange for new financing on terms acceptable to us, or if we default on our covenants or are otherwise unable to access funds under our financing facilities or if we are required to post more collateral or face larger haircuts, we may have to curtail our asset acquisition activities and/or dispose of assets.

To meet our short term (one year or less) liquidity needs, we expect to continue to borrow funds in the form of secured financing agreements and, subject to market conditions, other types of financing. The terms of the secured financing transaction borrowings under our master secured financing agreement generally conform to the terms in the standard master secured financing agreement as published by the Securities Industry and Financial Markets Association, or SIFMA, or similar market accepted agreements, as to repayment and margin requirements. In addition, each lender typically requires that we include supplemental terms and conditions to the standard master secured financing agreement. Typical supplemental terms and conditions include changes to the margin maintenance requirements, net asset value, required haircuts or the percentage that is subtracted from the value of MBS that collateralizes the financing, purchase price maintenance requirements, and requirements that all disputes related to the secured financing agreement be litigated or arbitrated in a particular jurisdiction. These provisions may differ for each of our lenders.

Based on our current portfolio, leverage ratio and available borrowing arrangements, we believe our assets will be sufficient to enable us to meet anticipated short-term liquidity requirements. If our cash resources are insufficient to satisfy our liquidity requirements, we may have to sell additional investments, potentially at a loss, issue debt or additional common or preferred equity securities.

To meet our longer-term liquidity needs (greater than one year), we expect our principal sources of capital and funds to continue to be provided by earnings, principal paydowns and sales from our investments, borrowings under securitizations and re-securitizations, secured financing agreements and other financing facilities, as well as proceeds from equity or other securities offerings.

In addition to the principal sources of capital described above, we may enter into warehouse facilities and use longer dated structured secured financing agreements. The use of any particular source of capital and funds will depend on market conditions, availability of these facilities, and the investment opportunities available to us.

Current Period

We held cash and cash equivalents of approximately $347 million and $269 million at June 30, 2021 and December 31, 2020, respectively. As a result of our operating, investing and financing activities described below, our cash position increased
by $78 million from December 31, 2020 to June 30, 2021.

Our operating activities provided net cash of approximately $259 million and $18 million for the six months ended June 30, 2021 and 2020, respectively. The cash flows from operations were primarily driven by interest received in excess of interest paid of $345 million during the six months ended June 30, 2021. For the six months ended June 30, 2020 interest received in excess of interest paid was $305 million. In addition, we used cash of $464 million for payments on swap terminations, which was offset by cash received for realized gains on securities of $102 million during the six months ended June 30, 2020.

Our investing activities provided cash of $1.7 billion and $7.0 billion for the six months ended June 30, 2021 and 2020, respectively. During the quarter ended June 30, 2021, we received cash from sale of investments of $1.5 billion primarily consisting of Loans held for investments of $1.2 billion and principal repayments on our Agency MBS, Non-Agency RMBS, and Loans held for investments of $1.8 billion. This cash provided was offset in part by cash used on investment purchases of $1.6 billion, primarily consisting of Loans held for investments. During the six months ended June 30, 2020, we received cash from sale of Agency RMBS investments of $6.5 billion and principal repayments on our Agency MBS, Non-Agency RMBS, and Loans held for investments of $1.6 billion. This cash provided was offset in part by cash used on investment purchases of $1.2 billion, consisting of $885 million in purchases of Loans held for investments, $292 million in Agency CMBS fundings, and $20 million in Non-Agency RMBS purchases.

Our financing activities used cash of $1.8 billion and $6.9 billion for the six months ended June 30, 2021 and 2020, respectively. During the six months ended June 30, 2021, our financing efforts were focused on taking advantage of a low interest rate environment to collapse and securitize debt borrowings that significantly reduce our cost of funding. During the six months ended June 30, 2021, we used cash for repayment of principal on our securitized debt of $5.0 billion, net payments on our secured financing agreements of $1.1 billion, settlement of warrants of $221 million, and paid common and preferred dividends of $176 million. This cash paid was offset in part by cash received for securitized debt collateralized by loans issuance of $4.7 billion. During the six months ended June 30, 2020, we used cash for net payments on our secured financing agreements of $7.5 billion, repayment of principal on our securitized debt of $929 million, and paid common and preferred dividends of $223 million. This cash paid was offset in part by cash received for securitized debt collateralized by loans issuance of $1.5 billion and convertible debt issuance of $361 million.

Our recourse leverage was 1.0:1 and 1.2:1 at June 30, 2021 and at December 31, 2020, respectively. The reduction in recourse leverage was a result of our continuing efforts to de-lever our financial position reducing our secured financing agreements liability. Our recourse leverage excludes the securitized debt which can only be repaid from the proceeds on the assets securing this debt in their respective VIEs. Our recourse leverage is presented as a ratio of our secured financing agreements, which are recourse to our assets and our equity.

At June 30, 2021 and December 31, 2020, the remaining maturities and borrowing rates on our RMBS and loan secured financing agreements were as follows.

	June 30, 2021			December 31, 2020		
	(dollars in thousands)					
	Principal (1)	Weighted Average Borrowing Rates	Range of Borrowing Rates	Principal (1)	Weighted Average Borrowing Rates	Range of Borrowing Rates
Overnight	$ 105,673	0.73	0.70% - 0.78%	$ —	NA	NA
1 to 29 days	1,248,179	0.84%	0.08% - 3.25%	1,521,134	0.38%	0.20% - 2.72%
30 to 59 days	267,897	1.57%	1.38% - 1.96%	481,257	4.35%	2.42% - 6.61%
60 to 89 days	459,140	2.16%	1.38% - 2.44%	352,684	2.78%	1.34% - 6.30%
90 to 119 days	51,944	1.82%	1.82% - 1.82%	301,994	7.97%	7.97% - 7.97%
120 to 180 days	122,765	1.77%	1.77% - 1.77%	595,900	5.29%	2.40% - 6.26%
180 days to 1 year	146,296	1.79%	0.95% - 1.95%	345,204	3.60%	3.25% - 4.50%
1 to 2 years	837,513	3.96%	2.85% - 4.38%	—	NA	NA
2 to 3 years	—	NA	NA	642,696	4.91%	1.65% - 7.00%
Greater than 3 years	315,021	5.56%	5.56% - 5.56%	395,978	5.56%	5.56% - 5.56%
Total	$ 3,554,428	2.30%		$ 4,636,847	3.41%	

(1) The values for secured financing agreements in the table above is net of $4 million and $8 million of deferred financing cost as of June 30, 2021 and December 31, 2020, respectively.

Average remaining maturity of Secured financing agreements secured by:

	June 30, 2021	December 31, 2020
Agency RMBS (in thousands)	1 Days	12 days
Agency CMBS (in thousands)	12 Days	11 days
Non-Agency RMBS and Loans held for investment (in thousands)	363 Days	458 days

We collateralize the secured financing agreements we use to finance our operations with our MBS investments. Our counterparties negotiate a 'haircut', which is the difference expressed in percentage terms between the fair value of the collateral and the amount the counterparty will lend to us, when we enter into a financing transaction. The size of the haircut reflects the perceived risk and market volatility associated with holding the MBS by the lender. The haircut provides lenders with a cushion for daily market value movements that reduce the need for a margin call to be issued or margin to be returned as normal daily increases or decreases in MBS market values occur. Haircuts have stabilized, or even declined, during 2021 as markets have continued to show improvement and liquidity has become more available. At June 30, 2021, the weighted average haircut on our remaining secured financing agreements collateralized by Agency RMBS IOs was 20.0%, Agency CMBS was 5.9% and Non-Agency RMBS and Loans held for investments was 30.6%. At December 31, 2020, the weighted average haircut on our remaining secured financing agreements collateralized by Agency RMBS IOs was 25.0%, Agency CMBS was 5.2% and Non-Agency RMBS and Loans held for investments was 31.8%. At June 30, 2021, the weighted average borrowing rates for our secured financing agreements collateralized by Agency RMBS IOs was 0.7%, Agency CMBS was 0.1% and Non-Agency MBS and Loans held for investment was 3.1%. At December 31, 2020, the weighted average borrowing rates for our secured financing agreements collateralized by Agency RMBS was 0.9%, Agency CMBS was 0.2%, and Non-Agency MBS and Loans held for investment was 4.8%.

As the fair value of the Non-Agency MBS is more difficult to determine in current financial conditions, as well as more volatile period to period than Agency MBS; therefore, the Non-Agency MBS typically requires a larger haircut. In addition, when financing assets using standard form of SIFMA Master Repurchase Agreements, the counterparty to the agreement typically nets its exposure to us on all outstanding repurchase agreements and issues margin calls if movement of the fair values of the assets in the aggregate exceeds their allowable exposure to us. A decline in asset fair values could create a margin call or may create no margin call depending on the counterparty's specific policy. In addition, counterparties consider a number of factors, including their aggregate exposure to us as a whole and the number of days remaining before the repurchase transaction closes prior to issuing a margin call. See Note 5 to our Consolidated Financial Statements for a discussion on how we determine the fair values of the RMBS collateralizing our secured financing agreements.

The table below presents our average daily secured financing agreements balance and the secured financing agreements balance at each period end for the periods presented. Our balance at period-end tends to fluctuate from the average daily balances due to the adjusting of the size of our portfolio by using leverage.

Period		Average secured financing agreements balances		Secured financing agreements balance at period end
Quarter End June 30, 2021	$	3,792,547	$	3,554,428
Quarter End March 31, 2021	$	4,560,057	$	4,045,912
Quarter End December 31, 2020	$	4,665,324	$	4,636,847
Quarter End September 30, 2020	$	5,269,553	$	4,700,037
Quarter End June 30, 2020	$	6,536,264	$	5,944,201

We are not required to maintain any specific leverage ratio. We believe the appropriate leverage for the particular assets we are financing depends on the credit quality and risk of those assets. At June 30, 2021 and December 31, 2020, the carrying value of our total interest-bearing debt was approximately $12.0 billion and $13.5 billion, respectively, which represented a leverage ratio of approximately 3.3:1 and 3.6:1, respectively. We include our secured financing agreements and securitized debt in the numerator of our leverage ratio and stockholders' equity as the denominator.

At June 30, 2021, we had secured financing agreements with 16 counterparties. All of our secured financing agreements are secured by Agency MBS, Non-Agency RMBS and Loans held for investments and cash. Under these secured financing agreements, we may not be able to reclaim our collateral but will still be obligated to pay our repurchase obligations. We mitigate this risk by ensuring our counterparties are highly rated. As of June 30, 2021 and December 31, 2020, we had $4.8 billion and $6.7 billion, respectively, of securities or cash pledged against our secured financing agreements obligations.

We expect to enter into new secured financing agreements at maturity. When we renew our secured financing agreements, there is a risk that we will not be able to renew them or obtain favorable interest rates and haircuts as a result of uncertainty around the COVID-19 pandemic.

Exposure to Financial Counterparties

We actively manage the number of secured financing agreements counterparties to reduce counterparty risk and manage our liquidity needs. The following table summarizes our exposure to our secured financing agreements counterparties at June 30, 2021:

	June 30, 2021				
Country	**Number of Counterparties**		**Secured Financing Agreement**		**Exposure [1]**
	(dollars in thousands)				
United States	11		2,142,335		889,411
Japan	1		858,861		214,138
Canada	1		213,856		57,788
Netherlands	1		145,005		4,924
South Korea	1		101,952		4,081
Switzerland	1		92,419		37,082
Total	16	$	3,554,428	$	1,207,424

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

At June 30, 2021, we did not use credit default swaps or other forms of credit protection to hedge the exposures summarized in the table above.

Stockholders' Equity

In February 2021, our Board of Directors increased the authorization of our share repurchase program to $250 million, or the Repurchase Program. Such authorization does not have an expiration date, and at present, there is no intention to modify or otherwise rescind such authorization. Shares of our common stock may be purchased in the open market, including through block purchases, through privately negotiated transactions, or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934. The timing, manner, price and amount of any repurchases will be determined at our discretion and the program may be suspended, terminated or modified at any time for any reason. Among other factors, we intend to only consider repurchasing shares of our common stock when the purchase price is less than the last publicly reported book value per common share. In addition, we do not intend to repurchase any shares from directors, officers or other affiliates. The program does not obligate us to acquire any specific number of shares, and all repurchases will be made in accordance with Rule 10b-18, which sets certain restrictions on the method, timing, price and volume of stock repurchases.

We did not repurchase any common stock during the quarter ended June 30, 2021. We repurchased approximately 161 thousand shares of our common stock at an average price of $11.39 per share for a total of $2 million during the six months ended June 30, 2021. We did not repurchase any of our common stock during the quarter ended June 30, 2020. During the quarter ended March 31, 2020 we repurchased approximately 1.4 million shares of our common stock at an average price of $15.34 per share for a total of $22 million.

During the quarter and six months ended June 30, 2021, we issued approximately 5 million shares of our common stock upon conversion of the $32 million convertible senior notes. During the year ended December 31, 2020, we issued approximately 49 million shares of our common stock upon conversion of the $321 million convertible senior notes. Additionally, we issued shares of our common stock as discussed below under “Restricted Stock Grants,” and a de minimis amount under our Dividend Reinvestment Plan.

During the quarter and six months ended June 30, 2021, we declared dividends to common shareholders of $79 million and $149 million, or $0.33 and $0.63, per share, respectively. During the quarter and six months ended June 30, 2020, we declared dividends to common shareholders of $70 million and $164 million, or $0.30 and $0.80, per share, respectively.

We declared dividends to Series A preferred stockholders of $3 million and $6 million, or $0.50 and $1.00 per preferred share, during the quarter and six months ended June 30, 2021, respectively. We declared dividends to Series A preferred stockholders of $3 million and $6 million, or $0.50 and $1.00 per preferred share, during the quarter and six months ended June 30, 2020, respectively.

We declared dividends to Series B preferred stockholders of $7 million and $13 million, or $0.50 and $1.00 per preferred share, during the quarter and six months ended June 30, 2021, respectively. We declared dividends to Series B preferred stockholders of $7 million and $13 million, or $0.50 and $1.00 per preferred share, during the quarter and six months ended June 30, 2020, respectively.

We declared dividends to Series C preferred stockholders of $5 million and $10 million, or $0.484375 and $0.968750 per preferred share, during the quarter and six months ended June 30, 2021, respectively. We declared dividends to Series C preferred stockholders of $5 million and $10 million, or $0.484375 and $0.968750 per preferred share, during the quarter and six months ended June 30, 2020, respectively.

We declared dividends to Series D preferred stockholders of $4 million and $8 million, or $0.50 and $1.00 per preferred share, during the quarter and six months ended June 30, 2021, respectively. We declared dividends to Series D preferred stockholders of $4 million and $8 million, or $0.50 and $1.00 per preferred share, during the quarter and six months ended June 30, 2020, respectively.

Restricted Stock Unit and Performance Share Unit Grants

Grants of Restricted Stock Units, or RSUs

During the six months ended June 30, 2021 and 2020, we granted RSU awards to senior management. These RSU awards are designed to reward our senior management for services provided to the Company. Generally, the RSU awards vest equally over a three-year period beginning from the grant date and will fully vest after three years. For employees who are retirement eligible, defined as years of service to the Company plus age, is equal to or greater than 65, the service period is considered to be fulfilled and all grants are expensed immediately. The RSU awards are valued at the market price of our common stock on the grant date and generally the employees must be employed by us on the vesting dates to receive the RSU awards. We granted 62 thousand and 244 thousand RSU awards during the quarter and six months ended June 30, 2021, with a grant date fair value of $1 million and $3 million, respectively, for the 2021 performance year. We granted 171 thousand and 306 thousand RSU awards during the quarter and six months ended June 30, 2020, with a grant date fair value of $1 million and $4 million, respectively, for the 2020 performance year.

In addition, during the six months ended June 30, 2021, we granted certain of our senior management 1 million RSU awards that vest in five equal tranches with one tranche vested immediately and the remaining four will vest equally over a four year period. These additional RSUs are not subject to retirement eligible provisions and had a grant date fair value of $10 million.

Grants of Performance Share Units, or PSUs

PSU awards are designed to align compensation with our future performance. The PSU awards granted during the firs quarter of 2021 and 2020 include a three-year performance period ending on December 31, 2023 and December 31, 2022, respectively. The final number of shares awarded will be between 0% and 200% of the PSUs granted based on our Economic Return compared to a peer group. Our three-year Company Economic Return is equal to our change in book value per common share plus common stock dividends. Compensation expense will be recognized on a straight-line basis over the three-year vesting period based on an estimate of our Economic Return in relation to the entities in the peer group and will be adjusted each period based on our best estimate of the actual number of shares which will vest. During the six months ended June 30, 2021, we granted 182 thousand PSU awards to senior management with a grant date fair value of $2 million. During the six months ended June 30, 2020, we granted 135 thousand PSU awards to senior management with a grant date fair value of $3 million.

At June 30, 2021 and December 31, 2020, there were approximately 3.2 million and 2.1 million unvested shares of RSUs and PSUs issued to our employees, respectively.

Contractual Obligations and Commitments

The following tables summarize our contractual obligations at June 30, 2021 and December 31, 2020. The estimated principal repayment schedule of the securitized debt is based on expected cash flows of the residential mortgage loans or RMBS, as adjusted for expected principal write-downs on the underlying collateral of the debt.

June 30, 2021
(dollars in thousands)

Contractual Obligations	Within One Year	One to Three Years	Three to Five Years	Greater Than or Equal to Five Years	Total
Secured financing agreements	$ 2,401,894	$ 837,513	$ 315,021	$ —	$ 3,554,428
Securitized debt, collateralized by Non-Agency RMBS	10,378	4,833	1,273	120	16,604
Securitized debt at fair value, collateralized by Loans held for investment	1,869,298	2,813,068	1,838,129	1,802,739	8,323,234
Interest expense on MBS secured financing agreements (1)	6,601	2,819	1,606	—	11,027
Interest expense on securitized debt (1)	191,338	267,179	158,696	141,585	758,798
Total	$ 4,479,509	$ 3,925,412	$ 2,314,726	$ 1,944,444	$ 12,664,091

(1) Interest is based on variable rates in effect as of June 30, 2021.

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

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

Not included in the table above are the unfunded construction loan commitments of $58 million and $106 million as of June 30, 2021 and December 31, 2020, respectively. We expect the majority of these commitments will be paid within one year and are reported under Payable for investments purchased in our Consolidated Statements of Financial Condition.

Off-Balance Sheet Arrangements

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

Capital Expenditure Requirements

At June 30, 2021 and December 31, 2020, we had no material commitments for capital expenditures.

Dividends

To maintain our qualification as a REIT, we must pay annual dividends to our stockholders of at least 90% of our taxable income (subject to certain adjustments). Before we pay any dividend, we must first meet any operating requirements and scheduled debt service on our financing facilities and other debt payable.

Inflation

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

Critical Accounting Policies and Estimates

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

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

Recent Accounting Pronouncements

Refer to Note 2 in the Notes to Consolidated Financial Statements for a discussion of accounting guidance recently adopted by the Company or expected to be adopted by the Company in the future.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The primary components of our market risk are related to credit risk, interest rate risk, prepayment risk, extension risk, basis risk and market risk. While we do not seek to avoid risk completely, we believe the risk can be quantified from historical experience and we seek to actively manage that risk and to maintain capital levels consistent with the risks we undertake.

Additionally, refer to Item 1A, "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2020 for additional information on risks we face, including the potential effects of the COVID-19 pandemic.

Credit Risk

We are subject to credit risk in connection with our investments in Non-Agency RMBS and residential mortgage loans and face more credit risk on assets we own which are rated below ‘‘AAA’’ or not rated. The credit risk related to these investments pertains to the ability and willingness of the borrowers to pay, which is assessed before credit is granted or renewed and periodically reviewed throughout the loan or security term. We believe that residual loan credit quality, and thus the quality of our assets, is primarily determined by the borrowers’ credit profiles and loan characteristics.

In connection with loan acquisitions, we or a third-party performs an independent review of the mortgage file to assess the origination and servicing of the mortgage loan as well as our ability to enforce the contractual rights in the mortgage. Depending on the size of the loans, we may not review all of the loans in a pool, but rather a sample of loans for diligence review based upon specific risk-based criteria such as property location, loan size, effective loan-to-value ratio, borrower’s characteristics and other criteria we believe to be important indicators of credit risk. Additionally, we obtain representations and warranties from each seller with respect to the residential mortgage loans, including the origination and servicing of the mortgage loan as well as the enforceability of the lien on the mortgaged property. A seller who breaches these representations and warranties in making a loan that we purchase may be obligated to repurchase the loan from us. Our resources include a portfolio management system, as well as third-party software systems. We utilize third-party due diligence firms to perform an independent mortgage loan file review to ensure compliance with existing guidelines. In addition to statistical sampling techniques, we create adverse credit and valuation samples, which we individually review.

Additionally, the Non-Agency RMBS which we acquire for our portfolio are reviewed by us to ensure that they satisfy our risk-based criteria. Our review of Non-Agency RMBS includes utilizing a portfolio management system. Our review of Non-Agency RMBS and other ABS is based on quantitative and qualitative analysis of the risk-adjusted returns on Non-Agency RMBS and other ABS. This analysis includes an evaluation of the collateral characteristics supporting the RMBS such as borrower payment history, credit profiles, geographic concentrations, credit enhancement, seasoning, and other pertinent factors.

If the effects of the COVID-19 pandemic result in widespread and sustained principal and interest shortfalls on MBS investments in our portfolio, we could incur significant delinquencies, foreclosures and credit losses. The future effects of the COVID-19 pandemic on economic activity could negatively affect the timing and amount of principal and interest payments on our existing investments as mortgage holder may have difficulty making payments contractually due. Further, in the event of delinquencies, regulatory changes and policies designed to protect borrowers may slow or prevent us from making our business decisions or may result in a delay in our taking remediation actions. See the “Market Conditions and our Strategy” section of this “Part I. Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations” and related “Special Note Regarding Forward-Looking Statements,” as well as Item 1A, "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2020 for more information on how COVID-19 may impact the credit quality of our mortgage-related assets.

Interest Rate Risk

Our net interest income, borrowing activities and profitability could be negatively affected by volatility in interest rates caused by uncertainties stemming from the COVID-19 pandemic. The Federal Reserve target range for the federal funds rate has been set between 0 to 0.25 percent, citing concerns about the impact of the COVID-19 pandemic on markets and stress in the energy sector. A prolonged period of extremely volatile and unstable market conditions would likely increase our funding costs and negatively affect market risk mitigation strategies. Higher income volatility from changes in interest rates and spreads to benchmark indices could cause a loss of future net interest income and a decrease in current fair market values of our assets. Fluctuations in interest rates will impact both the level of income and expense recorded on most of our assets and liabilities and the market value of all interest-earning assets and interest-bearing liabilities, which in turn could have a material adverse effect on our net income, operating results, or financial condition.

Interest rate risk is highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. We are subject to interest rate risk in connection with our investments and our related debt obligations, which are generally secured financing agreements and securitization trusts. Our secured financing agreements and warehouse facilities may be of limited duration that is periodically refinanced at current market rates. We typically mitigate this risk through utilization of derivative contracts, primarily interest rate swap agreements, swaptions, futures and mortgage options.

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

Interest Rate Effects on Net Interest Income

Our operating results depend, in large part, on differences between the income from our investments and our borrowing costs. Most of our warehouse facilities and secured financing agreements provide financing based on a floating rate of interest calculated on a fixed spread over LIBOR. The fixed spread varies depending on the type of underlying asset which collateralizes the financing. During periods of rising interest rates, the borrowing costs associated with our investments tend to increase while the income earned on our investments may remain substantially unchanged or decrease. This will result in a narrowing of the net interest spread between the related assets and borrowings and may even result in losses. Further, defaults could increase and result in credit losses to us, which could adversely affect our liquidity and operating results. Such delinquencies or defaults could also have an adverse effect on the spread between interest-earning assets and interest-bearing liabilities. We generally do not hedge against credit losses. Hedging techniques are partly based on assumed levels of prepayments of our fixed-rate and hybrid adjustable-rate residential mortgage loans and RMBS. If prepayments are slower or faster than assumed, the life of the residential mortgage loans and RMBS will be longer or shorter, which would reduce the effectiveness of any hedging strategies we may use and may cause losses on such transactions.

Interest Rate Effects on Fair Value

Another component of interest rate risk is the effect changes in interest rates will have on the fair value of the assets we acquire. We face the risk that the fair value of our assets will increase or decrease at different rates than that of our liabilities, including our hedging instruments, if any. We primarily assess our interest rate risk by estimating the duration of our assets compared to the duration of our liabilities and hedges. Duration essentially measures the market price volatility of financial instruments as interest rates change. We generally calculate duration using various financial models and empirical data. Different models and methodologies can produce different duration numbers for the same securities.

It is important to note that the impact of changing interest rates on fair value can change significantly when interest rates change beyond 100 basis points from current levels. Therefore, the volatility in the fair value of our assets could increase significantly when interest rates change beyond 100 basis points. In addition, other factors impact the fair value of our interest rate-sensitive investments and hedging instruments, such as the shape of the yield curve, market expectations as to future interest rate changes and other market conditions. Accordingly, in the event of changes in actual interest rates, the change in the fair value of our assets would likely differ from that shown below and such difference might be material and adverse to our stockholders.

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

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

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

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

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

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

Interest Rate Cap Risk

We may also invest in adjustable-rate residential mortgage loans and RMBS. These are mortgages or RMBS in which the underlying mortgages are typically subject to periodic and lifetime interest rate caps and floors, which limit the amount by which the security’s interest yield may change during any given period. However, our borrowing costs pursuant to our financing agreements will not be subject to similar restrictions. Therefore, in a period of increasing interest rates, interest rate costs on our borrowings could increase without limitation by caps, while the interest-rate yields on our adjustable-rate residential mortgage loans and RMBS would effectively be limited. This problem will be magnified to the extent we acquire adjustable-rate RMBS that are not based on mortgages which are fully indexed. In addition, the mortgages or the underlying mortgages in an RMBS may be subject to periodic payment caps that result in some portion of the interest being deferred and added to the principal outstanding. This could result in our receipt of less cash income on our adjustable-rate mortgages or RMBS than we need in order to pay the interest cost on our related borrowings. These factors could lower our net interest income or cause a net loss during periods of rising interest rates, which would harm our financial condition, cash flows and results of operations.

Interest Rate Mismatch Risk

We fund a substantial portion of our acquisitions of our investments with borrowings that have interest rates based on indices and re-pricing terms similar to, but of somewhat shorter maturities than, the interest rate indices and re-pricing terms of the mortgages and mortgage-backed securities. In most cases the interest rate indices and re-pricing terms of our mortgage assets and our funding sources will not be identical, thereby creating an interest rate mismatch between assets and liabilities. Our cost of funds would likely rise or fall more quickly than would our earnings rate on assets. During periods of changing interest rates, such interest rate mismatches could negatively impact our financial condition, cash flows and results of operations. To mitigate interest rate mismatches, we may utilize the hedging strategies discussed above. Our analysis of risks is based on our experience, estimates, models and assumptions. These analyses rely on models which utilize estimates of fair value and interest rate sensitivity. Actual economic conditions or implementation of investment decisions by our management may produce results that differ significantly from the estimates and assumptions used in our models and the projected results.

To mitigate potential interest rate mismatches, we have entered into agreements for longer term, non mark-to-market financing facilities at rates that are higher than short term secured financing agreements. These longer term agreements are primarily on our less liquid non-agency RMBS assets. Having non mark-to-market financing facilities may be useful in this market to prevent significant margin calls or collateral liquidation in a volatile market. If the market normalizes and repurchase rates fall, we may be locked into long term and higher interest expenses than are otherwise available in the market to finance our portfolio.

Our profitability and the value of our portfolio may be adversely affected during any period as a result of changing interest rates. The following table quantifies the potential changes in net interest income and market value on the assets we retain, if interest rates go up or down 50 and 100 basis points, assuming parallel movements in the yield curves. All changes in income and value are measured as percentage changes from the projected net interest income and the value of the assets we retain at the base interest rate scenario. The base interest rate scenario assumes interest rates at June 30, 2021 and various estimates regarding prepayment and all activities are made at each level of rate change. Actual results could differ significantly from these estimates.

	June 30, 2021	
Change in Interest Rate	Projected Percentage Change in Net Interest Income (1)	Projected Percentage Change in Market Value (2)
-100 Basis Points	1.86 %	5.39 %
-50 Basis Points	1.44 %	3.03 %
Base Interest Rate	—	—
+50 Basis Points	(1.84) %	(3.12) %
+100 Basis Points	(5.48) %	(5.57) %

(1) Change in annual economic net interest income. Includes interest expense on interest rate swaps.
(2) Projected Percentage Change in Market Value is based on instantaneous moves in interest rates.

Prepayment Risk

As we receive prepayments of principal on these investments, premiums and discounts on such investments will be amortized or accreted into interest income. In general, an increase in actual or expected prepayment rates will accelerate the amortization of purchase premiums, thereby reducing the interest income earned on the investments. Conversely, discounts on such investments are accelerated and accreted into interest income increasing interest income when prepayments increase.

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

Extension Risk

Management computes the projected weighted-average life of our investments based on assumptions regarding the rate at which the borrowers will prepay the underlying mortgages. In general, when fixed-rate or hybrid adjustable-rate residential mortgage loans or RMBS are acquired via borrowings, we may, but are not required to, enter into an interest rate swap agreement or other hedging instrument that attempts to fix our borrowing costs for a period close to the anticipated average life of the fixed-rate portion of the related assets. This strategy is designed to protect us from rising interest rates as the borrowing costs are managed to maintain a net interest spread for the duration of the fixed-rate portion of the related assets. However, if prepayment rates decrease in a rising interest rate environment, the life of the fixed-rate portion of the related assets could extend beyond the term of the swap agreement or other hedging instrument. This could have a negative impact on our results from operations, as borrowing costs would no longer be fixed after the end of the hedging instrument while the income earned on the fixed and hybrid adjustable-rate assets would remain fixed. In extreme situations, we may be forced to sell assets to maintain adequate liquidity, which could cause us to incur losses.

Basis Risk

We may seek to limit our interest rate risk by hedging portions of our portfolio through interest rate swaps or other types of hedging instruments. Basis risk relates to the risk of the spread between our MBS and hedges widening. Such a widening may cause a decline in the fair value of our MBS that is greater than the increase in fair value of our hedges resulting in a net decline in book value.

Market Risk

Market Value Risk

Certain of our securities classified as available-for-sale are reflected at their estimated fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive income. The estimated fair value of these securities fluctuates primarily due to changes in interest rates, prepayment speeds, market liquidity, credit quality, and other factors.

Generally, in a rising interest rate environment, the estimated fair value of these securities would be expected to decrease; conversely, in a decreasing interest rate environment, the estimated fair value of these securities would be expected to increase. As market volatility increases or liquidity decreases, the fair value of our investments may be adversely impacted.

Real Estate Market Risk

We own assets secured by real property and may own real property directly. Residential property values are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions and unemployment (which may be adversely affected by industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing); changes or continued weakness in specific industry segments; construction quality, age and design; demographic factors; natural disasters and other acts of God; and retroactive changes to building or similar codes. In addition, decreases in property values reduce the value of the collateral and the potential proceeds available to a borrower to repay our loans, which could also cause us to incur losses.

Risk Management

Subject to maintaining our REIT status, we seek to manage risk exposure to protect our portfolio of residential mortgage loans, RMBS, and other assets and related debt against the effects of major interest rate changes. We generally seek to manage risk by:

- monitoring and adjusting, if necessary, the reset index and interest rate related to our RMBS and our financings;
- attempting to structure our financing agreements to have a range of different maturities, terms, amortizations and interest rate adjustment periods, rights to post both cash and collateral for margin calls and provisions for non mark-to-market financing facilities;
- using derivatives, financial futures, swaps, options, caps, floors and forward sales to adjust the interest rate sensitivity of our investments and our borrowings;
- using securitization financing to receive the benefit of attractive financing terms for an extended period of time in contrast to short term financing and maturity dates of the investments not included in the securitization; and
- actively managing, through assets selection, on an aggregate basis, the interest rate indices, interest rate adjustment periods, and gross reset margins of our investments and the interest rate indices and adjustment periods of our financings.

Our efforts to manage our assets and liabilities are focused on the timing and magnitude of the re-pricing of assets and liabilities. We attempt to control risks associated with interest rate movements. Methods for evaluating interest rate risk include an analysis of our interest rate sensitivity “gap,” which is the difference between interest-earning assets and interest-bearing liabilities maturing or re-pricing within a given time period. A gap is considered positive when the amount of interest-rate sensitive assets exceeds the amount of interest-rate sensitive liabilities. A gap is considered negative when the amount of interest-rate sensitive liabilities exceeds interest-rate sensitive assets. During a period of rising interest rates, a negative gap would tend to adversely affect net interest income, while a positive gap would tend to result in an increase in net interest income. During a period of falling interest rates, a negative gap would tend to result in an increase in net interest income, while a positive gap would tend to affect net interest income adversely. Because different types of assets and liabilities with the same or similar maturities may react differently to changes in overall market rates or conditions, changes in interest rates may affect net interest income positively or negatively even if an institution were perfectly matched in each maturity category.

The following table sets forth the estimated maturity or re-pricing of our interest-earning assets and interest-bearing liabilities at June 30, 2021. The amounts of assets and liabilities shown within a particular period were determined in accordance with the contractual terms of the assets and liabilities, and securities are included in the period in which their interest rates are first scheduled to adjust and not in the period in which they mature and includes the effect of the interest rate swaps. The interest rate sensitivity of our assets and liabilities in the table could vary substantially based on actual prepayments.

June 30, 2021 (dollars in thousands)	Within 3 Months	3-12 Months	1 Year to 3 Years	Greater than 3 Years	Total
Rate sensitive assets	$ 163,135	$ 572,604	$ 76,822	$ 14,584,611	$ 15,397,172
Cash equivalents	346,951	—	—	—	346,951
Total rate sensitive assets	$ 510,086	$ 572,604	$ 76,822	$ 14,584,611	$ 15,744,123
Rate sensitive liabilities	3,546,301	8,191,965	187,667	—	11,925,933
Interest rate sensitivity gap	$ (3,036,215)	$ (7,619,361)	$ (110,845)	$ 14,584,611	$ 3,818,190
Cumulative rate sensitivity gap	$ (3,036,215)	$ (10,655,576)	$ (10,766,421)	$ 3,818,190	
Cumulative interest rate sensitivity gap as a percentage of total rate sensitive assets	(19)%	(68)%	(68)%	24 %	

Our analysis of risks is based on our management's experience, estimates, models and assumptions. These analyses rely on models which utilize estimates of fair value and interest rate sensitivity. Actual economic conditions or implementation of investment decisions by our management may produce results that differ significantly from the estimates and assumptions used in our models and the projected results shown in the above tables. These analyses contain certain forward-looking statements and are subject to the safe harbor statement set forth under the heading, "Special Note Regarding Forward-Looking Statements."

Cybersecurity Risk

We have a suite of controls including technology hardware and software solutions as well as regular training sessions on cybersecurity risks and mitigation strategies. We have established an incident response team to take steps it determines are appropriate to contain, mitigate and remediate a cybersecurity incident and to respond to the associated business, legal and reputational risks. There is no assurance that these efforts will fully mitigate cybersecurity risk and mitigation efforts are not an assurance that no cybersecurity incidents will occur.

The Company has been operating remotely since the middle of March 2020. While we feel our remote work environment is secure, cybersecurity attacks have increased to attempt to breach our system and take advantage of employees working from home. The technology in employees' homes may not be as robust as in our offices and could cause the networks, information systems, applications, and other tools available to employees to be more limited or less reliable than in our offices. We have experienced higher than normal phishing and other attempts to access our systems. We have not had a cybersecurity breach and maintain vigilance around our technology platforms, but there is no assurance that all cybersecurity risks will be mitigated.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) was performed under the supervision and with the participation of the Company's senior management, including the Chief Executive Officer and the Chief Accounting Officer. Based on that evaluation, the Company's management, including the Chief Executive Officer and the Chief Accounting Officer, concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) Changes in Internal Control over Financial Reporting

As required by Rule 13a-15(d) under the Securities Exchange Act of 1934, the Company's management, including its Chief Executive Officer and Chief Accounting Officer, has evaluated the Company's internal control over financial reporting to determine whether any changes occurred during the period covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there has been no such change during the second quarter of 2021.

PART II. Other Information

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

Under "Part I — Item 1A — Risk Factors" of our Form 10-K, for the year ended December 31, 2020 we set forth risk factors related to our business and operations. You should carefully consider the risk factors set forth in our Form 10-K for the year ended December 31, 2020. As of the date hereof, there have been no material changes to the risk factors set forth in our Form 10-K for the year ended December 31, 2020.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

EXHIBIT INDEX

Exhibit Number	Description
3.1	Articles of Amendment and Restatement of Chimera Investment Corporation (filed as Exhibit 3.1 to the Company's Registration Statement on Amendment No. 1 to Form S-11 (File No. 333-145525) filed on September 27, 2007 and incorporated herein by reference).
3.2	Articles of Amendment to the Articles of Amendment and Restatement of Chimera Investment Corporation (filed as Exhibit 3.1 to the Company's Report on Form 8-K filed on May 28, 2009 and incorporated herein by reference).
3.3	Articles of Amendment to the Articles of Amendment and Restatement of Chimera Investment Corporation (filed as Exhibit 3.1 to the Company's Report on Form 8-K filed on November 5, 2010 and incorporated herein by reference).
3.4	Articles of Amendment to the Articles of Amendment and Restatement of Chimera Investment Corporation (filed as Exhibit 3.1 to the Company's Report on Form 8-K filed on April 6, 2015 and incorporated herein by reference).
3.5	Articles of Amendment to the Articles of Amendment and Restatement of Chimera Investment Corporation (filed as Exhibit 3.2 to the Company's Report on Form 8-K filed on April 6, 2015 and incorporated herein by reference).
3.6	Articles of Amendment to the Articles of Amendment and Restatement of Chimera Investment Corporation (filed as Exhibit 3.6 to the Company's Report on Form 8-A filed on January 17, 2019 and incorporated herein by reference).
3.7	Articles of Amendment to the Articles of Amendment and Restatement of Chimera Investment Corporation.
3.8	Articles Supplementary to the Articles of Amendment and Restatement of Chimera Investment Corporation designating the Company's 8.00% Series A Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, par value $0.01 per share (filed with the SEC as Exhibit 3.1 to the Company's Report on Form 8-K filed October 12, 2016 and incorporated herein by reference).
3.9	Articles Supplementary to the Articles of Amendment and Restatement of Chimera Investment Corporation designating the Company's 8.00% Series B Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, par value $0.01 per share (filed with the SEC as Exhibit 3.7 to the Company's Registration Statement on Form 8-A filed on February 24, 2017 and incorporated herein by reference).
3.10	Articles Supplementary to the Articles of Amendment and Restatement of Chimera Investment Corporation designating the Company's 7.75% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (filed as Exhibit 3.8 to the Company's Report on Form 8-A filed September 18, 2018 and incorporated herein by reference).
3.11	Articles Supplementary to the Articles of Amendment and Restatement of Chimera Investment Corporation designating the Company's 8.00% Series D Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (filed as Exhibit 3.10 to the Company's Report on Form 8-A filed January 17, 2019 and incorporated herein by reference).
3.12	Amended and Restated Bylaws of Chimera Investment Corporation (filed with the Commission as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on January 10, 2017 and incorporated herein by reference).
4.2	Specimen Common Stock Certificate of Chimera Investment Corporation (filed as Exhibit 4.1 to the Company's Registration Statement on Amendment No. 1 to Form S-11 (File No. 333-145525) filed on September 27, 2007 and incorporated herein by reference).
4.3	Form of specimen certificate representing the shares of 8.00% Series A Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock Certificate (filed as Exhibit 4.1 to the Company's Report on Form 8-K filed October 12, 2016 and incorporated herein by reference).
4.4	Form of specimen certificate representing the shares of 8.00% Series B Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock Certificate (filed with the SEC as Exhibit 4.1 to the Company's Registration Statement on Form 8-A filed on February 24, 2017 and incorporated herein by reference).
4.5	Form of specimen certificate representing the shares of 7.75% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock Certificate (filed with the SEC as Exhibit 4.1 to the Company's Registration Statement on Form 8-A filed on September 18, 2018 and incorporated herein by reference).
4.6	Form of specimen certificate representing the shares of 8.00% Series D Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock Certificate (filed with the SEC as Exhibit 4.1 to the Company's Registration Statement on Form 8-A filed on January 17, 2019 and incorporated herein by reference).

4.7	Form of 7.00% Convertible Senior Notes Due 2023 of the Company (attached as Exhibit A to the First Supplemental Indenture filed as Exhibit 4.2 to the Company's Current Report on Form 8-K on April 13, 2020 and incorporated herein by reference).
4.8	Indenture, dated April 13, 2020, between the Company and Wilmington Trust, National Association, as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K on April 13, 2020 and incorporated herein by reference).
4.9	First Supplemental Indenture, dated April 13, 2020, between the Company and Wilmington Trust, National Association, as trustee (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K on April 13, 2020 and incorporated herein by reference).
4.10	Form of Warrant, dated June 8, 2020 (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K on June 10, 2020 and incorporated herein by reference).
4.11	Form of Registration Rights Agreement, dated June 8, 2020, by and among the Company and certain affiliates of the Lenders named therein (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K on June 10, 2020 and incorporated herein by reference).
10.1†	Employment Agreement, effective date as defined in the agreement, between the Company and Subramaniam Viswanathan
31.1	Certification of Mohit Marria, Chief Executive Officer and Chief Investment Officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Kelley Kortman, Chief Accounting Officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Mohit Marria, Chief Executive Officer and Chief Investment Officer of the Registrant, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Kelley Kortman, Chief Accounting Officer the Registrant, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* This exhibit is being furnished rather than filed, and shall not be deemed incorporated by reference into any filing, in accordance with Item 601 of Regulation S-K

† Represents a management contract or compensatory plan or arrangement

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHIMERA INVESTMENT CORPORATION

By: /s/ Mohit Marria
Mohit Marria
(Chief Executive Officer and Chief Investment Officer
and Principal Financial Officer of the registrant)

Date: August 4, 2021

By: /s/ Kelley Kortman
Kelley Kortman
(Chief Accounting Officer
and Principal Accounting Officer of the registrant)

Date: August 4, 2021

CHIMERA INVESTMENT CORPORATION

ARTICLES OF AMENDMENT

Chimera Investment Corporation, a Maryland corporation (the "Company"), hereby certifies to the State Department of Assessments and Taxation of Maryland that:

FIRST: The Charter of the Company (the "Charter") is hereby amended by deleting the second paragraph of Section 5.1 in its entirety and inserting the following in lieu thereof:

At the 2022 annual meeting of stockholders, each of the successors to the directors whose terms expire at the 2022 annual meeting of stockholders shall be elected to serve until the 2023 annual meeting of stockholders and until their respective successors are duly elected and qualify. At the 2023 annual meeting of stockholders, each of the successors to the directors whose terms expire at the 2023 annual meeting of stockholders shall be elected to serve until the 2024 annual meeting of stockholders and until their respective successors are duly elected and qualify. Beginning with the 2024 annual meeting of stockholders, all directors shall be elected to serve until the next annual meeting of stockholders and until their respective successors are duly elected and qualify.

SECOND: The amendment to the Charter as set forth above has been duly advised by the Board of Directors of the Company and approved by the stockholders of the Company as required by law.

THIRD: The undersigned officer acknowledges these Articles of Amendment to be the corporation act of the Company and, as to all matters of facts required to be verified under oath, the undersigned officer acknowledges that, to the best of his knowledge, information and belief, these matters and facts are true in all material respects and that this statement is made under the penalties for perjury.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused these Articles of Amendment to be signed in its name and on its behalf by its Chief Executive Officer and Chief Investment Officer and attested to by its Chief Legal Officer and Secretary on this 10th day of June, 2021.

ATTEST: CHIMERA INVESTMENT CORPORATION

By: /s/ Phillip J. Kardis II____________
Name: Phillip J. Kardis II
Title: Chief Legal Officer and Secretary

By: /s/ Mohit Marria__________________
Name: Mohit Marria
Title: Chief Executive Officer and Chief Investment Officer

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (together with its Exhibits, this "Agreement") by and between Chimera Investment Corporation (together with its successors and assigns, the "Company") and Subramaniam Viswanathan ("Executive", and together with the Company, a "Party") is dated as of June 22, 2021 and effective as of the Effective Date (as defined below).

WITNESSETH:

WHEREAS, Executive wishes to be employed by the Company, and the Company wishes to employ Executive, under the terms and conditions described below, effective as soon as practicable after the date this Agreement is executed, and not later than September 15, 2021 (the actual date of the commencement of employment, the "Effective Date").

NOW THEREFORE, in consideration of the foregoing premises and the mutual agreements herein contained, the Parties agree as follows:

1. Term of Employment.
    a. The Company hereby employs Executive, and Executive hereby accepts employment with the Company, in the positions and with the duties and responsibilities as set forth in Section 2 below, subject to Executive completing a background check satisfactory to the Company and subject to the terms and conditions of this Agreement.
    b. The term of employment under this Agreement will commence on the Effective Date and will: (i) continue until December 31, 2022 (the "Initial Term"); (ii) be extended until the first December 31st that coincides with, or follows, the second anniversary of any Change in Control that occurs during the Term of Employment; and (iii) be extended for an additional one year period (a "Renewal Term") on the last day of the Initial Term or of any extension of the Term of Employment pursuant to clause (ii), and on each subsequent anniversary thereof, unless either Party provides written notice of nonrenewal to the other Party not less than 90 days prior to the latest of the last day: of the Initial Term, of any extension of the Term of Employment pursuant to clause (ii), or of any Renewal Term (the Initial Term, together with each extension of the Term of Employment pursuant to clause (ii) and each Renewal Term, the "Term of Employment"); provided that, if the last day of the Term of Employment otherwise would occur during a Garden Leave period, the Term of Employment will continue through the end of such Garden Leave. The Term of Employment may also be terminated in accordance with Section 5 below.
    c. As a condition of employment, (i) the Company must receive a completed background check with respect to Executive, which is satisfactory to the Company, before the Effective Date, and (ii) no later than October 31, 2021, Executive must take all actions necessary, for Executive to be an active Certified Public Accountant. In addition, as a condition of employment, Executive must maintain his brokerage accounts at institutions that are approved by the Company (unless such institution is exempt from such requirement as determined by the Company's Chief Legal Officer). If, as of the Effective Date, Executive's brokerage accounts do not meet the foregoing requirement, Executive shall have 30 days from the Effective Date to transfer his brokerage accounts to such

approved institutions, unless waived by the Company's Chief Legal Officer. If any of the requirements of this subsection (c) are not timely met, the Company may terminate this Agreement at its discretion, and Executive shall not be entitled to any severance payments or benefits or other compensation (other than salary earned through the date of termination) under this Agreement.

2. Position; Duties and Responsibilities.
   a. During the Term of Employment, Executive will be employed as the Chief Financial Officer of the Company, reporting directly to the Chief Executive Officer of the Company (the "CEO"). Executive will (i) be responsible for, and, along with the CEO, have authority over, the Company's financial functions, and (ii) have such other duties and responsibilities as are reasonably assigned to him by the CEO or the Board of Directors of the Company (the "Board of Directors") (not inconsistent in any significant respect with the duties and responsibilities typically assigned to the chief financial officer of a publicly-traded REIT, including servicing as the Principal Financial Officer but not Principal Accounting Officer).
   b. During the Term of Employment, Executive will, without additional compensation, also serve on the board of directors of, serve as an officer of, and/or perform such executive and consulting services for, or on behalf of, such subsidiaries or affiliates of the Company as the Board of Directors may, from time to time, reasonably request. For purposes of this Agreement, the term "affiliate" will have the meaning ascribed thereto as of the Effective Date in Rule 12b-2 under the Securities Exchange Act of 1934, as amended.
   c. During the Term of Employment, Executive will serve the Company faithfully, diligently and to the best of his ability and will devote substantially all of his time and efforts to his employment and the performance of his duties under this Agreement. Nothing herein will preclude Executive from engaging in charitable and community affairs and managing his personal, financial and legal affairs, so long as such activities do not materially interfere with his carrying out his duties and responsibilities under this Agreement. Notwithstanding the foregoing, any service on civic, educational, philanthropic or charitable boards or committees shall be subject to prior approval by the CEO**.** During the Term of Employment, Executive shall perform his duties and responsibilities principally in New York City; provided, however, that Executive may perform his duties and responsibilities remotely until the Company returns to in-office operations.
3. Compensation.
   a. Base Salary. During his employment with the Company, Executive will be entitled to receive an annualized base salary (the "Base Salary") of not less than $500,000. The Compensation Committee of the Board of Directors (the "Compensation Committee") may review Executive's Base Salary annually to determine whether increases are appropriate. Any such increased amount will thereafter be the "Base Salary" for all purposes. During Executive's employment with the Company, the Base Salary will not be decreased at any time, or for any purpose (including, without limitation for the purpose of determining payments and benefits under Section 5), without Executive's prior written consent.
   b. Incentive Compensation.
      i. For the 2021 calendar year and each subsequent calendar year that begins during the Term of Employment, Executive will be entitled to receive an

annual cash bonus, payable in cash ("Annual Cash Bonus"), to the extent provided under this Agreement and Exhibit A. The Compensation Committee will make all determinations with respect to any Annual Cash Bonus, in good faith, in consultation with the CEO, and consistent with the text of this Agreement and the terms of Exhibit A.

ii. During 2021 and each subsequent calendar year that begins during the Term of Employment, Executive shall be entitled to receive long-term incentive compensation consisting of grants in the form of restricted stock units ("RSUs") and/or performance stock units ("PSUs") granted under the Company's current Equity Compensation Plan (or its successor), in each case consistent with the text of this Agreement and Exhibit A (such compensation, "LTI"). The Compensation Committee will make all determinations with respect to LTI, in good faith, in consultation with the CEO, and in compliance with the text of this Agreement and Exhibit A.

c. Stock Ownership Requirements. All shares of the Company's stock distributed to Executive by the Company will be subject to the stock ownership guidelines in effect for executives from time to time, as determined by the Board of Directors. Unless the stock ownership guidelines provide otherwise: vested shares under equity grants may not be transferred during Executive's employment with the Company unless the value of Executive's stock holdings in the Company (including shares of restricted stock, restricted stock units and deferred stock units) after the transfer exceeds three times Executive's Base Salary; and following the termination of Executive's employment with the Company, vested shares of equity awards may not be transferred unless the value of Executive's stock holdings in the Company (including shares of restricted stock, restricted stock units and deferred stock units) after the transfer exceeds three times Executive's Base Salary as of the date that the Executive's employment with the Company terminates in accordance with the terms of this Agreement (the "Termination Date"), provided, however, that this sentence will no longer apply following the six-month anniversary of the Termination Date. Notwithstanding the foregoing, the restrictions of this subsection (c) will not prevent Executive from selling or directing the withholding of shares of the Company stock in accordance with, and subject to, Section 21 to satisfy income tax and employment tax obligations relating to the vesting, exercise, or settlement of equity grants to which the shares relate.

4. Employee Benefit Programs and Fringe Benefits. During the Term of Employment, Executive will be entitled to five weeks of vacation per fiscal year (prorated for 2021) and will be eligible to participate in all executive incentive and employee benefit programs of the Company now or hereafter made available to the Company's senior executives or salaried employees generally, as such programs may be in effect from time to time. The Company will reimburse Executive for any and all business expenses reasonably incurred by Executive in connection with his employment in accordance with applicable the Company policies.

5. Termination of Employment.

a. Termination Due to Death or Disability. If Executive's employment with the Company is terminated by reason of Executive's death or Disability, the Term of Employment will (if it has not yet already expired) terminate automatically and the Company will have no further obligations to Executive under this Agreement except for (x) any payments and benefits described in Section 5(f) below and (y) subject to the requirements of Section 5(i) below, amounts and benefits due pursuant to clauses (i) through (iv) of this Section 5(a).

i. In the event Executive's employment with the Company is terminated during the Term of Employment by reason of Executive's Disability, the Company will reimburse Executive for 100% of the COBRA premiums incurred by Executive for Executive and his eligible dependents under the Company's health care plan during the 18-month period immediately following the Termination Date. Such reimbursement will be provided on the payroll date immediately following the date on which Executive remits the applicable premium payment and will commence within 60 days after the Termination Date; provided that the first payment will include any reimbursements that would have otherwise been payable during the period beginning on the Termination Date and ending on the date of the first reimbursement payment. Reimbursement payments will be treated as taxable compensation to Executive.

ii. Whether or not such termination of employment due to death or Disability occurs during the Term of Employment, any outstanding equity-based or other compensation that has been granted to Executive, and that vests solely on the basis of continued employment, will vest in full as of the Termination Date and, with respect to RSUs, will be paid on the dates specified in the documents governing the awards.

iii. Whether or not such termination of employment due to death or Disability occurs during the Term of Employment, all of Executive's outstanding PSUs and other performance-vesting awards will continue to vest, subject only to the achievement by the Company of the applicable performance goals, in each case as though such termination of employment had not occurred, and will be paid on the date specified in the documents governing the awards.

iv. Whether or not such termination due to death or Disability occurs during the Term of Employment, Executive will receive a Pro-Rata Annual Cash Bonus (as defined in Section 5(b)(v) below), determined and paid as provided such subsection.

b. Termination By the Company Without Cause or By Executive with Good Reason (Other Than in Connection with a Change in Control). In the event Executive's employment with the Company is terminated (other than for death or Disability) (x) by the Company without Cause (other than within six months before, or 24 months after, a Change in Control), or (y) by Executive with Good Reason (other than within 24 months after a Change in Control), the Term of Employment will (if it has not already expired) terminate automatically and the Company will have no further obligations to Executive under this Agreement except for (x) any payments and benefits described in Section 5(f) below and (y) subject to the provisions of Section 5(i) below, the following payments and benefits:

i. If such termination of employment occurs during the Term of Employment, Executive will be entitled to a cash severance amount equal to:

1. 1.5 times his Base Salary as of the Termination Date, plus

2. 1.5 times the greater of (x) his Target Cash Bonus (as defined in Exhibit A) or (y) the average of the Annual Cash Bonus awarded (or due to be awarded) to Executive by the Company for the three most recent calendar years that ended on or before the Termination Date; provided that in the event Executive has not been eligible for an Annual Cash Bonus for at least three calendar years, the average will be based on the Annual Cash Bonus awarded (or due to be awarded) to Executive by the Company for the completed calendar years of employment since the Effective Date (the "Average Cash Bonus").

The severance amount will be paid in 18 equal monthly installments commencing within 60 days following the Termination Date; provided, however, that the first installment will include any unpaid installments for the period prior to commencement, and the final installment will be paid on or before the date that is 18 months after the Termination Date.

i. Whether or not such termination of employment by the Company without Cause or by Executive with Good Reason occurs during the Term of Employment, any outstanding equity-based or other compensation that has been granted to Executive, and that vests solely on the basis of continued employment, will vest (and become exercisable) in full as of the Termination Date and, with respect to RSUs, will be paid on the date(s) specified in the documents governing the awards.

ii. Whether or not such termination of employment by the Company without Cause or by Executive with Good Reason occurs during the Term of Employment, all of Executive's outstanding PSUs and other performance-vesting awards will continue to vest, subject only to the achievement by the Company of the applicable performance goals, as though such termination of employment had not occurred, and will be paid on the date(s) specified in the documents governing the awards.

iii. If such termination of employment occurs during the Term of Employment, the Company will reimburse Executive for 100% of the COBRA premiums incurred by Executive for Executive and his eligible dependents under the Company's health care plan during the 12-month period following the Termination Date. Such reimbursement will be provided on the payroll date immediately following the date on which Executive remits the applicable premium payment and will commence within 60 days after the Termination Date; provided that the first payment will include any reimbursements that would have otherwise been payable during the period beginning on the Termination Date and ending on the date of the first reimbursement payment. Reimbursement payments will be treated as taxable compensation to Executive.

iv. Whether or not such termination of employment by the Company without Cause or by Executive with Good Reason occurs during the Term of Employment, Executive will receive a portion of the Annual Cash Bonus that Executive would have earned for the calendar year in which his employment terminated, based on the degree to which the Company has attained any applicable Company-wide performance metrics for such year, with any discretionary or personal performance goals treated as having been attained at target. The portion of such Annual Cash Bonus to be received by Executive (a "Pro-Rata Annual Cash Bonus") shall be determined by multiplying the Annual Cash Bonus amount determined under the first sentence of this clause (vi) by a fraction whose numerator is the number of days during the calendar year of termination that he was employed with the Company and whose denominator is 365. In the event of such termination during the 2021 calendar year, the Pro-Rata Annual Cash Bonus shall be the guaranteed Annual Cash Bonus for 2021 as described in Exhibit A multiplied by a fraction whose numerator is the number of days during 2021 that Executive was employed with the Company and whose denominator is the number of days during the period commencing on the Effective Date and ending on December 31, 2021. Any Pro-Rata Annual Cash Bonus will be paid in cash when the corresponding Annual Cash Bonus would have been paid to Executive for such year absent such termination but no later than March 15 of the immediately following year.

No termination of Executive's employment that is governed by this Section 5(b), or by Section 5(c), 5(d) or 5(m) below, will be deemed a breach of this Agreement, nor will it relieve either Party of its/his other obligations under this Agreement.

a. Termination by the Company for Cause or Voluntary Termination by Executive. In the event that at any time Executive's employment with the Company is terminated (x) by the Company for Cause or (y) by Executive other than with Good Reason, due to Disability, or in a termination governed by Section 5(m) below, then (z) the Term of Employment will (if it has not already expired) terminate automatically and the Company will have no further obligations to Executive under this Agreement except for any payments and benefits described in Section 5(f).

b. Garden Leave. Executive will provide a Notice of Termination to the Company no less than 90 days prior to any termination by him of his employment with the Company effective during the Term of Employment, and the Company will provide a Notice of Termination to Executive no less than 90 days prior to terminating Executive's employment effective during the Term of Employment (other than a termination for Cause); provided that the Company may elect to terminate the Garden Leave (as defined below) early as described below. During this 90-day notice period (the "Garden Leave"), Executive will (i) continue to make himself available to provide such services as the Company may reasonably request (provided only that such services are reasonably consistent with Executive's status as a senior executive of the Company) and (ii) continue to receive all payments and benefits to which he would otherwise be entitled, except that (notwithstanding anything in this Agreement or elsewhere to the contrary) in the event of a termination (x) by Executive other than with Good Reason, for Disability, or in a termination to which Section 5(m) applies, or (y) by the Company for Cause, Executive will not be eligible to earn any Annual Cash Bonus with respect to any calendar year that ends after the commencement of the Garden Leave. During the Garden Leave, the Company may require Executive to resign from any position with the Company and/or remove any or all of Executive's duties or responsibilities, which will not constitute Good Reason or otherwise be deemed a violation of this Agreement. Executive agrees that he will not commence employment with any entity during the Term of Employment (including the Garden Leave). During the Garden Leave, Executive will take all steps reasonably requested by the Company to effect a successful transition of client and customer relationships to the person or persons designated by the Company. Notwithstanding the foregoing, the Company in its sole discretion may waive all or any portion of the Garden Leave by providing written notice to Executive accelerating the last day of the Garden Leave period and the Termination Date (provided that, if the termination of Executive's employment is on account of termination by the Company without Cause or due to Disability, pay in lieu of notice shall be paid for any remaining portion of the 90-day notice period). For the avoidance of doubt, no such shortening of the Garden Leave will be treated as a termination of Executive's employment by the Company without Cause or as giving Executive any basis for terminating his employment with Good Reason.

c. Termination Related to Change in Control. In the event Executive's employment with the Company is terminated (x) by the Company other than for Cause or Disability, and within six months before, or 24 months after, a Change in Control, or (y) by Executive with Good Reason and within 24 months after a Change in Control, then (z) the Term of Employment (if it has not already expired) will terminate automatically and the Company will have no further obligations to Executive under this Agreement except for (x) any payments and benefits described in Section 5(f) below, and (y) subject to the requirements of Section 5(i) below, the following payments and benefits:

i. If such termination occurs during the Term of Employment, the Company will promptly pay to Executive a cash severance amount equal to:

1. 2.0 times his Base Salary as of the Termination Date, plus
2. 2.0 times the greater of (x) his Target Cash Bonus (as defined in Exhibit A) or (y) the Average Cash Bonus.

Except as provided below, the severance amount shall be paid in a cash lump sum payment within 60 days following the Termination Date. If Executive's employment is terminated by the Company other than for Cause or Disability within six months before a Change in Control, as described above, the severance amount shall be calculated pursuant to Section 5(b)(i) and paid in the form of payment described in Section 5(b)(i) upon Executive's termination of employment before the Change in Control, and upon the Change in Control, Executive shall receive a lump sum cash payment equal to the excess of the severance amount payable under this Section 5(e)(i) over the severance amount previously paid to Executive pursuant to Section 5(b)(i), consistent with Section 409A (as defined below).

i. Whether or not such termination of employment by the Company without Cause or by Executive with Good Reason occurs during the Term of Employment, all of Executive's outstanding equity-based and other awards that vest or become exercisable based solely on Executive's continued employment will vest (and become exercisable) in full as of the Termination Date. In addition, if such termination of employment occurs on or within 24 months after the Change in Control, (A) any such awards (e.g., RSUs) that settle following vesting will be settled within 60 days after the Termination Date, and (B) any such awards that are in the form of stock options or SARs will remain exercisable until at least the earlier of (a) the 90th day following the Termination Date and (b) the date on which such option or SAR would have expired had Executive's employment not terminated.

ii. Whether or not such termination of employment by the Company without Cause or by Executive with Good Reason occurs during the Term of Employment, any of Executive's outstanding PSUs or other performance-vesting equity-based grants whose continued vesting after such Change in Control is based solely on continued employment (without regard to performance after such Change in Control) will vest in full as of the Termination Date (or as of the Change in Control, if later) and will be settled within 60 days after the Termination Date (or the Change in Control, if later). In addition, and except as otherwise provided in Section II-4 of Exhibit A, any outstanding performance-vesting awards whose vesting remains contingent on performance will continue to vest, subject only to attainment by the Company of the applicable performance goals.

iii. The Company will reimburse Executive for 100% of the COBRA premiums incurred by Executive for Executive and his eligible dependents under the Company's health care plan during the 18-month period following the Termination Date. Such reimbursement will be provided on the payroll date immediately following the date on which Executive remits the applicable premium payment and will commence within 60 days after the Termination Date; provided that, the first payment will include any reimbursements that would have otherwise been payable during the period beginning on the Termination Date and ending on the date of the first reimbursement payment. Reimbursement payments will be treated as taxable compensation to Executive.

iv. Executive will receive a Pro-Rata Annual Cash Bonus, determined and paid as described in Section 5(b)(v) above.

d. Other Payments and Benefits. Upon any termination of Executive's employment with the Company, in addition to the amounts and benefits (if any) under other sub-sections of this Section 5, Executive will be entitled to the following:

i. prompt payment of any earned but unpaid portion of his Base Salary through the Termination Date and a prompt cash payment (determined based on Executive's per-business-day rate of Base Salary) in respect of vacation that is accrued but unused as of the Termination Date;

ii. any vested deferred compensation (including any interest accrued on or appreciation in value of such deferred amounts) in accordance with the documents governing such compensation;

iii. prompt reimbursement for business expenses reasonably incurred but not yet reimbursed by the Company in accordance with the Company's expense reimbursement policy as in effect from time to time;

iv. unless Executive's employment with the Company has been terminated by the Company for Cause, the Executive will receive any earned but unpaid Annual Cash Bonus for any calendar year that ended prior to the Termination Date; and

v. any other payment or benefit to which Executive is, or becomes, entitled under the then-applicable terms of any then-applicable written plan, program, agreement, corporate governance document, or other arrangement of the Company or any of its affiliates (collectively,

"<u>Company Arrangements</u>"), including (without limitation) Sections 8 and 19 of this Agreement).

e. <u>Payments Subject to Section 409A and Other Applicable Law.</u>

   i. The Company and Executive intend that this Agreement will be interpreted and administered so that any amount or benefit payable hereunder will be paid or provided in a manner that is either exempt from or compliant with Section 409A of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations and Internal Revenue Service guidance promulgated thereunder ("<u>Section 409A</u>"), and thus does not incur any income inclusion, "additional tax", or interest under Section 409A.

   ii. Notwithstanding anything in this Agreement or elsewhere to the contrary, Executive will not be entitled to any payment or benefit pursuant to this Section 5 prior to the earliest date he is permitted to receive such payment or benefit without incurring income inclusion, "additional tax", or interest under Section 409A. To the extent any payment or benefit is required to be delayed six months pursuant to the special rules of Section 409A related to "specified employees," each affected payment and benefit will be delayed until the first day of the seventh month following the Termination Date or, if earlier, within ten days following the date of Executive's death.

   iii. Any installment payments or benefits under this Agreement or any other arrangement will be treated as a series of separate payments and benefits for purposes of Section 409A. Executive shall have no duties following the Termination Date that are inconsistent with his having had a "separation from service" under Section 409A on or before the Termination Date. Notwithstanding any other provision contained herein, if a Change in Control is not a change in ownership or control as defined for purposes of Section 409A and payment of the severance amount in a lump sum would trigger "additional tax" under Section 409A, then the severance amount under Section 5(e)(i) shall be paid in the form described in Section 5(b)(i).

   iv. If Executive is entitled to any reimbursement of expenses or in-kind benefits that are includable in Executive's federal gross taxable income, the amount of such expenses reimbursable or in-kind benefits provided in any one calendar year will not affect the expenses eligible for reimbursement or the in-kind benefits to be provided in any other calendar year. Executive's right to reimbursement of expenses or in-kind benefits under this Agreement will (x) not be subject to liquidation or exchange for another benefit and (y) be made on or before the last day of Executive's taxable year following the year in which the expense was incurred.

   v. None of the Company, its affiliates or their respective directors, officers, employees or advisors will be held liable for any taxes, interest or other amounts owed by Executive as a result of the application of Section 409A or otherwise, provided (in the case of the Company only) that the Company has complied with the provisions of this Agreement, and of any other applicable Company Arrangement, concerning the timing of payments and benefits.

f. No Mitigation; No Offset. In the event of any termination of Executive's employment with the Company, he will be under no obligation to seek other employment or otherwise in any way to mitigate the amount of any payment or benefit provided for in this Section 5, and there will be no offset against amounts due him under this Agreement on account of any remuneration attributable to any subsequent employment that he may obtain.

g. Release; Compliance with Covenants. The Company's obligation to make any payment or provide any benefit (other than the payments and benefits described in Section 5(f)) under Section 5(a), Section 5(b), Section 5(e), or Section 5(m) will be contingent upon, and is the consideration for, (A) Executive executing and delivering to the Company, within 45 days after the Termination Date, a general release (the "Release"), substantially in the form annexed hereto as Exhibit B, (B) such release becoming irrevocable in accordance with its terms and (C) Executive not having committed, prior to the date that such payment or benefit is due to be provided, a material breach of his obligations under Section 7, which breach has remained uncured for 10 days after the Company has given him written notice describing the breach in reasonable detail and requesting cure (provided that the Company shall not be required to provide an opportunity to cure if the Board of Directors determines in good faith that the breach is not curable within the 10-day cure period that would otherwise apply). In the event of a material breach of Executive's obligations under Section 7 without timely cure as described above, the Company may immediately cease all payments under Section 5(a), Section 5(b), Section 5(e), or Section 5(m), as applicable (other than the payments and benefits described in Section 5(f)), and the Company may immediately forfeit all outstanding equity awards held by Executive to the extent that such equity awards vested or would have vested pursuant to Section 5(a), Section 5(b), Section 5(e), or Section 5(m), as applicable (other than as described in Section 5(f)). In the event that either the 45-day period, or the 10-day period, referred to in the immediately preceding sentence span two calendar years, any payments or benefits that, but for clauses (A), (B) or (C), as applicable, of such sentence, would have been due to be provided during the first such calendar year will be delayed and paid to Executive on the first regular payroll date of the Company in such second calendar year (but in no event later than January 31 of such second calendar year but with respect to delays pursuant to clause (C) of the immediately preceding sentence only if then cured), with any subsequent payments and benefits to be provided as if no such delay had occurred.

h. Parachute Payments.

i. Notwithstanding anything in this Agreement or elsewhere to the contrary, in the event that any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (each, a "Payment"), would constitute an "excess parachute payment" within the meaning of Section 280G of the Code, the Company will reduce (but not below zero) the aggregate present value of the Payments under this Agreement to the Reduced Amount (as defined below), if reducing the Payments under this Agreement will provide Executive a Net After-Tax Benefit that exceeds his Net After-Tax Benefit if such reduction is not made. To the extent such Payments are required to be so reduced, they will be reduced in the following order and, to the extent applicable, in accordance with Section 409A of the Code, such that any such reduction does not result in Executive incurring any income inclusion, "additional tax", or interest under Section 409A of the Code: (i) Payments that are payable in cash, with amounts that are payable last reduced first; (ii) Payments due in respect of any equity or equity derivatives included in such calculation at their full value under Section 280G (rather than their accelerated value), with amounts that are payable last reduced first; and (iii) Payments due in respect of any equity or equity derivatives included in such calculation at their accelerated value under Section 280G, with the highest per share values reduced first (as such values are determined under Treasury Regulation Section 1.280G-1, Q&A 24). If the same payment or benefit date applies to more than one payment or benefit within any of the foregoing categories, the reduction will apply to each such payment or benefit on a pro rata basis.

ii. The "Reduced Amount" will be an amount expressed in present value that maximizes the expected net after-tax present value of the Payments without causing any Payment under this Agreement to be subject to the Excise Tax. The term "Excise Tax" means the excise tax imposed under Section 4999 of the Code, together with any interest or penalties imposed with respect to such excise tax. The term "Net After-Tax Benefit" means the present value (as determined in accordance with Section 280G(d)(4) of the Code) of the Payments net of all taxes imposed on Executive with respect thereto under Sections 1 and 4999 of the Code and under applicable state and local laws, determined by applying the highest marginal rate under Section 1 of the Code and under the state and local laws that applied to Executive's taxable income for the immediately preceding taxable year, or such other rate(s) as Executive certifies are likely to apply to him in the relevant tax year(s).

iii. All determinations to be made under this Section 5(j) will be made in the first instance by a nationally-recognized public accounting or consulting firm, selected by the Company prior to the events that trigger the potential application of Section 280G, which firm (the "Auditor") will provide its determinations and any supporting calculations to both the Company and Executive within ten days after the events that trigger the potential application of Section 280G. All fees and expenses of the Auditor in performing the determinations referred to in this Section 5(j) will be borne solely by the Company.

iv. It is possible that after the Auditor makes its determinations under clause (iii) above, Executive will receive Payments that are, in the aggregate, either more or less than the Reduced Amount (hereafter referred to as an "Excess Payment" or "Underpayment", respectively). If it is determined by the Auditor upon request by Executive or the Company, by a final determination of a court, or by an Internal Revenue Service proceeding that has been finally and conclusively resolved, that an Excess Payment has been made, then Executive will refund the Excess Payment to the Company promptly on demand, together with an additional payment in an amount equal to the product obtained by multiplying the Excess Payment times the rate that is 120% of the applicable annual federal rate (as determined in and under Section 1274(d) of the Code), times a fraction whose numerator is the number of days elapsed from the date of Executive's receipt of such Excess Payment through the date of such refund and whose denominator is 365. If it is determined by the Auditor upon request by Executive or the Company, by arbitration under Section 19 below, or by a court of competent jurisdiction, that an Underpayment has occurred, the Company will pay an amount equal to the Underpayment to Executive within 10 days of such determination together with an additional payment in an amount equal to the product obtained by multiplying the Underpayment times the rate that is 120% of the applicable annual federal rate (as determined in and under Section 1274(d) of the Code) times a fraction whose numerator is the number of days elapsed from the date of the Underpayment through the date of such payment and whose denominator is 365

i. Resignation from Positions. Upon any termination of Executive's employment with the Company, Executive will be deemed to have resigned with immediate effect from any position he then holds as an officer, director or fiduciary of the Company or any Company-related entity. The Executive will promptly execute and deliver to the Company any letters, documents and other instruments that the Company delivers to him and reasonably requests him to sign, and that are necessary or appropriate to effect such resignations.

j. No Duplication. For the avoidance of doubt, Executive will in no event be entitled to duplicate payments or benefits under both Section 5(e) and Section 5(b).

k. Terminations After Expiration of the Term of Employment Following Delivery of Notice of Nonrenewal of the Term of Employment By the Company.

   i. If the Company provides Executive written notice of nonrenewal of the Term of Employment in accordance with Section 1(b) and the Company terminates Executive's employment without Cause after the last day of the Term of Employment, then, subject to the provisions of Section 5(i), the Company will, in addition to providing the benefits set forth in Sections 5(b)(ii), (iii), (iv) and (v), continue to pay Executive the Base Salary for a period of one year following the Termination Date in accordance with the Company's regular payroll practices as if his employment had not ended. Such Base Salary continuation payments will commence within 60 days following the Termination Date, and the first payment will include any unpaid installments for the period prior to commencement. Notwithstanding the foregoing, if Executive's employment is terminated as described in this Section 5(m)(i) within 24 months following a Change in Control, such Base Salary amount will be payable to Executive in a cash lump sum instead of installments. Such lump sum shall be paid within 60 days following the Termination Date. If Executive's employment is terminated as described in this Section 5(m)(i) within six months before a Change in Control, when the Change in Control occurs, the excess of the severance amount payable under this Section 5(m)(i) over the severance amount previously paid to Executive pursuant to this

Section 5(m)(i) shall be paid in a lump sum upon the Change in Control, consistent with Section 409A.

ii. The provisions of this subsection (ii) shall apply if (A) the Company provides Executive written notice of nonrenewal of the Term of Employment in accordance with Section 1(b) (other than for Cause), (B) the Company does not offer Executive a successor employment agreement that is substantially equivalent to this Agreement (viewed in the aggregate) at least 10 days before the last day of the Term of Employment and (C) Executive provides written notice of termination no later than the seventh day after the last day of the Term of Employment. In that event, the Company will provide (x) any payments and benefits described in Section 5(f) above and (y) subject to the provisions of Section 5(i) above, the payments and benefits described in Sections 5(b)(ii), (iii), (iv) and (v). The Company shall have no further obligations to Executive.

iii. Notwithstanding anything in this Agreement or elsewhere to the contrary, if Executive terminates his employment with the Company (with or without Good Reason) at any time and the sum of his age plus his years of service with the Company and its predecessors (including, without limitation, Fixed Income Discount Advisory Company ("FIDAC") during the time that FIDAC was the external manager of the Company) (including, in each case, fractional years) equals or exceeds 65 as of the Termination Date, and he has at least five years of service with the Company and its predecessors as of the Termination Date, then the Company will provide (without duplication) (x) any payments and benefits described in Section 5(f) above and (y) subject to the provisions of Section 5(i) above, the payments and benefits described in Sections 5(b)(ii), (iii), (iv) and (v). The Company shall have no further obligations to Executive.

6. Definitions. For purposes of this Agreement, the following terms will be defined as set forth below:

a. "Cause" means Executive's (i) conviction, or entry of a guilty plea or a plea of nolo contendere with respect to, a felony, a crime of moral turpitude or any crime committed against the Company, other than traffic violations; (ii) engagement in willful misconduct, gross negligence, or fraud, embezzlement, or misappropriation relating to significant amounts occurs in connection with the performance of his duties under this Agreement; (iii) willful failure to use his best reasonable efforts to comply with lawful and reasonable directions of the Board of Directors; (iv) material breach of Section 7 of this Agreement; (v) chronic or persistent substance abuse that materially and adversely affects his performance of his duties under this Agreement or (vi) material breach of this Agreement (other than Section 7) resulting in material and demonstrable economic injury to the Company. No act or omission to act by Executive will be deemed "willful" if conducted in good faith or with a reasonable belief that such act or omission was in, or not opposed to, the best interests of the Company. No termination of Executive's employment for Cause shall be effective as a termination for Cause unless the following provisions of this Section 6(a) have first been complied with. The Board of Directors shall give Executive written notice of its intention to terminate his employment for Cause, such notice (the "Cause Notice") (x) to state in reasonable detail the circumstances that constitute the grounds on which the proposed termination for Cause is based and (y) to be given no later than the later of (i) the 90th day after the Board of Directors first becomes aware of such circumstances or (ii) the 10th day after the Board of Directors completes (with reasonable diligence) its investigation as to whether Cause exists. If the Board of Directors determines that the grounds on which the proposed termination for Cause is based are subject to cure, Executive shall have 10 days after receiving such Cause Notice in which to fully cure such grounds. If he fails to timely and fully cure such grounds, Executive shall then be entitled to a hearing before the Board of Directors. Such hearing shall be held and completed within 25 days after he received such Cause Notice, provided that he requests such hearing within 10 days after receiving such Cause Notice. If, within 10 days following such hearing (if timely requested), and otherwise within 20 days after he received such Cause Notice, the Board of Directors gives written notice to Executive confirming that, in the judgment of at least a majority of the members of the Board of Directors, Cause for terminating his employment on the basis set forth in the original Cause Notice still exists, his employment shall thereupon be terminated for Cause. During the period between the delivery of a Cause Notice and expiration of the time within which the Board is required to confirm that "Cause" as set forth in such notice exists, the Board may suspend some or all of Executive's duties and responsibilities, and such suspension will not constitute Good Reason or otherwise be deemed a violation of this Agreement.

b. "Change in Control" means the occurrence of any one of the following events to the extent such event also constitutes a "change in control event" for purposes of Section 409A of the Code:

   i. any "person," as such term is used in Sections 13(d) and 14(d) of the Act (other than the Company, any of its subsidiaries, or any trustee, fiduciary or other person or entity holding securities under any employee benefit plan or trust of the Company or any of its subsidiaries) together with all affiliates and "associates" (as such term is currently defined in Rule 12b-2 under the Act) of such person, becomes the "beneficial owner" (as such term is currently defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Company representing 40% or more of the combined voting power of the Company's then outstanding securities having the right to vote in an election of the Board of Directors ("voting securities"); or

   ii. persons who, as of the Effective Date, are members of the Board of Directors (the "Incumbent Directors") cease for any reason, including, without limitation, as a result of a tender offer, proxy contest, merger or similar transaction, to constitute at least a majority of the Board of Directors, provided that any person becoming a member of the Board of Directors subsequent to the Effective Date whose election or nomination for election was approved by a vote of at least a majority of the Incumbent Directors will, for purposes of this Agreement, be considered an Incumbent Director; or

   iii. there occurs (A) any consolidation or merger of the Company or any subsidiary where the stockholders of the Company, immediately prior to the consolidation or merger, would not, immediately after the consolidation or merger, beneficially own (as such term is defined in Rule 13d-3 under the Act), directly or indirectly, and in substantially the same proportions that they beneficially owned shares of the Company immediately prior to the consolidation or merger, securities representing in the aggregate 60% or more of the combined voting power of the then outstanding securities of the entity issuing cash or securities in the consolidation or merger (or of its ultimate parent entity, if any), (B) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the business or assets of the Company (other than to an entity 60% or more of whose voting power is represented by securities beneficially owned, in substantially the same proportions that they beneficially owned shares of the Company immediately before such transfer, by the persons or entities that beneficially owned shares of the Company immediately before such transfer) or (C) any liquidation or dissolution of the Company.

Notwithstanding the foregoing, a "Change in Control" will not be deemed to have occurred for purposes of the foregoing clause solely as the result of an acquisition of its own voting securities by the Company which, by reducing the number of voting securities outstanding, increases the proportionate voting power represented by the voting securities beneficially owned by any person or entity to 40% or more of the combined voting power of all then outstanding voting securities, provided that any subsequent acquisition of additional voting securities by such person or entity, when such person or entity beneficially owns voting securities representing 40% or more of the combined voting power of all then outstanding voting securities, shall by itself constitute a Change in Control.

a. "Code" means the Internal Revenue Code of 1986, as amended.
b. "Disability" means Executive's inability, for a period of six consecutive months, to render substantially the services provided for in this Agreement by reason of mental or physical disability, whether resulting from illness, accident or otherwise, other than by reason of chronic or persistent abuse of any substance (such as narcotics or alcohol), provided that such inability also constitutes "disability" for purposes of Section 409A.
c. "Good Reason" means the occurrence of any of the following events without Executive's prior written consent:
    i. any material diminution in Executive's title, duties or responsibilities;
    ii. any relocation of Executive's principal place of employment to a place other than New York City (or, following a Change in Control, the Borough of Manhattan);
    iii. any failure of the Company to pay or provide to Executive, when due, any material payment or benefit owed to him; or
    iv. any material failure by the Company to honor any of its material obligations to Executive.

For Good Reason to exist on the basis of an event, Executive must have provided written notice of such event to the Company within 90 days after he first learned of its occurrence; the Company must have failed to fully cure such event within 30 days after it received such notice; and Executive must have provided to the Company, within 30 days following the expiration of such cure period, written notice of his decision to terminate his employment, which termination shall (notwithstanding anything in Section 5(d) to the contrary) be effective 90 days after the date of Executive's initial written notice of the Good Reason event, unless the Company agrees to an earlier termination date. The Company may require that Executive be on Garden Leave as described in Section 5(d) during the 90-day period following the date of Executive's initial written notice of the Good Reason event.

a. "Notice of Termination" means any written notice, delivered by either Party to the other, that Executive's employment with the Company will terminate.

7. Covenants.

a. Confidentiality Restrictions. Executive agrees at all times during his employment with the Company and thereafter, to hold in strictest confidence, and not to use, or disclose to any person, firm or corporation, any confidential or proprietary information of the Company ("Confidential Information"), except as otherwise provided in this Section 7. Confidential Information includes, without limitation: client or customer lists, identities, contacts, business and financial information; investment strategies; pricing information or policies, fees or commission arrangements of the Company; marketing plans, projections, presentations or strategies of the Company; financial and budget information of the Company; personnel information, personnel lists, resumes, personnel data, organizational structure, compensation and performance evaluations; information regarding the existence or terms of any agreement or relationship between the Company and any other party; information developed by Executive during his employment with the Company; and any other information of whatever nature that gives to the Company an opportunity to obtain an advantage over its competitors who or which do not have access to such information, in each case to the extent that such information is confidential or proprietary. Confidential Information developed by Executive during his employment with the Company will be subject to the terms and conditions of this Agreement as if the Company had furnished such Confidential Information to Executive in the first instance. Confidential Information does not include any of the foregoing items that have become publicly known and through no wrongful act of Executive or a third party.

b. Exceptions.

i. Nothing in this Agreement or elsewhere shall prevent Executive from: (i) using and disclosing documents and information in connection with the good faith performance of his duties for the Company or any of its affiliates; (ii) cooperating with, or participating in, any investigation conducted by any governmental agency; (iii) making truthful statements, or disclosing documents and information, (x) to the extent reasonably necessary in connection with any litigation, arbitration or mediation involving Executive's rights or obligations under this Agreement or otherwise in connection with his employment with the Company (or the termination of such employment) or (y) when required by law, by legal process or by any court, arbitrator, mediator or legislative body (including any committee thereof) with actual or apparent jurisdiction to order Executive to make such statements or to disclose such documents and information, provided that Executive both gives the Company advance notice of any such disclosure to the extent legally allowable and cooperates (at the Company's sole expense) in good faith with any effort the Company may make to seek a protective order concerning the confidentiality of any such disclosure; (iv) retaining, and using appropriately (e.g., not in connection with violating any non-competition or non-solicitation restriction), documents and information relating to his personal rights and obligations and his rolodex (and electronic equivalents); (v) disclosing his post-employment restrictions in confidence in connection with any potential new employment or business venture; (vi) disclosing documents and information in confidence to any attorney, financial advisor, tax preparer, or other professional for the purpose of securing professional advice; or (vii) using and disclosing documents and information at the request of the Company or its attorneys or agents.

ii. Nothing in this Agreement or elsewhere shall prohibit or restrict Executive from initiating communications directly with, responding to any inquiry from, providing testimony before, providing confidential information to, reporting possible violations of law or regulation to, or filing a claim or assisting with an investigation directly with a self-regulatory authority or a government agency or entity, including the Equal Employment Opportunity Commission, the Department of Labor, the National Labor Relations Board, the Department of Justice, the Securities and Exchange Commission, Congress, any agency Inspector General or any other federal, state or local regulatory authority (collectively, the "Regulators"), or from making other disclosures that are protected under the whistleblower provisions of state or federal law or regulation. Executive does not need the prior authorization of the Company to engage in conduct protected by this subsection, and Executive does not need to notify the Company that Executive has engaged in such conduct. Please take notice that federal law provides criminal and civil immunity to federal and state claims for trade secret misappropriation to individuals who disclose trade secrets to their attorneys, courts, or government officials in certain, confidential circumstances that are set forth at 18 U.S.C. §§ 1833(b)(1) and 1833(b)(2), related to the reporting or investigation of a suspected violation of the law, or in connection with a lawsuit for retaliation for reporting a suspected violation of the law

c. Former Employer Information. Subject to Section 7(b), Executive agrees that he will not, during and in connection with his employment with the Company, use or disclose any proprietary information or trade secrets of any former or concurrent employer or other person or entity and that he will not bring into the premises of the Company any unpublished document or proprietary information belonging to any such employer, person or entity unless consented to in writing by such employer, person or entity**.**

d. Third Party Information. Subject to Section 7(b), Executive recognizes that the Company has received, and in the future will receive, from third parties their confidential or proprietary information subject to a duty on the Company's part to maintain the confidentiality of such information and to use it only for certain limited purposes. Executive agrees to treat all such information as Confidential Information.

e. Mutual Non-Disparagement. Executive acknowledges that any disparaging comments by him against the Company are likely to substantially depreciate the business reputation of the Company. Subject to Section 7(b), Executive therefore agrees that he will not directly or indirectly defame, disparage, or publicly criticize the services, business, integrity, veracity or reputation of the Company or its officers, directors, or employees in any forum or through any medium of communication. The Company agrees that it will not, directly or indirectly, through its executive officers or directors, defame, disparage, or publicly criticize the integrity, veracity, or reputation of Executive.

f. Restrictive Covenants.

   i. Conflicting Employment. Executive agrees that, during his employment with the Company, he will not engage in any other employment, occupation, consulting or other business activity related to the business in which the Company is now involved or becomes involved during such employment, nor will he engage in any other activities that conflict with his obligations or responsibilities to the Company.

   ii. Returning Company Documents and Property. Subject to Section 7(b), Executive agrees that, at the time he leaves the employ of the Company, or at any other time at the Company's reasonable request, he will deliver to the Company (and will not keep in his possession, recreate or deliver to anyone else) any and all software, devices, records, data, notes, reports, proposals, lists, correspondence, specifications, drawings, blueprints, sketches, materials, equipment, Confidential Information, other documents or property, or reproductions of any aforementioned items developed by him pursuant to his employment with the Company or otherwise belonging to the Company. Subject to Section 7(b), to the extent Executive has retained any Company property or Confidential Information on any electronic or computer equipment belonging to him or under his control, Executive agrees to so advise the Company and to permanently delete all such property or Confidential Information and all copies, and to allow the Company reasonable access to such equipment for purposes of permanently deleting all such property or Confidential Information. In the event of any termination of Executive's employment with the Company, Executive agrees to provide such written assurances of his compliance with this Section 7(f)(ii) as the Company may reasonable request.

   iii. Notification to New Employer. During Executive's employment with the Company and for 12 months thereafter, Executive will advise the Company of any new employer of his, or any other person or entity for whom he may perform services, either before or within three (3) days after accepting an offer to work for such employer or other person or entity. Executive hereby agrees to notify, and grants consent to notification by the Company to, any new employer, or other person or entity for whom he may perform services, of his obligations under this Section 7 and under Section 5(d) above (relating to "Garden Leave").

   iv. Solicitation of Employees. During his employment with the Company and for 12 months thereafter, Executive will not, either directly or indirectly, for himself or for any other person or entity:

      1. solicit, induce, recruit or encourage any of the Company's employees, consultants, independent contractors or any person who provides services to the Company to terminate or reduce their employment or other relationship with the Company,

2. hire any individual who is (or was within the six (6) months immediately preceding such hiring) an employee, exclusive consultant, or exclusive independent contractor of the Company, or
3. attempt to do any of the foregoing.

v. Solicitation of Customers. During his employment with the Company and for 12 months thereafter, Executive will not, either directly or indirectly, (i) solicit, entice, or induce any Customer for the purpose of providing, or provide, products or services that are competitive with the products or services provided by the Company, or (ii) solicit, entice, or induce any Customer to terminate or reduce its business with (or refrain from increasing its business with) the Company. As used in this subsection (f)(v) of Section 7, "Customer" means any person or entity to which the Company provided products or services (or was invested in products offered by the Company), and with which Executive had contact on behalf of the Company or about whom the Executive possesses Confidential Information, within the last twelve (12) months of his employment with the Company.

vi. Noncompetition. During his employment with the Company and for 12 months thereafter, Executive will not, either directly or indirectly:
1. have any ownership interest in, or participate in the financing, operation, management or control of, any Competitor; or
2. engage in or perform services (whether as an employee, consultant, proprietor, partner, director or otherwise) for any Competitor, if such services either (i) are the same as or similar to (individually or in the aggregate) the services Executive performed for the Company during his employment with the Company, or (ii) are performed with respect to products or services of the Competitor that are competitive with the products or services provided by the Company with which Executive was involved during his employment with the Company or about which Executive received or possessed Confidential Information during his employment with the Company.

vii. As used in subsection (f)(vi) of Section 7, "Competitor" means any person or entity that competes with the Company and that is (i) a mortgage REIT, (ii) an entity or person engaged in any element of acquiring mortgage backed securities, including any private or public investment firm or broker dealer whose business strategy is based on or who engages in the trading, sales, investment or management of mortgage backed securities, or (iii) an entity or person that manages or advises (including as an external advisor) either a mortgage REIT or an entity or person engaged in any element of acquiring mortgage backed securities, including any private or public investment firm or broker dealer whose business strategy is based on or who engages in the trading, sales, investment or management of mortgage backed securities. The restrictions set forth in subsection (f)(vi) of this Section 7 will apply within or with respect to the United States and any other country in which the Company is then engaged in business. Executive acknowledges that the Company's technology and products have worldwide application, including without limitation over the Internet and that such geographic scope is therefore reasonable. It is agreed that ownership of no more than 2% of the outstanding voting stock of a publicly traded entity will not constitute a violation of subsection (f)(vi) of this Section 7.

viii. Corporate Opportunities. Executive agrees that, during his employment with the Company and for 12 months thereafter, Executive will not use, for his own personal gain or benefit, opportunities discovered in the course of his employment. In addition, if during his employment with the Company Executive is approached about or otherwise become aware of a potential investment or other business transaction that may be appropriate for the Company, Executive will not take that opportunity for himself, will (if warranted) bring it to the Board's attention, and will not share or disclose it to any third party, without either (x) the Board's permission or (y) a good faith belief that sharing or disclosing it is in, or not opposed to, the Company's best interests.

g. Cooperation with Respect to Litigation. During the Term of Employment and at all times thereafter, Executive agrees to give written notice to the Company of any third-party claim against the Company promptly after becoming aware of such claim, and cooperate with the Company, in good faith and upon reasonable request by the Company, in connection with any pending, potential or future claim, investigation or action that directly or indirectly relates to any action, event or activity about which Executive may have knowledge in connection with or as a result of his employment by the Company. Such cooperation will include all assistance that the Company, its counsel or representatives may reasonably request, including reviewing documents, meeting with counsel, providing factual information and material, and appearing or testifying as a witness, in each case consistent with Executive's other obligations under this Agreement and with his other personal and professional commitments after the Termination Date; provided, however, that the Company will promptly pay, or reimburse Executive for, any reasonable expense that he incurs in connection with any cooperation under this Section 7(g).

h. Remedies.

i. Executive acknowledges and agrees that the restrictions set forth in this Section 7 are critical and necessary to protect the Company's legitimate business interests; are reasonably drawn to this end with respect to duration, scope, and otherwise; are not unduly burdensome; are not injurious to the public interest; and are supported by adequate consideration. Executive agrees that it would be impossible or inadequate to measure and calculate the Company's damages from any breach of the restrictions set forth in this Section 7. Accordingly, Executive agrees that if he breaches or threatens to breach any such restriction, the Company will have available, in addition to any other right or remedy available, the right to seek an injunction from a court of competent jurisdiction restraining such breach or threatened breach and to specific performance of such restriction. Executive further agrees that no bond or other security will be required in obtaining such equitable relief. Executive further acknowledges and agrees that (x) any claim he may have against the Company, whether under this Agreement or otherwise, will not (except as otherwise expressly provided in Section 7(h)(iii) below) be a defense to enforcement of the restrictions set forth in this Section 7, (y) the circumstances of the termination of his employment with the Company will have no impact on his obligations under this Section 7, and (z) this Section 7 is enforceable by the Company, and its subsidiaries, its affiliates, and its permitted successors and assigns.

ii. Executive, and the Company, agree and intend that Executive's obligations under any subsection of this Section 7 (to the extent not perpetual) be tolled during any period that Executive is in material breach of any of the obligations in such subsection, so that the Company is provided with the full benefit of the restrictive period set forth in such subsection; provided that the extension by tolling for any subsection shall not exceed 12 months in the aggregate.

iii. Executive also agrees that, in addition to any other remedies available to the Company, in the event Executive breaches, in any material respect and without timely cure, any of his obligations under this Section 7, the Company shall also be entitled to the remedy described in Section 5(i) above.

iv. Executive and the Company further agree that, in the event that any provision of this Section 7 is determined by any court of competent jurisdiction to be unenforceable by reason of its being extended over too great a time, too large a geographic area or too great a range of activities, that provision will be deemed to be modified to permit its enforcement to the maximum extent permitted by law. The prevailing party in any action or proceeding under Section 7(h)(i) will be entitled to prompt reimbursement of all expenses (including, without limitation, attorney fees) that such party reasonably incurred in connection with such action or proceeding. It is also agreed that each of the Company's affiliates will have the right to enforce all of Executive's obligations to that affiliate under this Agreement, including without limitation pursuant to this Section 7.

v. In the event that (A) the Company or any of its affiliates is, on or after the Termination Date, in material breach of any of its material obligations to Executive under this Agreement, (B) Executive provides written notice to the Company describing such breach in reasonable detail and requesting cure, within 30 days after he learns of the occurrence of such breach, (C) the Company does not cure such breach within 30 days after receipt of such notice, then (z) the restrictions (relating to competition and solicitation of customers) that are set forth in Sections 7(f)(v) and 7(f)(vi) will immediately become null and void. For the avoidance of doubt, the Company and its affiliates will not be considered in breach of their obligations under this Agreement for purposes of this Section 7(h)(v) by reason of the Company or an affiliate exercising its rights under this Agreement in the event of a breach of this Agreement by Executive.

8. Indemnification. The Company will indemnify Executive, to the fullest extent permitted by Maryland law as amended from time to time, against any and all costs, expenses, liabilities and losses (including, without limitation, attorneys' fees, judgments, fines, penalties, ERISA excise taxes and amounts paid in settlement) actually and reasonably

incurred by Executive in connection with any action, suit or proceeding, whether civil, criminal, administration, investigative, formal, informal or other (each, a "Proceeding"), provided that Executive's involvement in such Proceeding relates to his positions with, or services for, the Company or any of its affiliates. Expenses incurred by Executive in connection with any such Proceeding will be paid, or reimbursed by the Company, promptly upon receipt by the Company of (i) a written affirmation of Executive's good faith belief that Executive is entitled to indemnification by the Company pursuant to this Section 8 with respect to such expenses and proceeding, (ii) a written undertaking by Executive, or on Executive's behalf, to and in favor of the Company, wherein Executive agrees to repay the amount if Executive is determined not to have been entitled to indemnification under this Section 8 and (iii) reasonable supporting documentation demonstrating that the expenses have been incurred. While Executive is an officer of the Company, and for six years thereafter, the Company (or any successor thereto) will provide comprehensive coverage under its officers and directors insurance policy (or policies) on substantially the same terms and levels that it then provides coverage to its senior executive officers and/or to members of the Board of Directors, at the Company's sole cost. Nothing in this Agreement shall limit any right that Executive may have in respect of indemnification, advancement, or liability insurance coverage under any other Company Arrangement. Notwithstanding the foregoing, in no event shall the foregoing indemnification apply to any costs, expenses, liabilities or losses resulting from Executive's engaging in conduct that constitutes Cause. In addition, Executive shall enter into the Company's standard indemnification agreement in connection with his commencing employment with the Company.

9. Clawback Policy. Executive agrees that all bonuses, equity compensation and other incentive compensation provided by the Company will be subject to any clawback policy applying to senior executives of the Company generally that is implemented by the Board of Directors from time to time.

10. Inventions

    a. Assignment of Inventions. Executive acknowledges that, during his employment by the Company, Executive may be expected to undertake creative work, either alone or jointly with others, which may lead to inventions, ideas, original works of authorship, developments, concepts, improvements, trade secrets or other intellectual property rights, in each case, whether or not patentable or registrable under patent, copyright or similar laws and including, in each case, tangible embodiment of any of the foregoing ("Inventions"). Executive hereby agrees that any Invention that is created by him during his employment by the Company and that is related to the actual or prospective business of the Company or that results from work performed by Executive for the Company (whether or not on the Company's premises or using the Company's equipment and materials or during regular business hours) ("Company Inventions") will be a work-for-hire and will be the sole and exclusive property of the Company and, to the extent such Company Inventions are not a work-for-hire, Executive hereby assigns to the Company Investment Corporation all of his right, title and interest in and to any and all such Company Inventions. In addition, any Inventions created within three years after the termination of Executive's employment by the Company which are based upon or derived from Confidential Information or Company Inventions will be the sole and exclusive property of the Company and Executive hereby assigns to the Company all of his right, title and interest in and to any and all such Company Inventions. Nothing in the preceding sentence will be construed to limit Executive's obligations under Section 10 of this Agreement.

b. Further Assistance. Executive agrees to assist the Company, or its designee, upon reasonable request and at the sole expense of the Company or its designee, whether during his employment with the Company or thereafter, in every proper way to secure the Company's, or designee's, rights in the Company Inventions and any copyrights, patents, mask work rights or other intellectual property rights relating thereto in any and all countries, including disclosing to the Company or designee all pertinent information and data with respect thereto, executing, or causing to be executed, all applications, specifications, oaths, assignments and other instruments which the Company or designee reasonably deems necessary in order to apply for and obtain such rights and in order to assign and convey to the Company or designee the sole and exclusive rights, title and interest in and to such Company Inventions and any copyrights, patents, mask work rights or other intellectual property rights relating thereto. If the Company, or its designee, is unable because of Executive's mental or physical incapacity or for any other reason to secure Executive's signature to apply for or to pursue any application for any United States or foreign patents, copyright registrations or other registrations covering Company Inventions, then Executive hereby irrevocably designates and appoints the Company, or its designee, and its duly authorized officers and agents as his agent and attorney in fact, to act for and in his behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of letters patent or copyright registrations thereon with the same legal force and effect as if executed by him, in each case at no expense to Executive. Executive understands and acknowledges that this appointment is coupled with an interest and survives his death or incompetence.

c. Moral Rights. To the extent not assignable, Executive hereby waives, to the extent permitted by applicable law, any and all claims he may now or hereafter have in any jurisdiction to all rights of paternity, integrity, disclosure and withdrawal and any other rights that may be known as "moral rights" with respect to all Company Inventions.

d. No License. Executive understands and acknowledges that this Agreement does not grant him, and will not be construed to grant him, any license or right of any nature with respect to any Company Inventions or Confidential Information, other than as expressly set forth in this Agreement.

11. Assignability; Binding Nature. This Agreement will inure to the benefit of the Company and Executive and their respective successors, heirs (in the case of Executive) and assigns. No rights or obligations of the Company under this Agreement may be assigned or transferred by the Company except that any such rights or obligations may be assigned or transferred pursuant to a merger or consolidation in which the Company is not the continuing entity, or the sale or liquidation of all or substantially all of the assets of the Company, provided that in each case the assignee or transferee is the successor to all or substantially all of the business and assets of the Company and such assignee or transferee assumes the liabilities, obligations and duties of the Company, as contained in this Agreement, either contractually or as a matter of law. This Agreement will not be assignable by Executive; provided however that, in the event of Executive's death or a judicial determination of his incapacity, references to Executive in this Agreement will be

deemed, where appropriate, to be references to his heir(s), estate, beneficiar(ies), executor(s) or other legal representative(s).

12. Representation. The Company and Executive each represent and warrant that it or he is fully authorized and empowered to enter into this Agreement and that its or his entering into this Agreement, and the performance of its or his obligations under this Agreement, will not violate any document to which it or he is a party or by which it or he is bound.
13. Entire Agreement; Inconsistency. This Agreement contains the entire agreement between the Company and Executive concerning the subject matter hereof and supersedes all prior agreements, understandings, discussions, negotiations and undertakings, whether written or oral, between them with respect thereto. In the event of any inconsistency between this Agreement and any other Company Arrangement, whether applicable on the date of this Agreement or at any time thereafter, this Agreement will, to the extent more favorable to Executive, control unless Executive otherwise agrees in a signed writing that specifically identifies the provisions of this Agreement whose control he is waiving.
14. Amendment or Waiver. This Agreement can only be changed, modified or amended in a writing that is signed by both Executive and the Company and that specifically identifies the provision(s) of this Agreement that are being changed, modified or amended. No waiver by either the Company or Executive at any time of any breach by the other Party of any condition or provision of this Agreement will be deemed a waiver of a similar or dissimilar condition or provision at the same or at any prior or subsequent time. Any waiver must be in writing and signed by Executive or a specifically-authorized officer of the Company, as the case may be.
15. Severability. In the event that any provision or portion of this Agreement is determined to be invalid or unenforceable for any reason, in whole or in part, the remaining provisions of this Agreement will be unaffected thereby and will remain in full force and effect to the fullest extent permitted by law.
16. Reasonableness. To the extent that any provision or portion of this Agreement is determined to be unenforceable by a court of law or equity, or by any arbitration panel, that provision or portion of this Agreement will nevertheless be enforceable to the extent that such court or panel determines is reasonable.
17. Survivorship. The respective rights and obligations of the Parties will survive any termination of the Term of Employment, or of Executive's employment with the Company, to the extent necessary to the intended preservation of such rights and obligations. For the avoidance of doubt, the covenants in Section 7 and the indemnification and insurance provisions of Section 8 of this Agreement will survive any termination of the Term of Employment or of Executive's employment with the Company.
18. Governing Law. This Agreement, the rights and obligations of the Parties under it, and any claims or disputes relating thereto will be governed by and construed in accordance with the laws of the State of New York (without regard to its choice of law provisions), other than rights and obligations (and related claims and disputes) under Section 8 (Indemnification), which will be governed by Maryland law.
19. Resolution of Disputes. Any claim arising out of or relating to this Agreement, any other agreement between the Parties, Executive's employment with the Company, or any termination thereof (each, a "Covered Claim") will (except to the extent otherwise provided in Section 7(h)(i) with respect to certain requests for injunctive relief) be resolved by binding confidential arbitration, to be held in the Borough of Manhattan in New York City, before a panel of three arbitrators, in accordance with the Commercial

Arbitration Rules (and not the National Rules for Resolution of Employment Disputes) of the American Arbitration Association and this Section 19. Any award rendered by the panel will be accompanied by a written opinion setting forth in reasonable detail the basis for the award, and any such award may be entered in a court having jurisdiction thereof.

20. Notices. Any notice, consent, demand, request, or other communication given to any person or entity in connection with this Agreement shall be in writing and will be deemed to have been given to such person or entity (i) when delivered personally to such person or entity, (ii) five days after being sent by prepaid certified or registered mail, or two days after being sent by a nationally recognized overnight courier, to the address specified below for such person or entity (or to such other address as such person or entity shall have specified by 10 days advance notice given in accordance with this Section 20), or (ii) in the case of the Company only, on the first business day after it is sent by facsimile to the facsimile number set forth below (or to such other facsimile number as has been specified on 10 days' advance notice given in accordance with this Section 20), with a confirmatory copy sent by certified or registered mail or by overnight courier in accordance with this Section 20.

If to the Company: Chimera Investment Corporation
520 Madison Avenue, 32nd Floor
New York, NY 10022
Attn: Chief Legal Officer
Email: phillip.kardis@chimerareit.com

If to Executive: The address of his principal residence as it appears in the Company records, with a copy to him (during his employment with the Company) at his principal office at the Company

If to a beneficiary of Executive: The address most recently specified by Executive or his beneficiary.

1. Withholding. The Company will be entitled to withhold from any amounts payable under this Agreement any federal, state, local or foreign withholding or other taxes or charges which the Company reasonably determines to be required to be withheld pursuant to applicable law. The Company will use commercially reasonable efforts to establish a relationship with a broker-dealer to facilitate the sale of shares acquired on the vesting or exercise of any equity or equity-based compensation granted to Executive by the Company to enable Executive to satisfy all applicable withholding taxes due in connection with such vesting or exercise; provided that if the Company does not establish any such relationship, Executive may satisfy such withholding obligations by instructing the Company to retain shares otherwise deliverable to Executive upon the vesting or exercise of any such equity or equity-based award with a fair market value not exceeding the minimum amount required to be withheld by applicable law.
2. Headings. The headings of the Sections and sub-sections contained in this Agreement are for convenience only and will not be deemed to control or affect the meaning or construction of any provision of this Agreement.
3. Counterparts. This Agreement may be executed in two or more counterparts. Signatures delivered by facsimile (including, without limitation, by “pdf”) will be deemed effective for all purposes.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first written above.

Chimera Investment Corporation

By: _/s/ Gerard Creagh__________
Name: Gerard Creagh
Title: Member of the Compensation Committee

_/s/ Subramaniam Viswanathan__
Name: Subramaniam Viswanathan

Exhibit A

Incentive Compensation

I. Annual Cash Bonus.

The following summarizes the material terms of the Annual Cash Bonus set forth in Section 3(b)(i) of the Agreement to which this Exhibit A is attached (the "Agreement"). Unless otherwise specified in this Exhibit A, all defined terms have the meanings set forth in the Agreement.

1. 2021 Bonus; Performance Period.

Executive will receive an Annual Cash Bonus for the 2021 calendar year in the amount of $1,000,000 in December 2021, subject to continued employment through the payment date.

For subsequent years, the Annual Cash Bonus will be payable for each calendar year during the Term of Employment after 2021 (each, an "Annual Cash Bonus Performance Period"). The metrics described below will apply to the following Annual Cash Bonus Performance Period:

a. January 1, 2022 through December 31, 2022

The metrics for subsequent Annual Cash Bonus Performance Periods will be determined by the Compensation Committee, in good faith, in consultation with, and subject to agreement of, the CEO.

Except as otherwise provided in the Agreement, Executive will be eligible to receive the Annual Cash Bonus only if Executive remains employed by the Company through the last day of the applicable Annual Cash Bonus Performance Period. In no event will Executive receive any unpaid Annual Cash Bonus in the event Executive's employment is terminated by the Company for Cause. For the avoidance of doubt, Executive will not be entitled to an Annual Cash Bonus for any Annual Cash Bonus Performance Period beginning on or after termination of Executive's employment for any reason.

Except as otherwise provided in the Agreement, any Annual Cash Bonus will be subject to achievement of the performance goals described in this Exhibit.

1. Target Cash Bonus.

a. For each Annual Cash Bonus Performance Period , Executive's target Annual Cash Bonus (the "Target Cash Bonus") will be equal to $1,000,000, which Target Cash Bonus may be increased by the Compensation Committee to account for the consummation of strategic initiatives, such as capital raises and M&A transactions, and any such increased amount will thereafter be the Target Cash Bonus for all purposes under the Agreement. Executive is entitled to receive an Annual Cash Bonus from 0% to 250% of the Target Cash Bonus for each Annual Cash Bonus Performance Period, based on performance as described below.

1. Performance Component. For the 2022 Annual Cash Bonus Performance Period, the Annual Cash Bonus will be payable based on the Company's relative return on average equity ("Relative ROAE").
2. Definitions. For purposes of this Exhibit A:

"Company ROAE" means (i) Company Return for the Annual Cash Bonus Measurement Period, divided by (ii) Company Average Equity for the Annual Cash Bonus Measurement Period.

"Relative ROAE" means Company ROAE as such amount stands in relation to the return on average equity (determined in the same way that the Company ROAE is determined) for the Annual Cash Bonus Measurement Period of the entities (other than the Company) included in the Peer Group described below. Relative ROAE will be measured from the end of the third fiscal quarter of the calendar year immediately preceding the beginning of the Annual Cash Bonus Performance Period through the end of the third fiscal quarter of the Annual Cash Bonus Performance Period (i.e. Q3 to Q3 measurement period) (the "Annual Cash Bonus Measurement Period").

"Peer Group" means the entities (other than the Company) included in the iShares Mortgage Real Estate ETF as of the beginning of the applicable Annual Cash Bonus Measurement Period or LTI Measurement Period, as applicable. Any entity (other than the Company) that ceases to be included in the iShares Mortgage Real Estate ETF during the Annual Cash Bonus Measurement Period or LTI Measurement Period, as applicable, shall be treated as performing at the lowest level in the Peer Group for such Annual Cash Bonus Measurement Period or LTI Measurement Period, as applicable.

"Company Return" means the Company's net income as determined in accordance with GAAP and shown on the Company's quarterly and annual financial statements as filed with the Securities and Exchange Commission, but excluding non-cash, non-operating expense items such as depreciation expense, amortization of goodwill and other non-cash, non-operating expense items as determined by the Compensation Committee in its sole discretion for the applicable Annual Cash Bonus Measurement Period. If, for any portion of any Annual Cash Bonus Measurement Period, (i) the Company does not use hedge accounting or (ii) its derivative hedging instruments or any portion thereof are otherwise deemed ineffective, which in either case, results in changes in the value of such hedging instruments being recorded in the Company's GAAP income statement, then any gains or losses from such hedging instruments will be excluded from the calculation of Company Return.

"Company Average Equity" means the stockholders' equity of the Company as determined in accordance with GAAP and shown on the Company's quarterly and annual financial statements as filed with the Securities and Exchange Commission, but excluding accumulated other comprehensive income or loss (which, among other things, reflects unrealized gains or losses in the Company's portfolio), stockholders' equity attributable to preferred stock and other items as determined by the Compensation Committee in its sole discretion for the applicable Annual Cash Bonus Measurement Period. For purposes of calculating Relative ROAE, Company Average Equity will be determined based on the average of the Company's stockholders' equity calculated as described in the preceding sentence as of the last day of each fiscal quarter during the applicable Annual Cash Bonus Measurement Period. Notwithstanding the foregoing, stockholder's equity attributable to an issuance of common stock of the Company during the applicable Annual Cash Bonus Measurement Period shall be excluded from the calculation of "Company Average Equity" for a period of six months from such issuance.

1. Annual Cash Bonus Earned.

For each Annual Cash Bonus Performance Period, Executive will be entitled to receive, as Executive's Annual Cash Bonus, from 0% to 250% of Executive's Target Cash Bonus, based on the Company ROAE compared to that of the Peer Group (measured as a percentile) or, if the Threshold is determined under clause (x) of its definition, the Company ROAE compared to the Threshold, as follows:

Relative ROAE*	**Percentage of Target Cash Bonus Payable**
Less than the Threshold	0%
50^{th} Percentile	100%
75^{th} Percentile	175%
100% Percentile	250%

* Company ROAE is used to determine whether clause (x) of the Threshold is met.

"Threshold" means the lesser of (x) the average of the weekly 2-year Treasury note rates published in the U.S. Reserve H.15 Report for the 52 weeks in the applicable Annual Cash Bonus Measurement Period plus 100 basis points or (y) the 25^{th} percentile of Relative ROAE. The percentage of Target Cash Bonus payable for Relative ROAE achieved between the Threshold and the 100^{th} percentile that is not set forth in the above table, will be determined by linear interpolation.

1. Payment of Annual Cash Bonus. Any Annual Cash Bonus for the 2022 calendar year and subsequent years will be paid in cash between December 1 of the applicable Annual Cash Bonus Performance Period and January 30 of the year following the last day of such Annual Cash Bonus Performance Period, subject (except as otherwise provided in the Agreement or this Exhibit A) to continued employment through the end of such Annual Cash Bonus Performance Period.

II. Long-Term Incentive Compensation.

The following summarizes the material terms of the long term incentive compensation ("LTI") in the form of RSUs and PSUs that is to be awarded under Section 3(b)(ii) of the Agreement to which this Exhibit A is attached. Unless otherwise specified in this Exhibit A, all capitalized terms used in this Exhibit A have the meanings set forth in the Agreement.

2021 RSU Grant. Executive shall be granted an RSU with a grant date value of $750,000 as soon as practicable following the Effective Date. Such RSU shall vest in three equal annual installments, with the first 1/3 vesting on January 2, 2022, and 1/3 vesting on each of January 2, 2023 and January 2024, subject to continued employment through the vesting dates.

1. Performance Period. The metrics described below will apply to the following performance period ("LTI Performance Period"):

a. January 1, 2022 through December 31, 2022

The metrics for subsequent LTI Performance Periods will be determined by the Compensation Committee, in good faith, in consultation with, and subject to agreement of, the CEO.

Except as otherwise provided in the Agreement or this Exhibit A, Executive will be eligible to receive payout on LTI only if Executive remains employed by the Company through the applicable vesting date (in the case of RSUs) and through the last day of the applicable PSU Performance Period (in the case of PSUs). In no event will Executive receive any unpaid LTI in the event Executive's employment is terminated by the Company for Cause. For the avoidance of doubt, Executive will not be entitled to LTI for any LTI Performance Period beginning on or after termination of Executive's employment for any reason.

Except as otherwise provided in the Agreement or this Exhibit A, any LTI will be subject to the vesting conditions and achievement of the performance goals described below

1. Target LTI.

a. For each LTI Performance Period, Executive's target LTI will be equal to $750,000 (the "Target LTI"), which Target LTI may be increased by the Compensation Committee to account for the consummation of strategic initiatives, such as capital raises and M&A transactions, and any such increased amount will thereafter be the LTI for all purposes under the Agreement and this Exhibit A.

1. Performance Components. For each LTI Performance Period, the LTI will consist of two components:

a. RSUs. For each LTI Performance Period, Executive will be granted, as of the first day in the LTI Performance Period, a number of RSUs having an aggregate value on such first day equal to 50% of the Target LTI. Subject (except as otherwise provided in this Exhibit A or in the Agreement) to Executive remaining employed by the Company through the applicable vesting date (the "Time-Based Vesting Date") and meeting all applicable requirements set forth in the Agreement and this Exhibit A, the RSUs will vest in three equal installments on each of the first three anniversaries of the date of grant. Unless otherwise provided in the Agreement or this Exhibit A, the vested portion of the RSUs will be paid in common stock of the Company within 60 days after the vesting date, or such other date as may be specified in the documents governing the awards.

b. PSUs. For each LTI Performance Period, Executive will be granted, as of the first day of the LTI Performance Period a target number of PSUs having an aggregate value on such first day equal to 50% of the Target LTI (the "Target PSUs"). The PSU Performance Period shall be as follows (corresponding to the LTI Performance Period beginning on the same date):

a. January 1, 2022 through December 31, 2022

Subject (except as otherwise provided in the Agreement or this Exhibit A) to Executive's continuing employment through the last day of the applicable PSU Performance Period, between 0% and 200% of the Target PSUs will vest as of the last day of such PSU Performance Period and be paid in common stock of the Company between December 1 of such PSU Performance Period and January 30 of the year following the last day of such PSU Performance Period, based on the Company Economic Return compared to that of the Peer Group (measured as a percentile) or, if the Threshold is determined under clause (x) of its definition, the Company Economic Return compared to the Threshold, as follows:

Relative Economic Return*	Percentage of Target PSUs Vesting and Payable
Less than the Threshold	0%
50th Percentile	100%
75th Percentile	200%

* Company Economic Return is used to determine whether clause (x) of the Threshold is met.

"Threshold" means the lesser of (x) the average weekly interest rate on the 2-year U.S. Treasury note during the applicable LTI Measurement Period plus 100 basis points or (y) the 25th percentile of Relative Economic Return. For any Relative Economic Return achieved between the Threshold and 75th percentiles and not specified in the above table, the percentage of the Target PSUs that will vest for the applicable PSU Performance Period will be determined by linear interpolation.

Notwithstanding anything in the Agreement or this Exhibit A to the contrary, upon the consummation of a Change in Control, (i) the percentage of the Target PSUs that would have vested in accordance with the preceding table based on the Company's actual Relative Economic Return from the first day of the applicable LTI Measurement Period through the end of the most recent fiscal quarter prior to such Change in Control for which data is available (or the last day of the applicable LTI Measurement Period, if earlier) will be eligible to vest on the last day of the applicable PSU Performance Period, subject only to Executive's continuing employment with the Company (except as otherwise provided in Sections 5(a), 5(b) or 5(e) of the Agreement), and (ii) any portion of the Target PSUs that would not have vested in accordance with the preceding table based on the Company's actual Relative Economic Return from the grant date through the date of such Change in Control will be forfeited as of such Change in Control with no compensation due therefor.

The RSUs and PSUs will be granted to Executive under the Company's current Equity Compensation Plan (or its successor).

1. Definition of Relative Economic Return. For purposes of the PSUs:

"Company Economic Return" means (x) the Company's change in book value per share ("BVPS"), plus (y) common stock dividends, for the LTI Measurement Period.

"Relative Economic Return" means (i) the Company Economic Return for the LTI Measurement Period, divided by (ii) BVPS at the beginning of the LTI Measurement Period, as such amount stands in relation to the economic return (measured in the same way that the Company Economic Return is measured) during the LTI Measurement Period of the entities in the Peer Group. Relative Economic Return will be measured from the end of the third fiscal quarter of the calendar year immediately preceding the beginning of the PSU Performance Period through the end of the third fiscal quarter of the last calendar year in the PSU Performance Period (i.e. Q3 to Q3 measurement period) (the "LTI Measurement Period").

III. Dividend Equivalents

Dividend equivalents will accrue on RSUs and PSUs granted hereunder as and when dividends are paid to the Company's shareholders and, to the extent that the RSUs and PSUs become vested, will be paid to Executive in cash, shares or a combination thereof, as determined by the Committee in its sole discretion, at the time such RSUs or PSUs are settled.

IV. Committee Determinations

All determinations with respect to the Annual Cash Bonus and the LTI, including, without limitation, the amount, if any, that is payable to Executive for each performance period, will be made by the Compensation Committee, in good faith, and in compliance with the Agreement and this Exhibit A. All such determinations will be final and binding on Executive and the Company.

Exhibit B

General Release

IN CONSIDERATION OF good and valuable consideration, the receipt of which is hereby acknowledged, and in consideration of the terms and conditions contained in the Employment Agreement, effective as of January 1, 2019, (the "Agreement") by and between Robert Colligan (the "Executive") and Chimera Investment Corporation (the "Company"), the Executive on behalf of himself and any person or entity claiming by, through, or under him (including without limitation his heirs, executors, administrators, spouse, personal representatives and assigns), releases and discharges the Company and its past, present and future subsidiaries, divisions, affiliates and parents, and their respective current and former officers, directors, employees, attorneys, agents, benefit plans, and/or owners, and their respective successors and assigns, and any other person or entity claimed to be jointly or severally liable with the Company or any of the aforementioned persons or entities (collectively, the "Released Parties") from any and all manner of actions and causes of action, suits, debts, dues, accounts, bonds, covenants, contracts, agreements, judgments, charges, claims, attorneys' fees and costs, and demands whatsoever ("Claims") which the Executive (or any person or entity claiming by, through, or under him) have, had, or may have, against the Released Parties or any of them arising at any time from the beginning of the world to the date Executive executes this General Release, whether known or unknown, accrued or unaccrued, contingent or noncontingent. The Claims described in this paragraph include without limitation, (i) any and all Claims relating to the Executive's employment with the Company and the cessation thereof, (ii) any and all Claims for discrimination based on age, sex, race, color, disability status, national origin, religion, or any other protected characteristic, including but not limited to, Claims under Title VII of the Civil Rights Act of 1964, 42 U.S.C. §§ 2000 et seq., the Age Discrimination in Employment Act of 1967, 29 U.S.C. §§ 621 et seq. (the "ADEA"), the Americans with Disabilities Act of 1990, 42 U.S.C. §§ 12101 et seq., the New York State and New York City Human Rights Laws, and all state and local analogues of such statutes, each as amended, (iii) any and all Claims under all federal, state, and local statutes, rules, regulations, or ordinances, each as amended, including but not limited to, the Family and Medical Leave Act of 1993, 29 U.S.C. §§ 2601 et seq., the Worker Adjustment and Retraining Notification Act of 1988, 29 U.S.C. §§2101 et seq., the Employee Retirement Income Security Act of 1974, 29 U.S.C. §§ 1001 et seq., the New York Labor Laws, the New York Whistleblower Protection Law (to the fullest extent they may be released under applicable law), the New York Civil Rights Law (N.Y. Civ. Rts. § 1, et seq.), the New York AIDS/HIV confidentiality law (N.Y. Public Health Law §2780), the New York Equal Pay Law, New York State Labor Relations Act, Article 23-A of the New York State Corrections Law, New York Family Leave Law, New York Minimum Wage Act, New York Wage and Hour Law, New York Wage Payment Law, New York State Worker Adjustment and Retraining Notification Act, and retaliation provisions of New York Workers' Compensation Law, and (iv) any and all Claims under the common law of any jurisdiction, including but not limited to, breach of contract, defamation, interference with contractual/prospective contractual relations, invasion of privacy, promissory estoppel, negligence, breach of the covenant of good faith and fair dealing, fraud, infliction of emotional distress, and wrongful discharge; provided, however, that the Executive does not release or discharge the Released Parties from: any of the obligations that arise under, or are preserved by, Section 5 of the Agreement; any Claim for unemployment or workers' compensation benefits; any Claim that arises after the date on which the Executive signs this General Release; or any Claim that is not waivable under applicable law. It is the intention of the Executive that the language relating to the description of Claims in this paragraph will be given the broadest possible interpretation permitted by law. It is understood that nothing in this General Release is to be construed as an admission on behalf of the Released Parties of any wrongdoing with respect to the Executive, any such wrongdoing being expressly denied. The Executive represents and warrants that he fully understands the terms of this General Release, that he has been encouraged to seek, and has sought, the benefit of advice of legal counsel, and that he knowingly and voluntarily, of his own free will, without any duress, being fully informed, and after due deliberation, accepts its terms and signs below as his own free act. Except as otherwise provided in this Release, the Executive understands that as a result of executing this General Release, he will not have the right to assert any Claims that the Company or any other of the Released Parties unlawfully terminated his employment or violated any of his rights in connection with his employment or otherwise.

The Executive agrees and covenants not to file, initiate, or join any lawsuit (either individually, with others, or as part of a class), in any forum, pleading, raising, or asserting any Claim(s) barred or released by this General Release. If he does so, and the action is found to be barred in whole or in part by this General Release, the Executive agrees to pay the attorneys' fees and costs, or the proportions thereof, incurred by the applicable Released Party in defending against those Claims that are found to be barred by this General Release. Nothing in this General Release precludes the Executive from challenging the validity of this General Release under the requirements of the Age Discrimination in Employment Act, and the Executive will not be responsible for reimbursing the attorneys' fees and costs of the Released Parties in connection with such a challenge to the validity of the release. The Executive, however, acknowledges that this General Release applies to all Claims that he has under the Age Discrimination in Employment Act, and that, unless the release is held to be invalid, all of the Executive's Claims under that Act will be extinguished by execution of this General Release. The Executive further agrees that nothing in this General Release will preclude or prevent the Executive from filing a charge with, providing information to, or cooperating with the U.S. Equal Employment Opportunity Commission, the U.S. Securities and Exchange Commission, or other government agency, and the Executive understands that he does not need the prior authorization of any of the Released Parties prior to taking any such action. The Executive will not seek or accept any relief obtained on his behalf by any government agency, private party, class, or otherwise with respect to any Claims released in this General Release, and, in the event the Executive receives such monetary relief, the Company will be entitled to an offset for the payments made pursuant to the Agreement and this General Release. This General Release does not limit the Executive's right to receive an award from any government agency that provides awards for providing information relating to a potential violation of law.

Please take notice that federal law provides criminal and civil immunity to federal and state claims for trade secret misappropriation to individuals who disclose a trade secret to their attorney, a court, or a government official in certain, confidential circumstances that are set forth at 18 U.S.C. §§ 1833(b)(1) and 1833(b)(2), related to the reporting or investigation of a suspected violation of the law, or in connection with a lawsuit for retaliation for reporting a suspected violation of the law.

The Company hereby advises the Executive to consult with counsel before executing this General Release. The Executive may take twenty-one (21) days to consider whether to execute this General Release and discuss it with counsel of his own choosing. The Executive agrees that changes made to this General Release, whether material or immaterial, do not restart the aforementioned twenty-one (21) day period. Upon the Executive's execution of this General Release, the Executive will have seven (7) days after such execution in which he may revoke such execution. In the event of revocation, the Executive must present written notice of such revocation to the office of the Company's Corporate Secretary. If seven (7) days pass without receipt of such notice of revocation, this General Release will become binding and effective on the eighth (8th) day after the execution hereof. Signatures delivered by facsimile (including, without limitation, by "pdf") will be effective for all purposes.

INTENDING TO BE LEGALLY BOUND, I hereby set my hand below:

____

Dated:________________

CERTIFICATIONS

Exhibit 31.1

I, Mohit Marria, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Chimera Investment Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

   a. Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2021
/s/ Mohit Marria

Mohit Marria
Chief Executive Officer, Chief Investment Officer and Principal Financial Officer

CERTIFICATIONS

Exhibit 31.2

I, Kelley Kortman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Chimera Investment Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

   a. Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2021
/s/ Kelley Kortman

Kelley Kortman
Chief Accounting Officer and Principal Accounting Officer

Exhibit 32.1

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

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

In connection with the quarterly report on Form 10-Q of Chimera Investment Corporation (the "Company") for the period ended June 30, 2021 to be filed with Securities and Exchange Commission on or about the date hereof (the "Report"), I, Mohit Marria, Chief Executive Officer and Chief Investment Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

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

It is not intended that this statement be deemed to be filed for purposes of the Securities Exchange Act of 1934.

/s/ Mohit Marria
Mohit Marria
Chief Executive Officer, Chief Investment Officer and Principal Financial Officer
Date: August 4, 2021

Exhibit 32.2

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

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

In connection with the quarterly report on Form 10-Q of Chimera Investment Corporation (the "Company") for the period ended June 30, 2021 to be filed with Securities and Exchange Commission on or about the date hereof (the "Report"), I, Kelley Kortman, Chief Accounting Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

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

It is not intended that this statement be deemed to be filed for purposes of the Securities Exchange Act of 1934.

/s/ Kelley Kortman

Kelley Kortman
Chief Accounting Officer and Principal Accounting Officer
Date: August 4, 2021