

NEW YORK MORTGAGE TRUST INC
Form 10-K
February 27, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2014

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

For the Transition Period From _____ to _____

Commission File Number 001-32216

NEW YORK MORTGAGE TRUST, INC .

(Exact name of registrant as specified in its charter)

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

275 Madison Avenue, New York, NY 10016

(Address of principal executive office) (Zip Code)

(212) 792-0107

(Registrant's telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01 per share	NASDAQ Stock Market
7.75% Series B Cumulative Redeemable Preferred Stock, par value \$0.01 per share, \$25.00 Liquidation Preference	NASDAQ Stock Market

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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

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

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

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2014 was \$704,607,266.

The number of shares of the registrant’s common stock, par value \$.01 per share, outstanding on February 20, 2015 was 105,292,065.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Where Incorporated Part III, Items 10-14
1. Portions of the Registrant's Definitive Proxy Statement relating to its 2015 Annual Meeting of Stockholders scheduled for May 2015 to be filed with the Securities and Exchange Commission by no later than April 30, 2015.	

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NEW YORK MORTGAGE TRUST, INC.

FORM 10-K

For the Fiscal Year Ended December 31, 2014

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PART I

Item 1. BUSINESS

In this Annual Report on Form 10-K we refer to New York Mortgage Trust, Inc., together with its consolidated subsidiaries, as “we,” “us,” “Company,” or “our,” unless we specifically state otherwise or the context indicates otherwise. We refer to our wholly-owned taxable REIT subsidiaries as “TRSs” and our wholly-owned qualified REIT subsidiaries as “QRSs.” In addition, the following defines certain of the commonly used terms in this report: “RMBS” refers to residential mortgage-backed securities comprised of adjustable-rate, hybrid adjustable-rate, fixed-rate, interest only and inverse interest only, and principal only securities; “Agency RMBS” refers to RMBS representing interests in or obligations backed by pools of mortgage loans issued or guaranteed by a federally chartered corporation (“GSE”), such as the Federal National Mortgage Association (“Fannie Mae”) or the Federal Home Loan Mortgage Corporation (“Freddie Mac”), or an agency of the U.S. government, such as the Government National Mortgage Association (“Ginnie Mae”); “Agency ARMs” refers to Agency RMBS comprised of adjustable-rate and hybrid adjustable-rate RMBS; “non-Agency RMBS” refers to RMBS backed by prime jumbo and Alternative A-paper (“Alt-A”) residential mortgage loans; “IOs” refers collectively to interest only and inverse interest only mortgage-backed securities that represent the right to the interest component of the cash flow from a pool of mortgage loans; “Agency IOs” refers to IOs that represent the right to the interest components of the cash flow from a pool of residential mortgage loans issued or guaranteed by a GSE or an agency of the U.S. government; “POs” refers to mortgage-backed securities that represent the right to the principal component of the cash flow from a pool of mortgage loans; “ARMs” refers to adjustable-rate residential mortgage loans; “prime ARM loans” and “residential securitized loans” each refer to prime credit quality residential ARM loans (“prime ARM loans”) held in securitization trusts; “distressed residential loans” refers to pools of performing and re-performing, fixed-rate and adjustable-rate, fully amortizing, interest-only and balloon, seasoned mortgage loans secured by first liens on one- to four-family properties; “CMBS” refers to commercial mortgage-backed securities comprised of commercial mortgage pass-through securities, as well as IO or PO securities that represent the right to a specific component of the cash flow from a pool of commercial mortgage loans; “multi-family CMBS” refers to CMBS backed by commercial mortgage loans on multi-family properties; “CDOs” refers to collateralized debt obligations; “CLO” refers to collateralized loan obligation; “Consolidated K-Series” refers six separate Freddie Mac- sponsored multi-family loan K-Series securitizations, of which we, or one of our special purpose entities, or SPEs, own the first loss PO securities and certain IO securities; “Variable Interest Entity or VIE” refers to an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties; and “Consolidated VIEs” refers to VIEs where the Company is the primary beneficiary, as it has both the power to direct the activities that most significantly impact the economic performance of the VIE and a right to receive benefits or absorb losses of the entity that could be potentially significant to the VIE.

General

We are a real estate investment trust, or REIT, in the business of acquiring, investing in, financing and managing primarily mortgage-related assets and financial assets. Our objective is to manage a portfolio of investments that will

deliver stable distributions to our stockholders over diverse economic conditions. We intend to achieve this objective through a combination of net interest margin and net realized capital gains from our investment portfolio. Our portfolio includes certain credit sensitive assets and investments sourced from distressed markets in recent years that create the potential for capital gains, as well as more traditional types of mortgage-related investments that generate interest income.

We were formed in 2003 and commenced operations as a vertically integrated mortgage origination and portfolio investment manager in 2004 upon the completion of our initial public offering. Since exiting the mortgage origination business in 2007, we built a diversified investment portfolio that includes elements of interest rate and credit risk, which we believe is best suited to deliver stable cash flows over various economic cycles.

Under our investment strategy, our targeted assets currently include residential mortgage loans, including distressed residential loans, multi-family CMBS, mezzanine loans to and preferred equity investments in owners of multi-family properties, equity and debt securities issued by entities that invest in commercial real estate-related debt investments and Agency RMBS. Subject to maintaining our qualification as a REIT, we also may opportunistically acquire and manage various other types of mortgage-related and financial assets that we believe will compensate us appropriately for the risks associated with them, including, without limitation, non-Agency RMBS (which may include IOs and POs), collateralized mortgage obligations and securities issued by newly originated residential securitizations, including credit sensitive securities from these securitizations.

We strive to maintain and achieve a balanced and diverse funding mix to finance our assets and operations. We rely primarily on a combination of short-term borrowings, such as repurchase agreements with terms typically of 30 days (and, in some cases up to one year), and longer term structured financings, such as securitization and re-securitization transactions, with terms longer than one year.

We internally manage a certain portion of our portfolio, including Agency ARMs, Agency fixed-rate RMBS, non-Agency RMBS, CLOs and residential securitized loans. In addition, as part of our investment strategy, we also contract with certain external investment managers to manage specific asset types targeted by us. We are a party to separate investment management agreements with Headlands Asset Management, LLC, or Headlands, RiverBanc, LLC, or RiverBanc, and The Midway Group, L.P., or Midway, with Headlands providing investment management services with respect to our investments in certain distressed residential loans, RiverBanc providing investment management services with respect to our investments in multi-family CMBS and certain commercial real estate-related debt investments, and Midway providing investment management services with respect to our investments in Agency IOs.

We completed three public equity offerings in 2014, generating aggregate net proceeds to us of approximately \$296.5 million, expanding our stockholders' equity from \$480.7 million at December 31, 2013 to \$817.9 million at December 31, 2014. The expansion of our equity capital base over the course of the last three fiscal years has increased our scale and, we believe, our access to larger and more attractive investment and financing opportunities, as evidenced by the purchase of distressed residential loans in December 2014 having an unpaid principal balance of \$367.6 million at the closing date for an aggregate purchase price of \$328.4 million, including accrued interest.

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

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

Our Investment Strategy

We intend to continue our strategy of building a residential portfolio that includes elements of both interest rate and credit risk by focusing our investments on (i) "credit residential" assets, which we define as residential mortgage loans, including distressed residential loans, multi-family CMBS and other commercial real estate-related debt investments such as mezzanine loans to and preferred equity investments in owners of multi-family properties, equity and debt securities issued by entities that invest in commercial real estate-related debt investments, (ii) leveraged Agency RMBS, which we expect will include Agency ARMs, Agency fixed-rate and Agency IOs, and (iii) the opportunistic acquisition of other types of mortgage-related and financial assets that meet our investment criteria. At the same time we pursue these targeted assets, we will continue to actively manage our existing assets, which include the credit residential assets and leveraged Agency RMBS referred to above as well as CLOs, residential securitized loans and

non-Agency RMBS.

Prior to deploying capital to any of our targeted asset classes or determining to liquidate or dispose any of our investments, our management team will consider, among other things, the amount and nature of anticipated cash flows from the asset, our ability to finance or borrow against the asset and the terms of such financing, the related capital requirements, the credit risk related to the asset or the underlying collateral, prepayment risk, liquidity, the costs of financing, hedging, and managing the asset, relative value, expected future interest rate volatility and future expected changes to credit spreads. Consistent with our strategy to produce returns through a combination of net interest margin and net realized capital gains, we will seek, from time to time, to sell certain assets within our portfolio when we believe the combination of realized gains on an asset and reinvestment potential for the related sale proceeds are consistent with our long-term return objectives.

Our investment strategy does not, subject to our continued compliance with applicable REIT tax requirements and the maintenance of our exemption from the Investment Company Act of 1940, as amended (the “Investment Company Act”), limit the amount of our capital that may be invested in any of these investments or in any particular class or type of assets. Thus, our future investments may include asset types different from the targeted or other assets described in this report. The investment and capital allocation decisions of our company and our external managers depend on prevailing market conditions and other factors and may change over time in response to opportunities available in different economic and capital market environments. As a result, we cannot predict the percentage of our capital that will be invested in any particular investment at any given time.

For more information regarding our portfolio as of December 31, 2014, see Item 7 - “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Annual Report.

Investments in Credit Residential Assets

We seek to identify credit sensitive assets primarily relating to residential housing from which we can extract value through a combination of current yield and/or capital appreciation. Our portfolio of credit residential assets is currently comprised of residential mortgage loans, including distressed residential loans, multi-family CMBS, mezzanine loans to and preferred equity investments in owners of multi-family properties and equity and debt investments issued by entities that invest in commercial real estate-related debt investments. Our portfolio also includes distressed residential mortgage loans held in securitization trusts and prime ARM loans held in securitization trusts (also referred to as residential securitized loans).

The distressed residential loans in our current portfolio have been acquired, in each case, as a pool of distressed residential loans sold by a financial institution. During the year ended December 31, 2014, we acquired multiple pools of distressed residential mortgage loans having an estimated aggregate market value of approximately \$400.9 million at the time of their respective acquisitions. This includes a pool of distressed residential loans acquired in December 2014 having an unpaid principal balance and carrying value of approximately \$367.2 million and \$327.4 million, respectively as of December 31, 2014. These distressed residential mortgage loans generally consist of performing and re-performing, fixed- and adjustable-rate, fully-amortizing, interest-only and balloon, seasoned mortgage loans secured by first liens on one- to four-family properties. The loans were purchased at a discount to the aggregate principal amount outstanding, which we believe will provide us with adequate credit protection and an opportunity to modify the loan and achieve an attractive yield. These distressed residential mortgage loans are sourced and managed by Headlands.

Our portfolio of multi-family CMBS is comprised of (i) fixed rate PO securities issued from the first loss tranche, or “first loss,” of certain multi-family K-series securitizations sponsored by Freddie Mac and (ii) certain IO securities issued by these securitizations. Our investments in these privately placed first loss PO securities generally represent approximately 7.5% of the overall securitization which typically totals approximately \$1.0 billion in multi-family residential loans consisting of 70 to 100 individual properties diversified across a wide geographic footprint. These first loss securities are typically backed by balloon non-recourse mortgage loans that provide for the payment of principal at maturity date, which is typically seven to ten years. Moreover, each first loss piece of multi-family CMBS in our portfolio is, in most cases, the most junior tranche of security issued by the securitization, meaning it will absorb all losses in the securitization prior to other more senior tranches being exposed to loss. As a result, each of the first loss securities in our portfolio has been purchased, upon completion of a credit analysis and due diligence by our external manager and after consultation with and approval of our senior management, at a significant discount to its then-current par value, which we believe provides us with adequate protection against projected losses. In addition, as the owner of the first loss piece, the Company, through RiverBanc, has the right to participate in the workout of any distressed property in the securitization. We believe this right will allow the Company to mitigate or reduce any possible loss associated with the distressed property. The Company also invests in IO securities from a number of the same multi-family securitizations from which we acquired our first loss PO investments. These IO securities are stripped off the entire securitization allowing the Company to receive cashflows over the life of the multi-family loans backing the securitization. These investments range from 10 to 17 basis points and the underlying notional amount approximates \$1.0 billion each. We may in the future invest in more senior tranches of multi-family CMBS, which may include some form of leverage, if we believe the risk-adjusted returns for such assets are attractive. In addition,

we may acquire multi-family CMBS from private originators of, or investors in, mortgage loans, including non-financial institutions and other entities. With respect to the multi-family CMBS owned by us, all of the loans that back the respective securitizations have been underwritten to Freddie Mac underwriting guidelines and standards; however, our securities are not guaranteed by Freddie Mac.

We invest in other commercial real estate-related investments, such as the origination or acquisition of mezzanine loans to and preferred equity investments in owners of multi-family properties, with a primary focus on conventional apartments, cooperative housing associations, student housing and other related property types in increments as low as \$1 million secured by properties valued at \$10 million or greater. A mezzanine loan is a loan made to a property owner that is subordinate to mortgage debt and is typically secured by a pledge of the borrower's ownership interests in the property and/or direct or indirect entities that own the property. A preferred equity investment typically takes the form of an equity investment in the special purpose entity ("SPE") that owns the property and is structured such that the preferred equity investor will receive cash distributions from the SPE in seniority to a more junior class of equity. These preferred equity interests may be subordinate to other forms of mortgage or property-level debt. We also may participate in structured investments such as the acquisition of seasoned or distressed commercial loan portfolios. We also invest in equity and debt securities of entities that invest in commercial real estate-related debt investments and joint ventures focused on multi-family properties.

The prime ARM loans held in securitization trusts, which we refer to as "residential mortgage loans held in securitization trusts" in our consolidated financial statements, are loans that primarily were originated by our discontinued mortgage lending business, and to a lesser extent purchased from third parties, that we securitized in 2005. These loans are substantially prime, full documentation, interest-only hybrid ARMs on residential properties and are all first lien mortgages. We maintain the ownership trust certificates, or equity, of these securitizations, which includes rights to excess interest, if any, and also take an active role in managing delinquencies and default risk related to the loans.

Investments in Agency RMBS

We intend to achieve more stable cash flows on our collective investments in Agency RMBS across various market cycles, including, various interest rate, yield curve and prepayment cycles, primarily through investments in Agency ARMs, Agency fixed-rate RMBS and Agency IOs. Our Agency ARMs consist of whole pool pass-through certificates, the principal and interest of which are guaranteed by Fannie Mae or Freddie Mac, which are backed by ARMs or hybrid ARMs. Our current portfolio of Agency ARMs has interest reset periods ranging from 10 years to less than three months.

Our Agency RMBS also consist of fixed-rate whole pool pass-through certificates, the principal and interest of which are guaranteed by Fannie Mae or Freddie Mac, which are primarily backed by 15-year residential fixed rate mortgage loans with lesser amounts invested in 20-year residential fixed-rate mortgage loans. The majority of these securities have coupons ranging from 2.5% to 3.5%.

Agency IOs are securities that represent the right to receive the interest portion of the cash flow from a pool of mortgage loans issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. Agency IOs allow us to make a direct investment in borrower prepayment trends in the current market environment. However, Agency IOs also introduce increased risk as these securities have no underlying principal cash flows, which will cause them to underperform in high prepayment environments as future interest payments will be reduced as a direct result of prepayments. In a rising interest rate environment, the value of an Agency IO generally tends to increase as their expected average life increases and prepayments decrease. Our investments in Agency IOs and related hedging and borrowing activities are managed by Midway. We sometimes refer to these investments and related hedging and borrowing activities as our Agency IO strategy or our Agency IO portfolio.

It should be noted that the guarantee provided by the GSEs on Agency RMBS issued by them does not protect us from prepayment risk and that the payments on Agency IOs are not guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. Moreover all of our Agency RMBS (including Agency IOs) are at risk to new or modified government-sponsored homeowner stimulus programs that may induce unpredictable and excessively high prepayment speeds resulting in accelerated premium amortization and reduced net interest margin, both of which could materially adversely affect our business, financial condition and results of operations.

Our Financing Strategy

We strive to maintain and achieve a balanced and diverse funding mix to finance our assets and operations. To achieve this, we rely primarily on a combination of short-term borrowings under repurchase agreements, and structured financings, including securitized debt, CDOs and long term subordinated debt. The Company's policy for leverage is

based on the type of asset, underlying collateral and overall market conditions, with the intent of obtaining more permanent, longer-term financing for our more illiquid assets, such as our credit sensitive first loss multi-family CMBS and distressed residential loans. Currently, we target maximum leverage ratios for callable or short-term financings of 8 to 1, in the case of Agency RMBS (other than Agency IOs), and 2 to 1, in the case of Agency IOs. We may utilize short term financing on other asset classes with leverage ratios driven by the nature of the underlying asset as well as current market conditions.

As of December 31, 2014, our overall leverage ratio, including our short-term financings, such as repurchase agreements, and longer-term financings, such as securitized debt and subordinated debt (excluding the CDOs issued by the Consolidated K-Series and our residential CDOs), divided by stockholders' equity, was approximately 1.4 to 1. Our leverage ratio on our short term financings or callable debt was approximately 1.1 to 1. In each case, there may be occasional short-term increases or decreases in the amount of leverage used due to significant market events, and we may change our leverage strategy at any time. We monitor all at risk or short term borrowings to ensure that we have adequate liquidity to satisfy margin calls and liquidity covenant requirements.

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

With respect to our investments in multi-family CMBS, other commercial mortgage debt-related investments and distressed residential loans, we intend to finance our investment in these assets through working capital and, subject to market conditions, both short-term and long-term borrowings. Our financings may include repurchase agreement borrowings with terms of one year or less, or longer term structured debt financing, such as longer-term repurchase agreement financing and securitized debt where the assets we intend to finance are contributed to an SPE and serve as collateral for the financing. We engage in longer-term financings for the primary purpose of obtaining longer-term non-recourse financing on these assets. As of December 31, 2014, our multi-family CMBS amounting to approximately \$235.3 million and distressed residential mortgage loans amounting to approximately \$221.6 million are financed by some form of securitized debt.

In December 2014, the Company entered into a master repurchase agreement with a one-year term to fund a portion of the purchase price of a pool distressed residential loans with an unpaid principal balance at December 31, 2014 of approximately \$367.2 million. Pursuant to the terms for these financings, our ability to access the cash flows generated by the assets serving as collateral may be significantly limited and we may be unable to sell or otherwise transfer or dispose of or modify such assets until the financing has matured. In addition, we have provided a guarantee with respect to certain terms of some of the longer-term debt incurred by our subsidiaries, including the master repurchase agreement with a one-year term, and we may provide a similar guarantee in connection with future financings.

At December 31, 2014, we finance our prime ARM loans held in securitization trusts with approximately \$145.5 million of residential CDOs that were issued in securitization transactions we completed in 2005.

For more information regarding our outstanding borrowings and debt instruments at December 31, 2014, see Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Annual Report.

Our Hedging Strategy

We intend to use hedging instruments in conjunction with our investment portfolio to reduce or mitigate risks associated with changes in interest rates, mortgage spreads, yield curve shapes and market volatility. These hedging instruments may include interest rate swaps, interest rate swaptions, interest rate futures and options on interest rate futures, mortgage derivatives such as forward-settling purchases and sales of Agency RMBS where the underlying pools of mortgage loans are "To-Be-Announced," or TBAs, and U.S. Treasuries.

We use interest rate swaps and Euro-dollar futures to hedge interest rate repricing mismatches between certain of our investments and the related borrowings. For example, the interest coupon reset period on our Agency RMBS is typically greater than the repricing period for the related liabilities, which is usually 30 days. We typically would use

interest rate swaps or Euro-dollar futures to extend the liability repricing date to more closely approximate the related asset.

We commonly use TBA transactions to hedge interest rate and market risks associated with our Agency IOs. Pursuant to our TBA transactions, we agree to purchase or sell, for future delivery, Agency RMBS with interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered or received, as applicable, is not identified until shortly before the TBA settlement date. We typically do not take delivery of TBAs but, rather, settle with our trading counterparties on a net basis. By utilizing TBA transactions, we expect to reduce changes in portfolio values due to changes in interest rates. Although TBAs are liquid and have quoted market prices and represent the most actively traded class of RMBS, the use of TBAs exposes us to increased market value risk. We typically conduct TBA and other interest rate futures hedging transactions through one of our TRSs.

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

Our External Managers

The Midway Group, L.P.

A portion of our Agency RMBS portfolio comprised of Agency IOs is externally managed and advised by Midway pursuant to an investment management agreement between Midway and us (as amended, the “Midway Management Agreement”). Midway was founded in 2000 by Mr. Robert Sherak, a mortgage industry veteran with more than 25 years’ experience, to serve as investment manager to the Midway Market Neutral Fund LLC, a private investment fund. Midway has been managing a hedged portfolio of mortgage-related securities for over 10 years.

Midway is responsible for administering the business activities and day-to-day operations of our investments in Agency IOs and certain derivative instruments. These responsibilities include arranging and coordinating the purchase and sale of various investment assets and the financing and hedging associated with such assets, with direct oversight from our management team. Midway also may invest from time to time in, among other things, Agency RMBS consisting of pass-through certificates, CMOs, and POs and non-agency RMBS (which may include IOs and POs), although they have made no such investments on our behalf since being engaged as an external manager. As part of its investment process, we expect that Midway will analyze significant amounts of data regarding the historical performance of mortgage-related securities transactions and collateral over various market cycles.

Midway has established portfolio management resources for the investment assets described above and an established infrastructure supporting those resources. We expect that we will benefit from Midway's highly analytical investment processes, broad-based deal flow, extensive relationships in the financial community and operational expertise. Moreover, since its founding, we believe Midway has developed strong relationships with a wide range of dealers and other market participants that provide Midway access to a broad range of trading opportunities and market information.

As of December 31, 2014, we had allocated approximately \$107.5 million of capital to investments managed by Midway.

The Midway Management Agreement

We entered into an investment management agreement with Midway on February 11, 2011, as amended on March 9, 2012 and April 1, 2014. The Midway Management Agreement currently operates under a one-year term that is automatically renewed for successive one-year terms unless a termination notice is delivered by either party to the other party at least six months prior to the end of the then current term. Pursuant to the Midway Management Agreement, Midway implements our Agency IO investment strategy and related hedging and borrowing activities and has complete discretion and authority to manage these assets and related hedging and borrowing activities, subject to compliance with the written investment guidelines included in the Midway Management Agreement and the other terms and conditions of the Midway Management Agreement, including our authority to direct Midway to modify its investment strategy for purposes of maintaining our qualification as a REIT and exemption from the Investment Company Act.

The following table summarizes the fees that we pay to Midway pursuant to the Midway Management Agreement. We will reimburse Midway for all transaction costs and expenses incurred in connection with the management and administration of the assets and liabilities that they manage on our behalf.

Type	Description
Base management fee	<p>Payable monthly in arrears in a cash amount equal to the product of (i) 1.50% per annum of our invested capital in the assets managed by Midway as of the last business day of the previous month, multiplied by (ii) 1/12th.</p> <p>Midway will be entitled to a quarterly incentive fee (the “Midway Incentive Fee”) that is calculated quarterly and paid quarterly in arrears. The Midway Incentive Fee is subject to a high water mark equal to an 11% return on our invested capital in assets managed by Midway (the “High Water Mark”), and shall be payable in an amount equal to the excess, if any, of 35% of the dollar amount by which adjusted net income (as defined below) attributable to the assets managed by Midway, on a quarterly basis and before accounting for the Midway Incentive Fee, exceeds an annual 12.5% rate of return on invested capital (the “Hurdle Rate”), after adjusting for any carried over shortfall from previous quarters. The return rate for each quarter (the “Calculation Period”) shall be determined by dividing (i) the adjusted net income for the Calculation Period by (ii) the weighted average of our invested capital in assets managed by Midway during the Calculation Period. Upon mutual agreement of the parties to the Midway Management Agreement, a portion of each Midway Incentive Fee payable to Midway may be paid in shares of our common stock.</p>
Incentive fee	<p>Adjusted net income is defined as net income (loss) calculated in accordance with generally accepted accounting principles in the United States (“GAAP”), including any unrealized gains and losses, after giving effect to certain expenses. All securities managed for us by Midway will be valued in accordance with GAAP.</p> <p>Unlike the Hurdle Rate, which is calculated on a three month basis, the High Water Mark is calculated on a calendar 12 month basis, and will reset every 24 months. The High Water Mark will be a static dollar figure that Midway will be required to recoup, to the extent there is a deficit in the prior High Water Mark calculation period before it is eligible again to receive a Midway Incentive Fee.</p>
Equity Compensation	<p>In addition to the base management and incentive fees provided for in the Midway Management Agreement, we issued 213,980 shares of restricted stock to Midway in March 2012 that vested annually in one-third increments beginning on December 31, 2012. As of December 31, 2014, all of the restricted shares issued to Midway had vested in full.</p>

Although the assets and invested capital managed by Midway are held in an account that is wholly owned by our company, we may only redeem invested capital in an amount equal to the lesser of 10% of our invested capital managed by Midway or \$10 million as of the last calendar day of the month upon not less than 75 days written notice, subject to our authority to direct Midway to modify its investment strategy for purposes of maintaining our qualification as a REIT and exemption from the Investment Company Act. Pursuant to the terms of the Midway Management Agreement, we are only permitted to make one such redemption request in any 75-day period.

RiverBanc LLC

In April 2011, we formed a relationship with RiverBanc, a privately owned investment management and specialty finance company founded by Kevin Donlon, for the purpose of investing in multi-family CMBS, such as Freddie Mac Multifamily Loan Securitization K-Series' assets, and other commercial real estate-related debt investments, such as mezzanine loans to and preferred equity investments in owners of multi-family properties. Pursuant to an investment management agreement between RiverBanc and us, RiverBanc sources, structures and manages our investments in these asset classes. We also have invested approximately \$36.6 million in equity and debt securities issued by entity that is externally managed by RiverBanc. As of December 31, 2014, we owned 20% equity interest in RiverBanc.

RiverBanc Management Agreement

On March 13, 2013, we entered into an amended and restated management agreement with RB Commercial Mortgage LLC, our wholly-owned subsidiary, and RiverBanc (as amended, the "RiverBanc Management Agreement"). The RiverBanc Management Agreement, which replaces the prior management agreement between RiverBanc and RB Commercial Mortgage LLC, has a term that expired on December 31, 2014 and is subject to automatic annual one-year renewals thereafter.

Pursuant to the terms of the RiverBanc Management Agreement, RiverBanc will receive a monthly base management fee in arrears in a cash amount equal to the product of (i) 1.50% per annum of "Equity" as of the last business day of the previous month, multiplied by (ii) 1/12th. For purposes of the RiverBanc Management Agreement, Equity is defined as "Assets" minus "Debt," where Assets is defined as the aggregate net carrying value (in accordance with GAAP) of those assets of our company managed by RiverBanc (specifically excluding (i) any unrealized gains or losses that have impacted net carrying value as reported in our financial statements prepared in accordance with GAAP, regardless of whether such items are included in other comprehensive income or loss or in net income, and (ii) one-time events pursuant to changes in GAAP, and certain non-cash items not otherwise described above, in each case, as mutually agreed between RiverBanc and us) and Debt is defined as the greater of (1) the net carrying value (in accordance with GAAP, excluding adjustments for unrealized gains or losses) of all third-party debt or liabilities secured by the Assets and (2) prior to termination of the RiverBanc Management Agreement, zero, or following termination of the RiverBanc Management Agreement, an amount equal to 50% of Assets. In addition, RiverBanc will be entitled to an incentive fee that is calculated quarterly and paid in cash in arrears. The incentive fee is based upon

the average Equity during the fiscal quarter, subject to a high water mark equal to a 9% return on Equity, and shall be payable in an amount equal to 35% of the dollar amount by which adjusted net income (as defined in the RiverBanc Management Agreement) attributable to the Assets, before accounting for any incentive fees payable to RiverBanc, exceeds an annualized 12% rate of return on such average Equity (provided, however, that the applicable percentage for calculation of the incentive fee on any incremental return in excess of 21% shall be reduced to 20% from 35%). Any incentive fee paid for the fourth fiscal quarter of each year under the agreement is calculated based on the incentive fee earned during the calendar twelve-month period less the aggregate incentive fees paid for the first three quarters during the period.

We may terminate the RiverBanc Management Agreement or elect not to renew the agreement, subject to certain conditions and subject, in certain cases, to paying a termination fee equal to the product of (A) 24 and (B) the monthly base management fee earned by RiverBanc during the month immediately preceding the month in which the termination occurs. In the event we terminate the RiverBanc Management Agreement for any reason (other than for “cause”), RiverBanc has, subject to certain conditions, a right of first refusal to purchase from us the assets managed by them.

Headlands Asset Management LLC

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

Headlands was founded on May 2008 as an investment manager focused on purchasing, servicing and managing all aspects of a portfolio of residential mortgage loans.

Headlands Management Agreements

We are a party to multiple investment management agreements with Headlands. As part of our financing strategy, we have transferred a portion of our distressed residential mortgage loans to certain SPEs, which are treated as consolidated subsidiaries of the Company, for the purpose of securitizing the loans. Each investment management agreement by and between Headlands, the Company and any consolidated subsidiary of the Company (the “Securitization Subsidiaries”), provides that Headlands serves as the asset manager of distressed residential mortgage loans owned by the Company or by its Securitization Subsidiaries. Each investment management agreement has a term that will expire upon the sale or other liquidation of all mortgage loans held by the Securitization Subsidiaries.

Pursuant to the terms of each investment management agreement, Headlands will receive a monthly base management fee payable on the tenth business day of each month in a cash amount equal to the product of (i) 1.50% per annum of assets under management (“AUM”) as of the first day of each such month, multiplied by (ii) $\frac{1}{12}$ where AUM is defined as the net asset value of the mortgage loans being managed by Headlands plus any “subsequent collateral account balance” (as defined in the investment management agreement). In addition, Headlands will be entitled to an incentive fee that is calculated quarterly, but is not payable until the notes issued by such Securitization Subsidiary as part of the securitization transaction have been retired in full. The incentive fee is based upon the weighted average AUM during the fiscal quarter and shall be payable in an amount equal to 35% of the dollar amount by which the Securitization Subsidiary’s taxable income (before accounting for any incentive fees earned by Headlands and interest on the notes) exceeds an annualized 12% rate of return on such weighted average AUM (provided, however, that the applicable percentage for calculation of the incentive fee on any incremental return in excess of 22% shall be reduced by the amount of any subordinate servicing fees). The parties will recalculate the annual incentive fee earned by Headlands after the fourth fiscal quarter of each year and will adjust any payments owed or required to be remitted based on such annual calculation.

Headlands may terminate any of the investment management agreements at any time upon not less than 60 days' notice; provided, however, that, subject to certain exceptions, it may not terminate an agreement or resign prior to the time such notes issued by the respective Securitization Subsidiary have been retired. We may terminate an investment management agreement in the event of an uncured violation of the agreement or any bankruptcy, insolvency or liquidation proceedings in respect of Headlands. Neither Headlands nor the Securitization Subsidiaries will incur a termination fee upon termination of any of the investment management agreements. We have agreed to guarantee the payment of the base management fees and expenses payable to Headlands by the Securitization Subsidiaries.

Conflicts of Interest with Our External Managers; Equitable Allocation of Opportunities

Each of Midway, RiverBanc and Headlands manages, and is expected to continue to manage, other client accounts with similar or overlapping investment strategies. In connection with the services provided to those accounts, these managers may be compensated more favorably than for the services provided under our external management agreements, and such discrepancies in compensation may affect the level of service provided to us by our external managers. Moreover, each of our external managers may have an economic interest in the accounts they manage or the investments they propose. In addition, we have in the recent past engaged in certain co-investment opportunities with an external manager or one of its affiliates and we may participate in future co-investment opportunities with our external managers or their affiliates. In these cases, it is possible that our interests and the interests of our external managers will not always be aligned and this could result in decisions that are not in the best interests of our company.

Each of Midway and RiverBanc has agreed that, when making investment allocation decisions between us and its other client accounts, it will, in the case of RiverBanc, allocate investments in a fair and equitable manner and, in the case of Midway, seek to allocate investment opportunities on an equitable basis and in a manner it believes is in the best interests of its relevant accounts. Since certain of our targeted assets are typically available only in specified quantities and since certain of these targeted assets will also be targeted assets for other accounts managed by or associated with our external managers, our external managers may not be able to buy as much of certain assets as required to satisfy the needs of all of its clients' or associated accounts. In these cases, we understand that the allocation procedures and policies of our external managers would typically allocate such assets to multiple accounts in proportion to, among other things, the objectives, strategy, and stage of development or needs of each account. Moreover, the investment allocation policies of Midway may permit departure from proportional allocation when the total allocation would result in an inefficiently small amount of the security being purchased for an account. Although we believe that each of our external managers will seek to allocate investment opportunities in a manner which it believes to be in the best interests of all accounts involved and will seek to allocate, on an equitable basis, investment opportunities believed to be appropriate for us and the other accounts it manages or is associated with, there can be no assurance that a particular investment opportunity will be allocated in any particular manner.

Midway is authorized to follow broad investment guidelines in determining which assets it will invest in. Although our Board of Directors will ultimately determine when and how much capital to allocate to assets managed by Midway, we generally will not approve transactions in advance of their execution. As a result, because Midway has great latitude to determine the types of assets it may decide are proper investments for us, there can be no assurance that we would otherwise approve of these investments individually or that they will be successful. Meanwhile, RiverBanc has complete discretion and authority to manage assets on our behalf subject to investment guidelines approved by our Board of Directors. However, our Board of Directors may elect to change the investment guidelines or waive them for various investments. In addition to conducting periodic reviews, we will rely primarily on information provided to us by our external managers. Finally, our external managers may use complex investment strategies and may engage in complex transactions on our behalf which may be difficult or impossible to unwind.

Pursuant to the terms of the Midway Management Agreement, we may only redeem invested capital in an amount equal to the lesser of 10% of the invested capital in assets managed by Midway or \$10 million as of the last calendar day of the month upon not less than 75 days written notice, subject to our authority to direct Midway to modify its investment strategy for purposes of maintaining our qualification as a REIT and exemption from the Investment Company Act, and we are only permitted to make one such redemption request in any 75-day period. In the event of a significant market event or shock, we may be unable to effect a redemption of invested capital in greater amounts or at a greater rate unless we obtain the consent of Midway. Because a reduction of invested capital would reduce the base management fee under the Midway Management Agreement, Midway may be less inclined to consent to such redemptions.

None of our external managers is obligated to dedicate any specific personnel exclusively to us, nor are they or their personnel obligated to dedicate any specific portion of their time to the management of our business. As a result, we cannot provide any assurances regarding the amount of time our external managers will dedicate to the management of our business. Moreover, each of our external managers has significant responsibilities for other investment vehicles and may not always be able to devote sufficient time to the management of our business. Consequently, we may not receive the level of support and assistance that we otherwise might receive if such services were provided internally by us.

Certain Federal Income Tax Considerations and Our Status as a REIT

We have elected to be taxed as a REIT under Sections 856-860 of the Internal Revenue Code for federal income tax purposes, commencing with our taxable year ended December 31, 2004, and we believe that our current and proposed method of operation will enable us to continue to qualify as a REIT for our taxable year ending December 31, 2015 and thereafter. Accordingly, the net interest income we earn on our assets is generally not subject to federal income tax as long as we distribute at least 90% of our REIT taxable income in the form of a dividend to our stockholders each year and comply with various other requirements. Taxable income generated by TRSs is subject to regular corporate income tax.

The benefit of REIT tax status is a tax treatment that avoids “double taxation,” or taxation at both the corporate and stockholder levels, that generally applies to distributions by a corporation to its stockholders. Failure to qualify as a REIT would subject us to federal income tax (including any applicable minimum tax) on our taxable income at regular corporate rates and distributions to our stockholders would not be deductible by us.

Summary Requirements for Qualification

Organizational Requirements

A REIT is a corporation, trust, or association that meets each of the following requirements:

- 1) It is managed by one or more trustees or directors.
- 2) Its beneficial ownership is evidenced by transferable shares, or by transferable certificates of beneficial interest.
- 3) It would be taxable as a domestic corporation, but for the REIT provisions of the federal income tax laws.
- 4) It is neither a financial institution nor an insurance company subject to special provisions of the federal income tax laws.
- 5) At least 100 persons are beneficial owners of its shares or ownership certificates.
- 6) Not more than 50% in value of its outstanding shares or ownership certificates is owned, directly or indirectly, by five or fewer individuals, which the federal income tax laws define to include certain entities, during the last half of any taxable year.

7) It elects to be a REIT, or has made such election for a previous taxable year, and satisfies all relevant filing and other administrative requirements established by the IRS that must be met to elect and maintain REIT status.

8) It meets certain other qualification tests, described below, regarding the nature of its income and assets.

We must meet requirements 1 through 4 during our entire taxable year and must meet requirement 5 during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months.

Qualified REIT Subsidiaries. A corporation that is a QRS is not treated as a corporation separate from its parent REIT. All assets, liabilities, and items of income, deduction, and credit of a “QRS” are treated as assets, liabilities, and items of income, deduction, and credit of the REIT. A “QRS” is a corporation, all of the capital stock of which is owned by the REIT. Thus, in applying the requirements described herein, any “QRS” that we own will be ignored, and all assets, liabilities, and items of income, deduction, and credit of such subsidiary will be treated as our assets, liabilities, and items of income, deduction, and credit.

Taxable REIT Subsidiaries. A REIT is permitted to own up to 100% of the stock of one or more TRSs. A TRS is a fully taxable corporation that may earn income that would not be qualifying income if earned directly by the parent REIT. Overall, no more than 25% of the value of a REIT’s assets may consist of stock or securities of one or more TRSs.

A TRS will pay income tax at regular corporate rates on any income that it earns. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. We have elected for each of Hypotheca Capital, LLC, New York Mortgage Funding, LLC, NYMT Residential Tax, LLC, NYMT Residential Tax 2013 - RP1, LLC, NYMT Residential Tax 2013 - RP2, LLC and NYMT Residential Tax 2013 - RP3, LLC to be treated as TRSs. Our TRSs are subject to corporate income tax on their taxable income.

Qualified REIT Assets. On the last day of each calendar quarter, at least 75% of the value of our assets (which includes any assets held through a QRS must consist of qualified REIT assets — primarily real estate, mortgage loans secured by real estate, and certain mortgage-backed securities (“Qualified REIT Assets”), government securities, cash, and cash items. We believe that substantially all of our assets are and will continue to be Qualified REIT Assets. On the last day of each calendar quarter, of the assets not included in the foregoing 75% asset test, the value of securities that we hold issued by any one issuer may not exceed 5% in value of our total assets and we may not own more than 10% of the voting power or value of any one issuer’s outstanding securities (with an exception for securities of a QRS or of a TRS). In addition, the aggregate value of our securities in TRSs cannot exceed 25% of our total assets. We monitor the purchase and holding of our assets for purposes of the above asset tests and seek to manage our portfolio to comply at all times with such tests.

We may from time to time hold, through one or more TRSs, assets that, if we held them directly, could generate income that would have an adverse effect on our qualification as a REIT or on certain classes of our stockholders.

Gross Income Tests

We must meet the following separate income-based tests each year:

1. **The 75% Test.** At least 75% of our gross income for the taxable year must be derived from Qualified REIT Assets. Such income includes interest (other than interest based in whole or in part on the income or profits of any person) on obligations secured by mortgages on real property, rents from real property, gains from the sale of Qualified REIT Assets, and qualified temporary investment income or interests in real property. The investments that we have made and intend to continue to make will give rise primarily to mortgage interest qualifying under the 75% income test.

2. **The 95% Test.** At least 95% of our gross income for the taxable year must be derived from the sources that are qualifying for purposes of the 75% test, and from dividends, interest or gains from the sale or disposition of stock or other assets that are not dealer property.

Distributions

We must distribute to our stockholders on a pro rata basis each year an amount equal to at least (i) 90% of our taxable income before deduction of dividends paid and excluding net capital gain, plus (ii) 90% of the excess of the net income from foreclosure property over the tax imposed on such income by the Internal Revenue Code, less (iii) any “excess non-cash income.” We have made and intend to continue to make distributions to our stockholders in sufficient amounts to meet the distribution requirement for REIT qualification.

Competition

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

Corporate Offices and Personnel

We were formed as a Maryland corporation in 2003. Our corporate headquarters are located at 275 Madison Avenue, Suite 3200, New York, New York, 10016 and our telephone number is (212) 792-0107. As of December 31, 2014, we employed seven full-time employees.

Access to our Periodic SEC Reports and Other Corporate Information

Our internet website address is www.nymtrust.com. We make available free of charge, through our internet website, our annual report on Form 10-K, our quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments thereto that we file or furnish pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our Corporate Governance Guidelines and Code of Business Conduct and Ethics and the charters of our Audit, Compensation and Nominating and Corporate Governance Committees are also available on our website and are available in print to any stockholder upon request in writing to New York Mortgage Trust, Inc., c/o Secretary, 275 Madison Avenue, Suite 3200, New York, New York, 10016. Information on our website is neither part of nor incorporated into this Annual Report on Form 10-K.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

Forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. The following factors are examples of those that could cause actual results to vary from our forward-looking statements: changes in interest rates and the market value of our securities; changes in credit spreads; the impact of the downgrade of the long-term credit ratings of the U.S., Fannie Mae, Freddie Mac, and Ginnie Mae; market volatility; changes in the prepayment rates on the mortgage loans underlying our investment securities; increased rates of default and/or decreased recovery rates on our assets; our ability to borrow to finance our assets and the terms thereof; changes in governmental laws, regulations, or policies affecting our business; changes to our relationships with our external managers; our ability to maintain our qualification as a REIT for federal tax purposes; our ability to maintain our exemption from registration under the Investment Company Act; and risks associated with investing in real estate assets, including changes in business conditions and the general economy. These and other risks, uncertainties and factors, including the risk factors described in Item 1A – “Risk Factors” elsewhere in this Annual Report on Form 10-K, as updated by those risks described in our subsequent filings under the Exchange Act, could cause our actual results to differ materially from those projected in any forward-looking statements we make. All forward-looking statements speak only as of the date on which they are made. New risks and uncertainties arise over time and it is not possible to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 1A. **RISK FACTORS**

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

Risks Related to Our Business and Our Company

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

The market value of the interest-bearing assets in which we invest and any related hedging instruments may move inversely with changes in interest rates. We anticipate that increases in interest rates will generally tend to decrease our net income and the market value of our interest-bearing assets. A significant percentage of the securities within our investment portfolio are classified for accounting purposes as “available for sale.” Changes in the market values of trading securities will be reflected in earnings and changes in the market values of available for sale securities will be reflected in stockholders’ equity. As a result, a decline in market values of certain of our investment securities may reduce the book value of our assets. Moreover, if the decline in market value of an available for sale security is other than temporary, such decline will reduce earnings.

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

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

Changes in laws and regulations affecting the relationship between Fannie Mae and Freddie Mac and the U.S. government may adversely affect our business.

Payments on the Agency RMBS (excluding Agency IOs) in which we invest are guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae. Fannie Mae and Freddie Mac are government sponsored enterprises, or "GSEs," but their guarantees are not backed by the full faith and credit of the United States. As broadly publicized, Fannie Mae and Freddie Mac have experienced significant losses in recent years, causing the U.S. Government to place Fannie Mae and Freddie Mac under federal conservatorship and to inject significant capital in these businesses. Questions regarding the continued viability of Fannie Mae and Freddie Mac, as currently structured, including the guarantees that back the RMBS issued by them, and the U.S. Government's participation in the U.S. residential mortgage market through the GSEs, continue to persist. In February 2011, the U.S. Department of the Treasury along with the U.S. Department Housing and Urban Development released a much-awaited report titled "Reforming America's Housing Finance Market", which outlines recommendations for reforming the U.S. housing system, including reducing the roles of Fannie Mae and Freddie Mac and transforming the government's involvement in the housing market and its relationship to Fannie Mae and Freddie Mac. In February 2012, the Federal Housing Finance Agency, or FHFA, released its "Strategic Plan for Enterprise Conservatorships," which set forth three goals for the next phase of the Fannie Mae and Freddie Mac conservatorships, which include (i) build a new infrastructure for the secondary mortgage market, (ii) gradually reduce Fannie Mae and Freddie Mac's presence in the marketplace while simplifying and shrinking their operations, and (iii) maintaining foreclosure prevention activities and credit availability for new and refinanced mortgages. In March 2013, the FHFA announced that it was creating a new entity as it reduces the roles of Fannie Mae and Freddie Mac that may serve as a foundational element of the mortgage market of the future. Since the FHFA first released its strategic plan, there have been a number of other housing finance reform proposals introduced, both from industry groups and by the U.S. Congress. One of the proposed bills to receive serious consideration is the "Housing Finance Reform and Taxpayer Protection Act of 2013." This proposed legislation, among other things, would eliminate Freddie Mac and Fannie Mae and replace them with a new agency which would provide a financial guarantee that would only be tapped after private institutions and investors stepped in. During the second quarter of 2014, the proposed bill failed to make it out of the Senate Banking Committee for a full vote. It remains unclear whether this or any other proposals will become law or, should a proposal become law, if or how the enacted law will differ from the current draft of the bill.

As discussed above, each of Fannie Mae, Freddie Mac and Ginnie Mae could be dissolved and the U.S. Government could determine to stop providing liquidity support of any kind to the mortgage market. If Fannie Mae, Freddie Mac or Ginnie Mae were eliminated, or their structures were to change radically or the U.S. Government significantly reduced its support for any or all of them, we may be unable or significantly limited in our ability to acquire Agency RMBS, which would drastically reduce the amount and type of Agency RMBS available for purchase which, in turn, could materially adversely affect our ability to maintain our exclusion from regulation as an investment company under the Investment Company Act. Moreover, any changes to the nature of the guarantees provided by, or laws

affecting, Fannie Mae, Freddie Mac and Ginnie Mae could materially adversely affect the credit quality of the guarantees, could increase the risk of loss on purchases of Agency RMBS issued by these GSEs and could have broad adverse market implications for the Agency RMBS they currently guarantee and the mortgage industry generally. Any action that affects the credit quality of the guarantees provided by Fannie Mae, Freddie Mac and Ginnie Mae could materially adversely affect the value of the Agency RMBS and other residential mortgage-related assets that we own or seek to acquire.

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

Difficult conditions in the mortgage and residential and commercial real estate markets have caused and may cause us to experience losses and these conditions may persist for the foreseeable future.

Our business is materially affected by conditions in the residential mortgage market, the residential and commercial real estate market, the financial markets and the economy generally. Furthermore, because a significant portion of our current assets and our targeted assets are credit sensitive, we believe the risks associated with our investments will be more acute during periods of economic slowdown or recession, especially if these periods are accompanied by declining real estate values and defaults. Continued concerns about the health of the global economy generally and the residential and commercial mortgage markets specifically, as well as inflation, energy costs, sovereign debt and geopolitical issues and the availability and cost of credit have contributed to increased volatility and diminished expectations for the economy and markets going forward. The residential and commercial mortgage markets were adversely affected by changes in the lending landscape during the financial market crisis of 2008, the severity of which was largely unanticipated by the markets, and there is no assurance that these markets will return to prior levels or that they will not worsen again.

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

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

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

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

mortgage loans comprised of, ARMs and hybrid ARMs may be lower than the related debt service costs. These factors could have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our stockholders.

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

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

The U.S. Government, through the U.S. Treasury, the Federal Housing Administration, or FHA, and the Federal Deposit Insurance Corporation, or "FDIC," commenced implementation of programs designed to provide homeowners with assistance in avoiding residential or commercial mortgage loan foreclosures, including the Home Affordable Modification Program, or "HAMP," which provides homeowners with assistance in avoiding residential mortgage loan foreclosures, the Hope for Homeowners Program, or "H4H Program," which allows certain distressed borrowers to refinance their mortgages into FHA-insured loans in order to avoid residential mortgage loan foreclosures, and the Home Affordable Refinance Program, or "HARP," which allows borrowers who are current on their mortgage payments to refinance and reduce their monthly mortgage payments at loan-to-value ratios up to 125% without new mortgage insurance. The programs may involve, among other things, the modification of mortgage loans to reduce the principal amount of the loans or the rate of interest payable on the loans, or to extend the payment terms of the loans.

Loan modification and refinance programs may adversely affect the performance of Agency RMBS, non-Agency RMBS and residential mortgage loans owned by us. Residential distressed mortgage loans and non-Agency RMBS are particularly sensitive to loan modification and refinance programs, as a significant number of loan modifications with respect to a given security or pool of loans, including those related to principal forgiveness and coupon reduction, could negatively impact the realized yields and cash flows on such investments. In addition, it is also likely that loan modifications would result in increased prepayments on some RMBS and residential mortgage loans.

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

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

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

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

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

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

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

When we acquire structured mortgage-backed securities, such as IOs, we anticipate that the underlying mortgages will prepay at a projected rate, generating an expected yield. When the prepayment rates on the mortgages underlying these securities are higher than expected, our returns on those securities may be materially adversely affected. For example, the value of our Agency IOs is extremely sensitive to prepayments because holders of these securities do not have the right to receive any principal payments on the underlying mortgages. Agency IOs currently comprise a significant percentage of our interest earning assets. As a result, increased levels of prepayments on our Agency IOs will negatively impact our net interest income and may result in a loss.

Certain actions by the U.S. Federal Reserve could materially adversely affect our business, financial condition and results of operations and our ability to pay dividends to our stockholders.

On September 21, 2011, the U.S. Federal Reserve, or Federal Reserve, announced "Operation Twist," a program by which it purchased, by the end of December 2012, more than \$650 billion of U.S. Treasury securities with remaining maturities between six and 30 years and sold an equal amount of U.S. Treasury securities with remaining maturities of three years or less. Operation Twist expired in December 2012. In addition, on September 13, 2012, the Federal Reserve announced a third round of quantitative easing, or "QE3," which was further expanded in December 2012. QE3 was part of the Federal Reserve's accommodative monetary policy that was designed to keep long-term interest rates at low levels. QE3 involved the purchase by the Federal Reserve of an additional \$40 billion of Agency RMBS and an additional \$45 billion of longer-term U.S. Treasury securities per month until key economic indicators show sufficient signs of improvement.

In December 2013, given indications that the U.S. economy had improved sufficiently, the Federal Reserve announced that it would reduce the pace of its purchases of longer-term U.S. Treasury securities to \$40 billion per month and its purchases of Agency RMBS to \$35 billion per month and that it will likely reduce the pace of asset purchases in further measured steps to be announced at future meetings. The Federal Reserve maintained its announced pace for reducing purchases under QE3 and according, in October 2014, QE3 ended. Should the U.S. economy begin to indicate signs of deterioration, the Federal Reserve could decide to restart an asset purchase program or institute other measures designed to reduce interest rates. These measures could lead to a flattening in the

yield curve, and increased prepayment rates (resulting from lower long-term interest rates, including mortgage rates), and a narrowing of our net interest margin. The modification or termination by the Federal Reserve of any of its programs could materially adversely affect our business, financial condition and results of operations, and our ability to make distributions to our stockholders.

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

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

Our efforts to manage credit risks may fail.

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

The value of the properties collateralizing or underlying the loans or securities we own may decline. The frequency of default and the loss severity on loans upon default may be greater than we anticipate. Interest-only loans, negative amortization loans, adjustable-rate loans, larger balance loans, reduced documentation loans, subprime loans, alt-a loans, second lien loans, loans in certain locations, and loans or investments that are partially collateralized by non-real estate assets may have increased risks and severity of loss. If property securing or underlying loans become real estate owned as a result of foreclosure, we bear the risk of not being able to sell the property and recovering our investment and of being exposed to the risks attendant to the ownership of real property.

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

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

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

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

Residential mortgage loans, including subprime residential mortgage loans and non-performing, sub-performing and re-performing residential mortgage loans, are subject to increased risks.

We acquire and manage residential whole mortgage loans, including loans sourced from distressed markets. Residential mortgage loans, including non-performing, sub-performing and re-performing mortgage loans as well as

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

Residential whole mortgage loans are also subject to "special hazard" risk (property damage caused by hazards, such as earthquakes or environmental hazards, not covered by standard property insurance policies), and to bankruptcy risk (reduction in a borrower's mortgage debt by a bankruptcy court). In addition, claims may be assessed against us on account of our position as a mortgage holder or property owner, including assignee liability, responsibility for tax payments, environmental hazards and other liabilities. In some cases, these liabilities may be "recourse liabilities" or may otherwise lead to losses in excess of the purchase price of the related mortgage or property.

Our targeted assets currently include distressed residential loans that we acquire from third parties, typically at a discount. Distressed residential loans sell at a discount because they may constitute riskier investments than those selling at or above par value. The distressed residential loans we invest in may be distressed because a borrower may have defaulted thereupon, because the borrower is or has been in the past delinquent on paying all or a portion of his obligation under the loan or because the loan may otherwise contain credit quality that is considered to be poor. The likelihood of full recovery of a distressed loan's principal and contractual interest is less than that for loans trading at or above par value. Although we typically expect to receive less than the principal amount or face value of the distressed residential loans that we purchase, the return that we in fact receive thereupon may be less than our investment in such loans due to the failure of the loans to perform or reperform. An economic downturn would exacerbate the risks of the recovery of the full value of the loan or the cost of our investment therein.

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

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

The commercial mortgage loans we may originate or acquire and the mortgage loans underlying our CMBS investments are subject to the ability of the commercial property owner to generate net income from operating the property as well as the risks of delinquency and foreclosure.

Commercial mortgage loans are secured by multi-family or commercial property and are subject to risks of delinquency and foreclosure, and risk of loss that may be greater than similar risks associated with loans made on the security of single-family residential property. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. Net operating income of an income-producing property can be adversely affected by, among other things,

tenant mix;

success of tenant businesses;

property management decisions;

property location, condition, and design;

new construction of competitive properties;

changes in laws that increase operating expenses or limit rents that may be charged;

changes in national, regional or local economic conditions and/or specific industry segments, including the credit and securitization markets;

declines in regional or local real estate values;

declines in regional or local rental or occupancy rates;

increases in interest rates, real estate tax rates, and other operating expenses;

costs of remediation and liabilities associated with environmental conditions;

the potential for uninsured or underinsured property losses;

changes in governmental laws and regulations, including fiscal policies, zoning ordinances and environmental legislation and the related costs of compliance; and

acts of God, terrorist attacks, social unrest, and civil disturbances.

In the event of any default under a mortgage loan held directly by us, we will bear a risk of loss to the extent of any deficiency between the value of the collateral and the outstanding principal and accrued interest of the mortgage loan, and any such losses could have a material adverse effect on our cash flow from operations and our ability to make distributions to our stockholders.

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

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

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

We have acquired and may acquire in the future non-Agency RMBS collateralized by subprime and Alt A mortgage loans, which are not guaranteed by any government-sponsored entity or agency and are subject to increased risks.

We have acquired and may acquire in the future non-Agency RMBS, which are backed by residential real estate property but, in contrast to Agency RMBS, their principal and interest are not guaranteed by a GSE such as Fannie Mae or Freddie Mac. We may acquire non-Agency RMBS backed by collateral pools of mortgage loans that have been originated using underwriting standards that are less restrictive than those used in underwriting “prime mortgage loans” and “Alt A mortgage loans.” These lower standards, which include mortgage loans made to borrowers having imperfect or impaired credit histories, mortgage loans where the amount of the loan at origination is 80% or more of the value of the mortgage property, mortgage loans made to borrowers with low credit scores, mortgage loans made to borrowers who have other debt that represents a large portion of their income and mortgage loans made to borrowers whose income is not required to be disclosed or verified, subject us to increased risk of loss on our investment.

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

Before acquiring certain assets, such as whole mortgage loans, CMBS or other mortgage-related or other fixed income assets, we or the external manager responsible for the acquisition and management of such asset may decide to

conduct (either directly or using third parties) certain due diligence. Such due diligence may include (i) an assessment of the strengths and weaknesses of the asset's credit profile, (ii) a review of all or merely a subset of the documentation related to the asset, or (iii) other reviews that we or the external manager may deem appropriate to conduct. There can be no assurance that we or the external manager will conduct any specific level of due diligence, or that, among other things, the due diligence process will uncover all relevant facts or that any purchase will be successful, which could result in losses on these assets, which, in turn, could adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

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

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

acts of God, including earthquakes, floods and other natural disasters, which may result in uninsured losses;

acts of war or terrorism, including the consequences of terrorist attacks, such as those that occurred on September 11, 2001;

adverse changes in national and local economic and market conditions; and

changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;

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

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

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

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

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

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

We have determined that certain securitization trusts that issued certain of our multi-family CMBS or securitized debt were variable interest entities, or VIEs, of which we are the primary beneficiary, and elected the fair value option on the assets and liabilities held within those securitization trusts. As a result, we are required to consolidate the underlying multi-family loan or securities, as applicable, related debt, interest income and interest expense of those securitization trusts in our financial statements, although our actual investments in these securitization trusts generally represent a small percentage of the total assets of the trusts. Prior to the year ended December 31, 2012, we historically accounted for the multi-family CMBS in our investment portfolio through accumulated other

comprehensive income, pursuant to which unrealized gains and losses on those multi-family CMBS were reflected as an adjustment to stockholders' equity. However, the fair value option requires that changes in valuations in the assets and liabilities of those VIEs of which we are the primary beneficiary, such as the Consolidated K-Series, be reflected through our earnings. As we acquire additional multi-family CMBS assets in the future that are similar in structure and form to the Consolidated K-Series' assets or securitize investment securities owned by us, we may be required to consolidate the assets and liabilities of the issuing or securitization trust and would expect to elect the fair value option for those assets. Because of this, our earnings may experience greater volatility in the future as a decline in the fair value of the assets of any VIE that we consolidate in our financial statements could reduce both our earnings and stockholders' equity, which in turn, could cause significant market price and trading volume fluctuations for our securities.

Failure to procure adequate funding and capital would adversely affect our results and may, in turn, negatively affect the value of our common stock and our ability to distribute cash to our stockholders.

We depend upon the availability of adequate funding and capital for our operations. To maintain our status as a REIT, we are required to distribute at least 90% of our REIT taxable income annually, determined without regard to the deduction for dividends paid and excluding net capital gain, to our stockholders and therefore are not able to retain our earnings for new investments. We cannot assure you that any, or sufficient, funding or capital will be available to us in the future on terms that are acceptable to us. In the event that we cannot obtain sufficient funding and capital on acceptable terms, there may be a negative impact on the value of our common stock and our ability to make distributions to our stockholders, and you may lose part or all of your investment.

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

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

Lack of diversification in the number of assets we acquire would increase our dependence on relatively few individual assets.

Our management objectives and policies do not place a limit on the size or the amount of capital used to support, or the exposure to (by any other measure), any individual asset or any group of assets with similar characteristics or risks. In addition, because we are a relatively small company, we may be unable to sufficiently deploy capital into a number of assets or asset groups. As a result, our portfolio may be concentrated in a small number of assets or may be otherwise undiversified, increasing the risk of loss and the magnitude of potential losses to us and our stockholders if one or more of these assets perform poorly.

We may change our investment strategy, hedging strategy and asset allocation and operational and management policies without stockholder consent, which may result in the purchase of riskier assets and materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

We may change our investment strategy, hedging strategy and asset allocation and operational and management policies at any time without the consent of our stockholders, which could result in our purchasing assets or entering into hedging transactions that are different from, and possibly riskier than, the assets and hedging transactions described in this report. A change in our investment strategy or hedging strategy may increase our exposure to real estate values, interest rates, prepayment rates, credit risk and other factors. A change in our asset allocation could result in us purchasing assets in classes different from those described in this report. Our Board of Directors determines our operational policies and may amend or revise our policies, including those with respect to our acquisitions, growth, operations, indebtedness, capitalization and distributions or approve transactions that deviate from these policies without a vote of, or notice to, our stockholders. In addition, certain of our external managers have great latitude in making investment and hedging decisions on our behalf. Changes in our investment strategy, hedging

strategy and asset allocation and operational and management policies could materially adversely affect our business, financial condition and results of operations and ability to make distributions to our stockholders.

Our senior management and our external managers will utilize analytical models and data in connection with the valuation of certain of our assets, and any incorrect, misleading or incomplete information used in connection therewith would subject us to potential risks.

Given the complexity of certain of our target assets, such as Agency IOs and multi-family CMBS, our senior management team and our external managers must rely heavily on analytical models and information and data supplied by third parties. Models and data will be used to value potential target assets, potential credit risks and reserves and also in connection with hedging our acquisitions. In the event models and data prove to be incorrect, misleading or incomplete, any decisions made in reliance thereon expose us to potential risks.

In connection with our operating and investment activity, we rely on third parties, including our external managers, to perform certain services, comply with applicable laws and regulations, and carry out contractual covenants and terms, the failure of which by any of these third parties may adversely impact our business and financial results.

In connection with our business of acquiring and holding loans, engaging in securitization transactions, and investing in third-party issued securities, we rely on third party service providers, including our external managers, to perform certain services, comply with applicable laws and regulations, and carry out contractual covenants and terms. As a result, we are subject to the risks associated with a third party's failure to perform, including failure to perform due to reasons such as fraud, negligence, errors, miscalculations, or insolvency.

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

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

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

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

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

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

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

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

Actions of the U.S. Government to stabilize or reform the financial markets may not achieve the intended effect and may adversely affect our business.

In response to the financial issues affecting the banking system and financial markets and going concern threats to commercial banks, investment banks and other financial institutions, the Emergency Economic Stabilization Act (or EESA), was enacted by the U.S. Congress in 2008. Although this action and others implemented in response to the financial crisis appear to have stabilized the banking system and financial markets, there can be no assurance that the EESA or any other U.S. Government actions will have a long-term beneficial impact on the financial markets. To the extent such actions do not function as intended over the longer term, our business may not ultimately receive the anticipated positive impact from the legislation and such result may have broad adverse market implications.

In July 2010, the U.S. Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, in part to impose significant investment restrictions and capital requirements on banking entities and other organizations that are significant to U.S. financial markets. For instance, the Dodd-Frank Act seeks to reform the asset-backed securitization market (including the mortgage-backed securities market) by requiring the retention of a portion of the credit risk inherent in the pool of securitized assets and by imposing additional registration and disclosure requirements. Certain of the new requirements and restrictions exempt Agency RMBS, other government issued or guaranteed securities, or other securities. Nonetheless, the Dodd-Frank Act also imposes significant regulatory restrictions on the origination and securitization of residential mortgage loans. The Dodd-Frank Act also created a new regulator, the Consumer Financial Protection Bureau (or the CFPB), which oversees many of the core laws which regulate the mortgage industry, including among others the Real Estate Settlement Procedures Act and the Truth in Lending Act. While the full impact of the Dodd-Frank Act and the role of the CFPB cannot be assessed until all implementing regulations are released, the Dodd-Frank Act's extensive requirements may have a significant effect on the financial markets, and may affect the availability or terms of financing from our lender counterparties and the availability or terms of mortgage-backed securities, both of which may have an adverse effect on our financial condition and results of operations.

In addition, the U.S. Government, Federal Reserve, U.S. Treasury, the SEC and other governmental and regulatory bodies have taken or are considering taking other actions that impact the mortgage industry and financial markets. We cannot predict whether or when such actions may occur or what effect, if any such actions could have on our business, results of operations and financial condition.

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

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

In addition, as economic uncertainty in Europe continues, the financial condition and stability of many European financial institutions remains at risk. Some of these financial institutions have U.S. banking subsidiaries that serve as financing or hedging counterparties to us. Any future downgrade of the credit ratings of these European financial institutions would result in greater counterparty default risk and could materially adversely affect our business, liquidity, access to financing and results of operations

Risk Related to Our Debt Financing and Hedging

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

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

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

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

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

the movement of interest rates;

the availability of financing in the market; and

the value and liquidity of our mortgage-related assets.

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

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

We intend to use repurchase agreements to finance certain of our investments, primarily RMBS. If the market value of the loans or securities pledged or sold by us to a funding source decline in value, we may be required by the lending institution to provide additional collateral or pay down a portion of the funds advanced, but we may not have the funds available to do so. Posting additional collateral to support our repurchase agreements will reduce our liquidity and limit our ability to leverage our assets. In the event we do not have sufficient liquidity to meet such requirements, lending institutions can accelerate our indebtedness, increase our borrowing rates, liquidate our collateral at inopportune times and terminate our ability to borrow. This could result in a rapid deterioration of our financial condition and possibly require us to file for protection under the U.S. Bankruptcy Code.

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

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

Our debt service payments will reduce the net income available for distribution to our stockholders. We may not be able to meet our debt service obligations and, to the extent that we cannot, we risk the loss of some or all of our assets to sale to satisfy our debt obligations. A decrease in the value of the assets may lead to margin calls under our repurchase agreements which we will have to satisfy. Significant decreases in asset valuation, could lead to increased margin calls, and we may not have the funds available to satisfy any such margin calls. Although we have established target leverage amounts for many of our assets, there is no established limitation, other than may be required by our financing arrangements, on our leverage ratio or on the aggregate amount of our borrowings.

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

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

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

We sometimes utilize non-recourse securitizations of our investments in mortgage loans or CMBS to the extent consistent with the maintenance of our REIT qualification and exemption from the Investment Company Act of 1940, as amended, in order to generate cash for funding new investments and/or to leverage existing assets. In most instances, this involves us transferring loans or CMBS owned by us to a SPE in exchange for cash and typically the ownership certificate or residual interest in the entity. In some sale transactions, we also retain a subordinated interest in the loans or CMBS sold, such as a B-note. The securitization or other structured financing of our portfolio investments might magnify our exposure to losses on those portfolio investments because the subordinated interest we retain in the loans or CMBS sold would be subordinate to the senior interest in the loans or CMBS sold, and we would, therefore, absorb all of the losses sustained with respect to a loan sold before the owners of the senior interest experience any losses. Under the terms of these financings, which generally have terms of three to ten years, we may agree to receive no cash flows from the assets transferred to the SPE until the debt issued by the special purpose entity has matured or been repaid. We cannot be assured that we will be able to access the securitization markets in the future, or be able to do so at favorable rates. The inability to consummate longer term financing for the credit sensitive assets in our portfolio could require us to seek other forms of potentially less attractive financing or to liquidate assets at an inopportune time or price, which could adversely affect our performance and our ability to grow our business.

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

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

When we engage in repurchase transactions, we generally sell RMBS, CMBS, mortgage loans or certain other assets to lenders (i.e., repurchase agreement counterparties) and receive cash from the lenders. The lenders are obligated to resell the same security or asset back to us at the end of the term of the transaction. Because the cash we receive from the lender when we initially sell the security or asset to the lender is less than the value of that security or asset (this difference is referred to as the “haircut”), if the lender defaults on its obligation to resell the same security or asset back to us we would incur a loss on the transaction equal to the amount of the haircut (assuming there was no change in the value of the security). Certain of the assets that we pledge as collateral, including Agency IOs, CLOs and distressed residential loans are currently subject to significant haircuts. Further, if we default on one of our obligations under a repurchase transaction, the lender can terminate the transaction and cease entering into any other repurchase

transactions with us. Our repurchase agreements contain cross-default provisions, so that if a default occurs under any one agreement, the lenders under our other agreements could also declare a default. Any losses we incur on our repurchase transactions could adversely affect our earnings and thus our cash available for distribution to our stockholders.

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

Our borrowings under repurchase agreements may qualify for special treatment under the bankruptcy code, giving our lenders the ability to avoid the automatic stay provisions of the bankruptcy code and to take possession of and liquidate our collateral under the repurchase agreements without delay in the event that we file for bankruptcy. Furthermore, the special treatment of repurchase agreements under the bankruptcy code may make it difficult for us to recover our pledged assets in the event that a lender files for bankruptcy. Thus, the use of repurchase agreements exposes our pledged assets to risk in the event of a bankruptcy filing by either a lender or us.

Our liquidity may be adversely affected by margin calls under our repurchase agreements because we are dependent in part on the lenders' valuation of the collateral securing the financing.

Each of these repurchase agreements allows the lender, to varying degrees, to revalue the collateral to values that the lender considers to reflect market value. If a lender determines that the value of the collateral has decreased, it may initiate a margin call requiring us to post additional collateral to cover the decrease. When we are subject to such a margin call, we must provide the lender with additional collateral or repay a portion of the outstanding borrowings with minimal notice. Any such margin call could harm our liquidity, results of operation and financial condition. Additionally, in order to obtain cash to satisfy a margin call, we may be required to liquidate assets at a disadvantageous time, which could cause it to incur further losses and adversely affect our results of operations and financial condition.

Adoption of the Basel III standards and other proposed supplementary regulatory standards may negatively impact our access to financing or affect the terms of our future financing arrangements.

In response to various financial crises and the volatility of financial markets, the Basel Committee on Banking Supervision adopted the Basel III standards several years ago. The final package of Basel III reforms was approved by the G20 leaders in November 2010. U.S. regulators have elected to implement substantially all of the Basel III standard, which could cause an increase in capital requirements for, and could place constraints on, the financial institutions from which we borrow. Financial institutions will have until 2019 to fully comply with the Basel III standards.

In 2014, U.S. regulators finalized rules that provide for enhanced supplementary leverage ratio standards, which impose capital requirements more stringent than those of the Basel III standards for the most systematically significant banking organizations in the U.S. Adoption and implementation of the Basel III standards and the supplemental regulatory standards that are currently being implemented by U.S. regulators may negatively impact our access to financing, particularly repurchase agreement financing for Agency RMBS, or affect the terms of our future financing arrangements.

Hedging against credit events and interest rate changes and other risks may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

Subject to compliance with the requirements to qualify as a REIT, we engage in certain hedging transactions to limit our exposure to changes in interest rates and therefore may expose ourselves to risks associated with such transactions. We may utilize instruments such as interest rate swaps, caps, collars and floors and Eurodollar and U.S. Treasury futures to seek to hedge the interest rate risk associated with our portfolio. Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, we may establish other hedging positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions may also limit the opportunity for gain if the values of the portfolio positions should increase. Moreover, at any point in time we may choose not to hedge all or a portion of these risks, and we generally will not hedge those risks that we believe are appropriate for us to take at such time, or that we believe would be impractical or prohibitively expensive to hedge.

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

either we or our external managers may fail to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the assets in the portfolio being hedged;

either we or our external managers may fail to recalculate, re-adjust and execute hedges in an efficient and timely manner;

the hedging transactions may actually result in poorer over-all performance for us than if we had not engaged in the hedging transactions;

credit hedging can be expensive, particularly when the market is forecasting future credit deterioration and when markets are more illiquid;

interest rate hedging can be expensive, particularly during periods of volatile interest rates;

available hedges may not correspond directly with the risks for which protection is sought;

the durations of the hedges may not match the durations of the related assets or liabilities being hedged;

many hedges are structured as over-the-counter contracts with counterparties whose creditworthiness is not guaranteed, raising the possibility that the hedging counterparty may default on their payment obligations; and

to the extent that the creditworthiness of a hedging counterparty deteriorates, it may be difficult or impossible to terminate or assign any hedging transactions with such counterparty.

For these and other reasons, our hedging activity may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

Hedging instruments and other derivatives may not, in many cases, be traded on regulated exchanges, or guaranteed or regulated by any U.S. or foreign governmental authorities and involve risks and costs that could result in material losses.

Hedging instruments and other derivatives involve risk because they may not, in many cases, be traded on regulated exchanges and may not be guaranteed or regulated by any U.S. or foreign governmental authorities. Consequently, for these instruments, there are no requirements with respect to record keeping, financial responsibility or segregation of customer funds and compliance with applicable statutory and commodity and other regulatory requirements and, depending on the identity of the counterparty, applicable international requirements. We are restricted from dealing with any particular counterparty or from concentrating any or all of our transactions with one counterparty. The business failure of a hedging counterparty with whom we enter into a hedging transaction will most likely result in a default under the hedging agreement. Default by a party with whom we enter into a hedging transaction may result in losses and may force us to re-initiate similar hedges with other counterparties at the then-prevailing market levels. Generally we will seek to reserve the right to terminate our hedging transactions upon a counterparty's insolvency, but absent an actual insolvency, we may not be able to terminate a hedging transaction without the consent of the hedging counterparty, and we may not be able to assign or otherwise dispose of a hedging transaction to another counterparty without the consent of both the original hedging counterparty and the potential assignee. If we terminate a hedging transaction, we may not be able to enter into a replacement contract in order to cover our risk. There can be no assurance that a liquid secondary market will exist for hedging instruments purchased or sold, and therefore we may be required to maintain any hedging position until exercise or expiration, which could materially adversely affect our business, financial condition and results of operations.

The CFTC and certain commodity exchanges have established limits referred to as speculative position limits or position limits on the maximum net long or net short position which any person or group of persons may hold or control in particular futures and options. Limits on trading in options contracts also have been established by the various options exchanges. It is possible that trading decisions may have to be modified and that positions held may have to be liquidated in order to avoid exceeding such limits. Such modification or liquidation, if required, could materially adversely affect our business, financial condition and results of operation and our ability to make distributions to our stockholders.

Certain of our hedging instruments are regulated by the CFTC and such regulations may cause us to incur increased compliance costs.

From time to time, we enter into interest rate swaps and other derivative instruments on corporate indices to hedge risks associated with our portfolio. Entities entering into such swaps are exposed to credit losses in the event of non-performance by counterparties to these transactions. Effective October 12, 2012, the CFTC issued new rules regarding such swaps under the authority granted to it pursuant to the Dodd-Frank Act. Although the new rules do not directly affect the negotiations and terms of individual hedging transactions between counterparties, they do require that since September 9, 2013, these swap transactions be cleared through registered derivatives clearing organizations, or swap execution facilities, through standardized documents under which each swap counterparty transfers its

position to another entity, In this arrangement, the centralized clearinghouse effectively becomes the counterparty to each side of the swap. It is the intent of the Dodd-Frank Act that the clearing of swaps in this manner is designed to avoid concentration of swap risk in any single entity by spreading and centralizing the risk in the clearinghouse and its members. In addition to greater initial and periodic margin (collateral) requirements and additional transaction fees both by the swap execution facility and the clearinghouse, the swap transactions are now subjected to greater regulation by both the CFTC and the SEC. These additional fees, costs, margin requirements, documentation, and regulation could adversely affect our business and results of operations.

Additionally, for all swaps we entered into prior to September 9, 2013, we are not required to clear them through the central clearinghouse and these swaps are still subject to the risks of nonperformance by any of the individual counterparties with whom we entered into these transactions.

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

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

Risks Related to Our Agreements with Our External Managers

We are dependent on certain of our external managers and certain of their key personnel and may not find a suitable replacement if they terminate their respective management agreements with us or such key personnel are no longer available to us.

We historically were organized as a self-advised company that acquired, originated, sold and managed its assets; however, as we modified our business strategy and the targeted assets we seek to acquire in response to changing market conditions, we began to outsource the management of certain targeted asset classes for which we had limited internal resources or experience. We presently utilize three external managers to manage certain of our assets and investment strategies. Each of our external managers, in some manner, identifies, evaluates, negotiates, structures, closes and monitors certain investments on our behalf. In each case, we have engaged these third parties because of the expertise of certain key personnel of our external managers. The departure of any of the senior officers of our external managers, or of a significant number of investment professionals or principals of our external managers, could have a material adverse effect on our ability to achieve our investment objectives. We are subject to the risk that our external managers will terminate their respective management agreement with us or that we may deem it necessary to terminate such agreement or prevent certain individuals from performing services for us, and that no suitable replacement will be found to manage certain of our assets and investment strategies on a timely basis or at all.

Pursuant to our management agreements, our external managers are entitled to receive a management fee that is payable regardless of the performance of the assets under their management.

We will pay each of our external managers substantial base management fees, based on our invested capital (as such term is defined in the respective management agreements), regardless of the performance of the assets under their management. The external managers' entitlement in many cases to non-performance based compensation may reduce its incentive to devote the time and effort of its professionals to seeking profitable investment opportunities for our company, which could result in the under-performance of assets under their management and negatively affect our ability to pay distributions to our stockholders or to achieve capital appreciation.

Pursuant to the terms of our management agreements, our external managers are generally entitled to receive an incentive fee, which may induce them to make certain investments, including speculative or high risk investments.

In addition to the base management fees payable to our external managers, our external managers are generally entitled to receive incentive compensation based, in part, upon the achievement of targeted levels of net income. In evaluating investments and other management strategies, the opportunity to earn incentive compensation based on net income may lead our external managers to place undue emphasis on the maximization of net income at the expense of

other criteria, such as preservation of capital, maintaining liquidity and/or management of interest rate, credit or market risks, in order to achieve higher incentive compensation. Investments with higher yield potential are generally riskier or more speculative. In addition, Midway has broad discretion regarding the types of investments it will make pursuant to its management agreement with us. This could result in increased risk to the value of our assets under the management of our external managers.

We compete with our external managers' other clients for access to them.

Each of our external managers manages, and is expected to continue to manage, other client accounts with similar or overlapping investment strategies. In connection with the services provided to those accounts, these managers may be compensated more favorably than for the services provided under our external management agreements, and such discrepancies in compensation may affect the level of service provided to us by our external managers. Moreover, each of our external managers may have an economic interest in the accounts they manage or the investments they propose. As a result, we will compete with these other accounts and interests for access to our external managers and the benefits derived from those relationships. For the same reasons, the personnel of our external managers may be unable to dedicate a substantial portion of their time managing our investments to the extent they manage or are associated with any future investment vehicles not related to us.

There are conflicts of interest in our relationships with our external managers, which could result in decisions that are not in the best interests of our stockholders.

We may acquire or sell assets in which an external manager or its affiliates have or may have an interest, or we may participate in co-investment opportunities with our external managers or their affiliates. In these cases, it is possible that our interests and the interests of our external managers will not always be aligned and this could result in decisions that are not in the best interests of our company. Similarly, our external managers or its affiliates may acquire or sell assets in which we have or may have an interest. Although such acquisitions or dispositions may present conflicts of interest, we nonetheless may pursue and consummate such transactions. Additionally, we may engage in transactions directly with our external managers or their affiliates, including the purchase and sale of all or a portion of a targeted asset.

Acquisitions made for entities with similar objectives may be different from those made on our behalf. Our external managers may have economic interests in or other relationships with others in whose obligations or securities we may acquire. In particular, such persons may make and/or hold an investment in securities that we acquire that may be pari passu, senior or junior in ranking to our interest in the securities or in which partners, security holders, officers, directors, agents or employees of such persons serve on boards of directors or otherwise have ongoing relationships. Each of such ownership and other relationships may result in securities laws restrictions on transactions in such securities and otherwise create conflicts of interest. In such instances, the external managers may, in their sole discretion, make recommendations and decisions regarding such securities for other entities that may be the same as or different from those made with respect to securities acquired by us and may take actions (or omit to take actions) in the context of these other economic interests or relationships, the consequences of which may be adverse to our interests.

The key personnel of our external managers and its affiliates devote as much time to us as our external managers deem appropriate, however, these individuals may have conflicts in allocating their time and services among us and their other accounts and investment vehicles. During turbulent conditions in the mortgage industry, distress in the credit markets or other times when we will need focused support and assistance from our external managers, other entities for which our external managers serve as manager, or their accounts, will likewise require greater focus and attention, placing the resources of our external managers in high demand. In such situations, we may not receive the necessary support and assistance we require or would otherwise receive if we were internally managed.

We, directly or through our external managers, may obtain confidential information about the companies or securities in which we have invested or may invest. If we do possess confidential information about such companies or securities, there may be restrictions on our ability to dispose of, increase the amount of, or otherwise take action with respect to the securities of such companies. Our external managers' management of other accounts could create a conflict of interest to the extent such external manager is aware of material non-public information concerning potential investment decisions and this in turn could impact our ability to make necessary investment decisions. Any limitations that develop as a result of our access to confidential information could therefore materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

There are limitations on our ability to withdraw invested capital from the account managed by Midway and our inability to withdraw our invested capital when necessary may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

Pursuant to the terms of the Midway Management Agreement, we may only redeem invested capital in an amount equal to the lesser of 10% of the invested capital in the account managed by Midway or \$10 million as of the last calendar day of the month upon not less than 75 days written notice, subject to our authority to direct Midway to modify its investment strategy for purposes of maintaining our qualification as a REIT and exemption from the Investment Company Act. In addition, we are only permitted to make one such redemption request in any 75-day period. In the event of a significant market event or shock, we may be unable to effect a redemption of invested capital in greater amounts or at a greater rate unless we obtain the consent of Midway. Moreover, because a reduction of

invested capital would reduce the base management fee under the Midway Management Agreement, Midway may be less inclined to consent to such redemptions. If we are unable to withdraw invested capital as needed to meet our obligations in the future, our business and financial condition could be materially adversely affected.

Termination of our external management agreements may be difficult and costly.

Termination of the RiverBanc Management Agreement without cause is subject to several conditions which may make such a termination difficult and costly. The RiverBanc Management Agreement provides that we may only terminate RiverBanc without cause and not be obligated to pay a termination fee unless we realize a negative 15% return on the assets managed for us by RiverBanc. Moreover, except as described in the preceding sentence, we cannot terminate RiverBanc without cause until expiration of the initial term and then only upon providing 180 days advance notice and subject to the payment of a termination fee equal to the product of (A) 24 and (B) the base management fee earned by RiverBanc during the one month period immediately preceding the termination date. Thus, in the event we elect not to renew the RiverBanc Management Agreement for any reason other than cause or as otherwise described in this paragraph, we will be required to pay this termination fee. In addition, the RiverBanc Management Agreement provides RiverBanc with an exclusive right of first refusal to purchase any of our assets managed by it subject to certain exceptions, in the event we terminate them for any reason. This provision could result in our loss of assets that our earnings are dependent upon or may cause us to sell assets prior to our recovery of lost value. These provisions may increase the effective cost to us of terminating the RiverBanc Management Agreement, thereby adversely affecting our ability to terminate RiverBanc without cause.

Pursuant to the Midway Management Agreement, in the event we determine to terminate the Midway Management Agreement at any time in the future, Midway has the right to liquidate the assets it manages on our behalf in its sole discretion. Moreover, as discussed above, there are certain restrictions on our ability to redeem invested capital under the Midway Management Agreement. As a result, we may have little control over the liquidation of any of our assets that are managed by Midway or the timing of the full redemption of our invested capital, which may make it more difficult to terminate our agreement with Midway and could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to an Investment in Our Capital Stock

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

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

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

We intend to pay quarterly dividends and to make distributions to our common stockholders in amounts such that all or substantially all of our taxable income in each year, subject to certain adjustments, is distributed. This, along with other factors, should enable us to qualify for the tax benefits accorded to a REIT under the Internal Revenue Code. We have not established a minimum dividend payment level for our common stockholders and our ability to pay dividends may be harmed by the risk factors described herein. From July 2007 until April 2008, our Board of Directors elected to suspend the payment of quarterly dividends on our common stock. Our Board's decision reflected our focus on the elimination of operating losses through the sale of our mortgage lending business and the conservation of capital to build future earnings from our portfolio management operations. All distributions to our common stockholders will be made at the discretion of our Board of Directors and will depend on our earnings, our financial condition, maintenance of our REIT status and such other factors as our Board of Directors may deem relevant from time to time. There are no assurances of our ability to pay dividends to our common or preferred stockholders in the future at the current rate or at all.

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

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

Future sales of our stock could have an adverse effect on the price of our stock.

We cannot predict the effect, if any, of future sales of our stock, or the availability of shares for future sales, on the market price of our common or preferred stock. Sales of substantial amounts of stock, or the perception that such sales could occur, may adversely affect prevailing market prices for our common or preferred stock.

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

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

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

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

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

Our directors have approved broad investment guidelines for us and do not approve each investment we make.

Our external managers are generally authorized to follow broad investment guidelines in determining which assets we will invest in. Although our Board of Directors will ultimately determine when and how much capital to allocate to our investment strategies, we generally will not, with certain exceptions, approve transactions in advance of their execution by these managers. In addition, in conducting periodic reviews, we will rely primarily on information provided to us by our external managers. Complicating matters further, our external managers may use complex investment strategies and transactions, which may be difficult or impossible to unwind. As a result, because our external managers have great latitude to determine the types of assets it may decide are proper investments for us, there can be no assurance that we would otherwise approve of these investments individually or that they will be successful.

We are dependent on certain key personnel.

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

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

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

among others:

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

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

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

the Maryland Business Combination Act; and

the Maryland Control Share Acquisition Act.

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

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

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

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

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

Tax Risks Related to Our Structure

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

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

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

REIT distribution requirements could adversely affect our liquidity.

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

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

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

sell assets in adverse market conditions,

borrow on unfavorable terms or

distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt in order to comply with the REIT distribution requirements.

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

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

The maximum U.S. federal income tax rate for dividends payable to domestic stockholders that are individuals, trust and estates is 20%. Dividends payable by REITs, however, are generally not eligible for the reduced rates. Although the reduced U.S. federal income tax rate applicable to dividend income from regular corporate dividends does not adversely affect the taxation of REITs or dividends paid by REITs, the more favorable rate applicable to regular corporate dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our common shares.

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

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

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

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

Our ability to invest in distressed mortgage loans may be limited by our intention to maintain our qualification as a REIT, and our investments in distressed residential mortgage loans may affect our ability to qualify as a REIT.

We have acquired distressed mortgage loans and may acquire distressed mortgage loans in the future. In general, under the applicable Treasury Regulations, if a loan is secured by real property and other property and the highest principal amount of the loan outstanding during a taxable year exceeds the fair market value of the real property securing the loan as of (i) the date we agreed to acquire the loan or (ii) in the event of a significant modification, the date we modified the loan, then a portion of the interest income from such a loan will not be qualifying income for purposes of the 75% gross income test, but will be qualifying income for purposes of the 95% gross income test.

Although the law is not entirely clear, a portion of the loan will also likely be a non-qualifying asset for purposes of the 75% asset test. The non-qualifying portion of such a loan would be subject to, among other requirements, the 10% value test. Revenue Procedure 2014-52 provides a safe harbor under which the IRS has stated that it will not challenge a REIT's treatment of a loan as being, in part, a qualifying real estate asset in an amount equal to the lesser of (i) the fair market value of the real property securing the loan determined as of the date the REIT committed to acquire the loan or (ii) the fair market value of the loan on the date of the relevant quarterly REIT asset testing date. This safe harbor will help us comply with the REIT asset tests immediately following the acquisition of a distressed mortgage loan. It will be less helpful if the value of the distressed mortgage loan increases over time. Under the safe harbor, when the current value of a distressed mortgage loan exceeds the fair market value of the real property that secures the loan, determined as of the date we committed to acquire the loan, the excess will be treated as a non-qualifying asset. Accordingly, an increasing portion of a distressed mortgage loan will be treated as a non-qualifying asset as the value of the distressed mortgage loan increases.

Revenue Procedure 2014-51 states that the IRS will treat distressed mortgage loans secured by real property and other property as producing in part non-qualifying income for the 75% gross income test. Specifically, Revenue Procedure 2014-51 indicates that interest income on a distressed mortgage loan will be treated as qualifying income based on the ratio of (i) the fair market value of the real property securing the loan determined as of the date we committed to acquire the loan and (ii) the face amount of the loan (and not the purchase price or current value of the loan). The face amount of a distressed mortgage loan will typically exceed the fair market value of the real property securing the loan on the date we commit to acquire the loan. Accordingly, a distressed mortgage loan that is secured by real property and other property may produce a significant amount of non-qualifying income for purposes of the 75% gross income test and a significant portion of a distressed mortgage loan may be treated as a non-qualifying asset for the REIT asset tests once the loan increases in value.

As noted above, the applicable Treasury Regulations require the apportionment of interest for purposes of the 75% gross income test only if the mortgage loan in question is secured by both real property and other property. To the extent that any distressed residential mortgage loan that we acquire is secured by both real property and other property, such loan will be subject to the apportionment rules described above. If we determine that a distressed residential mortgage loan is not subject to the apportionment rules described above because it is secured only by real property, no assurance could be given that the IRS would not assert successfully that the distressed residential mortgage loan was secured by property other than real property. In that case, a significant portion of our interest income from the distressed residential mortgage loan would be treated as non-qualifying income for the 75% gross income test. If we did not satisfy the 75% gross income test, we could lose our REIT qualification or be required to pay a penalty to the IRS.

Accordingly, we may be limited in our ability to invest in distressed mortgage loans and maintain our qualification as a REIT, and our investments in distressed residential mortgage loans could affect our ability to qualify as a REIT.

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

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

Until such time as we seek and receive a favorable private letter ruling from the IRS, or we are advised by counsel that TBAs should be treated as qualifying assets for purposes of the 75% asset test, we will limit our investment in TBAs

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

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

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

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

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

The Company does not own any materially important physical properties; however, it does have residential homes (or real estate owned) that it acquires, from time to time, through or in lieu of foreclosures on mortgage loans. As of December 31, 2014, our principal executive and administrative offices are located in leased space at 275 Madison Avenue, Suite 3200, New York, New York 10016.

Item 3. LEGAL PROCEEDINGS

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

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II**Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES***Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters*

Our common stock is traded on the NASDAQ Global Select Market under the trading symbol "NYMT". As of December 31, 2014, we had 105,094,565 shares of common stock outstanding and as of December 31, 2014, there were approximately 27 holders of record of our common stock. This figure does not reflect the beneficial ownership of shares held in nominee name.

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

Common Stock Prices Cash Dividends

	High	Low	Quarter End	Declaration Date	Payment Date	Amount Per Share
Year Ended December 31, 2014						
Fourth quarter	\$8.20	\$7.30	\$ 7.71	12/12/2014	01/26/2015	\$ 0.27
Third quarter	8.03	7.23	7.23	09/18/2014	10/27/2014	0.27
Second quarter	8.12	7.16	7.81	06/18/2014	07/25/2014	0.27
First quarter	8.04	6.79	7.78	03/13/2014	04/25/2014	0.27

Common Stock Prices Cash Dividends

	High	Low	Quarter End	Declaration Date	Payment Date	Amount Per Share
Year Ended December 31, 2013						
Fourth quarter	\$7.30	\$6.08	\$ 6.99	12/10/2013	01/27/2014	\$ 0.27

Third quarter	6.80	5.57	6.24	09/12/2013	10/25/2013	0.27
Second quarter	7.38	6.57	6.77	06/18/2013	07/25/2013	0.27
First quarter	7.60	6.48	7.54	03/18/2013	04/25/2013	0.27

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The Company has a share repurchase program, which it previously announced in November 2005. At management's discretion, the Company is authorized to repurchase shares of Company common stock in the open market or through privately negotiated transactions through December 31, 2015. The plan may be temporarily or permanently suspended or discontinued at any time. The Company has not repurchased any shares since March 2006 and currently has no intention to recommence repurchases in the near-future.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information as of December 31, 2014 with respect to compensation plans under which equity securities of the Company are authorized for issuance. The Company has no such plans that were not approved by security holders.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans
Equity compensation plans approved by security holders	—	\$ —	862,512

Performance Graph

The following line graph sets forth, for the period from December 31, 2009 through December 31, 2014, a comparison of the percentage change in the cumulative total stockholder return on the Company’s common stock compared to the cumulative total return of the Russell 2000 Index and the FTSE National Association of Real Estate Investment Trusts Mortgage REIT (“FTSE NAREIT Mortgage REITs”) Index. The graph assumes that the value of the investment in the Company’s common stock and each of the indices were \$100 as of December 31, 2009.

The foregoing graph and chart shall not be deemed incorporated by reference by any general statement incorporating by reference this Annual Report on Form 10-K into any filing under the Securities Act of 1933 or under the Exchange Act, except to the extent we specifically incorporate this information by reference, and shall not otherwise be deemed filed under those acts.

Item 6. SELECTED FINANCIAL DATA

The following table sets forth our selected historical operating and financial data. The selected historical operating and financial data for the years ended December 31, 2014, 2013, 2012, 2011 and 2010 have been derived from our historical financial statements.

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

Selected Statement of Operations Data:

	For the Years Ended December 31,				
	2014	2013	2012	2011	2010
Interest income	\$378,847	\$291,727	\$137,348	\$24,291	\$19,899
Interest expense	301,010	231,178	105,926	4,837	9,611
Net interest income	77,837	60,549	31,422	19,454	10,288
Other income (expense)	105,208	29,062	9,105	(3,693)	3,332
General, administrative and other expenses	40,459	19,917	11,427 ⁽¹⁾	10,518	7,950
Net income attributable to common stockholders	\$130,379	\$65,387	\$28,279	\$4,776	\$6,805
Per share basic income	\$1.48	\$1.11	\$1.08	\$0.46	\$0.72
Per share diluted income	\$1.48	\$1.11	\$1.08	\$0.46	\$0.72
Dividends declared per common share	\$1.08	\$1.08	\$1.06	\$1.00	\$0.79
Weighted average shares outstanding-basic	87,867	59,102	26,067	10,495	9,422
Weighted average shares outstanding-diluted	87,867	59,102	26,067	10,495	9,422

(1) Includes expenses incurred on termination of management contract amounting to \$2.2 million for the year ended December 31, 2012.

Selected Balance Sheet Data:

	As of December 31,				
	2014	2013	2012	2011	2010
Investment securities, available for sale, at fair value	\$816,647	\$912,443	\$1,034,711	\$200,342	\$86,040
Investment securities, available for sale, at fair value held in securitization trusts	38,594	92,578	71,159	—	—

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Residential mortgage loans held in securitization trusts (net)	149,614	163,237	187,229	206,920	228,185
Distressed residential mortgage loans held in securitization trusts (net)	221,591	254,721	60,459	—	—
Distressed residential mortgage loans	361,106	9,713	—	—	—
Multi-family loans held in securitization trusts, at fair value	8,365,514	8,111,022	5,442,906	—	—
Total assets ⁽¹⁾	10,540,005	9,898,675	7,160,401	682,705	374,294
Financing arrangements, portfolio investments	651,965	791,125	889,134	112,674	35,632
Financing arrangements, distressed residential mortgage loans	238,949	—	—	—	—
Residential collateralized debt obligations	145,542	158,410	180,979	199,762	219,993
Multi-family collateralized debt obligations, at fair value	8,048,053	7,871,020	5,319,573	—	—
Securitized debt	232,877	304,964	117,591	—	—
Subordinated debentures (net)	45,000	45,000	45,000	45,000	45,000
Total liabilities ⁽¹⁾	9,722,078	9,418,009	6,838,395	596,398	305,807
Total stockholders' equity	\$817,927	\$480,666	\$322,006	\$85,278	\$68,487

Our consolidated balance sheets include assets and liabilities of consolidated variable interest entities ("VIEs") as the Company is the primary beneficiary of these VIEs. As of December 31, 2014, December 31, 2013 and (1) December 31, 2012, assets of Consolidated VIEs totaled \$8,847,078, \$8,665,829 and \$5,786,569, respectively, and the liabilities of Consolidated VIEs totaled \$8,457,034, \$8,365,345 and \$5,636,650, respectively. See Note 7 for further discussion.

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

General

We are a REIT, for federal income tax purposes, in the business of acquiring, investing in, financing and managing primarily mortgage-related assets and financial assets. Our objective is to manage a portfolio of investments that will deliver stable distributions to our stockholders over diverse economic conditions. We intend to achieve this objective through a combination of net interest margin and net realized capital gains from our investment portfolio. Our portfolio includes certain credit sensitive assets and investments sourced from distressed markets in recent years that create the potential for capital gains, as well as more traditional types of mortgage-related investments that generate interest income.

We have endeavored to build in recent years a diversified investment portfolio that includes elements of interest rate and credit risk, as we believe a portfolio diversified among interest rate and credit risks are best suited to delivering stable cash flows over various economic cycles. Under our investment strategy, our targeted assets currently include residential mortgage loans, including distressed residential loans, multi-family CMBS, mezzanine loans to and preferred equity investments in owners of multi-family properties, equity and debt securities in entities that invest in commercial real estate-related debt investments and Agency RMBS. Subject to maintaining our qualification as a REIT, we also may opportunistically acquire and manage various other types of mortgage-related and financial assets that we believe will compensate us appropriately for the risks associated with them, including, without limitation, non-Agency RMBS (which may include IOs and POs), collateralized mortgage obligations and securities issued by newly originated residential securitizations, including credit sensitive securities from these securitizations.

We seek to achieve a balanced and diverse funding mix to finance our assets and operations. To this end, we rely primarily on a combination of short-term borrowings, such as repurchase agreements with terms typically of 30 days (and, in some cases, up to one year) and longer term structured financings, such as securitization and re-securitization transactions, with terms longer than one year.

We internally manage a certain portion of our portfolio, including Agency ARMs, fixed-rate Agency RMBS, non-Agency RMBS, CLOs and residential securitized loans. In addition, as part of our investment strategy, we also contract with certain external investment managers to manage specific asset types targeted by us. We are a party to separate investment management agreements with Headlands, Midway, and RiverBanc, with Headlands providing investment management services with respect to our investments in certain distressed residential mortgage loans, Midway providing investment management services with respect to our investments in Agency IOs, and RiverBanc providing investment management services with respect to our investments in multi-family CMBS and certain commercial real estate-related debt investments.

Significant Events in 2014

We generated net income attributable to common stockholders of \$130.4 million, or \$1.48 per share;

We declared aggregate 2014 dividends of \$1.08 per common share;

We issued 40,860,019 shares of common stock in three separate public offerings resulting in aggregate net proceeds to us of approximately \$296.5 million, after deducting underwriting discounts and commissions and offering expenses;

We completed the sale of first loss PO securities and certain IO securities issued by two Freddie Mac-sponsored securitizations, realizing an aggregate gain of approximately \$39.1 million.

We sold and refinanced distressed residential mortgage loans and residential mortgage loans with a carrying value, of approximately \$81.0 million for aggregate proceeds of approximately \$95.4, which resulted in a net realized gain, before income taxes, of approximately \$14.4 million; and

We acquired residential mortgage loans, including distressed residential mortgage loans, for an aggregate purchase cost of approximately \$405.4 million.

Key Fourth Quarter 2014 Developments

Public Offering of Common Stock

On November 26, 2014, we closed on the issuance of 14,410,019 shares of common stock in an underwritten public offering (including 1,410,019 shares issued pursuant to an option granted to the underwriters), resulting in net proceeds to us of approximately \$110.8 million, after deducting underwriting discounts, commissions and offering expenses.

Sale of Multi-family CMBS

In December 2014, we completed the sale of a first loss PO security and certain IO securities issued by a single Freddie Mac-sponsored securitization, realizing a gain of approximately \$22.7 million.

Sales and Refinancing of Distressed Residential Mortgage Loans

During the fourth quarter of 2014, we sold and refinanced distressed residential mortgage loans with a carrying value, of approximately \$29.3 million for aggregate proceeds of approximately \$34.2 million, which resulted in a net realized gain, before income taxes, of approximately \$4.9 million.

Acquisition of a Pool of Distressed Residential Mortgage Loans

On December 29, 2014, we closed on the acquisition of a pool of distressed residential mortgage loans for an aggregate purchase price, including accrued interest, of approximately \$328.4 million. The pool was comprised of re-performing modified first lien mortgage loans having an aggregate unpaid principal balance of approximately \$367.6 million on the closing date. We used the net proceeds from a public offering of shares of the Company's common stock in November 2014 and approximately \$238.9 million of borrowings under a master repurchase facility with Deutsche Bank AG, Cayman Islands Branch, to fund the acquisition.

Fourth Quarter 2014 Common Stock and Preferred Stock Dividends

On December 12, 2014, our Board of Directors declared a regular quarterly cash dividend of \$0.27 per common share for the quarter ended December 31, 2014. The dividend was paid on January 26, 2015 to our common stockholders of record as of December 22, 2014.

On December 12, 2014, our Board of Directors declared a Series B Preferred Stock quarterly cash dividend of \$0.484375 per share of Series B Preferred Stock. The dividend was paid on January 15, 2015 to our preferred stockholders of record as of January 1, 2015.

Current Market Conditions and Commentary

General. The U.S. economy showed modest signs of growth in 2014, with real gross domestic product (“GDP”) estimated to have expanded by 2.6% for the full year, as compared to growth of 2.2% in 2013 and slightly below the U.S. Federal Reserve’s (the “Federal Reserve”) December 2013 projection of 2.8% to 3.2% GDP growth in 2014. Data for the fourth quarter of 2014 suggests that economic activity slowed during the quarter with GDP only increasing by 2.6% in the fourth quarter 2014 compared to an increase of 5.0% in the third quarter 2014. According to the minutes of the Federal Reserve’s December 2014 meeting, Federal Reserve policymakers expect comparable GDP growth in 2015 and 2016, with the central tendency projections for GDP growth ranging from 2.6% to 3.0% for 2015 and 2.5% to 3.0% for 2016, with slower growth projected in 2017 and beyond.

The labor market displayed signs of improvement in 2014. According to the U.S. Department of Labor, the U.S. unemployment rate fell from 6.7% as of the end of December 2013 to 5.6% as of the end of December 2014, while total nonfarm payroll employment posted an average monthly increase of 246,000 jobs in 2014 as compared to an average monthly increase of 194,000 jobs in 2013. While these signs of employment growth are encouraging, the labor force participation rate has remained at historically low levels, raising concerns that the current unemployment rate is not an accurate measure of the economy’s overall health.

As widely publicized, since 2008, the Federal Reserve has undertaken three rounds of quantitative easing in an effort to support a stronger economic recovery and to help ensure that inflation, over time, is at a rate that is most consistent with the Federal Reserve's dual mandate of fostering maximum employment and price stability. The most current version of the Federal Reserve's quantitative easing program, which is referred to as "QE3," was originally established in September 2012 as an open-ended program to purchase an additional \$40 billion of Agency RMBS per month until the unemployment rate, among other economic indicators, showed signs of improvement. This program, when combined with the Federal Reserve's programs to extend its holdings' average maturity, or "operation twist," and reinvest principal payments from its holdings of agency debt and Agency RMBS into Agency RMBS, was expected to increase the Federal Reserve's holdings of long-term securities by approximately \$85 billion per month through the end of 2012. As "operation twist" expired in December 2012, the Federal Reserve announced that it would continue purchasing additional Agency RMBS by about \$40 billion per month and longer-term U.S. Treasury securities at a pace of \$45 billion per month, and would continue its policy of reinvesting the principal payments from its holdings of Agency debt and Agency RMBS in Agency RMBS. This accommodative monetary policy has contributed to historically low-levels of interest rates and higher valuations for Agency RMBS.

On December 18, 2013, given indications that the U.S. economy had improved sufficiently, the Federal Reserve announced that it would reduce the pace of its purchases of (i) longer-term U.S. Treasury securities to \$40 billion per month and (ii) Agency RMBS to \$35 billion per month, and that it would likely reduce the pace of asset purchases in further measured steps throughout 2014 at future meetings. The Federal Reserve continued to reduce the pace of purchases throughout 2014, concluding its asset purchases under QE3 at the end of October 2014.

Notwithstanding the ending of QE3, the Federal Open Market Committee (the "FOMC") has maintained its intent to keep the target range for the federal funds rate between 0% and 0.25% for the time being and in determining how long to maintain this target range, the FOMC will assess both realized and expected progress towards its objective of maximum employment and 2.0% inflation. Expectation for when the Federal Reserve will move the target range higher are varied, with some expecting an increase in the federal funds rate mid-year 2015, while others do not expect any movement until 2016. For now, it appears the market expects no change from the federal funds rate until late 2015 or into 2016 with the yield curve rate on the 10-year U.S. Treasury security declining during 2014 from 3.01% on January 2, 2014 to 1.96% at February 9, 2015.

Single-Family Homes and Residential Mortgage Market. Growth in the residential real estate market decelerated during 2014 resulting in modest home price increases as compared to 2013. Data released by S&P Indices for its S&P/Case-Shiller Home Price Indices for November 2014 showed that, on average, home prices increased 4.3% for the 20-City Composite over November 2013. However, since posting a 13.2% year-over-year gain in January 2014, the rate of year-over-year home price increase slowed substantially throughout the balance of 2014. While home prices increased moderately in 2014, single-family housing starts steadily increased throughout 2014. According to data provided by the U.S. Department of Commerce, privately-owned housing starts for single family homes averaged a seasonally adjusted annual rate of 707,700 during the fourth quarter of 2014, 652,000 during the third quarter of 2014, 625,300 during the second quarter of 2014 and 602,300 during the first quarter of 2014. Privately-owned housing starts for single family homes averaged a seasonally adjusted annual rate of 617,600 in the year ended December 31, 2013. We expect the single-family residential real estate market to continue to improve modestly in the near term, but believe that the run up in home prices over the past couple of years, the hesitancy of first-time home

buyers to enter the market and the continued difficulty that many borrowers face in trying to obtain mortgage financing will continue to weigh on housing gains for single family homes in 2015. These conditions have resulted in reduced mortgage originations, and we expect this trend will continue in 2015. Improving single family housing fundamentals should have a positive impact on the overall credit profile of our portfolio of distressed residential loans, while reduced mortgage originations should result in a tighter supply of RMBS.

Multi-family Housing. Apartments and other residential rental properties remain one of the better performing segments of the commercial real estate market. According to data provided by the U.S. Department of Commerce in January 2015, starts on multi-family homes containing five units or more averaged a seasonally adjusted annual rate of 350,700 during the fourth quarter of 2014, 362,700 during the third quarter of 2014, 346,700 during the second quarter of 2014 and 311,700 during the first quarter of 2014. Housing starts on multi-family homes containing five units or more averaged a seasonally adjusted annual rate of 293,700 in the year ended December 31, 2013. Moreover, even with the recent growth in supply, vacancy trends in the multi-family sector appear to remain stable. According to the third quarter of 2014 Multifamily Vacancy Index (“MVI”), which is produced by the National Association of Home Builders and surveys the multifamily housing industry’s perception of vacancies, from the first quarter of 2013 through the third quarter of 2014, the MVI has produced readings between 37 and 42, this after reaching a high of 70 during the second quarter of 2009 (with higher numbers indicating higher vacancies). We believe the performance of multi-family housing over the past year is due, in part, to a significant decline in new construction during the recent economic downturn and increased demand from former homeowners, the hesitancy of first-time home buyers to purchase a home and the continued difficulty that many borrowers face in trying to obtain mortgage financing. In turn, these factors have contributed to stronger rental income growth in many U.S. markets and recent valuation improvements for multi-family properties and, we believe, negligible delinquencies on new multi-family loans originated by Freddie Mac and Fannie Mae.

Developments at Fannie Mae and Freddie Mac. Payments on the Agency ARMs and fixed-rate Agency RMBS in which we invest are guaranteed by Fannie Mae and Freddie Mac. In addition, although not guaranteed by Freddie Mac, all of our multi-family CMBS has been issued by securitization vehicles sponsored by Freddie Mac and the Agency IOs we invest in are issued by Fannie Mae, Freddie Mac or Ginnie Mae. As broadly publicized, Fannie Mae and Freddie Mac are presently under federal conservatorship as the U.S. Government continues to evaluate the future of these entities and what role the U.S. Government should continue to play in the housing markets in the future. Since being placed under federal conservatorship, there have been a number of proposals introduced, both from industry groups and by the U.S. Congress, relating to changing the role of the U.S. government in the mortgage market and reforming or eliminating Fannie Mae and Freddie Mac. It remains unclear how the U.S. Congress will move forward on such reform at this time and what impact, if any, this reform will have on mortgage REITs.

Credit Spreads. Credit spreads in the residential and commercial markets generally continued to tighten further during 2014, continuing a trend that started in 2012. Typically when credit spreads widen, credit-sensitive assets such as CLOs and multi-family CMBS, as well as Agency IOs, are negatively impacted, while tightening credit spreads typically have a positive impact on the value of such assets.

Conditions for asset gathering were challenging throughout much of 2014, due, in part, to tightening spreads. In our view, further tightening of credit spreads has largely resulted from the continued pursuit of credit sensitive assets by a significant amount of investable capital, thereby placing upward pressure on the pricing of the credit sensitive assets that we currently target. Although this trend has had a positive impact on the value of many of the credit sensitive assets in our existing portfolio, which in turn helped to move our book value per common share to \$7.07 as of December 31, 2014, it has resulted in a more challenging current return environment for new investment in these asset classes, particularly for new multi-family CMBS product. Given the current return environment, we expect to remain selective and opportunistic as we source new credit sensitive product in 2015, but remain focused in the current environment on allocating greater capital to credit sensitive assets that rely on asset selection rather than leverage to generate our targeted returns.

Financing markets and liquidity. During 2014, the closing yield of the ten-year U.S. Treasury Note traded between 3.01% and 2.07%, settling at 2.17% at December 31, 2014. Subsequent to December 31, 2014, the bond market has experienced a significant amount of volatility, with the closing yield on the ten-year U.S. Treasury Note falling as low as 1.68%. The 30-day London Interbank Offered Rate (“LIBOR”) was 0.16% at December 31, 2014, marking a decrease of approximately 1 basis point from December 31, 2013. We expect interest rates to rise over the longer term as the U.S. and global economic outlook improves.

Significant Estimates and Critical Accounting Policies

We prepare our consolidated financial statements in conformity with U.S. GAAP, which requires the use of estimates, judgments and assumptions that affect reported amounts. These estimates are based, in part, on our judgment and

assumptions regarding various economic conditions that we believe are reasonable based on facts and circumstances existing at the time of reporting. The results of these estimates affect reported amounts of assets, liabilities and accumulated other comprehensive income at the date of the consolidated financial statements and the reported amounts of income, expenses and other comprehensive income during the periods presented.

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

Revenue Recognition. Interest income on our investment securities and on our mortgage loans is accrued based on the outstanding principal balance and their contractual terms. Premiums and discounts associated with investment securities and mortgage loans at the time of purchase or origination are amortized into interest income over the life of such securities using the effective yield method. Adjustments to premium amortization are made for actual prepayment activity.

Interest income on our credit sensitive securities, such as our CLOs and certain of our CMBS that were purchased at a discount to par value, is recognized based on the security's effective interest rate. The effective interest rate on these securities is based on management's estimate from each security of the projected cash flows, which are estimated based on the Company's assumptions related to fluctuations in interest rates, prepayment speeds and the timing and amount of credit losses. On at least a quarterly basis, the Company reviews and, if appropriate, makes adjustments to its cash flow projections based on input and analysis received from external sources, internal models, and its judgment about interest rates, prepayment rates, the timing and amount of credit losses, and other factors. Changes in cash flows from those originally projected, or from those estimated at the last evaluation, may result in a prospective change in the yield/interest income recognized on these securities.

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

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

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

The Company's valuation methodologies are described in "Note 14 – Fair Value of Financial Instruments" included in Item 8 of this Annual Report on Form 10-K.

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

Variable Interest Entities – A variable interest entity ("VIE") is an entity that lacks one or more of the characteristics of a voting interest entity. A VIE is defined as an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The Company consolidates a VIE when it is the primary beneficiary of such VIE. As primary beneficiary, it has both the power to direct the activities that most significantly impact the economic performance of the VIE and a right to receive benefits or absorb losses of the entity that could be potentially significant to the VIE. The Company is required to reconsider its evaluation of whether to consolidate a VIE each reporting period, based upon changes in the facts and circumstances pertaining to the VIE.

Loan Consolidation Reporting Requirement for Certain Multi-Family K-Series Securitizations. As of December 31, 2014, we owned 100% of the first loss securities of the “Consolidated K-Series.” The Consolidated K-Series collectively represents, as of December 31, 2014 and December 31, 2013, six separate Freddie Mac sponsored multi-family loan K-Series securitizations, of which we, or one of our special purpose entities, or SPEs, own the first loss PO securities and certain IO securities. We determined that the Consolidated K-Series were VIEs and that we are the primary beneficiary of the Consolidated K-Series. As a result, we are required to consolidate the Consolidated K-Series’ underlying multi-family loans including their liabilities, income and expenses in our consolidated financial statements. We have elected the fair value option on the assets and liabilities held within the Consolidated K-Series, which requires that changes in valuations in the assets and liabilities of the Consolidated K-Series will be reflected in our consolidated statement of operations.

Fair Value Option – The fair value option provides an election that allows companies to irrevocably elect fair value for financial assets and liabilities on an instrument-by-instrument basis at initial recognition. Changes in fair value for assets and liabilities for which the election is made will be recognized in earnings as they occur. The Company elected the fair value option for its Agency IO strategy and the Consolidated K-Series (as defined in Note 2 to our consolidated financial statements included in this report).

Acquired Distressed Residential Mortgage Loans – Acquired distressed residential mortgage loans that have evidence of deteriorated credit quality at acquisition are accounted for under ASC Subtopic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality" ("ASC 310-30"). Under ASC 310-30, the acquired loans may be aggregated and accounted for as a pool of loans if the loans being aggregated have common risk characteristics. A pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Once a pool is assembled, it is treated as if it was one loan for purposes of applying the accounting guidance.

Under ASC 310-30, the excess of cash flows expected to be collected over the carrying amount of the loans, referred to as the “accretable yield,” is accreted into interest income over the life of the loans in each pool or individually using a level yield methodology. Accordingly, our acquired distressed residential mortgage loans accounted for under ASC 310-30 are not subject to classification as nonaccrual classification in the same manner as our residential mortgage loans that were not distressed when acquired by us. Rather, interest income on acquired distressed residential mortgage loans relates to the accretable yield recognized at the pool level or on an individual loan basis, and not to contractual interest payments received at the loan level. The difference between contractually required principal and interest payments and the cash flows expected to be collected, referred to as the “non-accretable difference,” includes estimates of both the impact of prepayments and expected credit losses over the life of the individual loan, or the pool (for loans grouped into a pool).

We monitor actual cash collections against our expectations, and revised cash flow expectations are prepared as necessary. A decrease in expected cash flows in subsequent periods may indicate that the loan pool or individual loan, as applicable, is impaired thus requiring the establishment of an allowance for loan losses by a charge to the provision for loan losses. An increase in expected cash flows in subsequent periods initially reduces any previously established allowance for loan losses by the increase in the present value of cash flows expected to be collected, and results in a recalculation of the amount of accretable yield for the loan pool. The adjustment of accretable yield due to an increase in expected cash flows is accounted for prospectively as a change in estimate. The additional cash flows expected to be collected are reclassified from the non-accretable difference to the accretable yield, and the amount of periodic accretion is adjusted accordingly over the remaining life of the loans in the pool or individual loan, as applicable.

Recent Accounting Pronouncements

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

Capital Allocation

The following tables set forth our allocated capital by investment type at December 31, 2014 and December 31, 2013, respectively (dollar amounts in thousands):

At December 31, 2014:

	Agency RMBS⁽¹⁾	Agency IOs	Multi- Family⁽²⁾	Distressed Residential Loans⁽³⁾	Residential Securitized Loans⁽⁴⁾	Other⁽⁵⁾	Total
Carrying value	\$660,374	\$119,131	\$430,789	\$587,860	\$149,614	\$41,383	\$1,989,151
Liabilities:							
Callable ⁽⁶⁾	(585,051)	(66,914)	—	(238,949)	—	—	(890,914)
Non-callable	—	—	(83,513)	(149,364)	(145,542)	(45,000)	(423,419)
Hedges (Net) ⁽⁷⁾	3,501	11,415	—	—	—	—	14,916
Cash ⁽⁸⁾	2,781	40,572	—	—	—	72,809	116,162
Other	2,731	3,329	(5,569)	39,759	1,531	(29,750)	12,031
Net capital allocated	\$84,336	\$107,533	\$341,707	\$239,306	\$5,603	\$39,442	\$817,927

Includes both
Agency

(1) ARMs and
Agency fixed
rate RMBS.

(2) The Company
determined it
is the primary
beneficiary of
the
Consolidated
K-Series and
has
consolidated
the
Consolidated
K-Series into
the Company's
financial
statements. A

reconciliation
to our
financial
statements as
of December
31, 2014
follows:

Multi-Family loans held in securitization trusts, at fair value	\$	8,365,514	
Multi-Family CDOs, at fair value		(8,048,053)
Net carrying value		317,461	
Investment securities available for sale, at fair value held in securitization trusts		38,594	
Total CMBS, at fair value		356,055	
First mortgage loan, mezzanine loan and preferred equity investments		74,734	
Securitized debt		(83,513)
Other		(5,569)
Net Capital in Multi-Family	\$	341,707	

- (3) Includes mortgage loans held for sale with a carrying value of \$5.2 million that is included in the Company's accompanying consolidated balance sheet in receivables and other assets.
- (4) Represents our residential mortgage loans held in securitization trusts. We securitized these loans in 2005.
- (5) Other includes CLOs having a carrying value of \$35.2 million, non-Agency RMBS and loans held for investment. Other non-callable liabilities consist of \$45.0 million in subordinated debentures.
- (6) Includes repurchase agreements.
- (7) Includes derivative assets, derivative liabilities, payable for securities purchased and restricted cash posted as margin.
- (8) Includes \$40.6 million held in overnight deposits in our Agency IO portfolio to be used for trading purposes. Such deposit is included in the Company's accompanying consolidated balance sheet in receivables and other assets.

At December 31, 2013:

	Agency RMBS⁽¹⁾	Agency IOs	Multi- Family⁽²⁾	Distressed Residential Loans	Residential Securitized Loans⁽³⁾	Other⁽⁴⁾	Total
Carrying value	\$745,265	\$131,609	\$360,430	\$265,390	\$163,237	\$39,825	\$1,705,756
Liabilities:							
Callable ⁽⁵⁾	(687,927)	(94,698)	—	—	—	(8,500)	(791,125)
Non-callable	—	—	(135,093)	(169,871)	(158,410)	(45,000)	(508,374)
Hedges (Net) ⁽⁶⁾	3,474	11,256	—	—	—	—	14,730
Cash ⁽⁷⁾	—	30,441	—	—	—	31,798	62,239
Other	1,916	1,861	1,218	7,975	1,745	(17,275)	(2,560)
Net capital allocated	\$62,728	\$80,469	\$226,555	\$103,494	\$6,572	\$848	\$480,666

Includes both

Agency

(1) ARMs and
Agency fixed
rate RMBS.The Company
determined it
is the primary
beneficiary of
theConsolidated
K-Series and
has
consolidated
the(2) Consolidated
K-Series into
the Company's
financial
statements. A
reconciliation
to our
financial
statements as
of December
31, 2013
follows:

\$ 8,111,022

Multi-Family loans held in securitization trusts, at fair value		
Multi-Family CDOs, at fair value	(7,871,020)
Net carrying value	240,002	
Investment securities available for sale, at fair value held in securitization trusts	92,578	
Total CMBS, at fair value	332,580	
First mortgage loan, mezzanine loan and preferred equity investments	27,850	
Securitized debt	(135,093)
Other	1,218	
Net Capital in Multi-Family	\$	226,555

- (3) Represents our residential mortgage loans held in securitization trusts. We securitized these loans in 2005. Other includes CLOs having a carrying value of \$33.2 million, non-Agency RMBS and loans held for investment.
- (4) Other callable liabilities include an \$8.5 million repurchase agreement on our CLO securities and other non-callable liabilities consist of \$45.0 million in subordinated debentures.
- (5) Includes repurchase agreements.
- (6) Includes derivative assets, derivative liabilities, payable for securities purchased and restricted cash posted as margin.
- (7) Includes \$30.4 million held in overnight deposits in our Agency IO portfolio to be used for trading purposes. Such deposit is included in the Company's accompanying consolidated balance sheet in receivables and other assets.

Results of Operations

Comparison of the Year Ended December 31, 2014 to the Year Ended December 31, 2013

For the year ended December 31, 2014, we reported net income attributable to common stockholders of \$130.4 million, as compared to net income attributable to common stockholders of \$65.4 million for the prior year. The main components of the change in net income for the year ended December 31, 2014 as compared to the prior year are detailed in the following table (amounts in thousands, except per share data):

	For the Years Ended December 31,		
	2014	2013	\$ Change
Net interest income	\$77,837	\$60,549	\$17,288
Total other income	\$105,208	\$29,062	\$76,146
Total general, administrative and other expenses	\$40,459	\$19,917	\$20,542
Income from continuing operations before income taxes	\$142,586	\$69,694	\$72,892
Income tax expense	\$6,395	\$739	\$5,656
Net income	\$136,191	\$68,955	\$67,236
Preferred stock dividends	\$5,812	\$3,568	\$2,244
Net income attributable to common stockholders	\$130,379	\$65,387	\$64,992
Basic income per common share	\$1.48	\$1.11	\$0.37
Diluted income per common share	\$1.48	\$1.11	\$0.37

Net Interest Income

The increase in net interest income for the year ended December 31, 2014 as compared to the prior year is primarily attributable to an increase in net interest spread in 2014 due to greater investment allocation to credit sensitive assets in 2014. Beginning in 2013 and continuing throughout all of 2014, the Company increasingly allocated both new and re-invested capital to credit sensitive, higher yielding investments and allocated less capital to its Agency RMBS portfolio, which is lower-yielding. As of December 31, 2014, investments in distressed residential loans, multi-family CMBS and other multi-family investments increased to \$1.0 billion as compared to \$625.8 million as of December 31, 2013, a substantial portion of which was funded by three public stock offerings in 2014 which generated \$296.5 million in net proceeds to us. This selective allocation of capital favorably impacted the Company's net interest margin during the year as detailed in the "Quarterly Comparative Net Interest Spread" section below.

Other Income

Total other income increased by \$76.1 million for the year ended December 31, 2014 as compared to the prior year. The increases were primarily driven by:

An increase in realized gain on investment securities and related hedges of \$52.8 million as compared to the prior year. The Company sold certain multi-family CMBS securities in the third and fourth quarters of 2014, resulting in a realized gain amounting to \$39.1 million for the year ended December 31, 2014. This realized gain was partially offset by \$3.4 million of loss on extinguishment of debt related to the early termination of a multi-family recourse financing that was collateralized by certain of our multi-family CMBS, including the security we sold in the third quarter of 2014.

In addition, realized gains from the Company's Agency IO portfolio hedging activities increased by \$13.7 million for the December 31, 2014 as compared to the prior year.

An increase in unrealized loss on investment securities and related hedges of \$13.1 million for the year ended December 31, 2014, as compared to the same periods in 2013, which were primarily related to our Agency IO strategy. The Agency IO portfolio is an actively managed strategy resulting in both unrealized and realized activity. Over time we expect the unrealized and realized activity of our Agency IO strategy to offset and result in no material income or loss.

An increase in realized gains on distressed residential mortgage loans of \$12.8 million for the year ended December 31, 2014, as compared to the prior year. The realized gains were derived from loan refinancings, workouts and resales, with the majority of the realized gains on these assets being attributable to loan resales during the first and fourth quarters of 2014.

An increase in net unrealized gains on multi-family loans and debt held in securitization trusts of \$25.4 million for the year ended December 31, 2014, as compared to the prior year, which is primarily due to improved pricing on our multi-family CMBS investments that has been driven, in part, by greater market demand for this product.

An increase in other income of \$2.1 million for the year ended December 31, 2014, as compared to the prior year, which is primarily a function of an increase in income related to our 20% ownership interest in RiverBanc.

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

General, Administrative and Other Expenses:	For the Years Ended December 31,		
	2014	2013	\$ Change
Salaries, benefits and directors' compensation	\$4,281	\$2,786	\$1,495
Professional fees	2,618	2,721	(103)
Base management and incentive fees	24,530	8,133	16,397
Expenses on distressed residential mortgage loans	6,429	3,868	2,561
Other	2,601	2,409	192
Total	\$40,459	\$19,917	\$20,542

The increase in salaries, benefits and directors' compensation in 2014 as compared to the prior year is due to an increase in the performance-based compensation.

The increase in base management and incentive fees for the year ended December 31, 2014, as compared to the prior year is primarily due to incentive fees earned by RiverBanc from the sale of the multi-family CMBS securities during the third and fourth quarters of 2014. Base management and incentive fees for the year ended December 31, 2014 were also driven higher by the increase in capital allocated to assets managed by our external managers and the improved performance of the assets they manage for us, which resulted in incentive fees earned.

The increase in expenses related to distressed residential mortgage loans is related to the upfront due diligence costs related to our purchase of a large pool of distressed residential loans in December 2014 and to a higher average balance of loans outstanding, thereby resulting in higher servicing costs, work-out costs and due diligence costs.

Income Tax Expense

The increase in income tax expense for the year ended December 31, 2014 as compared to the prior year, was primarily due to the increase in realized gains resulting from loan sales in our distressed residential loan portfolio. A gain on sale from loan activity is transacted in a taxable REIT subsidiary for REIT compliance purposes and is subject to local, state and federal taxes.

Comparison of the Year Ended December 31, 2013 to the Year Ended December 31, 2012

For the year ended December 31, 2013, we reported net income attributable to common stockholders of \$65.4 million, as compared to net income attributable to common stockholders of \$28.3 million for the prior year. The main components of the change in net income for the year ended December 31, 2013 as compared to the prior year are detailed in the following table (dollar amounts in thousands, except per share data):

	For the Years Ended December 31,		
	2013	2012	\$ Change
Net interest income	\$60,549	\$31,422	\$29,127
Total other income	\$29,062	\$9,105	\$19,957
Total general, administrative and other expenses	\$19,917	\$11,427	\$8,490
Income from continuing operations before income taxes	\$69,694	\$29,100	\$4