

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, 2021

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-34569

**Ellington Financial Inc.**

(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of Incorporation or Organization)

26-0489289  
(I.R.S. Employer Identification No.)

53 Forest Avenue  
Old Greenwich, Connecticut, 06870  
(Address of Principal Executive Offices) (Zip Code)  
(203) 698-1200  
(Registrant's Telephone Number, Including Area Code)

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, \$0.001 par value per share	EFC	The New York Stock Exchange
6.750% Series A Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock	EFC PR A	The New York Stock Exchange
6.250% Series B Fixed-Rate Reset Cumulative Redeemable Preferred Stock	EFC PR B	The New York Stock Exchange

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 Exchange 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 every Interactive Data File required to be submitted 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 such files). Yes  No

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

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

As of June 30, 2021, the last business day of the Registrant's most recently completed second fiscal quarter, the aggregate market value of the Registrant's common shares held by non-affiliates was \$778,461,958 based on the closing price as reported by the New York Stock Exchange on that date.

Number of shares of the Registrant's common stock outstanding as of February 25, 2022: 57,477,263

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement with respect to its 2022 Annual Meeting of Stockholders to be filed not later than May 2, 2022 are incorporated by reference into Part III hereof as noted therein.

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**PART I****Item 1. Business**

*Except where the context suggests otherwise, references in this Annual Report on Form 10-K to "EFC," "we," "us," and "our" refer to (i) Ellington Financial Inc. and its consolidated subsidiaries, including Ellington Financial Operating Partnership LLC, our operating partnership subsidiary, which we refer to as our "Operating Partnership," following our conversion to a corporation effective March 1, 2019 (our "corporate conversion"), and (ii) Ellington Financial LLC and its consolidated subsidiaries, including our Operating Partnership, before our corporate conversion. References in this Annual Report on Form 10-K to (1) "common shares" refer to (i) our common shares representing limited liability company interests, previously outstanding prior to our corporate conversion, and (ii) shares of our common stock outstanding after our corporate conversion and (2) "common shareholders" refer to (i) holders of our common shares representing limited liability company interests prior to our corporate conversion, and (ii) holders of shares of our common stock after our corporate conversion. We conduct all of our operations and business activities through our Operating Partnership. Our "Manager" refers to Ellington Financial Management LLC, our external manager, "Ellington" refers to Ellington Management Group, L.L.C. and its affiliated investment advisory firms, including our Manager, and "Manager Group" refers collectively to officers and directors of EFC, and partners and affiliates of Ellington (including families and family trusts of the foregoing). In certain instances, references to our Manager and services to be provided to us by our Manager may also include services provided by Ellington and its other affiliates from time to time.*

**Special Note Regarding Forward-Looking Statements**

When used in this Annual Report on Form 10-K, in future filings with the Securities and Exchange Commission, or 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," "project," "plan," "continue," "intend," "should," "would," "could," "goal," "objective," "will," "may," "seek," or similar expressions, are intended to identify "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, or the "Securities Act," and Section 21E of the Securities Exchange Act of 1934, as amended, or 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 operations, business strategies, performance, financial condition, liquidity and prospects, taking into account 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, results of operations and strategies may vary materially from those expressed or implied 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; market volatility; changes in the prepayment rates on the mortgage loans underlying the securities owned by us for which the principal and interest payments are guaranteed by a U.S. government agency or a U.S. government-sponsored entity; increased rates of default and/or decreased recovery rates on our assets; our ability to borrow to finance our assets; changes in government regulations affecting our business; our ability to maintain our exclusion from registration under the Investment Company Act of 1940, as amended, or the "Investment Company Act"; our ability to maintain our qualification as a real estate investment trust, or "REIT"; and risks associated with investing in real estate assets, including changes in business conditions and the general economy, such as those resulting from the economic effects related to the novel coronavirus ("COVID-19") pandemic, and associated responses to the pandemic. These and other risks, uncertainties and factors, including the risk factors described under Item 1A of this Annual Report on Form 10-K, could cause our actual results to differ materially from those projected or implied 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.

**Our Company**

We were originally formed as a Delaware limited liability company in July 2007 and commenced operations in August 2007. In February 2019, we elected to be taxed as a corporation for U.S. federal income tax purposes effective as of January 1, 2019, and we elected to be treated as a REIT for U.S. federal income tax purposes commencing with our taxable year ended December 31, 2019. Through December 31, 2018, we believe that we were organized and had operated so that we qualified to be treated for U.S. federal income tax purposes as a partnership and not as an association or a publicly traded partnership taxable as a corporation. Since January 1, 2019, we believe that we have been organized and operated so that we qualify to be treated as a REIT for U.S. federal income tax purposes. Effective March 1, 2019, we converted to a Delaware corporation and changed our name to Ellington Financial Inc.

We acquire and manage mortgage-related, consumer-related, corporate-related, and other financial assets. Our primary objective is to generate attractive, risk-adjusted total returns for our stockholders by making investments that we believe compensate us appropriately for the risks associated with them. We seek to attain this objective by utilizing an opportunistic strategy. Our targeted asset classes currently include investments in the U.S. and Europe (as applicable) in the categories listed below and as described in the section captioned "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Our Targeted Asset Classes." Subject to maintaining our qualification as a REIT, we expect to continue to invest in these targeted asset classes:

- residential mortgage loans, including (i) mortgage loans that are not deemed to be "qualified mortgage," or "QM," loans under the rules of the Consumer Financial Protection Bureau, or "non-QM loans," (ii) residential transition loans, and (iii) non-performing and re-performing residential mortgage loans, or "residential NPLs," including "legacy" (i.e., issued before the 2008 financial crisis) NPLs;
- residential mortgage-backed securities, or "RMBS," for which the principal and interest payments are guaranteed by a U.S. government agency or a U.S. government-sponsored entity, or "Agency RMBS";
- RMBS backed by U.S. residential mortgage loans for which the principal and interest payments are not guaranteed by a U.S. government agency or a U.S. government-sponsored entity, or "non-Agency RMBS"; and RMBS backed by European residential mortgage loans, or "European RMBS";
- commercial mortgage-backed securities, or "CMBS," commercial mortgage loans, and other commercial real estate debt;
- consumer loans and asset-backed securities, or "ABS," including ABS backed by consumer loans;
- collateralized loan obligations, or "CLOs";
- mortgage-related and non-mortgage-related derivatives;
- strategic investments in companies from which we purchase, or may in the future purchase, targeted assets, and other strategic investments in companies related to our business; and
- other investments, including corporate debt and equity securities and corporate loans.

Subject to maintaining our qualification as a REIT, we opportunistically utilize derivatives and other hedging instruments to hedge our interest rate, credit, and foreign currency risk.

Our investments in residential and commercial mortgage loans may consist of performing, non-performing, or sub-performing loans. In addition, we may from time to time acquire real property. We also have made, and may in the future make, investments in the debt and/or equity of other entities engaged in loan-related businesses, such as loan originators and mortgage-related entities. On February 18, 2022, we entered into an agreement (the "Longbridge Purchase Agreement") with Home Point Capital Inc. ("Home Point") to purchase Home Point's 49.6% ownership interest in Longbridge Financial, LLC ("Longbridge"), a reverse mortgage loan originator of which we also held a 49.6% ownership interest as of December 31, 2021. In connection with investments in loan originators, we may also enter into flow agreements that will allow us to purchase new loans from the loan originators in which we invest in accordance with the parameters set forth in the applicable flow agreement. We also opportunistically engage in relative value trading strategies, whereby we seek to identify and capitalize on short-term pricing disparities in various equity and/or fixed-income markets. We also opportunistically seek to acquire and manage other types of mortgage-related and financial assets not listed above, such as mortgage servicing rights, or "MSRs," and credit risk transfer securities, or "CRTs."

Our "credit portfolio," which includes all of our assets other than Agency RMBS, has historically been the primary driver of our risk and return, and we expect that this will continue in the near to medium term. We also maintain a highly leveraged portfolio of Agency RMBS to take advantage of opportunities in that market sector, to help maintain our exclusion from registration as an investment company under the Investment Company Act, and to help maintain our qualification as a REIT. Unless we acquire very substantial amounts of whole mortgage loans or there are changes to the rules and regulations applicable to us under the Investment Company Act and/or to our qualification as a REIT, we expect that we will continue to maintain some amount of Agency RMBS. For more information on our targeted assets, see "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Our Targeted Asset Classes."

#### **Our Manager and Ellington**

We are externally managed and advised by our Manager, an affiliate of Ellington, pursuant to a management agreement. Our Manager was formed solely to serve as our manager and does not have any other clients. In addition, our Manager currently does not have any employees and instead relies on the employees of Ellington to perform its obligations to us. Ellington is an investment management firm and registered investment advisor with a 27-year history of investing in a broad spectrum of mortgage-backed securities, or "MBS," and related derivatives.

The members of our management team include Michael Vranos, founder and Chief Executive Officer of Ellington, who serves as our Co-Chief Investment Officer; Laurence Penn, Vice Chairman and Chief Operating Officer of Ellington, who serves as our Chief Executive Officer and President and a member of our Board of Directors; Mark Tecotzky, Vice Chairman - Co-Head of Credit Strategies of Ellington, who serves as our Co-Chief Investment Officer; JR Herlihy, a Managing Director of Ellington, who serves as our Chief Financial Officer; Christopher Smernoff, who serves as our Chief Accounting Officer; Daniel Margolis, General Counsel of Ellington, who serves as our General Counsel; Vincent Ambrico, who serves as our Controller; and Jason Frank, Associate General Counsel of Ellington, who serves as our Deputy General Counsel and Secretary. Each of these individuals is an officer of our Manager.

Our Manager is responsible for administering our business activities and day-to-day operations and, pursuant to a services agreement between our Manager and Ellington, relies on the resources of Ellington to support our operations. Ellington has well-established portfolio management resources for each of our targeted asset classes and an established infrastructure supporting those resources. Through our relationship with our Manager, we benefit from Ellington's highly analytical investment processes, broad-based deal flow, extensive relationships in the financial community, financial and capital structuring skills, investment surveillance database, and operational expertise. For example, Ellington's analytic approach to the investment process involves collection of substantial amounts of data regarding historical performance of MBS collateral and MBS market transactions. Ellington analyzes this data to identify possible relationships and trends and develops financial models used to support our investment and risk management process. In addition, throughout Ellington's 27-year investing history, it has developed strong relationships with a wide range of dealers and other market participants that provide Ellington access to a broad range of trading opportunities and market information. As a result, Ellington provides us with access to a wide variety of asset acquisition and disposition opportunities and information that assist us in making asset management decisions across our targeted asset classes, which we believe provides us with a significant competitive advantage. We also benefit from Ellington's finance, accounting, operational, legal, compliance, and administrative functions.

As of December 31, 2021, Ellington had over 170 employees and had assets under management of approximately \$13.3 billion, of which approximately \$7.9 billion consisted of our company and Ellington Residential Mortgage REIT, a REIT listed on the New York Stock Exchange, or the "NYSE," under the ticker "EARN," that focuses its investment strategy primarily on Agency RMBS, and various hedge funds and other alternative investment vehicles that employ financial leverage, and approximately \$5.4 billion consisted of accounts that do not employ financial leverage. The \$13.3 billion and \$7.9 billion in assets under management include approximately \$1.2 billion in Ellington-managed CLOs. For these purposes, the Ellington-managed CLO figure represents the aggregate outstanding balance of CLO notes and market value of CLO equity, excluding any notes and equity held by other Ellington-managed funds and accounts.

#### **Our Strategy**

We utilize an opportunistic strategy to seek to generate attractive, risk-adjusted returns. We pursue value across various types of mortgage-related, consumer-related, corporate-related, and other financial assets, through investments primarily in securities and loans.

Our strategy is adaptable to changing market environments, subject to maintaining our qualification as a REIT for U.S. federal income tax purposes and maintaining our exclusion from registration as an investment company under the Investment Company Act. As a result, although we focus on the targeted assets described in the section captioned "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Our Targeted Asset Classes," our acquisition and management decisions depend on prevailing market conditions and our targeted asset classes may vary over time in response to market conditions. We may engage in a high degree of trading volume as we implement our strategy. Our Manager is authorized to follow very broad investment guidelines and, as a result, we cannot predict our portfolio composition. We expect to continue to hold certain of our targeted assets through one or more domestic taxable REIT subsidiaries, or "TRSs." As a result, a portion of the income from such assets will be subject to U.S. federal and state corporate income tax. We may change our strategy and policies without a vote of our stockholders. Moreover, although our independent directors may periodically review our investment guidelines and our portfolio, they generally do not review our proposed asset acquisitions or asset management decisions.

We believe that Ellington's capabilities allow our Manager to identify attractive assets, value these assets, monitor and forecast the performance of these assets, and opportunistically hedge our risk with respect to these assets. Ellington's continued emphasis on and development of proprietary credit, interest rate, and prepayment models, as well as other proprietary research and analytics, underscores the importance it places on a disciplined and analytical approach to fixed income investing. In addition, Ellington's analytical and financial resources can help support the loan origination companies in which we have strategic investments. For example, we can provide these companies with a reliable outlet for their production, help enhance their underwriting guidelines, help improve the terms and stability of their financing sources, and help boost their overall

visibility in the marketplace. In these ways, we leverage Ellington's skills and resources to seek to meet our investment objectives.

With respect to structured products including MBS, Ellington seeks investments across a wide range of sectors without any restriction as to ratings, structure, or position in the capital structure. Over time and through market cycles, opportunities will present themselves in varying sectors and in varying forms. By rotating between and allocating among various sectors of the structured product markets and adjusting the extent to which it hedges, Ellington believes that it is able to capitalize on the disparities between these sectors as well as on overall trends in the marketplace, and therefore provide better and more consistent returns for its investors. Disparities between sectors vary from time to time and are driven by a combination of factors. For example, as various structured product sectors fall in and out of favor, the relative yields that the market demands for those sectors may vary. In addition, Ellington's performance projections for certain sectors may differ from those of other market participants and such disparities will naturally cause us, from time to time, to gravitate towards certain sectors and away from others. Disparities between structured product sectors and individual securities within such sectors may also be driven by differences in collateral performance (for example, loans originated during certain periods of time when underwriting standards were generally stricter may on average perform better than loans originated during other times) and in the structure of particular investments (for example, in the timing of cash flows or the level of credit enhancement), and our Manager may believe that other market participants are overestimating or underestimating the value of these differences. Furthermore, we believe that risk management, including opportunistic portfolio hedging and prudent financing and liquidity management, is essential for consistent generation of attractive, risk-adjusted total returns across market cycles.

With respect to loans, we have tended to focus on underserved, niche market segments where inefficiencies exist, and where the segment's size or complexity could present a barrier to entry. Since the global financial crisis in 2008/2009, capital requirements and other regulations in the banking industry have curtailed bank origination and ownership of certain types of loans, and as a result, capital availability for certain loan products is lower than it was historically, thus creating better opportunities for Ellington to invest in these loan products. Ellington uses its deep network of industry relationships, including the loan originators in which we have invested, to source new loan investments. These relationships have generated a regular flow of investment opportunities from diversified sources, including flow agreements with certain loan originators, including those in which we have invested. By investing opportunistically in both loans and securities, as well as in loan originators, we believe that we are able to achieve attractive diversification and can take advantage of relative value across investment classes.

We believe that our Manager is uniquely qualified to implement our strategy. Our strategy is consistent with Ellington's investment approach, which is based on its distinctive strengths in sourcing, analyzing, trading, and hedging complex structured products. Furthermore, we believe that Ellington's extensive experience in buying, selling, analyzing, and structuring fixed income securities, coupled with its broad access to market information and trading flows, provides us with a steady flow of opportunities to acquire assets with favorable trade executions.

In executing our strategies, subject to maintaining our qualification as a REIT, we employ a wide variety of hedging instruments and derivative contracts. See "—Risk Management" below.

#### **Investment Process**

Our investment process benefits from the resources and professionals of our Manager and Ellington. The process is managed by an investment and risk management committee, which includes, among others, the following three officers of our Manager: Mr. Vranos, Mr. Penn, and Mr. Tecotzky. These officers of our Manager also serve as our Co-Chief Investment Officer, Chief Executive Officer, and Co-Chief Investment Officer, respectively. The investment and risk management committee operates under investment guidelines and meets periodically to develop a set of preferences for the composition of our portfolio. The primary focus of the investment and risk management committee, as it relates to us, is to review and approve our investment policies and our portfolio holdings and related compliance with our investment policies and guidelines, and to give guidance and oversight to the various investment teams that make our day-to-day investment decisions. The investment and risk management committee has authority delegated by our Board of Directors to authorize transactions consistent with our investment guidelines.

Ellington has focused investment teams for many of our targeted asset classes. Our asset acquisition process includes sourcing and screening of asset acquisition opportunities, credit analysis, due diligence, structuring, financing, and hedging, each as appropriate, to seek attractive total returns commensurate with our risk tolerance. Our asset acquisition process is also informed by our objective to maintain our exclusion from registration as an investment company under the Investment Company Act, and to maintain our qualification as a REIT for U.S. federal income tax purposes.

## Valuation of Assets

Our Manager's valuation committee directs our valuation process, which is also subject to the oversight of our independent directors. See Note 2 of the notes to consolidated financial statements included in this report for a discussion of our valuation process.

## Risk Management

Risk management is a cornerstone of Ellington's portfolio management process. Ellington's risk management infrastructure system includes "ELLiN," a proprietary portfolio management system used by all departments at Ellington, including trading, research, risk management, finance, operations, accounting, and compliance. We benefit from Ellington's comprehensive risk management infrastructure and ongoing assessment of both portfolio and operational risks. In addition, we utilize derivatives and other hedging instruments to opportunistically hedge our credit, interest rate, and foreign currency risk.

### Interest Rate Hedging

We opportunistically hedge our interest rate risk by using various hedging strategies to mitigate such risks, subject to maintaining our qualification as a REIT and our exclusion from registration as an investment company under the Investment Company Act. The interest rate hedging instruments that we use and may use in the future include, without limitation:

- To-Be-Announced mortgage pass-through certificates, or "TBAs";
- interest rate swaps (including floating-to-fixed, fixed-to-floating, or more complex swaps such as floating-to-inverse floating, callable or non-callable);
- collateralized mortgage obligations, or "CMOs";
- U.S. Treasury securities;
- swaptions, caps, floors, and other derivatives on interest rates;
- futures and forward contracts; and
- options on any of the foregoing.

In particular, from time to time we enter into short positions in interest rate swaps to offset the potential adverse effects that changes in interest rates would have on the value of certain of our assets and our financing costs. An interest rate swap is an agreement to exchange interest rate cash flows, calculated on a notional principal amount, at specified payment dates during the life of the agreement. Typically, one party pays a fixed interest rate and receives a floating interest rate and the other party pays a floating interest rate and receives a fixed interest rate. Each party's payment obligation is computed using a different interest rate. In an interest rate swap, the notional principal is generally not exchanged.

### Credit Risk Hedging

Subject to maintaining our qualification as a REIT, we enter into credit-hedging positions in order to protect against adverse credit events with respect to certain of our credit assets. Our credit hedging portfolio can vary significantly from period to period, and can encompass a wide variety of financial instruments, including corporate debt or equity-related instruments, RMBS or CMBS-related instruments, or instruments involving other markets. Our hedging instruments can include both "single-name" instruments (i.e., instruments referencing one underlying entity or security) and hedging instruments referencing indices. We also opportunistically overlay our credit hedges with certain relative value long/short positions involving the same or similar instruments.

### Foreign Currency Hedging

To the extent we hold instruments denominated in currencies other than U.S. dollars, we may enter into transactions to offset the potential adverse effects of changes in currency exchange rates, subject to maintaining our qualification as a REIT. In particular, we may use currency forward contracts and other currency-related derivatives to mitigate this risk.

## Our Financing Strategies and Use of Leverage

We finance our assets with what we believe to be a prudent amount of leverage, the level of which varies from time to time based upon the particular characteristics of our portfolio, availability of financing, and market conditions. As of December 31, 2021, the majority of our debt financings consisted of repurchase agreements, or "repos." Currently, the majority of our repos are collateralized by Agency RMBS; however, we also have repo borrowings that are collateralized by our credit assets, and, from time to time, U.S. Treasury securities. In a repo, we sell an asset to a counterparty at a discounted value, or the loan amount, and simultaneously agree to repurchase the same asset from such counterparty at a specified later date at a price

equal to the loan amount plus an interest factor. Despite being legally structured as sales and subsequent repurchases, repos are accounted for as collateralized borrowings under U.S. Generally Accepted Accounting Principles, or "U.S. GAAP". During the term of a repo, we generally receive the income and other payments distributed with respect to the underlying assets, and pay interest to the counterparty. While the proceeds of our repo financings are often used to purchase the assets subject to the transaction, our financing arrangements do not restrict our ability to use proceeds from these arrangements to support our other liquidity needs. Our repo arrangements are typically documented under the Securities Industry and Financial Markets Association's, or "SIFMA's," standard form master repurchase agreement with the ability for both parties to demand margin (i.e., to demand that the other party post additional collateral or repay a portion of the funds advanced) should the value of the underlying assets and posted collateral change. As the value of our collateral fluctuates, under most of our master repurchase agreements, we and our repo counterparties are required to post additional collateral to each other from time to time as part of the normal course of our business. Our repo financing counterparties generally have the right, to varying degrees, to determine the value of the underlying collateral for margining purposes, subject to the terms and conditions of our agreement with the counterparty.

In addition to using repos to finance many of our assets, we have also entered into securitization transactions, and secured borrowing facilities, to finance other assets. For those secured financings, other than repos, for which the associated transfer of assets is not accounted for as a sale, the associated borrowings are included under the captions Other secured borrowings and Other secured borrowings, at fair value, on our Consolidated Balance Sheet. In addition, we have issued senior notes, or "Senior Notes," that are unsecured and are effectively subordinated to our secured indebtedness, to the extent of the value of the collateral securing such indebtedness. Finally, we have also raised equity capital to finance acquisitions of our targeted assets, including through public offerings of our common stock, our 6.750% Series A Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, \$0.001 par value per share ("Series A Preferred Stock") and our 6.250% Series B Fixed-Rate Reset Cumulative Redeemable Preferred Stock, \$0.001 par value per share ("Series B Preferred Stock").

We may utilize other types of borrowings in the future, including more complex financing structures. We also may raise capital by issuing additional debt securities, additional preferred or common stock, warrants, or other securities.

Our use of leverage, especially in order to increase the amount of assets supported by our capital base, may have the effect of increasing losses when these assets underperform. Our investment policies require no minimum or maximum leverage, and our Manager's investment and risk management committee has the discretion, without the need for further approval by our Board of Directors, to change both our overall leverage and the leverage used for individual asset classes. Because our strategy is flexible, dynamic, and opportunistic, our overall leverage will vary over time. As a result, we do not have a targeted debt-to-equity ratio.

#### **Management Agreement**

We entered into a management agreement with our Manager upon our inception in August 2007, pursuant to which our Manager provides for the day-to-day management of our operations.

The management agreement, as amended, requires our Manager to manage our assets, operations, and affairs in conformity with the policies and the investment guidelines that are approved and monitored by our Board of Directors. Our Manager is under the supervision and direction of our Board of Directors. Our Manager is responsible for:

- the selection, purchase, and sale of assets in our portfolio;
- our financing and risk management activities;
- providing us with advisory services; and
- providing us with a management team, inclusive of a partially dedicated Chief Financial Officer and appropriate support personnel as necessary.

Our Manager is responsible for our day-to-day operations and performs (or causes to be performed) such services and activities relating to the management, operation, and administration of our assets and liabilities, and business as may be appropriate.

Under the management agreement, we pay our Manager a management fee quarterly in arrears, which includes a "base" component and an "incentive" component, and we reimburse certain expenses of our Manager.

The management agreement provides that 10% of each incentive fee payable to our Manager is to be paid in common shares, with the balance paid in cash; provided, however, that our Manager may, in its sole discretion, elect to receive a greater percentage of any incentive fee in the form of common shares by providing our Board of Directors with written notice of its election to receive a greater percentage of its incentive fee in common shares before the first day of the last calendar month in



the quarter to which such incentive fee relates. The management agreement further provides that our Manager may not elect to receive common shares as payment of its incentive fee, other than in accordance with all applicable securities exchange rules and securities laws (including prohibitions on insider trading). The number of our common shares to be received by our Manager is based on the fair market value of those common shares, which is determined based on the average of the closing prices of our common shares as reported by the NYSE during the last calendar month of the quarter to which such incentive fee relates. Common shares delivered as payment of the incentive fee are immediately vested, provided that our Manager has agreed not to sell such common shares prior to one year after the date they are issued to our Manager, provided further, however, that this transfer restriction will immediately lapse if the management agreement is terminated.

**Base Management Fees, Incentive Fees, and Reimbursement of Expenses**

**Base Management Fees**

Under the management agreement, we pay our Manager a base management fee quarterly in arrears in an amount equal to 1.50% per annum of the equity of the Operating Partnership (calculated in accordance with U.S. GAAP) as of the end of each fiscal quarter (before deductions for base management and incentive fees payable with respect to such fiscal quarter), provided that the equity of the Operating Partnership is adjusted to exclude one-time events pursuant to changes in U.S. GAAP, as well as non-cash charges after discussion between our Manager and our independent directors, and approval by a majority of our independent directors in the case of non-cash charges.

**Incentive Fees**

In addition to the base management fee, with respect to each fiscal quarter we pay our Manager an incentive fee equal to the excess, if any, of (i) the product of (A) 25% and (B) the excess of (1) our Adjusted Net Income (described below) for the Incentive Calculation Period (which means such fiscal quarter and the immediately preceding three fiscal quarters) over (2) the sum of the Hurdle Amounts (described below) for the Incentive Calculation Period, over (ii) the sum of the incentive fees already paid or payable for each fiscal quarter in the Incentive Calculation Period preceding such fiscal quarter.

For purposes of calculating the incentive fee, "Adjusted Net Income" for the Incentive Calculation Period means the net increase/(decrease) in equity resulting from operations of the Operating Partnership (or such equivalent U.S. GAAP measure based on the basis of presentation of our consolidated financial statements), after all base management fees but before any incentive fees for such period, and excluding any non-cash equity compensation expenses for such period, as reduced by any Loss Carryforward (as described below) as of the end of the fiscal quarter preceding the Incentive Calculation Period. Adjusted Net Income will be adjusted to exclude one-time events pursuant to changes in U.S. GAAP, as well as non-cash charges after discussion between our Manager and our independent directors and approval by a majority of our independent directors in the case of non-cash charges.

For purposes of calculating the incentive fee, the "Loss Carryforward" as of the end of any fiscal quarter is calculated by determining the excess, if any, of (1) the Loss Carryforward as of the end of the immediately preceding fiscal quarter over (2) the net increase in equity resulting from operations of the Operating Partnership (expressed as a positive number) or the net decrease in equity resulting from operations of the Operating Partnership (expressed as a negative number) for such fiscal quarter (or such equivalent U.S. GAAP measure as may be appropriate depending on the basis of presentation of our consolidated financial statements), as the case may be, calculated in accordance with U.S. GAAP, adjusted to exclude one-time events pursuant to changes in U.S. GAAP, as well as non-cash charges after discussion between our Manager and our independent directors and approval by a majority of our independent directors in the case of non-cash charges.

For purposes of calculating the incentive fee, the "Hurdle Amount" means, with respect to any fiscal quarter, the product of (i) one-fourth of the greater of (A) 9% and (B) 3% plus the 10-year U.S. Treasury rate for such fiscal quarter, (ii) the sum of (A) the weighted average gross proceeds per share of all common share and operating partnership unit, or "OP Unit," issuances since our inception and up to the end of such fiscal quarter, with each issuance weighted by both the number of shares and OP Units issued in such issuance and the number of days that such issued shares and OP Units were outstanding during such fiscal quarter, using a first-in first-out basis of accounting (i.e., attributing any share and OP Unit repurchases to the earliest issuances first) and (B) the result obtained by dividing (I) retained earnings attributable to common shares and OP Units at the beginning of such fiscal quarter by (II) the average number of common shares and OP Units outstanding for each day during such fiscal quarter, and (iii) the sum of (x) the average number of common shares and long term incentive plan units, or "LTIP Units," outstanding for each day during such fiscal quarter and (y) the average number of OP Units, and limited liability company interests in the Operating Partnership which are designated as LTIP Units, or "OP LTIP Units," outstanding for each day during such fiscal quarter. For purposes of determining the Hurdle Amount, issuances of common shares, OP LTIP Units and OP Units (a) as equity incentive awards, (b) to the Manager as part of its base management fee or incentive fee and (c) to the Manager or any of its affiliates in privately negotiated transactions, are excluded from the calculation. The payment of the incentive fee will

be in a combination of common shares and cash, provided that at least 10% of any quarterly payment will be made in common shares.

#### **Reimbursement of Expenses**

We do not maintain an office or employ personnel. We rely on the facilities and resources of our Manager to conduct our operations. We pay all of our direct operating expenses, except those specifically required to be borne by our Manager under the management agreement. Our Manager is responsible for all costs incident to the performance of its duties under the management agreement, including compensation of Ellington's employees and other related expenses, other than our allocable portion of the costs incurred by our Manager for certain dedicated or partially dedicated employees including a Chief Financial Officer, one or more controllers, an in-house legal counsel, an investor relations professional, certain internal audit staff in connection with Sarbanes-Oxley compliance initiatives and certain other personnel performing duties for us, including certain personnel involved in the implementation of our more operationally intensive strategies, such as personnel involved in loan acquisition and loan management, based on the portion of their working time and efforts spent on our matters and subject to approval of the reimbursed amounts by the Compensation Committee of the Board of Directors. In addition, other than as expressly described in the management agreement, we are not required to pay any portion of rent, telephone, utilities, office furniture, equipment, machinery, and other office, internal and overhead expenses of our Manager and its affiliates.

#### **Term and Termination**

The management agreement has a current term that expires on December 31, 2022, and will automatically renew for a one year term on each anniversary date thereafter unless notice of non-renewal is delivered by either party to the other party at least 180 days prior to the expiration of the then current term. Our independent directors review our Manager's performance annually, and the management agreement may be terminated annually upon the affirmative vote of at least two-thirds of our independent directors, or by the affirmative vote of the holders of at least a majority of the outstanding common shares, based upon unsatisfactory performance by our Manager that is materially detrimental to us or a determination by our independent directors that the fees payable to our Manager are not fair, subject to our Manager's right to prevent a fee-based termination by accepting a mutually acceptable reduction of its fees. In the event we terminate the management agreement without cause or elect not to renew the management agreement, we will be required to pay our Manager a termination fee equal to the amount of three times the sum of (i) the average annual base management fee earned by our Manager during the 24-month period immediately preceding the date of notice of termination or non-renewal, calculated as of the end of the most recently completed fiscal quarter prior to the date of notice of termination or non-renewal and (ii) the average annual incentive fee earned by our Manager during the 24-month period immediately preceding the date of notice of termination or non-renewal, calculated as of the end of the most recently completed fiscal quarter prior to the date of notice of termination or non-renewal.

We may also terminate the management agreement without payment of the termination fee with 30 days prior written notice from our Board of Directors for cause, which is defined as:

- our Manager's continued material breach of any provision of the management agreement following a period of 30 days after written notice of such breach;
- our Manager's fraud, misappropriation of funds, or embezzlement against us;
- our Manager's gross negligence in performance of its duties under the management agreement;
- the occurrence of certain events with respect to the bankruptcy or insolvency of our Manager, including, but not limited to, an order for relief in an involuntary bankruptcy case or our Manager authorizing or filing a voluntary bankruptcy petition;
- the dissolution of our Manager; and
- certain changes of control of our Manager, including but not limited to the departure of Mr. Vranos from senior management of Ellington, whether through resignation, retirement, withdrawal, long-term disability, death or termination of employment with or without cause or for any other reason.

Our Manager may terminate the management agreement effective upon 60 days prior written notice of termination to us in the event that we default in the performance or observance of any material term, condition or covenant in the management agreement and the default continues for a period of 30 days after written notice to us specifying the default and requesting that the default be remedied in such 30-day period. In the event our Manager terminates the management agreement due to our default in the performance or observance of any material term, condition, or covenant in the management agreement, we will be required to pay our Manager the termination fee. Our Manager may also terminate the management agreement in the event we become regulated as an investment company under the Investment Company Act, with such termination deemed to occur immediately prior to such event; provided, however, that in the case of such termination, if our Manager was not at fault for our becoming regulated as an investment company under the Investment Company Act, we will be required to pay the termination

fee.

### Conflicts of Interest; Equitable Allocation of Opportunities

Ellington manages, and expects to continue to manage, other funds, accounts, and vehicles that have strategies that are similar to, or that overlap with, our strategy, including Ellington Residential Mortgage REIT. As of December 31, 2021, Ellington managed various funds, accounts, and other vehicles, comprising approximately \$12.0 billion of assets under management (excluding our assets but including \$5.4 billion of accounts that do not employ financial leverage), with strategies that are similar to, or that overlap with, our strategy. The \$12.0 billion in assets under management include approximately \$1.2 billion in Ellington-managed CLOs. For these purposes, the Ellington-managed CLO figure represents the aggregate outstanding balance of CLO notes and market value of CLO equity, excluding any notes and equity held by other Ellington-managed funds and accounts. Ellington makes available to our Manager all opportunities to acquire assets that it determines, in its reasonable and good faith judgment, based on our objectives, policies and strategies, and other relevant factors, are appropriate for us in accordance with Ellington's written investment allocation policy, it being understood that we might not participate in each such opportunity, but will on an overall basis equitably participate with Ellington's other accounts in all such opportunities. Ellington's Investment and Risk Management Committee and its Compliance Committee (headed by its Chief Compliance Officer) are responsible for monitoring the administration of, and facilitating compliance with, Ellington's investment allocation procedures and policies.

Because many of our targeted assets are typically available only in specified quantities and are also targeted assets for other Ellington accounts, Ellington often is not able to buy as much of any given asset as required to satisfy the needs of all of its accounts. In these cases, Ellington's investment allocation procedures and policies typically allocate such assets to multiple accounts in proportion to their needs and available capital. Ellington may at times allocate opportunities on a preferential basis to accounts that are in a "start-up" or "ramp-up" phase. The policies permit departure from such proportional allocation under certain circumstances, including, for example, when such allocation would result in an inefficiently small amount of the security or assets being purchased for an account. In that case, the policies allow for a protocol of allocating assets so that, on an overall basis, each account is treated equitably. In addition, as part of these policies, we may be excluded from specified allocations of assets for tax, regulatory, risk management, or similar reasons.

Other policies of Ellington that our Manager applies to the management of our company include controls for:

- *Cross Transactions*—defined as transactions between us or one of our subsidiaries, on the one hand, and an account (other than us or one of our subsidiaries) managed by Ellington or our Manager, on the other hand. It is Ellington's policy to engage in a cross transaction only when the transaction is in the best interests of, and is consistent with the objectives and policies of, both accounts involved in the transaction. Pursuant to the terms of the management agreement, Ellington or our Manager may enter into cross transactions where it acts both on our behalf and on behalf of the other party to the transaction. Although we believe such restrictions on our Manager's ability to engage in cross transactions on our behalf mitigate many risks, cross transactions, even at market prices, may potentially create a conflict of interest between our Manager's and our officers' duties to and interests in us and their duties to and interests in the other party. Upon written notice to our Manager, we may at any time revoke our consent to our Manager's executing cross transactions. Additionally, unless approved in advance by a majority of our independent directors or pursuant to and in accordance with a policy that has been approved by a majority of our independent directors, all cross transactions must be effected at the then-prevailing market prices. Pursuant to our Manager's current policies and procedures, assets for which there are no readily observable market prices may be purchased or sold in cross transactions (i) at prices based upon third-party bids received through auction, (ii) at the average of the highest bid and lowest offer quoted by third-party dealers, or (iii) according to another pricing methodology approved by our Manager's Chief Compliance Officer.
- *Principal Transactions*—defined as transactions between Ellington or our Manager (or any related party of Ellington or our Manager, which includes employees of Ellington and our Manager and their families), on the one hand, and us or one of our subsidiaries, on the other hand. Certain cross transactions may also be considered principal transactions whenever our Manager or Ellington (or any related party of Ellington or our Manager, which includes employees of Ellington and our Manager and their families) have a substantial ownership interest in one of the transacting parties. Our Manager is only authorized to execute principal transactions with the prior approval of a majority of our independent directors and in accordance with applicable law. Such prior approval includes approval of the pricing methodology to be used, including with respect to assets for which there are no readily observable market prices.
- *Investment in Other Ellington Accounts*—pursuant to the management agreement, if we invest at issuance in the equity of any collateralized debt obligation, or "CDO," that is managed, structured, or originated by Ellington or one of its affiliates, or if we invest in any other investment fund or other investment for which Ellington or one of its affiliates receives management, origination, or structuring fees, then, unless agreed otherwise by a majority of our independent

directors, the base management and incentive fees payable by us to our Manager will be reduced by (or our Manager will otherwise rebate to us) an amount equal to the applicable portion (as described in the management agreement) of any such management, origination or structuring fees.

- *Split Price Executions*—pursuant to the management agreement, our Manager is authorized to combine purchase or sale orders on our behalf together with orders for other accounts managed by Ellington, our Manager or their affiliates and allocate the securities or other assets so purchased or sold, on an average price basis or other fair and consistent basis, among such accounts.

Our Manager is authorized to follow very broad investment guidelines. Our independent directors will periodically review our investment guidelines and our portfolio. However, our independent directors generally will not review our proposed asset acquisitions, dispositions, or other management decisions. In addition, in conducting periodic reviews, our independent directors will rely primarily on information provided to them by our Manager. Furthermore, our Manager may arrange for us to use complex strategies or to enter into complex transactions that may be difficult or impossible to unwind by the time they are reviewed by our independent directors. Our Manager has great latitude within our broad investment guidelines to determine the types of assets it may decide are proper for purchase by us. The management agreement with our Manager does not restrict the ability of its officers and employees from engaging in other business ventures of any nature, whether or not such ventures are competitive with our business. We may acquire assets from entities affiliated with our Manager, even where the assets were originated by such entities. Affiliates of our Manager may also provide services to entities in which we have invested.

Our executive officers and the officers and employees of our Manager are also officers and employees of Ellington, and we compete with other Ellington accounts for access to these individuals. We have not adopted a policy that expressly prohibits our directors, officers, security holders, or affiliates from having a direct or indirect pecuniary interest in any asset to be acquired or disposed of by us or any of our subsidiaries or in any transaction to which we or any of our subsidiaries is a party or has an interest, nor do we have a policy that expressly prohibits any such persons from engaging for their own account in business activities of the types conducted by us. However, our code of business conduct and ethics contains a conflicts of interest policy that prohibits our directors, officers, and employees, as well as employees of our Manager who provide services to us, from engaging in any transaction that involves an actual or apparent conflict of interest with us, absent approval by the Board of Directors or except as expressly set forth above or as provided in the management agreement between us and our Manager. In addition, nothing in the management agreement binds or restricts our Manager or any of its affiliates, officers, or employees from buying, selling, or trading any securities or commodities for their own accounts or for the accounts of others for whom our Manager or any of its affiliates, officers, or employees may be acting.

## **Competition**

In acquiring our assets, we compete with other mortgage REITs, specialty finance companies, banks, mortgage bankers, insurance companies, mutual funds, institutional investors, investment banking firms, financial institutions, governmental bodies, private equity firms, and other entities. Many of our competitors are significantly larger than us, have greater access to capital and other resources, and may have other advantages over us. Our competitors may include other investment vehicles managed by Ellington or its affiliates, including Ellington Residential Mortgage REIT. In addition to existing companies, other companies may be organized for similar purposes in the future, including companies focused on purchasing mortgage assets. A proliferation of such companies may increase the competition for equity capital and thereby adversely affect the market price of our common or preferred stock. An increase in the competition for sources of funding could adversely affect the availability and cost of financing, and thereby adversely affect the market price of our common or preferred stock. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of assets, or pay higher prices, than we can.

In the face of this competition, we have access to our Manager's and Ellington's professionals and their industry expertise, which may provide us with a competitive advantage and help us assess risks and determine appropriate pricing for certain potential assets. In addition, we believe that these relationships, along with our strategic equity investments in loan originators, enable us to compete more effectively for attractive asset acquisition opportunities. However, we may not be able to achieve our business goals or expectations due to the competitive risks that we face.

## **Operating and Regulatory Structure**

### ***Tax Requirements***

We elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, or "the Code," commencing with our taxable year ended December 31, 2019. Since January 1, 2019, we have been organized in conformity with, and have operated in a manner that has enabled us to meet, the requirements for qualification as a REIT for U.S. federal income tax purposes. Provided that we maintain our qualification as a REIT, we generally will not be subject to U.S. federal income tax on our REIT taxable income that is currently distributed to our stockholders. REITs are subject to a number of organizational and

operational requirements, including a requirement that they currently distribute at least 90% of their annual REIT taxable income excluding net capital gains. We cannot assure you that we will be able to comply with such requirements. Failure to qualify as a REIT in any taxable year would cause us to be subject to U.S. federal income tax on our taxable income at regular corporate rates (and any applicable state and local taxes). Even if we qualify for taxation as a REIT, we may be subject to certain U.S. federal, state, local, and non-U.S. taxes on our income. For example, any income generated by our domestic TRSs will be subject to U.S. federal, state, and local income tax. Any taxes paid by a TRS will reduce the cash available for distribution to our stockholders.

#### **Investment Company Act Exclusions**

Most of our business is conducted through various wholly-owned and majority-owned subsidiaries in a manner such that neither we nor our subsidiaries are subject to registration under the Investment Company Act. Under Section 3(a)(1) of the Investment Company Act, a company is deemed to be an "investment company" if:

- it is, or holds itself out as being, engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting, or trading in securities (Section 3(a)(1)(A)); or
- it is engaged or proposes to engage in the business of investing, reinvesting, owning, holding, or trading in securities and does own or proposes to acquire "investment securities" having a value exceeding 40% of the value of its total assets (excluding U.S. government securities and cash) on an unconsolidated basis, or "the 40% Test" (Section 3(a)(1)(C)). "Investment securities" excludes U.S. government securities and securities of majority-owned subsidiaries that are not themselves investment companies and are not relying on the exception from the definition of investment company for private funds under Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act.

We believe that we and our Operating Partnership, and a holding company subsidiary of our Operating Partnership, or the "Holding Subsidiary," will not be considered investment companies under Section 3(a)(1) of the Investment Company Act, because we and they satisfy the 40% Test and because we and they do not engage primarily (or hold ourselves or themselves out as being engaged primarily) in the business of investing, reinvesting, or trading in securities. Rather, through wholly-owned or majority-owned subsidiaries, we, our Operating Partnership, and the Holding Subsidiary are primarily engaged in the non-investment company businesses of these subsidiaries.

Our Operating Partnership currently has several subsidiaries that rely on the exclusion provided by Section 3(c)(7) of the Investment Company Act, each a "3(c)(7) subsidiary." In addition, the Holding Subsidiary currently has several 3(c)(7) subsidiaries and several subsidiaries that rely on the exclusion provided by Section 3(c)(5)(C) of the Investment Company Act, each a "3(c)(5)(C) subsidiary." While investments in 3(c)(7) subsidiaries are considered investment securities for the purposes of the 40% Test, investments in 3(c)(5)(C) subsidiaries are not considered investment securities for the purposes of the 40% Test, nor are investments in subsidiaries that rely on the exclusion provided by Section 3(a)(1)(C).

Therefore, our Operating Partnership's investments in its 3(c)(7) subsidiaries and its other investment securities cannot exceed 40% of the value of our Operating Partnership's total assets (excluding U.S. government securities and cash) on an unconsolidated basis. In addition, the Holding Subsidiary's investment in its 3(c)(7) subsidiaries and its other investment securities cannot exceed 40% of the value of our Holding Subsidiary's total assets (excluding U.S. government securities and cash) on an unconsolidated basis.

Section 3(c)(5)(C) of the Investment Company Act is designed for entities primarily engaged in the business of "purchasing or otherwise acquiring mortgages and other liens on and interests in real estate." This exclusion generally requires that at least 55% of the entity's assets on an unconsolidated basis consist of qualifying real estate assets and at least 80% of the entity's assets on an unconsolidated basis consist of qualifying real estate assets or real estate-related assets. Both the 40% Test and the requirements of the Section 3(c)(5)(C) exclusion limit the types of businesses in which we may engage and the types of assets we may hold, as well as the timing of sales and purchases of assets.

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 notes that the SEC is reviewing the Section 3(c)(5)(C) exclusion relied upon by companies similar to us that invest in mortgage loans and mortgage-backed securities. There can be no assurance that the laws and regulations governing the Investment Company Act status of companies similar to ours, or the guidance from the Division of Investment Management of the SEC regarding the treatment of assets as qualifying real estate assets or real estate-related assets, will not change in a manner that adversely affects our operations as a result of this review. To the extent that the SEC staff provides more specific guidance regarding any of the matters bearing upon our exclusion from the need to register under the Investment Company Act, we may be required to adjust our strategy accordingly. Any additional guidance from the SEC staff could provide additional flexibility to us, or it could further inhibit our ability to pursue the strategies that we have chosen. Furthermore, although we intend to monitor the assets of our 3(c)(5)(C) subsidiaries regularly, there can be no assurance that any such subsidiary will be able to maintain this exclusion

from registration. In that case, our investment in any such subsidiary would be classified as an investment security, and we might not be able to maintain our overall exclusion from registering as an investment company under the Investment Company Act.

If we or our subsidiaries were required to register as an investment company under the Investment Company Act, we would become subject to substantial regulation with respect to our capital structure (including our ability to use leverage), management, operations, transactions with affiliated persons (as defined in the Investment Company Act), and portfolio composition, including restrictions with respect to diversification and industry concentration and other matters. Compliance with the restrictions imposed by the Investment Company Act would require us to make material changes to our strategy which could materially adversely affect our business, financial condition and results of operations, and our ability to make distributions to our stockholders. Accordingly, to avoid that result, we may be required to adjust our strategy, which could limit our ability to make certain investments or require us to sell assets in a manner, at a price or at a time that we otherwise would not have chosen. This could negatively affect the value of our common or preferred stock, the sustainability of our business model and our ability to make distributions. See "Item 1A. Risk Factors—Risks Related to Our Organization and Structure—Maintenance of our exclusion from registration as an investment company under the Investment Company Act imposes significant limitations on our operations."

#### ***Investment Advisers Act of 1940***

Both Ellington and our Manager are registered as investment advisers under the Investment Advisers Act of 1940, as amended, and are subject to the regulatory oversight of the Division of Investment Management of the SEC.

#### **Human Capital Resources**

We have no employees. All of our executive officers, and our dedicated or partially dedicated personnel, which include our Chief Financial Officer, Chief Accounting Officer, controller, accounting staff, in-house legal counsel, internal audit staff, and other personnel providing services to us are employees of Ellington or one or more of its affiliates. See "—Management Agreement" above.

#### **Additional Information**

A copy of this Annual Report on Form 10-K, as well as our Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available, free of charge, on our internet website at [www.ellingtonfinancial.com](http://www.ellingtonfinancial.com). All of these reports are made available on our internet website as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. Our Corporate Governance Guidelines and Code of Business Conduct and Ethics and the charters of the Audit, Compensation and Nominating and Corporate Governance Committees of our Board of Directors are also available at [www.ellingtonfinancial.com](http://www.ellingtonfinancial.com) and are available in print to any stockholder upon request in writing to Ellington Financial Inc., c/o Investor Relations, 53 Forest Avenue, Old Greenwich, CT 06870. The information on our website is not, and shall not be deemed to be, a part of this report or incorporated into any other filing we make with the SEC.

In addition, all of our reports filed with or furnished to the SEC can be obtained at the SEC's website at [www.sec.gov](http://www.sec.gov).

## Item 1A. Risk Factors

### Summary of Risk Factors

#### Risks Related To Our Business

- Difficult conditions in the mortgage and residential real estate markets as well as general market concerns may adversely affect the value of the assets in which we invest.
- The federal conservatorship of Fannie Mae and Freddie Mac and related efforts, along with any changes in laws and regulations affecting the relationship between Fannie Mae, Freddie Mac, and Ginnie Mae and the U.S. Government, may materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.
- Mortgage loan modification programs and future legislative action may adversely affect the value of, and the returns on, our targeted assets.
- The principal and interest payments on our non-Agency RMBS are not guaranteed by any entity, including any government entity or GSE, and therefore are subject to increased risks, including credit risk.
- Less stringent underwriting guidelines and the resultant potential for delinquencies or defaults on certain mortgage loans could lead to losses on many of the non-Agency RMBS and European RMBS that we hold.
- We rely on analytical models and other data to analyze potential asset acquisition and disposition opportunities and to manage our portfolio. Such models and other data may be incorrect, misleading or incomplete, which could cause us to purchase assets that do not meet our expectations or to make asset management decisions that are not in line with our strategy.
- Valuations of some of our assets are inherently uncertain, may be based on estimates, may fluctuate over short periods of time, and may differ from the values that would have been used if a ready market for these assets existed.
- We depend on third-party service providers, including mortgage servicers, for a variety of services related to our non-Agency RMBS, European assets, securitizations, and whole mortgage loans and loan pools. We are, therefore, subject to the risks associated with third-party service providers.
- We rely on mortgage servicers for our loss mitigation efforts, and we also may engage in our own loss mitigation efforts with respect to whole mortgage loans that we own directly. Such loss mitigation efforts may be unsuccessful or not cost effective.
- We may be affected by deficiencies in foreclosure practices of third parties, as well as related delays in the foreclosure process.
- 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.
- Sellers of the mortgage loans that we acquire, or that underlie the non-Agency RMBS or European RMBS in which we invest, may be unable to repurchase defective mortgage loans, which could have a material adverse effect on the value of our loans, or the loans held by the trust that issued the RMBS, and could cause shortfalls in the payments due on the RMBS or losses on the mortgage loans.
- Our assets include subordinated and lower-rated securities that generally have greater risk of loss than senior and higher-rated securities.
- Investments in second-lien mortgage loans could subject us to increased risk of losses.
- Prepayment rates can change, adversely affecting the performance of our assets.
- Increases in interest rates could negatively affect the value of our assets and increase the risk of default on our assets.
- An increase in interest rates may cause a decrease in the issuance volumes of certain of our targeted assets, which could adversely affect our ability to acquire targeted assets that satisfy our investment objectives and to generate income and pay dividends.
- Interest rate caps on the ARMs and hybrid ARMs that back our RMBS may reduce our net interest margin during periods of rising or high interest rates.
- Residential mortgage loans, including non-QM loans, residential transition loans, and residential NPLs, are subject to increased risks.
- If we subsequently resell any whole mortgage loans that we acquire, we may be required to repurchase such loans or indemnify purchasers if we breach representations and warranties.
- The commercial mortgage loans that we acquire or originate, 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 to the risks of delinquency and foreclosure.
- Our investments in CMBS are at risk of loss.
- We may not control the special servicing of the mortgage loans included in the CMBS in which we invest and, in such cases, the special servicer may take actions that could adversely affect our interests.
- A portion of our investments currently are, and in the future may be, in the form of non-performing and sub-performing commercial and residential mortgage loans, or loans that may become non-performing or sub-performing, which are subject to increased risks relative to performing loans.
- Our real estate assets and our real estate-related assets (including mortgage loans and MBS) are subject to the risks associated with real property.
- We engage in short selling transactions, which may subject us to additional risks.
- We use leverage in executing our business strategy, which may adversely affect the return on our assets and may reduce cash available for distribution to our stockholders, as well as increase losses when economic conditions are unfavorable.
- Our access to financing sources, which may not be available on favorable terms, or at all, may be limited, and our lenders and derivative counterparties may require us to post additional collateral. These circumstances may materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.
- A failure to comply with restrictive covenants in our financing arrangements would have a material adverse effect on us, and any future financings may require us to provide additional collateral or pay down debt.
- Our securitizations may expose us to additional risks.
- Interest rate mismatches between our assets and our borrowings may reduce our income during periods of changing interest rates, and increases in interest rates could adversely affect the value of our assets.
- The planned discontinuation of LIBOR and transition from LIBOR to an alternative reference rate may adversely affect the value and liquidity of the financial obligations to be held or issued by us that are linked to LIBOR.
- Our investments that are denominated in foreign currencies subject us to foreign currency risk, which may adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.
- Hedging against credit events, interest rate changes, foreign currency fluctuations, and other risks may materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.
- Hedging instruments and other derivatives, including some credit default swaps, may not, in many cases, be traded on regulated exchanges, or may not be guaranteed or regulated by any U.S. or foreign governmental authority and involve risks and costs that could result in material losses.
- Certain of our hedging instruments are regulated by the CFTC and such regulations may adversely impact our ability to enter into such hedging instruments and cause us to incur increased costs.
- Our use of derivatives may expose us to counterparty risk.
- Our rights under our repos are subject to the effects of the bankruptcy or insolvency of us or our lenders.
- Certain actions by the Federal Reserve could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.
- We may change our investment strategy, investment guidelines, hedging strategy, and asset allocation, operational, and management policies without notice or stockholder consent, which may materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to

- our stockholders. In addition, our Board of Directors may authorize us to revoke or otherwise terminate our REIT election without the approval of our stockholders.
- We operate in a highly competitive market.
- We are highly dependent on Ellington's information systems and those of third-party service providers 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 pay dividends to our stockholders.
- Because we are highly dependent on information systems when sharing information with third party service providers, systems failures, breaches or cyber-attacks could significantly disrupt our business, which could have a material adverse effect on our results of operations and cash flows.
- Lack of diversification in the number of assets we acquire would increase our dependence on relatively few individual assets.
- The lack of liquidity in our assets may materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.
- We could be subject to liability for potential violations of various federal, state and local laws and regulations, including 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.
- We may be exposed to environmental liabilities with respect to properties in which we have an interest.
- Consumer loans are subject to delinquency and loss, which could have a negative impact on our financial results.
- Increased regulatory attention and potential regulatory action on certain areas within the consumer credit or reverse mortgage businesses could have a negative impact on our reputation, or cause losses on our investments in consumer loans or our equity investment in loan originators.
- Our investments in distressed debt and equity have significant risk of loss, and our efforts to protect these investments may involve large costs and may not be successful.
- We have held and may continue to hold the debt securities, loans or equity of companies that are more likely to enter into bankruptcy proceedings or have other risks.
- We may be subject to risks associated with syndicated loans.
- We have made and may in the future make investments in companies that we do not control.
- We expect to consolidate one of our loan originator investments, and, could in the future, consolidate additional loan originator investments.
- We have invested and may in the future invest in securities in the developing CRT sector that are subject to mortgage credit risk.

**Risks Related to the COVID-19 Pandemic**

- The global outbreak of the COVID-19 pandemic has adversely affected, and could continue to adversely affect, our business, financial condition, liquidity, and results of operations.

**Risks Related to our Relationship with our Manager and Ellington**

- Our relationship with our Manager and Ellington poses risks to us.
- We are dependent on our Manager and certain key personnel of Ellington that are provided to us through our Manager and may not find a suitable replacement if our Manager terminates the management agreement or such key personnel are no longer available to us.
- There are conflicts of interest in our relationships with our Manager and Ellington, which could result in decisions that are not in the best interests of our shareholders.

**Risks Related to Our Common Stock and Preferred Stock**

- Our stockholders may not receive dividends or dividends may not grow over time.
- An increase in interest rates may have an adverse effect on the market price of our equity or debt securities and our ability to pay dividends to our stockholders.
- Investing in our securities involves a high degree of risk.

**Risks Related to Our Organization and Structure**

- Our certificate of incorporation, bylaws and management agreement contain provisions that may inhibit potential acquisition bids that stockholders may consider favorable, and the market price of our common stock may be lower as a result.
- There are ownership limits and restrictions on transferability in our certificate of incorporation.
- Our rights and the rights of our stockholders to take action against our directors and officers or against our Manager or Ellington are limited, which could limit your recourse in the event actions are taken that are not in your best interests.
- Our certificate of incorporation designates the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors or officers.
- Maintenance of our exclusion from registration as an investment company under the Investment Company Act imposes significant limitations on our operations.
- If we were required to register as an investment company under the Investment Company Act, we would be subject to the restrictions imposed by the Investment Company Act, which would require us to make material changes to our strategy.

**U.S. Federal Income Tax Risks**

- Your investment has various U.S. federal, state, and local income tax risks. Our failure to qualify as a REIT would subject us to U.S. federal, state and local income taxes, which could adversely affect the value of our common stock and would substantially reduce the cash available for distribution to our stockholders.
- Complying with REIT requirements may cause us to forego or liquidate otherwise attractive investments.
- Complying with REIT requirements may limit our ability to hedge effectively.

The above list is not exhaustive, and we face additional challenges and risks. Please carefully consider all of the information in this Report, including the matters set forth below in this Item 1A.



*If any of the following risks occurs, our business, financial condition or results of operations could be materially and adversely affected. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us, or not presently deemed material by us, may also impair our operations and performance. In connection with the forward-looking statements that appear in our periodic reports on Form 10-Q and Form 10-K, our Current Reports on Form 8-K, our press releases and our other written and oral communications, you should also carefully review the cautionary statements referred to in such reports and other communications referred to under "Special Note Regarding Forward-Looking Statements."*

#### **Risks Related To Our Business**

***Difficult conditions in the mortgage and residential real estate markets as well as general market concerns may adversely affect the value of the assets in which we invest.***

Our business is materially affected by conditions in the residential mortgage market, the residential real estate market, the financial markets, and the economy, including inflation, energy costs, unemployment, geopolitical issues, concerns over the creditworthiness of governments worldwide and the stability of the global banking system. In particular, the residential mortgage markets in the U.S. and Europe have experienced a variety of difficulties and challenging economic conditions in the past, including defaults, credit losses, and liquidity concerns. Certain commercial banks, investment banks, insurance companies, and mortgage-related investment vehicles incurred extensive losses from exposure to the residential mortgage market as a result of these difficulties and conditions. These factors have impacted, and may in the future impact, investor perception of the risks associated with residential mortgage loans, RMBS, other real estate-related securities and various other asset classes in which we may invest. As a result, values for residential mortgage loans, RMBS, other real estate-related securities and various other asset classes in which we may invest have experienced, and may in the future experience, significant volatility. Any deterioration of the mortgage market and investor perception of the risks associated with residential mortgage loans, RMBS, other real estate-related securities, and various other assets that we acquire could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

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

The payments we receive on our Agency RMBS depend upon a steady stream of payments on the underlying mortgages and such payments are guaranteed by the Federal National Mortgage Association, or "Fannie Mae," the Federal Home Loan Mortgage Corporation, or "Freddie Mac," or the Government National Mortgage Association, within the U.S. Department of Housing and Urban Development, or "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. Ginnie Mae, which guarantees MBS backed by federally insured or guaranteed loans primarily consisting of loans insured by the Federal Housing Administration, or "FHA," or guaranteed by the Department of Veterans Affairs, or "VA," is part of a U.S. Government agency and its guarantees are backed by the full faith and credit of the United States.

In September 2008, in response to the deteriorating financial condition of Fannie Mae and Freddie Mac, the U.S. Government placed Fannie Mae and Freddie Mac into the conservatorship of the Federal Housing Finance Agency, or "FHFA," their federal regulator, pursuant to its powers under The Federal Housing Finance Regulatory Reform Act of 2008, a part of the Housing and Economic Recovery Act of 2008. Under this conservatorship, Fannie Mae and Freddie Mac are required to reduce the amount of mortgage loans they own or for which they provide guarantees on Agency RMBS. In addition to the FHFA becoming the conservator of Fannie Mae and Freddie Mac, the U.S. Treasury entered into Preferred Stock Purchase Agreements ("PSPAs") with the FHFA and have taken various actions intended to provide Fannie Mae and Freddie Mac with additional liquidity in an effort to ensure their financial stability.

Shortly after Fannie Mae and Freddie Mac were placed in federal conservatorship, the Secretary of the U.S. Treasury noted that the guarantee structure of Fannie Mae and Freddie Mac required examination and that changes in the structures of the entities were necessary to reduce risk to the financial system. The future roles of Fannie Mae and Freddie Mac could be significantly reduced, and the nature of their guarantees could be considerably limited relative to historical measurements or even eliminated. The substantial financial assistance provided by the U.S. Government to Fannie Mae and Freddie Mac, especially in the course of their being placed into conservatorship and thereafter, together with the substantial financial assistance provided by the U.S. Government to the mortgage-related operations of other GSEs and government agencies, such as the FHA, VA, and Ginnie Mae, has stirred debate among many federal policymakers over the continued role of the U.S. Government in providing such financial support for the mortgage-related GSEs in particular, and for the mortgage and housing markets in general.

In May 2020, the FHFA announced new capital rules for the GSEs intended to rebuild the GSEs' capital bases in advance of leaving conservatorship. On June 30, 2020, the proposed rule for the GSEs was published in the Federal Register, and on December 17, 2020, the final rule was published with an effective date of February 16, 2021. In January 2021, the FHFA and the U.S. Treasury agreed to modifications to the PSPAs that will permit Fannie Mae and Freddie Mac to continue to retain earnings until they satisfy the requirements of the new capital rules. In May 2021, the FHFA published a final rule that requires Fannie Mae and Freddie Mac to develop credible resolutions plans, also known as "living wills," to facilitate an orderly resolution of the GSEs should the FHFA be appointed their receiver. However, no definitive proposals or legislation have been released or enacted with respect to ending the conservatorship, unwinding the GSEs, or materially reducing the roles of the GSEs in the U.S. mortgage market, and it is not possible at this time to predict the scope and nature of the actions that the U.S. Government will ultimately take with respect to these GSEs.

Fannie Mae, Freddie Mac, and Ginnie Mae could each be dissolved, and the U.S. Government could determine to stop providing liquidity support of any kind to the mortgage market. If Fannie Mae, Freddie Mac, or Ginnie Mae were eliminated, or their structures were to change radically, or if 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 registration as an investment company under the Investment Company Act and our ability to maintain our qualification as a REIT. 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. 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 our Agency RMBS. In addition, any market uncertainty that arises from such proposed changes could have a similar impact on us and our Agency RMBS.

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

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

The U.S. Government, through the U.S. Treasury, FHA, and the Federal Deposit Insurance Corporation, or "FDIC," has at various points in time, including in response to the COVID-19 pandemic, and may again in the future, implement programs designed to provide homeowners with assistance in avoiding mortgage loan foreclosures. 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 refinancing programs may adversely affect the performance of Agency and non-Agency RMBS and residential mortgage loans. In the case of non-Agency RMBS, a significant number of loan modifications with respect to a given security, including those related to principal forgiveness and coupon reduction, could negatively impact the realized yields and cash flows on such security. Similarly, principal forgiveness and/or coupon reduction could negatively impact the performance of any residential mortgage loans we own. In addition, it is also likely that loan modifications would result in increased prepayments on some RMBS. See "—Prepayment rates can change, adversely affecting the performance of our assets," below.

The U.S. Congress and various state and local legislatures may pass mortgage-related legislation that would affect our business, including legislation that would permit limited assignee liability for certain violations in the mortgage loan origination process, and legislation that would allow judicial modification of loan principal in the event of personal bankruptcy. We cannot predict whether or in what form 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 pay dividends 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.

The existing loan modification programs, together with future legislative or regulatory actions, including possible amendments to the bankruptcy laws, which result in the modification of outstanding residential mortgage loans and/or 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 could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

***The principal and interest payments on our non-Agency RMBS and any CRTs that we may purchase are not guaranteed by any entity, including any government entity or GSE, and therefore are subject to increased risks, including credit risk.***

Our portfolio includes non-Agency RMBS which are backed by residential mortgage loans that do not conform to the Fannie Mae or Freddie Mac underwriting guidelines, including subprime, manufactured housing, Alt-A, prime jumbo, non-QM, and single-family-rental mortgage loans. Consequently, the principal and interest on non-Agency RMBS, unlike those on Agency RMBS, are not guaranteed by GSEs such as Fannie Mae and Freddie Mac or, in the case of Ginnie Mae, the U.S. Government.

Non-Agency RMBS are subject to many of the risks of the respective underlying mortgage loans. A residential mortgage loan is typically secured by single-family residential property and is subject to risks of delinquency and foreclosure and risk of loss. The ability of a borrower to repay a loan secured by a residential property is dependent upon the income or assets of the borrower. A number of factors, including a general economic downturn, unemployment, acts of God, pandemics such as the COVID-19 pandemic, terrorism, social unrest, and civil disturbances, may impair borrowers' abilities to repay their mortgage loans. In periods following home price declines, "strategic defaults" (decisions by borrowers to default on their mortgage loans despite having the ability to pay) also may become more prevalent. In addition, the Tax Cuts and Jobs Act, or "TCJA," reduced the mortgage interest deduction limit, eliminated the deduction for interest with respect to home equity indebtedness, with certain exceptions, and limited the state and local income and property tax deduction. These changes could reduce home affordability and adversely impact housing prices in certain regions, which could lead to an increase in defaults on the mortgage loans underlying many of our investments.

In the event of defaults under mortgage loans backing any of our non-Agency RMBS, we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the mortgage loan.

Additionally, 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. If borrowers default on the mortgage loans backing our non-Agency RMBS and we are unable to recover any resulting loss through the foreclosure process, our business, financial condition and results of operations, and our ability to pay dividends to our stockholders, could be materially adversely affected.

***Less stringent underwriting guidelines and the resultant potential for delinquencies or defaults on certain mortgage loans could lead to losses on many of the non-Agency RMBS and European RMBS that we hold.***

Many of the non-Agency RMBS in which we invest are collateralized by Alt-A and subprime mortgage loans, which are mortgage loans that were originated using less stringent underwriting guidelines than those used in underwriting prime mortgage loans (mortgage loans that generally conform to Fannie Mae or Freddie Mac underwriting guidelines). In addition, we have acquired, and may acquire in the future, European RMBS, including retained tranches from European RMBS securitizations in which we have participated. These European RMBS are backed by residential mortgage loans that were typically originated using less stringent underwriting guidelines. These underwriting guidelines were more permissive as to borrower credit history or credit score, borrower debt-to-income ratio, loan-to-value ratio, and/or as to documentation (such as whether and to what extent borrower income was required to be disclosed or verified). In addition, even when specific underwriting guidelines were represented by loan originators as having been used in connection with the origination of mortgage loans, these guidelines were in many cases not followed as a result of aggressive lending practices, fraud (including borrower or appraisal fraud), or other factors. Mortgage loans that were underwritten pursuant to less stringent or looser underwriting guidelines, or that were poorly underwritten to their stated guidelines, have experienced, and should be expected to experience in the future, substantially higher rates of delinquencies, defaults, and foreclosures than those experienced by mortgage loans that were underwritten in a manner more consistent with Fannie Mae or Freddie Mac guidelines. Thus, because of the higher delinquency rates and losses associated with Alt-A, subprime mortgage loans and European mortgage loans, the performance of RMBS backed by Alt-A, subprime mortgage loans, and European mortgage loans that we may acquire could be correspondingly adversely affected, which could adversely impact our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

***We rely on analytical models and other data to analyze potential asset acquisition and disposition opportunities and to manage our portfolio. Such models and other data may be incorrect, misleading or incomplete, which could cause us to purchase assets that do not meet our expectations or to make asset management decisions that are not in line with our strategy.***

Our Manager relies on the analytical models (both proprietary and third-party models) of Ellington and information and data supplied by third parties. These models and data may be used to value assets or potential asset acquisitions and dispositions and also in connection with our asset management activities. If Ellington's models and data prove to be incorrect, misleading, or incomplete, any decisions made in reliance thereon could expose us to potential risks. Our Manager's reliance on Ellington's models and data may induce it to purchase certain assets at prices that are too high, to sell certain other assets at prices that are too low, or to miss favorable opportunities altogether. Similarly, any hedging activities that are based on faulty models and data may prove to be unsuccessful.

Some of the risks of relying on analytical models and third-party data include the following:

- collateral cash flows and/or liability structures may be incorrectly modeled in all or only certain scenarios, or may be modeled based on simplifying assumptions that lead to errors;
- information about assets or the underlying collateral may be incorrect, incomplete, or misleading;
- asset, collateral or MBS historical performance (such as historical prepayments, defaults, cash flows, etc.) may be incorrectly reported, or subject to interpretation (e.g., different MBS issuers may report delinquency statistics based on different definitions of what constitutes a delinquent loan); and
- asset, collateral or MBS information may be outdated, in which case the models may contain incorrect assumptions as to what has occurred since the date information was last updated.

Some models, such as prepayment models or default models, may be predictive in nature. The use of predictive models has inherent risks. For example, such models may incorrectly forecast future behavior, leading to potential losses. In addition, the predictive models used by our Manager may differ substantially from those models used by other market participants, with the result that valuations based on these predictive models may be substantially higher or lower for certain assets than actual market prices. Furthermore, because predictive models are usually constructed based on historical data supplied by third parties, the success of relying on such models may depend heavily on the accuracy and reliability of the supplied historical data, and, in the case of predicting performance in scenarios with little or no historical precedent (such as extreme broad-based declines in home prices, deep economic recessions or depressions, or pandemics), such models must employ greater degrees of extrapolation and are therefore more speculative and of more limited reliability.

All valuation models rely on correct market data inputs. If incorrect market data is entered into even a well-founded valuation model, the resulting valuations will be incorrect. However, even if market data is input correctly, "model prices" will often differ substantially from market prices, especially for securities with complex characteristics or whose values are particularly sensitive to various factors. If our market data inputs are incorrect or our model prices differ substantially from market prices, our business, financial condition and results of operations, and our ability to pay dividends to our stockholders could be materially adversely affected.

***Valuations of some of our assets are inherently uncertain, may be based on estimates, may fluctuate over short periods of time, and may differ from the values that would have been used if a ready market for these assets existed.***

The values of some of the assets in our portfolio are not readily determinable. We value the vast majority of these assets monthly at fair value, as determined in good faith by our Manager, subject to the oversight of our Manager's valuation committee. Because such valuations are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, our Manager's determinations of fair value may differ from the values that would have been used if a ready market for these assets existed or from the prices at which trades occur. Furthermore, we may not obtain third-party valuations for all of our assets. Changes in the fair value of our assets directly impact our net income through recording unrealized appreciation or depreciation of our investments and derivative instruments, and so our Manager's determination of fair value has a material impact on our net income.

While in many cases our Manager's determination of the fair value of our assets is based on valuations provided by third-party dealers and pricing services, our Manager can and does value assets based upon its judgment and such valuations may differ from those provided by third-party dealers and pricing services. Valuations of certain assets are often difficult to obtain or are unreliable. In general, dealers and pricing services heavily disclaim their valuations. Additionally, dealers and pricing services may claim to furnish valuations only as an accommodation and without special compensation, and so they may disclaim any and all liability for any direct, incidental, or consequential damages arising out of any inaccuracy or incompleteness in valuations, including any act of negligence or breach of any warranty. Depending on the complexity and

illiquidity of an asset, valuations of the same asset can vary substantially from one dealer or pricing service to another. Higher valuations of our assets have the effect of increasing the amount of base management fees and incentive fees we pay to our Manager. Therefore, conflicts of interest exist because our Manager is involved in the determination of the fair value of our assets.

Market-based inputs are generally the preferred source of values for purposes of measuring the fair value of our assets under U.S. GAAP. However, the markets for our investments have experienced, and could in the future experience, extreme volatility, reduced transaction volume and liquidity, and disruption as a result of certain events, such as the COVID-19 pandemic, which has made, and could in the future make, it more difficult for our Manager, and for the third-party dealers and pricing services that we use, to rely on market-based inputs in connection with the valuation of our assets under U.S. GAAP. Furthermore, in determining the fair value of our assets, our Manager uses proprietary models that require the use of a significant amount of judgment and the application of various assumptions including, but not limited to, assumptions concerning future prepayment rates, interest rates, default rates and loss severities. These assumptions might be especially difficult to project accurately during periods of economic disruption. The fair value of certain of our investments may fluctuate over short periods of time, and our Manager's determinations of fair value may differ materially from the values that would have been used if a ready market for these investments existed.

Our business, financial condition and results of operations, and our ability to pay dividends to our stockholders could be materially adversely affected if our Manager's fair value determinations of these assets were materially different from the values that would exist if a ready market existed for these assets.

***We depend on third-party service providers, including mortgage servicers, for a variety of services related to our non-Agency RMBS, European assets, securitizations, and whole mortgage loans and loan pools. We are, therefore, subject to the risks associated with third-party service providers.***

We depend on a variety of services provided by third-party service providers related to our non-Agency RMBS, European assets, securitizations, and whole mortgage loans and loan pools. We rely on the mortgage servicers who service the mortgage loans backing our non-Agency RMBS, our European assets, our securitizations, as well as the mortgage loans and loan pools that we own directly, to, among other things, collect principal and interest payments on the underlying mortgages and perform loss mitigation services. These mortgage servicers and other service providers to our non-Agency RMBS, European assets, and securitizations, such as trustees, bond insurance providers, due diligence vendors, and custodians, may not perform in a manner that promotes our interests. In addition, legislation that has been enacted or that may be enacted in order to reduce or prevent foreclosures through, among other things, loan modifications, may reduce the value of mortgage loans backing our non-Agency RMBS or whole mortgage loans that we acquire. Mortgage servicers may be incentivized by U.S. federal, state, or local governments to pursue such loan modifications, as well as forbearance plans and other actions intended to prevent foreclosure, even if such loan modifications and other actions are not in the best interests of the beneficial owners of the mortgage loans. In addition to legislation that creates financial incentives for mortgage loan servicers to modify loans and take other actions that are intended to prevent foreclosures, legislation has also been adopted that creates a safe harbor from liability to creditors for servicers that undertake loan modifications and other actions that are intended to prevent foreclosures. Finally, legislation has been adopted that delays the initiation or completion of foreclosure proceedings on specified types of residential mortgage loans or otherwise limits the ability of mortgage servicers to take actions that may be essential to preserve the value of the mortgage loans underlying the mortgage servicing rights. Any such limitations are likely to cause delayed or reduced collections from mortgagors and generally increase servicing costs. As a result of these legislative actions, the mortgage loan servicers on which we rely may not perform in our best interests or up to our expectations. If our third-party service providers, including mortgage servicers, do not perform as expected, our business, financial condition and results of operations, and ability to pay dividends to our stockholders may be materially adversely affected.

***We rely on mortgage servicers for our loss mitigation efforts, and we also may engage in our own loss mitigation efforts with respect to whole mortgage loans that we own directly. Such loss mitigation efforts may be unsuccessful or not cost effective.***

Both default frequency and default severity of mortgage loans are highly dependent on the quality of the mortgage servicer. We depend on the loss mitigation efforts of mortgage servicers and in some cases "special servicers," which are mortgage servicers who specialize in servicing non-performing loans. If mortgage servicers are not vigilant in encouraging borrowers to make their monthly payments, the borrowers are far less likely to make those payments. In addition, for the whole mortgage loans that we own directly, we may engage in our own loss mitigation efforts over and beyond the efforts of the mortgage servicers, including more hands-on mortgage servicer oversight and management, borrower refinancing solicitations, as well as other efforts. Our and our mortgage servicers' loss mitigation efforts may be unsuccessful in limiting delinquencies, defaults, and losses, or may not be cost effective, which may materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders. Furthermore, our ability to accomplish such loss mitigation may be limited by the tax rules governing REITs.

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

Following the global financial crisis of 2008-2009, one of the biggest risks affecting the residential mortgage loan, non-Agency RMBS, and European RMBS markets 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 2008-2009 housing crisis, and in response to the well-publicized failures of many servicers to follow proper foreclosure procedures, 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 have generally had much more difficulty furnishing the requisite documentation to initiate or complete foreclosures. In addition, the COVID-19 pandemic has led, and could continue to lead, to delays in the foreclosure process, both by operation of state law (e.g., foreclosure moratoriums in certain states) and by delays in the judicial system. These circumstances have led 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 concerns about deficiencies in foreclosure practices of servicers and related delays in the foreclosure process may impact our loss assumptions and has affected and may continue to affect the values of, and our returns on, our investments in RMBS and residential whole loans.

***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 making an investment, our Manager may decide to conduct (either directly or using third parties) certain due diligence. There can be no assurance that our Manager will conduct any specific level of due diligence, or that, among other things, our Manager's due diligence processes 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 pay dividends to our stockholders.

***Sellers of the mortgage loans that we acquire, or that underlie the non-Agency RMBS or European RMBS in which we invest, may be unable to repurchase defective mortgage loans, which could have a material adverse effect on the value of our loans, or the loans held by the trust that issued the RMBS, and could cause shortfalls in the payments due on the RMBS or losses on the mortgage loans.***

Sellers of mortgage loans that we acquire or that are sold to the trusts that issued the non-Agency RMBS or European RMBS in which we invest made various representations and warranties related to the mortgage loans sold by them to us or the trusts that issued the RMBS. If a seller fails to cure a material breach of its representations and warranties with respect to any mortgage loan in a timely manner, then we, or the trustee or the servicer of the loans, may have the right to require that the seller repurchase the defective mortgage loan (or in some cases substitute a performing mortgage loan). It is possible, however, that for financial or other reasons, the seller either may not be capable of repurchasing defective mortgage loans, or may dispute the validity of or otherwise resist its obligation to repurchase defective mortgage loans. The inability or unwillingness of a seller to repurchase defective mortgage loans from us or from a non-Agency RMBS trust or European RMBS trust in which we invest would likely cause higher rates of delinquencies, defaults, and losses for the mortgage loans we hold, or the mortgage loans backing such non-Agency RMBS or European RMBS, and ultimately greater losses for our investment in such assets.

***Our assets include subordinated and lower-rated securities that generally have greater risk of loss than senior and higher-rated securities.***

Certain securities that we acquire are deemed by rating agencies to have substantial vulnerability to default in payment of interest and/or principal. Other securities we acquire have the lowest quality ratings or are unrated. Many securities that we acquire are subordinated in cash flow priority to other more "senior" securities of the same securitization. The exposure to defaults on the underlying mortgages is severely magnified in subordinated securities. Certain subordinated securities ("first loss securities") absorb all losses from default before any other class of securities is at risk. Such securities therefore are considered to be highly speculative investments. Also, the risk of declining real estate values, in particular, is amplified in subordinated RMBS and CMBS, as are the risks associated with possible changes in the market's perception of the entity issuing or guaranteeing them, or by changes in government regulations and tax policies. Accordingly, the subordinated and lower-rated (or unrated) securities in which we invest may experience significant price and performance volatility relative to more senior or higher-rated securities, and they are subject to greater risk of loss than more senior or higher-rated securities which, if realized, could materially adversely affect our business, financial condition and results of operations, and our ability to

pay dividends to our stockholders.

***Investments in second lien mortgage loans could subject us to increased risk of losses.***

We have invested, and may in the future invest, in second-lien mortgage loans or RMBS backed by such loans. If a borrower defaults on a second-lien mortgage loan or on its senior debt (*i.e.*, a first-lien loan, in the case of a residential mortgage loan), or in the event of a borrower bankruptcy, such loan will be satisfied only after all senior debt is paid in full. As a result, if we invest in second-lien mortgage loans and the borrower defaults, we may lose all or a significant part of our investment.

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

The frequency at which prepayments (including both voluntary prepayments by borrowers and liquidations due to defaults and foreclosures) occur on mortgage loans, including those underlying our RMBS, is affected by a variety of factors, including the prevailing level of interest rates as well as economic, demographic, tax, social, legal, and other factors. Generally, borrowers tend to prepay their mortgages when prevailing mortgage rates fall below the interest rates on their mortgage loans. When borrowers prepay their mortgage loans at rates that are faster or slower than expected, it results in prepayments that are faster or slower than expected on such loans or the related RMBS. These faster or slower than expected payments may adversely affect our profitability.

We may purchase securities or loans that have a higher interest rate than the then-prevailing market interest rate. In exchange for this higher interest rate, we may pay a premium to par value to acquire the security or loan. In accordance with U.S. GAAP, we amortize this premium as an expense over the expected term of the security or loan based on our prepayment assumptions. If a security or loan is prepaid in whole or in part at a faster than expected rate, however, we must expense all or a part of the remaining unamortized portion of the premium that was paid at the time of the purchase, which will adversely affect our profitability.

We also may purchase securities or loans that have a lower interest rate than the then-prevailing market interest rate. In exchange for this lower interest rate, we may pay a discount to par value to acquire the security or loan. We accrete this discount as income over the expected term of the security or loan based on our prepayment assumptions. If a security or loan is prepaid at a slower than expected rate, however, we must accrete the remaining portion of the discount at a slower than expected rate. This will extend the expected life of our investment portfolio and result in a lower than expected yield on securities and loans purchased at a discount to par.

Prepayment rates generally increase when interest rates fall and decrease when interest rates rise. Since many RMBS, especially fixed rate 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. Prepayment rates are also affected by factors not directly tied to interest rates, and these factors are difficult to predict. Prepayments can also occur when borrowers sell their properties or when borrowers default on their mortgages and the mortgages are prepaid from the proceeds of a foreclosure sale of the underlying property and/or from the proceeds of a mortgage insurance policy or other guarantee. Fannie Mae and Freddie Mac will generally, among other conditions, purchase mortgages that are 120 days or more delinquent from the Agency RMBS pools that they have issued when the cost of guaranteed payments to security holders, including advances of interest at the security coupon rate, exceeds the cost of holding the non-performing loans in their portfolios. Consequently, prepayment rates also may be affected by conditions in the housing and financial markets, which may result in increased delinquencies on mortgage loans. Prepayment rates can also be affected by actions of the GSEs and their cost of capital, general economic conditions, and the relative interest rates on fixed and adjustable rate loans. Additionally, changes in the GSEs' decisions as to when to repurchase delinquent loans can materially impact prepayment rates on Agency RMBS.

The adverse effects of prepayments may impact us in various ways. First, particular investments may experience outright losses, as in the case of interest only securities, or "IOs," and inverse interest only securities, or "IIOs," in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to any hedges that our Manager 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 pay dividends to our stockholders could be materially adversely affected.

***Increases in interest rates could negatively affect the value of our assets and increase the risk of default on our assets.***

Our fixed rate investments, especially most fixed rate mortgage loans, fixed rate MBS, and most MBS backed by fixed rate mortgage loans, decline in value when long-term interest rates increase. Even in the case of Agency RMBS, the guarantees provided by GSEs do not protect us from declines in market value caused by changes in interest rates. In the case of RMBS backed by adjustable rate mortgages, or "ARMs," increases in interest rates can lead to increases in delinquencies and defaults as borrowers become less able to make their mortgage payments following interest payment resets. Additionally, an increase in short-term interest rates would increase the amount of interest owed on our repo borrowings. See "—Interest rate mismatches between our assets and our borrowings may reduce our income during periods of changing interest rates, and increases in interest rates could adversely affect the value of our assets" below.

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

Rising interest rates generally reduce the demand for mortgage loans due to the higher cost of borrowing. A reduction in the volume of mortgage loans originated may affect the volume of targeted assets available to us, which could adversely affect our ability to acquire assets that satisfy our investment objectives. If rising interest rates cause us to be unable to acquire a sufficient volume of our targeted assets with a yield that is above our borrowing cost, our ability to satisfy our investment objectives and to generate income and pay dividends to our stockholders may be materially and adversely affected.

***Interest rate caps on the ARMs and hybrid ARMs that back our RMBS may reduce our net interest margin during periods of rising or high interest rates.***

ARMs and hybrid ARMs (i.e., residential mortgage loans that have interest rates that are fixed for a specified period of time (typically three, five, seven or ten years) and, thereafter, adjust to a fixed increment over a specified interest rate index) are typically 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 through the maturity of the loan. Our borrowings typically are not subject to similar restrictions. Accordingly, in a period of rapidly increasing interest rates, our financing costs could increase without limitation while caps could limit the interest we earn on our RMBS backed by ARMs and hybrid ARMs. This problem is magnified for ARMs and hybrid ARMs that are not fully indexed because such periodic interest rate caps prevent the coupon on the security from fully reaching the specified rate in one reset. Further, some 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, we may receive less cash income on RMBS backed by ARMs and hybrid ARMs than necessary to pay interest on our related borrowings. Interest rate caps on RMBS backed by ARMs and hybrid ARMs could reduce our net interest margin if interest rates were to increase beyond the level of the caps, which could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

***Residential mortgage loans, including non-QM loans, residential transition loans, and residential NPLs, are subject to increased risks.***

We acquire and manage residential mortgage loans. Residential mortgage loans, including non-QM loans, residential transition loans, and residential NPLs, are subject to increased risk of loss. Unlike Agency RMBS, residential mortgage loans generally are not guaranteed by the U.S. Government or any GSE, though in some cases they may benefit from private mortgage insurance. 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 loan. 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 mortgage loans are also subject to property damage caused by hazards, such as earthquakes or environmental hazards, not covered by standard property insurance policies, or "special hazard risk," and to reduction in a borrower's mortgage debt by a bankruptcy court, or "bankruptcy risk." In addition, claims may be assessed against us on account of our position as a mortgage holder or property owner, including assignee liability, environmental hazards, and other liabilities. We could also be responsible for property taxes. 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.



***If we subsequently resell any whole mortgage loans that we acquire, we may be required to repurchase such loans or indemnify purchasers if we breach representations and warranties.***

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

***The commercial mortgage loans that we acquire or originate, 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 to the risks of delinquency and foreclosure.***

Commercial mortgage loans are secured by 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;
- declines in tenant income and/or changes to 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, pandemics such as the COVID-19 pandemic, 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 our cost basis in 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 pay dividends 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.

CMBS are secured by a single commercial mortgage loan or a pool of commercial mortgage loans. Accordingly, the CMBS we invest in are subject to all of the risks of the respective underlying commercial mortgage loans.

***Our investments in CMBS are at risk of loss.***

Our investments in CMBS are at risk of loss. In general, losses on real estate securing a mortgage loan included in a securitization will be borne first by the owner of the property, then by the holder of a mezzanine loan or a subordinated participation interest in a bifurcated first lien loan, or "B-Note," if any, then by the "first loss" subordinated security holder (generally, the B-piece buyer) and then by the holder of a higher-rated security. In the event of losses on mortgage loans included in a securitization and the subsequent exhaustion of any applicable reserve fund, letter of credit, or classes of securities junior to those in which we invest, we may not be able to recover all of our investment in the securities we purchase. In addition, if any of the real estate underlying the securitization mortgage portfolio has been overvalued by the originator, or if real estate values subsequently decline and, as a result, less collateral is available to satisfy interest and principal payments due on the related CMBS, we may incur losses. The prices of lower credit quality securities are generally less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic downturns or individual issuer developments.

***We may not control the special servicing of the mortgage loans included in the CMBS in which we invest and, in such cases, the special servicer may take actions that could adversely affect our interests.***

With respect to the CMBS in which we invest, overall control over the special servicing of the related underlying mortgage loans will be held by a "directing certificateholder" or a "controlling class representative," which is generally appointed by the holders of the most subordinate class of CMBS in such series. In connection with the servicing of the specially serviced mortgage loans, the related special servicer may, at the direction of the directing certificateholder, take actions with respect to the specially serviced mortgage loans that could adversely affect our interests. For further discussion of the risks of our reliance on special servicers, see "—We rely on mortgage servicers for our loss mitigation efforts, and we also may engage in our own loss mitigation efforts with respect to whole mortgage loans that we own directly. Such loss mitigation efforts may be unsuccessful or not cost effective" above.

***A portion of our investments currently are, and in the future may be, in the form of non-performing and sub-performing commercial and residential mortgage loans, or loans that may become non-performing or sub-performing, which are subject to increased risks relative to performing loans.***

A portion of our investments currently are, and in the future may be, in the form of commercial and residential whole mortgage loans, including subprime mortgage loans and non-performing and sub-performing mortgage loans, which are subject to increased risks of loss. Such loans may already be, or may become, non-performing or sub-performing for a variety of reasons, including because the underlying property is too highly leveraged or the borrower falls upon financial distress. Such non-performing or sub-performing loans may require a substantial amount of workout negotiations and/or restructuring, which may divert the attention of our Manager from other activities and entail, among other things, a substantial reduction in the interest rate, capitalization of interest payments, and a substantial write-down of the principal of the loan. However, even if such restructuring were successfully accomplished, a risk exists that the borrower will not be able or willing to maintain the restructured payments or refinance the restructured mortgage upon maturity. In addition, such modifications could affect our compliance with the tests applicable to REITs, including by increasing our distribution requirement.

In addition, certain non-performing or sub-performing loans that we acquire may have been originated by financial institutions that are or may become insolvent, suffer from serious financial stress, or are no longer in existence. As a result, the standards by which such loans were originated, the recourse to the selling institution, and/or the standards by which such loans are being serviced or operated may be adversely affected. Further, loans on properties operating under the close supervision of a mortgage lender are, in certain circumstances, subject to certain additional potential liabilities that may exceed the value of our investment.

In the future, it is possible that we may find it necessary or desirable to foreclose on some, if not many, of the loans we acquire, and the foreclosure process may be lengthy and expensive. Borrowers or junior lenders may resist mortgage foreclosure actions by asserting numerous claims, counterclaims, and defenses against us including, without limitation, numerous lender liability claims and defenses, even when such assertions may have no basis in fact, in an effort to prolong the foreclosure action and force the lender into a modification of the loan or capital structure or a favorable buy-out of the borrower's or junior lender's position. In some states, foreclosure actions can sometimes take several years or more to litigate. At any time prior to or during the foreclosure proceedings, the borrower may file, or a junior lender may cause the borrower to file, for bankruptcy, which would have the effect of staying the foreclosure actions and further delaying the foreclosure process. Foreclosure and associated litigation may create a negative public perception of the related mortgaged property, resulting in a diminution of its value. Even if we are successful in foreclosing on a loan, the liquidation proceeds upon sale of the underlying real estate may not be sufficient to recover our cost basis in the loan, resulting in a loss to us, and the borrower or junior lenders may continue to challenge whether the foreclosure process was commercially reasonable, which could result in additional costs and potential liability. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the

underlying property, or defending challenges brought after the completion of a foreclosure, will further reduce the liquidation proceeds and thus increase the loss. Any such reductions could materially and adversely affect the value we realize from the loans in which we invest.

Whether or not our Manager has participated in the negotiation of the terms of any such mortgage loans, there can be no assurance as to the adequacy of the protection of the terms of the loan, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, claims may be asserted that might interfere with enforcement of our rights. 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, resulting in a loss to us.

Commercial whole mortgage loans are also subject to special hazard risk and to bankruptcy risk. In addition, claims may be assessed against us on account of our position as 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 real estate assets and our real estate-related assets (including mortgage loans and MBS) are subject to the risks associated with real property.***

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

- declines in the value of real estate;
- acts of God, including pandemics, such as the COVID-19 pandemic, earthquakes, floods, wildfires, hurricanes, mudslides, volcanic eruptions 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;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and zoning ordinances;
- costs of remediation and liabilities associated with environmental conditions such as indoor mold;
- potential liabilities for other legal actions related to property ownership including tort claims; and
- the potential for uninsured or under-insured property losses.

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 pay dividends to our stockholders.

***We engage in short selling transactions, which may subject us to additional risks.***

Many of our hedging transactions, and occasionally our investment transactions, are short sales. Short selling may involve selling securities that are not owned and typically borrowing the same securities for delivery to the purchaser, with an obligation to repurchase the borrowed securities at a later date. Short selling allows the investor to profit from declines in market prices to the extent such declines exceed the transaction costs and the costs of borrowing the securities. A short sale may create the risk of an unlimited loss, in that the price of the underlying security might theoretically increase without limit, thus increasing the cost of repurchasing the securities. There can be no assurance that securities sold short will be available for repurchase or borrowing. Repurchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

***We use leverage in executing our business strategy, which may adversely affect the return on our assets and may reduce cash available for distribution to our stockholders, as well as increase losses when economic conditions are unfavorable.***

We use leverage to finance our investment activities and to enhance our financial returns. Most of our leverage is in the form of short-term repos for our Agency and credit portfolio assets. Other forms of leverage include our term secured bank facilities, our securitizations, our Senior Notes, and may in the future include credit facilities, including term loans and revolving credit facilities.

Through the use of leverage, we may acquire positions with market exposure significantly greater than the amount of

capital committed to the transaction. For example, by entering into repos with haircut levels, of 5%, we could theoretically leverage capital allocated to Agency RMBS by an asset-to-equity ratio of as much as 20 to 1. A haircut is the percentage discount that a repo lender applies to the market value of an asset serving as collateral for a repo borrowing, for the purpose of determining whether such repo borrowing is adequately collateralized.

Although we may from time to time enter into certain contracts with third parties that may limit our leverage, such as certain financing arrangements with lenders, our governing documents do not specifically limit the amount of leverage that we may use. Leverage can enhance our potential returns but can also exacerbate losses. Even if an asset increases in value, if the asset fails to earn a return that equals or exceeds our cost of borrowing, the leverage will diminish our returns.

Leverage also increases the risk of our being forced to precipitously liquidate our assets. See "—Our access to financing sources, which may not be available on favorable terms, or at all, may be limited, and our lenders and derivative counterparties may require us to post additional collateral. These circumstances may materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders" below.

***Our access to financing sources, which may not be available on favorable terms, or at all, may be limited, and our lenders and derivative counterparties may require us to post additional collateral. These circumstances may materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.***

Our ability to fund our operations, meet financial obligations, and finance targeted asset acquisitions may be impacted by an inability to secure and maintain our financing through repurchase agreements or other borrowings with our counterparties. Because repurchase agreements are generally short-term transactions, lenders may respond to adverse market conditions in a manner that makes it more difficult for us to renew or replace on a continuous basis our maturing short-term borrowings and have, and may continue to, impose more onerous conditions when rolling such repurchase agreements.

Our lenders are primarily large global financial institutions, with exposures both to global financial markets and to more localized conditions. In addition to borrowing from large banks, we borrow from smaller non-bank financial institutions. Whether because of a global or local financial crisis or other circumstances, such as if one or more of our lenders experiences severe financial difficulties, they or other lenders could become unwilling or unable to provide us with financing, could increase the haircut required for such financing, or could increase the costs of that financing.

Moreover, we are currently party to short-term borrowings (in the form of repos) and there can be no assurance that we will be able to replace these borrowings, or "roll" them, as they mature on a continuous basis and it may be more difficult for us to obtain debt financing on favorable terms, or at all. If we are not able to renew our existing repurchase agreements or other borrowings, or arrange for new financing on terms acceptable to us, or if we default on our financial covenants (including those on our repurchase agreements, other borrowings, and our Senior Notes), are otherwise unable to access funds under our financing arrangements, or if we are required to post more collateral or face larger haircuts, we may have to dispose of assets at significantly depressed prices and at inopportune times, which could cause significant losses, and may also force us to curtail our asset acquisition activities. Similarly, if we were to move a financing from one counterparty to another that was subject to a larger haircut we would have to repay more cash to the original repurchase agreement counterparty than we would be able to borrow from the new repurchase agreement counterparty. To the extent that we might be compelled to liquidate qualifying real estate assets to repay debts, our compliance with the REIT asset tests, income tests, and distribution requirements could be negatively affected, which could jeopardize our qualification as a REIT. Losing our REIT qualification would cause us to be subject to U.S. federal income tax (and any applicable state and local taxes) on all of our income and decrease profitability and cash available to pay dividends to our stockholders. Any such forced liquidations could also materially adversely affect our ability to maintain our exclusion from registration as an investment company under the Investment Company Act.

In addition, if there is a contraction in the overall availability of financing for our assets, including if the regulatory capital requirements imposed on our lenders change, our lenders may significantly increase the cost of the financing that they provide to us, or increase the amounts of collateral they require as a condition to providing us with financing. Our lenders also have revised, and may continue to revise, their eligibility requirements for the types of assets that they are willing to finance or the terms of such financing arrangements, including increased haircuts and requiring additional cash collateral, based on, among other factors, the regulatory environment and their management of actual and perceived risk, particularly with respect to assignee liability.

Moreover, the amount of financing that we receive under our financing agreements will be directly related to our lenders' valuation of the financed assets subject to such agreements. Typically, the master repurchase agreements that govern our borrowings under repurchase agreements grant the lender the right to reevaluate the fair market value of the financed assets subject to such repurchase agreements at any time. If a lender determines that the net decrease in the value of the portfolio of financed assets is greater in magnitude than any applicable threshold, it will generally initiate a margin call. In such cases, a

lender's valuations of the financed assets may be different than the values that we ascribe to these assets and may be influenced by recent asset sales at distressed levels by forced sellers. A valid margin call requires us to transfer additional cash or qualifying assets to a lender without any advance of funds from the lender for such transfer or to repay a portion of the outstanding borrowings. If a lender under one of our repo agreements were to send us a notice of default, even if we were to dispute the validity of a margin call from the lender, such lender will have possession of the financed assets, and might still decide to exercise its contractual remedies. In the event of our default, our lenders or derivative counterparties can accelerate our indebtedness, terminate our derivative contracts (potentially on unfavorable terms requiring additional payments, including additional fees and costs), increase our borrowing rates, liquidate our collateral, and terminate our ability to borrow. In certain cases, a default on one repo agreement or derivative agreement (whether caused by a failure to satisfy margin calls or another event of default) can trigger "cross defaults" on other such agreements. In addition, if the market value of our derivative contracts with a derivative counterparty declines in value, we generally will be subject to a margin call by the derivative counterparty.

Significant margin calls and/or increased repo haircuts could have a material adverse effect on our results of operations, financial condition, business, liquidity, and ability to make distributions to our stockholders, and could cause the value of our capital stock to decline. During March and April of 2020, we observed that many of our financing agreement counterparties assigned lower valuations to certain of our assets, resulting in us having to pay cash or transfer additional securities to satisfy margin calls, which were higher than historical levels. In addition, during March and April of 2020 we also experienced an increase in haircuts on repurchase agreements that we rolled. A sufficiently deep and/or rapid increase in margin calls or haircuts would have an adverse impact on our liquidity.

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 consume a larger portion of our cash flow from operations, thereby reducing funds available for our operations, future business opportunities, cash dividends 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 asset acquisition activities and/or dispose of assets, which could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders, or in the worst case, cause our insolvency.

***A failure to comply with restrictive covenants in our financing arrangements would have a material adverse effect on us, and any future financings may require us to provide additional collateral or pay down debt.***

We are subject to various restrictive covenants contained in our existing financing arrangements and may become subject to additional covenants in connection with future financings. For example, the indenture governing our Senior Notes contains covenants that, subject to a number of exceptions and adjustments, among other things: limit our ability to incur additional indebtedness; require us to maintain a minimum Net Asset Value (as defined in the indenture governing the Senior Notes); require us to maintain a ratio of Consolidated Unencumbered Assets (as defined in indenture governing the Senior Notes) to the aggregate principal amount of the outstanding Senior Notes at or above a specified threshold, and impose certain conditions on our merger or consolidation with another person. In addition, the interest rate on our Senior Notes is subject to upward adjustment based on certain changes, if any, in the ratings of the Senior Notes. Furthermore, several of our repo agreements contain financial covenants of a similar nature, including requiring us to maintain a minimum level of liquidity and a minimum level of equity.

The covenants in our financing arrangements may limit our flexibility to pursue certain investments or incur additional debt. If we fail to meet or satisfy any of these covenants, subject to certain cure provisions, as applicable, we would be in default under these agreements and our indebtedness could be declared due and payable. In addition, our lenders could terminate their commitments, require the posting of additional collateral and enforce their interests against existing collateral. We may also be subject to cross-default and acceleration rights under our financing arrangements, whereby a default (such as a failure to comply with a covenant) under one financing arrangement can trigger a default under other financing arrangements.

***Our securitizations may expose us to additional risks.***

In order to generate additional cash for funding new investments, we have securitized, and may in the future seek to securitize, certain of our assets, especially our loan assets. Some securitizations are treated as financing transactions for U.S. GAAP, while others are treated as sales. In a typical securitization, we convey assets to a special purpose vehicle, which then issues one or more classes of notes secured by the assets pursuant to the terms of an indenture. To the extent that we retain the most subordinated economic interests in the issuing vehicle, we would continue to be exposed to losses on the assets for as long as those retained interests remained outstanding and therefore able to absorb such losses. Furthermore, our retained interests in a securitization could be less liquid than the underlying assets themselves, and may be subject to U.S. Risk Retention Rules

(See "—We, Ellington, or its affiliates may be subject to adverse legislative or regulatory changes," below) and similar European rules. Moreover, even though we might accumulate assets with a view towards possible securitization, we cannot be assured that we will be able to access the securitization market, or be able to do so under favorable terms. The inability to securitize certain segments of our portfolio, especially certain of our loan assets, could force us to resort to inferior methods of financing those assets, could force us to sell those loan assets at inopportune times, and could adversely impact our ability to grow our loan acquisition businesses.

In addition, in anticipation of a securitization transaction, we (either alone or in conjunction with other investors, including other Ellington affiliates) have in the past, and may again in the future, provide capital to a vehicle accumulating assets for the securitization. If such a securitization is not ultimately completed, or if the assets do not perform as expected during the accumulation period, we could lose all or a portion of the capital that we provided to the vehicle. Furthermore, because we may enter into these types of transactions along with other investors, including other Ellington affiliates, there may be conflicts between us, on the one hand, and the other investors, including other Ellington affiliates, on the other hand. These accumulation vehicles typically enter into warehouse financing facilities to facilitate their accumulation of assets, and so such vehicles carry with them the additional risks associated with financial leverage and covenant compliance.

In connection with our securitizations, we generally are required to prepare disclosure documentation for investors, including term sheets and offering memoranda, which contain information regarding the securitization generally, the securities being issued, and the assets being securitized. If our disclosure documentation for a securitization is alleged or found to contain material inaccuracies or omissions, we may be liable under federal securities laws, state securities laws or other applicable laws for damages to the investors in such securitization, we may be required to indemnify the underwriters of the securitization or other parties, and/or we may incur other expenses and costs in connection with disputing these allegations or settling claims. Such liabilities, expenses, and/or losses could be significant.

We will typically be required to make representations and warranties in connection with our securitizations regarding, among other things, certain characteristics of the assets being securitized. If any of the representations and warranties that we have made concerning the assets are alleged or found to be inaccurate, we may incur expenses disputing the allegations, and we may be obligated to repurchase certain assets, which may result in losses. Even if we previously obtained representations and warranties from loan originators or other parties from whom we originally acquired the assets, such representations and warranties may not align with those that we have made for the benefit of the securitization, or may otherwise not protect us from losses (e.g., because of a deterioration in the financial condition of the party that provided representations and warranties to us).

***Interest rate mismatches between our assets and our borrowings may reduce our income during periods of changing interest rates, and increases in interest rates could adversely affect the value of our assets.***

Some of our assets are fixed rate or have a fixed rate component (such as RMBS backed by hybrid ARMs). This means that the interest we earn on these assets will not vary over time based upon changes in a short-term interest rate index. Although the interest we earn on our ARM loans and our RMBS backed by ARMs generally will adjust for changing interest rates, such interest rate adjustments may not occur as quickly as the interest rate adjustments to any related borrowings, and such interest rate adjustments will generally be subject to interest rate caps, which potentially could cause such RMBS to acquire many of the characteristics of fixed rate assets if interest rates were to rise above the cap levels. We generally fund our targeted assets with borrowings whose interest rates reset frequently, and as a result we generally have an interest rate mismatch between our assets and liabilities. While our interest rate hedges are intended to mitigate a portion of this mismatch, the use of interest rate hedges also introduces the risk of other interest rate mismatches and exposures, as will the use of other financing techniques. Additionally, to the extent cash flows from RMBS we hold are reinvested in new RMBS, the spread between the yields of the new RMBS and available borrowing rates may decline, which could reduce our net interest margin or result in losses.

Fixed income assets, including many RMBS, typically decline in value if interest rates increase. If long-term rates were to increase significantly, not only would the market value of these assets be expected to decline, but these assets could lengthen in duration because borrowers would be less likely to prepay their mortgages.

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations, and other factors beyond our control. During 2020, in response to the negative economic effects caused by the COVID-19 pandemic, the U.S. Federal Reserve, or the "Federal Reserve," decreased the target range for the federal funds rate from 1.50%—1.75% to 0.00%—0.25% and maintained that range throughout 2021. However, leading up to 2019, the Federal Reserve had been increasing the target range for the federal funds rate, and it has recently signaled that one or more increases could occur in the near future, in response to the recent high rates of inflation and economic growth, as well as low rates of unemployment. The future path of interest rates is highly uncertain.

While we opportunistically hedge our exposure to changes in interest rates, such hedging may be limited by our intention to remain qualified as a REIT, and we can provide no assurance that our hedges will be successful, or that we will be able to enter into or maintain such hedges. As a result, interest rate fluctuations can cause significant losses, reductions in income, and can limit the cash available to pay dividends to our stockholders.

***The planned discontinuation of LIBOR and transition from LIBOR to an alternative reference rate may adversely affect the value and liquidity of the financial obligations to be held or issued by us that are linked to LIBOR.***

LIBOR is an indicative measure of the average interest rate at which major global banks could borrow from one another and is used extensively as a “benchmark” or “reference rate” for various financial and commercial contracts. LIBOR is quoted in multiple currencies and multiple time frames using data reported by private-sector banks.

On March 5, 2021, the ICE Benchmark Administration, (the current administrator of LIBOR), or the “IBA,” published a feedback statement stating that it would cease publishing USD LIBOR on December 31, 2021 for the one week and two month USD LIBOR tenors, and on June 30, 2023 for all other USD LIBOR tenors. In light of these announcements, the future of LIBOR at this time is uncertain and any changes in the methods by which LIBOR is determined, or any regulatory activity related to LIBOR’s phaseout, could cause LIBOR to behave differently than in the past or cease to exist.

In anticipation of the discontinuation of LIBOR in the U.S., the Alternative Reference Rates Committee, or “ARRC,” a group convened by the Federal Reserve Board and the Federal Reserve Bank of New York consisting of large U.S. financial institutions, regulators and other private and public-sector entities, has identified the Secured Overnight Financing Rate, or “SOFR,” as its preferred alternative rate to take the place of US Dollar LIBOR. On July 29, 2021, ARRC formally recommended SOFR as its preferred alternative replacement rate for LIBOR, and on December 3, 2021, ARRC announced statutory fallback recommendations for one week and two-month USD LIBOR tenors. SOFR is a measure of the cost of borrowing cash overnight, collateralized by U.S. Treasury securities, and is based on directly observable U.S. Treasury-backed repurchase transactions.

Although the U.S. Treasury-backed overnight repo market is highly liquid, the market for determining forward-looking SOFR rates is not as robust. In addition, there are significant differences between LIBOR and SOFR, such as LIBOR being an unsecured lending rate while SOFR is a secured lending rate, and SOFR is an overnight rate while LIBOR reflects term rates at different maturities. If our LIBOR-based borrowings are converted to SOFR, the differences between LIBOR and SOFR, plus the recommended spread adjustment, could result in higher interest costs for us, which could have a material adverse effect on our operating results. Although SOFR is ARRC’s recommended replacement rate, it is also possible that lenders may instead choose alternative replacement rates that may differ from LIBOR in ways similar to SOFR or in other ways that would result in higher interest costs for us. In addition, the planned discontinuation of LIBOR and/or changes to another index could result in mismatches with the interest rate of investments that we are financing, and the overall financial markets may be disrupted as a result of the phase-out or replacement of LIBOR. As a result, we cannot reasonably estimate the impact of the transition at this time. The transition from LIBOR to SOFR or other alternative reference rates may also introduce operational risks in our accounting, financial reporting, liability management and other aspects of our business.

Additionally, certain of our LIBOR-based contracts that may be in effect at the time of LIBOR discontinuation may not contain fallback language in the event LIBOR is unavailable or may not contain fallback language that contemplates the permanent discontinuation of LIBOR. Consequently, there is uncertainty as to how our LIBOR-based financial instruments may react to its discontinuation. While legislation passed by New York State in April 2021 was designed to address situations where there is no fallback language in a LIBOR-based contract, there is still uncertainty as to how the legislation will be applied for certain investments, and other investments will likely not be covered by the legislation.

LIBOR being discontinued as a benchmark may also cause one or more of the following to occur, among other impacts: (i) there may be an increase in the volatility of LIBOR prior to its discontinuation; (ii) there may be an increase in price volatility with respect to our LIBOR-based investments and/or a reduction in the value of our LIBOR-based investments; (iii) there may be a reduction in our ability to effectively hedge interest rate risks; and (iv) we may incur losses from hedging disruptions. In addition, we have received notices from certain of our swap dealers indicating that they are, albeit with relatively broad exceptions, prohibited from entering into new U.S. Dollar LIBOR contracts after December 31, 2021. There is no certainty as to what rate or rates may become market-accepted alternatives to LIBOR or how those alternatives may impact us.

***Our investments that are denominated in foreign currencies subject us to foreign currency risk, which may adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.***

Our investments that are denominated in foreign currencies subject us to foreign currency risk arising from fluctuations in exchange rates between such foreign currencies and the U.S. dollar. While we currently attempt to hedge the vast majority of

our foreign currency exposure, subject to maintaining our qualification as a REIT, we may not always choose to hedge such exposure, or we may not be able to hedge such exposure. To the extent that we are exposed to foreign currency risk, changes in exchange rates of such foreign currencies to the U.S. dollar may adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

***Hedging against credit events, interest rate changes, foreign currency fluctuations, and other risks may materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.***

Subject to maintaining our qualification as a REIT and maintaining our exclusion from registration as an investment company under the Investment Company Act, we opportunistically pursue various hedging strategies to seek to reduce our exposure to losses from adverse credit events, interest rate changes, foreign currency fluctuations, and other risks. Hedging against a decline in the values of our portfolio positions does not prevent losses if the values of such positions decline, nor does it eliminate the possibility of fluctuations in the value of our portfolio. Hedging transactions generally will limit the opportunity for gain should the values of our other portfolio positions increase. Further, certain hedging transactions could result in significant losses. Qualification as a REIT may require that we undertake certain hedging activities in a TRS. Our domestic TRSs are subject to U.S. federal, state, and local income tax. Moreover, at any point in time we may choose not to hedge all or a portion of our 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:

- our Manager may fail to correctly assess the degree of correlation between the hedging instruments and the assets being hedged;
- our Manager may fail to recalculate, re-adjust, and execute hedges in an efficient and timely manner;
- the hedging transactions may actually result in poorer overall performance for us than if we had not engaged in the hedging transactions;
- 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;
- 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; and
- our hedging instruments are generally structured as derivative contracts and, as a result, are subject to additional risks such as those described above under "—Our access to financing sources, which may not be available on favorable terms, or at all, may be limited, and our lenders and derivative counterparties may require us to post additional collateral. These circumstances may materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders." and below under "—Our use of derivatives may expose us to counterparty risk."

For these and other reasons, our hedging activity may materially adversely affect our business, financial condition and results of operations, our ability to pay dividends to our stockholders, and our ability to maintain our qualification as a REIT.

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

Hedging instruments and other derivatives, including certain types of credit default swaps, involve risk because they may not, in many cases, be traded on exchanges and may not be guaranteed or regulated by any U.S. or foreign governmental authorities. Consequently, for these instruments there may be less stringent requirements with respect to record keeping and compliance with applicable statutory and commodity and other regulatory requirements and, depending on the identity of the counterparty, applicable international requirements. Our Manager is not restricted from dealing with any particular counterparty



or from concentrating any or all of its transactions with one counterparty. Furthermore, our Manager has only a limited internal credit function to evaluate the creditworthiness of its counterparties, mainly relying on its experience with such counterparties and their general reputation as participants in these markets. The business failure of a hedging counterparty with whom we enter into a hedging transaction will most likely result in a default under the agreement governing the hedging arrangement. 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 adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

In addition, some portion of our hedges are cleared through a central counterparty clearinghouse, or "CCP," which we access through a futures commission merchant, or "FCM." If an FCM that holds our cleared derivatives account were to become insolvent, the CCP will make an effort to move our futures positions to an alternate FCM, though it is possible that such transfer would fail, which would result in a total cancellation of our positions in the account; in such a case, if we wished to reinstate such hedging positions, we would have to re-initiate such positions with an alternate FCM. In the event of the insolvency of an FCM that holds our cleared over-the-counter derivatives, the rules of the CCP require that its direct members submit bids to take over the portfolio of the FCM, and would further require the CCP to move our existing positions and related margin to an alternate FCM. If this were to occur, we believe that our risk of loss would be limited to the excess equity in the account at the insolvent FCM due to the "legally segregated, operationally commingled" treatment of client assets under the rules governing FCMs in respect of cleared over-the-counter derivatives. In addition, in the case of both futures and cleared over-the-counter derivatives, there could be knock-on effects of our FCM's insolvency, such as the failure of co-customers of the FCM or other FCMs of the same CCP. In such cases, there could be a shortfall in the funds available to the CCP due to such additional insolvencies and/or exhaustion of the CCP's guaranty fund that could lead to total loss of our positions in the FCM account. Finally, we face a risk of loss (including total cancellation) of positions in the account in the event of fraud by our FCM or other FCMs of the CCP, where ordinary course remedies would not apply.

The U.S. Commodity Futures Trading Commission, or "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 adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

***Certain of our hedging instruments are regulated by the CFTC and such regulations may adversely impact our ability to enter into such hedging instruments and cause us to incur increased costs.***

We enter into interest rate swaps and credit default swaps, or "CDS," on corporations or on corporate indices, or "CDX," 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 rules regarding such swaps under the authority granted to it pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the "Dodd-Frank Act."

The rules primarily impact our trading of these instruments in two ways. First, beginning on June 10, 2013, certain newly executed swaps, including many interest rate and credit default swaps, became subject to mandatory clearing through a CCP. It is the intent of the Dodd-Frank Act that, by mandating the clearing of swaps in this manner, swap counterparty risk would not become overly concentrated in any single entity, but rather would be spread and centralized among the CCP and its members. We are not a direct member of any CCP, so we must access the CCPs through a FCM, which acts as intermediary between us and the CCP with respect to all facets of the transaction, including the posting and receipt of required collateral. If we lost access to our FCMs or CCPs, we could potentially be unable to use interest rate swaps and credit default swaps to hedge our risks.

The second way that the rules impact our trading of these instruments is the Swap Execution Facility, or "SEF," mandate, which came into effect on October 2, 2013, and requires that we execute most interest rate swaps and CDX on an electronic platform, rather than over the phone or in some other manner. If we were to lose access to our selected SEFs or we were otherwise unable to communicate with them, this would prevent us from being able to trade these instruments. If we were

unable to execute our hedging trades in a timely manner, particularly in a volatile market environment, we may not be able to execute our strategies in the most advantageous manner.

In addition to subjecting our swap transactions to greater initial margin requirements and additional transaction fees charged by CCPs, FCMs, and SEFs, our 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, financial condition and results of operations, and our ability to pay dividends to our stockholders.

***Our use of derivatives may expose us to counterparty risk.***

We enter into interest rate swaps and other derivatives that have not been cleared by a CCP. If a derivative counterparty cannot perform under the terms of the derivative contract, we would not receive payments due under that agreement, we may lose any unrealized gain associated with the derivative, and the hedged liability would cease to be hedged by such instrument. If a derivative counterparty becomes insolvent or files for bankruptcy, we may also be at risk for any collateral we have pledged to such counterparty to secure our obligations under derivative contracts, and we may incur significant costs in attempting to recover such collateral.

***Our rights under our repos are subject to the effects of the bankruptcy laws in the event of the bankruptcy or insolvency of us or our lenders.***

In the event of our insolvency or bankruptcy, certain repos may qualify for special treatment under the U.S. Bankruptcy Code, the effect of which, among other things, would be to allow the lender to avoid the automatic stay provisions of the U.S. Bankruptcy Code and to foreclose on and/or liquidate the collateral pledged under such agreements without delay. In the event of the insolvency or bankruptcy of a lender during the term of a repo, the lender may be permitted, under applicable insolvency laws, to repudiate the contract, and our claim against the lender for damages may be treated simply as an unsecured claim. In addition, if the lender is a broker or dealer subject to the Securities Investor Protection Act of 1970, or an insured depository institution subject to the Federal Deposit Insurance Act, our ability to exercise our rights to recover our securities under a repo or to be compensated for any damages resulting from the lenders' insolvency may be further limited by those statutes. These claims would be subject to significant delay and costs to us and, if and when received, may be substantially less than the damages we actually incur.

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

In response to the global financial crisis of 2008-2009 and again in response to the economic effects of the COVID-19 pandemic in 2020, the Federal Reserve announced and completed several rounds of quantitative easing, which are programs designed to expand the Federal Reserve's holdings of long-term securities by purchasing U.S. Treasury securities and/or Agency RMBS, in order to provide stability to the market. Also during 2020, the Federal Reserve reduced the target range for the federal funds rate to 0.00%–0.25%, committed to purchase U.S. Treasury securities and Agency MBS without explicit limits on the amounts purchased, and announced several funding and liquidity programs. These actions put downward pressure on interest rates and stabilized repo markets. Among other effects, low interest rates can increase prepayment rates (resulting from lower long-term interest rates, including mortgage rates), impact the shape of the yield curve, and cause a narrowing of our net interest margin.

In November 2021, the Federal Reserve began to withdraw some of the quantitative easing support that it had implemented in response to the COVID-19 pandemic. It commenced the tapering of its asset purchases of U.S. Treasury securities and Agency RMBS and subsequently accelerated that tapering in December 2021. Withdrawal of quantitative easing has caused, and could continue to cause, elevated market volatility and widening yield spreads. Such actions could have a material adverse effect on our investment portfolio and on the economy as a whole, which could adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders. In addition to the tapering of asset purchases described above, it is likely that the Federal Reserve will discontinue, modify or reverse other programs and actions that it had implemented in 2020 in response to the COVID-19 pandemic.

From December 2015 through December 2018, the Federal Reserve had been increasing the target range for the federal funds rate. Then, as noted above, in 2020 it reduced the target range for the federal funds rate to 0.00%–0.25% and maintained that target rate throughout 2021. However, in response to the recent high rates of inflation and of economic growth, as well as low rates of unemployment, the Federal Reserve has signaled that it is likely to increase the target range for the federal funds rate one or more times in the near future. See "—Increases in interest rates could negatively affect the value of our assets and increase the risk of default on our assets" above. These and other actions by the Federal Reserve could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

Conversely, if the negative economic effects of the COVID-19 pandemic again worsen and cause the Federal Reserve to implement additional quantitative easing or other similar programs designed to maintain interest rates or reduce them further, this could adversely impact our business, including lowering the yields that we are able to generate on our investments.

***We may change our investment strategy, investment guidelines, hedging strategy, and asset allocation, operational, and management policies without notice or stockholder consent, which may materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders. In addition, our Board of Directors may authorize us to revoke or otherwise terminate our REIT election without the approval of our stockholders.***

We may change our investment strategy, investment guidelines, hedging strategy, and asset allocation, operational, and management policies at any time without notice to or consent from our stockholders. As a result, the types or mix of assets, liabilities, or hedging transactions in our portfolio may be different from, and possibly riskier than, the types or mix of assets, liabilities, and hedging transactions that we have historically held, or that are otherwise described in this report. A change in our strategy may increase our exposure to real estate values, interest rates, and other factors. Our Board of Directors determines our investment guidelines and our operational policies, and may amend or revise our policies, including those with respect to our acquisitions, growth, operations, indebtedness, capitalization, and dividends or approve transactions that deviate from these policies without a vote of, or notice to, our stockholders. Policy or strategy changes could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

Although we elected to be treated as a REIT, our Board of Directors may authorize us to revoke or otherwise terminate our REIT election, without the approval of our stockholders, at any time. These changes could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders. Any such change may increase our exposure to the risks described herein or expose us to new risks that are not currently contemplated.

***We operate in a highly competitive market.***

Our profitability depends, in large part, on our ability to acquire targeted assets at favorable prices. We compete with a number of entities when acquiring our targeted assets, including other mortgage REITs, financial companies, public and private funds, commercial and investment banks, and residential and commercial finance companies. We may also compete with (i) the Federal Reserve and the U.S. Treasury to the extent they purchase assets in our targeted asset classes and (ii) companies that partner with and/or receive financing from the U.S. Government or consumer bank deposits. Many of our competitors are substantially larger and have considerably more favorable access to capital and other resources than we do. We acquire a significant amount of our loan assets pursuant to flow agreements with various loan originators. If such originators are unable or unwilling to continue to sell loan assets to us, or if we are unable to find additional loan originators from whom to purchase loans at attractive prices, we may be forced to acquire such loan assets at prices that are less attractive, or acquire different assets, which could adversely impact our business, financial condition and results of operations, and our ability to pay dividends to our stockholders. Furthermore, new companies with significant amounts of capital have been formed or have raised additional capital, and may continue to be formed and raise additional capital in the future, and these companies may have objectives that overlap with ours, which may create competition for assets we wish to acquire. Some competitors may have a lower cost of funds and access to funding sources that are not available to us, such as funding from the U.S. Government. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of assets to acquire, or pay higher prices than we can. We also may have different operating constraints from those of our competitors including, among others, (i) tax-driven constraints such as those arising from our qualification as a REIT and in some cases to avoid adverse tax consequences to our stockholders, (ii) restraints imposed on us by our attempt to comply with certain exclusions from the definition of an "investment company" or other exemptions under the Investment Company Act and (iii) restraints and additional costs arising from our status as a public company. Furthermore, competition for assets in our targeted asset classes may lead to the price of such assets increasing, which may further limit our ability to generate desired returns. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

***We are highly dependent on Ellington's information systems and those of third-party service providers 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 pay dividends to our stockholders.***

Our business is highly dependent on Ellington's communications and information systems and those of third-party service providers. Any failure or interruption of Ellington's or certain third-party service providers' systems or cyber-attacks or security breaches of their networks or systems could cause delays or other problems in our securities trading activities, could allow unauthorized access for purposes of misappropriating assets, stealing proprietary and confidential information, corrupting data or causing operational disruption, which could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

Computer malware, ransomware, viruses, and computer hacking and phishing attacks have become more prevalent in the financial services industry and may occur on Ellington's or certain third party service providers' systems in the future. We rely heavily on Ellington's financial, accounting and other data processing systems. Although Ellington has not detected a breach to date, financial services institutions have reported breaches of their systems, some of which have been significant. Even with all reasonable security efforts, not every breach can be prevented or even detected. It is possible that Ellington or certain third-party service providers have experienced an undetected breach, and it is likely that other financial institutions have experienced more breaches than have been detected and reported. There is no assurance that we, Ellington, or certain of the third parties that facilitate our and Ellington's business activities, have not or will not experience a breach. It is difficult to determine what, if any, negative impact may directly result from any specific interruption or cyber-attacks or security breaches of Ellington's networks or systems (or the networks or systems of certain third parties that facilitate our and Ellington's business activities) or any failure to maintain performance, reliability and security of Ellington's or certain third-party service providers' technical infrastructure, but such computer malware, ransomware, viruses, and computer hacking and phishing attacks may negatively affect our operations.

***Because we are highly dependent on information systems when sharing information with third party service providers, systems failures, breaches or cyber-attacks could significantly disrupt our business, which could have a material adverse effect on our results of operations and cash flows.***

When we acquire certain investments, including residential mortgage loans and consumer loans, we may come into possession of non-public personal information that an identity thief could utilize in engaging in fraudulent activity or theft. We may share this information with third party service providers, including those interested in acquiring such loans from us or financing such loans, or with other third parties, as required or permitted by law. We may be liable for losses suffered by individuals whose personal information is stolen as a result of a breach of the security of the systems on which Ellington, or third-party service providers of ours store this information, or as a result of other mismanagement of such information, and any such liability could be material. Even if we are not liable for such losses, any breach of these systems could expose us to material costs in notifying affected individuals or other parties and providing credit monitoring services, as well as to regulatory fines or penalties. In addition, any breach of these systems could disrupt our normal business operations and expose us to reputational damage and lost business, revenues, and profits.

***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 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. 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.

For example, our portfolio of mortgage-related assets may at times be concentrated in certain property types that are subject to higher risk of foreclosure, or secured by properties concentrated in a limited number of geographic locations. To the extent that our portfolio is concentrated in any one region or type of security, downturns or other significant events or developments relating generally to such region or type of security may result in defaults on a number of our assets within a short time period, which may materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

***The lack of liquidity in our assets may materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.***

We acquire assets and other instruments that are not publicly traded, including privately placed RMBS, residential and commercial mortgage loans, CLOs, consumer loans, ABS backed by consumer and commercial assets, distressed corporate debt and equity, and other private investments, such as investments in loan originators. As such, these assets may be subject to legal and other restrictions on resale, transfer, pledge or other disposition, or will otherwise be less liquid than publicly traded securities. Other assets that we acquire, while publicly traded, have limited liquidity on account of their complexity, turbulent market conditions, or other factors. In addition, mortgage-related assets from time to time have experienced extended periods of illiquidity, including during times of financial stress (such as during the COVID-19 pandemic), which is often the time that liquidity is most needed. Illiquid assets typically experience greater price volatility, because a ready market does not exist, and they can be more difficult to value or sell if the need 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. We may also face other restrictions on our ability to liquidate any assets for which we or our Manager has or could be attributed with material non-public information. Furthermore, assets that are illiquid are more difficult to finance, and to the extent that we finance assets that are or become illiquid, we may lose that financing or have it reduced. If we are unable to sell our assets at

favorable prices or at all, it could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

***We could be subject to liability for potential violations of various federal, state and local laws and regulations, including 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.***

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 loan originators or servicers to comply with these laws, to the extent any of their loans become part of our assets, to the extent we own such loan originator, or to the extent we originated or were deemed to have originated such loans, could subject us, as an originator, assignee or purchaser of the related loans, or as an owner of a loan originator, to monetary penalties and could result in the borrowers rescinding the affected 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 assignees or purchasers of certain types of loans we invest in. If the loans are found to have been originated in violation of predatory or abusive lending laws, we could incur losses, which could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

***We may be exposed to environmental liabilities with respect to properties in which we have an interest.***

In the course of our business, we may take title to real estate, and, if we do take title, we could be subject to environmental liabilities with respect to these properties. In such a circumstance, we may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation, and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, the presence of hazardous substances may adversely affect an owner's ability to sell real estate or borrow using real estate as collateral. To the extent that an owner of an underlying property becomes liable for removal costs, the ability of the owner to make debt payments may be reduced, which in turn may materially adversely affect the value of the relevant mortgage-related assets held by us.

***Consumer loans are subject to delinquency and loss, which could have a negative impact on our financial results.***

We are exposed to the performance of consumer loans through those consumer loans that we own directly, through those consumer loans to which we are exposed indirectly through our ownership of consumer-loan-backed ABS, and through our ownership interest in a consumer loan originator. The ability of borrowers to repay consumer loans may be adversely affected by numerous borrower-specific factors, including unemployment, divorce, major medical expenses or personal bankruptcy. General factors, including an economic downturn, high energy costs or acts of God, pandemics such as the COVID-19 pandemic, or terrorism, may also affect the financial stability of borrowers and impair their ability or willingness to repay their loans. Whenever any of our consumer loans defaults, we are at risk of loss to the extent of any deficiency between the liquidation value of the collateral, if any, securing the loan, and the principal and accrued interest of the loan. Many of our consumer loans are unsecured, or are secured by collateral (such as an automobile) that depreciates rapidly; as a result, these loans may be at greater risk of loss than residential real estate loans. Pursuing any remaining deficiency following a default is often difficult or impractical, especially when the borrower has a low credit score, making further substantial collection efforts unwarranted. In addition, repossessing personal property securing a consumer loan can present additional challenges, including locating and taking physical possession of the collateral. We rely on servicers who service these consumer loans, to, among other things, collect principal and interest payments on the loans and perform loss mitigation services, and these servicers may not perform in a manner that promotes our interests. Since we purchase some of our consumer loans and our consumer-loan-backed ABS at a premium to the remaining unpaid principal balance, we may incur a loss when such loans are voluntarily prepaid. There can be no guarantee that we will not suffer unexpected losses on our investments as a result of the factors set out above, which could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

***Increased regulatory attention and potential regulatory action on certain areas within the consumer credit or reverse mortgage businesses could have a negative impact on our reputation, or cause losses on our investments in consumer loans or our equity investments in loan originators.***

Certain consumer advocacy groups, media reports, and federal and state legislators have asserted that laws and regulations should be tightened to severely limit, if not eliminate, the availability of certain loan products. The consumer advocacy groups and media reports generally focus on higher cost consumer loans, which are typically made to less creditworthy borrowers, and which bear interest rates that are higher than the interest rates typically charged by lending institutions to more creditworthy consumers. These consumer advocacy groups and media reports have characterized these consumer loans as predatory or

abusive. In addition, reverse mortgage loans have faced similar issues in terms of media reports and potential legislative hurdles. If the negative characterization of these types of loans becomes increasingly accepted by consumers, legislators or regulators, our reputation, as a purchaser of such loans and as an equity investor in a both a consumer loan originator and a reverse mortgage originator, could be negatively impacted. This reputational risk could be magnified for loan originators that we control. On February 18, 2022, we entered into the Longbridge Purchase Agreement with Home Point to purchase Home Point's 49.6% ownership interest in Longbridge, of which we also held a 49.6% ownership interest as of December 31, 2021. Furthermore, if legislators or regulators take action against originators of consumer loans or reverse mortgages or provide for payment relief for borrowers, we could incur additional losses on the consumer loans that we have purchased and/or with respect to the equity investments that we have made in a consumer loan originator and a reverse mortgage originator.

***Our investments in distressed debt and equity have significant risk of loss, and our efforts to protect these investments may involve large costs and may not be successful.***

Our investments in distressed debt and equity have a significant risk of loss, and our efforts to protect these investments may involve large costs and may not be successful. We also will be subject to significant uncertainty as to when and in what manner and for what value the distressed debt or equity in which we invest will eventually be satisfied (e.g., in the case of distressed debt, through liquidation of the obligor's assets, an exchange offer or plan of reorganization involving the distressed debt securities or a payment of some amount in satisfaction of the obligation). In addition, even if an exchange offer is made or plan of reorganization is adopted with respect to distressed debt we hold, there can be no assurance that the securities or other assets received by us in connection with such exchange offer or plan of reorganization will not have a lower value or income potential than may have been anticipated when the investment was made. Moreover, any securities received by us upon completion of an exchange offer or plan of reorganization may be restricted as to resale. If we participate in negotiations with respect to any exchange offer or plan of reorganization with respect to an issuer of distressed debt, we may be restricted from disposing of such securities.

The pools of loans underlying Ellington-sponsored CLO securitizations ("Ellington-Sponsored CLOs") have historically had lower credit ratings than the loan portfolios in typical CLOs, as they allow for a higher percentage of below investment grade loans. Ellington-Sponsored CLOs have at times also experienced negative credit events in their constituent loans, credit rating downgrades of constituent loans and issued debt tranches, and failures of certain deal metrics. As a result, the risks associated with our investments in Ellington-Sponsored CLOs may be greater than those associated with our investments in other CLOs. In addition, we have in the past, and we may in the future, make equity investments in proposed Ellington-Sponsored CLO issuing entities, and we also may make loans to such entities in which we have an equity investment, to enable these entities to establish warehouse facilities for the purpose of acquiring the assets to be securitized. If the assets accumulated prior to the completion of a proposed CLO securitization experience negative credit events, decrease in value, are sold at a loss, or the proposed securitization does not occur, our equity and loan investments in such entity may experience a partial or complete loss.

***We have held and may continue to hold the debt securities, loans or equity of companies that are more likely to enter into bankruptcy proceedings or have other risks.***

We have held and may continue to hold the debt securities, loans or equity of companies that are more likely to experience bankruptcy or similar financial distress, such as companies that are thinly capitalized, employ a high degree of financial leverage, are in highly competitive or risky businesses, are in a start-up phase, or are experiencing losses. The bankruptcy process has a number of significant inherent risks. Many events in a bankruptcy proceeding are the product of contested matters and adversarial proceedings and are beyond the control of the creditors. A bankruptcy filing by a company whose debt or equity we have purchased may adversely and permanently affect such company. If the proceeding results in liquidation, the liquidation value of the company may have deteriorated significantly from what we believed to be the case at the time of our initial investment. The duration of a bankruptcy proceeding is also difficult to predict, and a return on investment to a creditor or equity investor can be adversely affected by delays until a plan of reorganization or liquidation ultimately becomes effective. The administrative costs in connection with a bankruptcy proceeding are frequently high and would be paid out of the debtor's estate prior to any return to creditors. Because the standards for classification of claims under bankruptcy law are vague, our influence with respect to the class of securities or other obligations we own may be lost by increases in the number and amount of claims in the same class or by different classification and treatment. In the early stages of the bankruptcy process, it is often difficult to estimate the extent of, or even to identify, any contingent claims that might be made. In addition, certain claims that have priority by law (for example, claims for taxes) may be substantial, eroding the value of any recovery by holders of other securities of the bankrupt entity.

A bankruptcy court may also re-characterize our debt investment as equity, and subordinate all or a portion of our claim to that of other creditors. This could occur even if our investment had initially been structured as senior debt, and we could lose all or a significant part of our investment.

We have made and may in the future make loans secured by, or invest in structures tied to, individual, or portfolios of, legal claims, or "litigation finance loans." There is no assurance our Manager will be able to predict several aspects of the cases underlying our investments, including to which courts and judges the cases are assigned, the development of evidence during discovery and its presentation at trial, the composition and decisions of juries, timing of the judicial process, likelihood of settlements and collectability of judgments.

In addition, we will not have the ability to control decisions made by the claimholder, defendant, or the law firm, nor can we share details of the underlying cases with our stockholders. We rely on, among other things, the advice and opinion of outside counsel and other experts in assessing potential claims and on the skills and efforts of independent law firms to litigate cases. There is no guarantee that the ultimate outcome of any case will be in line with a law firm's or expert's initial assessment of the validity and merit of a legal claim.

Various laws restrict the ability to assign certain legal claims or to participate in a lawyer's contingent fee interest in a claim. While we intend to analyze all relevant restrictions prior to investment, there is a risk that failure to comply with a federal, state or local law, rule or regulation could subject us to liability and jeopardize the enforceability of our investment.

***We may be subject to risks associated with syndicated loans.***

Under the documentation for syndicated loans, a financial institution or other entity typically is designated as the administrative agent and/or collateral agent. This agent is granted a lien on any collateral on behalf of the other lenders and distributes payments on the indebtedness as they are received. The agent is the party responsible for administering and enforcing the loan and generally may take actions only in accordance with the instructions of a majority or two-thirds in commitments and/or principal amount of the associated indebtedness. In most cases for our syndicated loan investments, we do not expect to hold a sufficient amount of the indebtedness to be able to compel any actions by the agent. Consequently, we would only be able to direct such actions if instructions from us were made in conjunction with other holders of associated indebtedness that together with us compose the requisite percentage of the related indebtedness then entitled to take action. Conversely, if holders of the required amount of the associated indebtedness other than us desire to take certain actions, such actions may be taken even if we did not support such actions. Furthermore, if a syndicated loan is subordinated to one or more senior loans made to the applicable obligor, the ability of us to exercise such rights may be subordinated to the exercise of such rights by the senior lenders. Whenever we are unable to direct such actions, the parties taking such actions may not have interests that are aligned with us, and the actions taken may not be in our best interests.

If an investment is a syndicated revolving loan or delayed drawdown loan, other lenders may fail to satisfy their full contractual funding commitments for such loan, which could create a breach of contract, result in a lawsuit by the obligor against the lenders and adversely affect the fair market value of our investment.

There is a risk that a loan agent may become bankrupt or insolvent. Such an event would delay, and possibly impair, any enforcement actions undertaken by holders of the associated indebtedness, including attempts to realize upon the collateral securing the associated indebtedness and/or direct the agent to take actions against the related obligor or the collateral securing the associated indebtedness and actions to realize on proceeds of payments made by obligors that are in the possession or control of any other financial institution. In addition, we may be unable to remove the agent in circumstances in which removal would be in our best interests. Moreover, agent loans typically allow for the agent to resign with certain advance notice, and we may not find a replacement agent on a timely basis, or at all, in order to protect our investment.

***We have made and may in the future make investments in companies that we do not control.***

Some of our investments in loan originators and other operating entities include, or may include, debt instruments and/or equity securities of companies that we do not control. Those investments will be subject to the risk that the company in which the investment is made may make business, financial or management decisions with which we do not agree or that the majority stakeholders or the management of such company may take risks or otherwise act in a manner that does not serve our interests. The entities in which we invest could be thinly capitalized, highly leveraged, dependent on a small number of key individuals, subject to regulatory concerns, underperform expectations, or face other obstacles that could adversely affect the business and results of operations of any such entity. If any of the foregoing were to occur, our investments in these operating entities could be lost in their entirety, and our financial condition, results of operations and cash flow could suffer as a result.

***We expect to consolidate one of our loan originator investments, and could in the future, consolidate additional loan originator investments.***

On February 18, 2022, we signed the Longbridge Purchase Agreement to purchase a controlling interest in Longbridge. If the closing conditions for the Longbridge Purchase Agreement are met and the purchase is consummated, which we expect to occur during 2022, we expect that we will be required to consolidate Longbridge in our consolidated financial statements

starting with the fiscal period in which we consummate the purchase. We have not previously acquired a controlling interest in an operating company nor have we been previously engaged in directly originating reverse mortgage loans or owning mortgage servicing rights in reverse mortgage loans. If we experience challenges related to the acquisition of a controlling interest in Longbridge that we did not anticipate or cannot mitigate, we could experience significant losses with respect to this investment.

Longbridge's success is dependent upon prevailing conditions in the reverse mortgage market, and conditions that negatively impact that market may reduce demand for Longbridge's loans and adversely impact our business, financial condition and results of operations, and our ability to pay dividends to our stockholders. Negative changes in real estate, economic and/or regulatory conditions may affect the reverse mortgage market, which could reduce demand for Longbridge's products and services, and reduce the value of the mortgage servicing rights that it owns and generates. This could in turn adversely affect our results of operations.

Directly originating reverse mortgage loans and owning mortgage servicing rights in reverse mortgage loans could also expose us to new or increased risks, including increased regulation by federal and state authorities, challenges in effectively integrating operations, failure to maintain effective internal controls over financial reporting, procedures and policies, and other unknown liabilities and unforeseen increased expenses associated with the acquisition of a controlling interest in Longbridge. See "Increased regulatory attention and potential regulatory action on certain areas within the consumer credit or reverse mortgage businesses could have a negative impact on our reputation, or cause losses on our investments in consumer loans or our equity investments in loan originators" above for a discussion of how increased regulatory action in the reverse mortgage sector could cause losses on our investment in Longbridge. Additionally, Longbridge engages in and sponsors securitization transactions relating to reverse mortgage loans. These securitization transactions and investments expose us to potentially material risks, as described in the risk factor, "Our securitizations may expose us to additional risks." In addition, if we were to consolidate Longbridge's financial statements with our financial statements, it will have a significant impact on many aspects of our financial reporting, including potentially causing us to adopt segment reporting and greatly increasing the size of our balance sheet. To illustrate the potential magnitude of the effect of a consolidation of Longbridge in our financial statements, please see Longbridge's financial statements for the fiscal year ended December 31, 2021, which are attached to this Annual Report on Form 10-K as Exhibit 99.1

Additionally, in connection with our pending acquisition of a controlling interest in Longbridge, we expect that a portion of the purchase price will be allocated to goodwill. The amount of the purchase price which is allocated to goodwill is expected to be determined by the excess of the purchase price over the net identifiable assets acquired. Accounting standards require that we test goodwill for impairment at least annually (or more frequently if impairment indicators arise). If, in the future, we determine goodwill is impaired, we will be required to write down the value of this goodwill asset, up to the entire balance. Any such write-down would have a negative effect on our consolidated financial statements.

***We have invested and may in the future invest in securities in the developing CRT sector that are subject to mortgage credit risk.***

We have invested and may in the future invest in credit risk transfer securities, or "CRTs." CRTs are designed to transfer a portion of the mortgage credit risk of a pool of insured or guaranteed mortgage loans from the insurer or guarantor of such loans to CRT investors. In a CRT transaction, interest and/or principal of the CRT is written off following certain credit events, such as delinquencies, defaults, and/or realized losses, on the underlying mortgage pool. To date, the vast majority of CRTs consist of risk sharing transactions issued by the GSEs, namely Fannie Mae's Connecticut Avenue Securities program, or "CAS," and Freddie Mac's Structured Agency Credit Risk program, or "STACR." These securities have historically been unsecured and subject to the credit risk of the underlying mortgage pool. In the future, Fannie Mae and Freddie Mac may issue CRTs with a variety of other structures.

**Risks Related to the COVID-19 Pandemic**

***The global outbreak of the COVID-19 pandemic has adversely affected, and could continue to adversely affect, our business, financial condition, liquidity, and results of operations.***

The COVID-19 pandemic has negatively affected our business, and we believe that it could continue to do so. This pandemic caused significant volatility and disruption in the financial markets both globally and in the United States. If COVID-19 continues to spread, efforts to contain COVID-19 are unsuccessful, or the United States experiences another highly infectious or contagious disease in the future, our business, financial condition, liquidity, and results of operations could be materially and adversely affected. The ultimate severity and duration of such effects would depend on future developments that are highly uncertain and difficult to predict, including the geographic spread of the disease, the overall severity of the disease, the duration of the outbreak, the timing and effectiveness of vaccines and treatments, the measures that may be taken by various governmental authorities in response to the outbreak (such as quarantines and travel restrictions) and the possible further impacts on the national and global economies. The continued spread of COVID-19, or an outbreak of another highly infectious



or contagious disease in the future, could also negatively impact the availability of key personnel necessary to conduct our business.

Moreover, certain actions taken by U.S. or other governmental authorities that are intended to ameliorate the macroeconomic effects of the COVID-19 pandemic or an outbreak due to another highly infectious or contagious disease in the future could harm our business. Any significant decrease in economic activity or resulting decline in the markets in which we invest could also have an adverse effect on our investments in our targeted assets.

The COVID-19 pandemic and certain of the actions taken to reduce the spread of the disease, based on governmental mandates and recommendations, including restrictions on travel, restrictions on the ability of individuals to assemble in groups, and restrictions on the ability of certain businesses to operate, have resulted in lost business revenue, rapid and significant increases in unemployment, and changes in consumer behavior, all of which have materially and adversely affected the economy. As a result, there was a significant nationwide increase in loan delinquencies, forbearances, deferments, and modifications in the first half of 2020, which increased delinquencies and losses on our loans and otherwise adversely affected our results of operations in the first half of 2020. Future outbreaks involving other highly infectious or contagious diseases could have similar adverse effects.

***Our inability to access funding, or to access funding on terms that we believe are reasonable or attractive, particularly as a result of future market dislocations resulting from the COVID-19 pandemic or as a result of other future outbreaks involving other highly infectious or contagious diseases, could have a material adverse effect on our financial condition.***

The COVID-19 pandemic, or other future outbreaks involving other highly infectious or contagious diseases, could cause dislocations in the markets for our assets or could impair our ability to secure or maintain financing through repurchase agreements or other types of borrowings, which could have a material adverse effect on our financial condition. See “Our access to financing sources, which may not be available on favorable terms, or at all, may be limited, and our lenders and derivative counterparties may require us to post additional collateral. These circumstances may materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders” above.

***We cannot predict the effect that government policies, laws, and plans adopted in response to the COVID-19 pandemic or other future outbreaks involving highly infectious or contagious diseases and resulting recessionary economic conditions will have on us.***

Governments have adopted, and we expect will continue to adopt, policies, laws, and plans intended to address the COVID-19 pandemic and adverse developments in the credit, financial, and mortgage markets that it has caused. We cannot assure you that these programs will be effective, sufficient, or otherwise have a positive impact on our business. Furthermore, such programs could also have a material adverse effect on our business. As a result of financial difficulties due to the COVID-19 pandemic, borrowers have requested, and could continue to request, forbearance or other relief with respect to their mortgage payments. In addition, across the country, moratoriums have been put in place in certain states to stop evictions and foreclosures in an effort to lessen the financial burden created by the COVID-19 pandemic, and various states have proposed or enacted regulation requiring servicers to formulate policies to assist mortgagors in need as a result of the COVID-19 pandemic. While some of these programs have been lifted or discontinued, other forbearance programs, foreclosure moratoriums or other programs or mandates may be imposed or extended, including those that will impact mortgage related assets. Moratoriums on foreclosures may significantly impair a servicer’s abilities to pursue loss mitigation strategies in a timely and effective manner, which could have a material adverse effect on our business.

***The declaration, amount, nature, and payment of future dividends on our common and preferred stock are subject to uncertainty due to market conditions, including those resulting from the COVID-19 pandemic, and future outbreaks involving other highly infectious or contagious diseases may result in similar uncertainty and market disruption.***

The COVID-19 pandemic, and future outbreaks involving other highly infectious or contagious diseases may negatively impact the declaration, amount, nature, and payment of future dividends on our common and preferred stock. See “Our stockholders may not receive dividends or dividends may not grow over time” below.

***The economic and market disruptions caused by the COVID-19 pandemic or by future outbreaks involving other highly infectious or contagious diseases have adversely impacted, and could continue to adversely impact, over the near and long term, the financial condition of borrowers underlying our residential mortgage loan investments, commercial mortgage loan investments, consumer loan investments, and corporate loan investments and limit our ability to grow our business.***

The COVID-19 pandemic, or other future outbreaks involving other highly infectious or contagious diseases, could cause borrowers of residential mortgage loans, commercial mortgage loans, consumer loans, and corporate loans to miss payments or default on their loans. See “Residential mortgage loans, including non-QM loans, residential transition loans, and residential

NPLs, are subject to increased risks," "The commercial mortgage loans that we acquire or originate, 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 to the risks of delinquency and foreclosure," "Consumer loans are subject to delinquency and loss, which could have a negative impact on our financial results," and "Our investments in distressed debt and equity have significant risk of loss, and our efforts to protect these investments may involve large costs and may not be successful" above.

***Market disruptions caused by pandemics, such as the COVID-19 pandemic, have made it more difficult, and could continue to make it more difficult, for the loan servicers we rely on to perform a variety of services for us, which may adversely impact our business and financial results.***

The COVID-19 pandemic has made it more difficult, and could continue to make it more difficult, for loan servicers to perform a variety of services, which may adversely impact our business and financial results. As a result, we could be materially and adversely affected if a mortgage servicer is unable to adequately or successfully service our residential mortgage loans, commercial mortgage loans, and consumer loans or if any such servicer experiences financial distress. See "We rely on mortgage servicers for our loss mitigation efforts, and we also may engage in our own loss mitigation efforts with respect to whole mortgage loans that we own directly. Such loss mitigation efforts may be unsuccessful or not cost effective" above.

***Our investments in loan originators could be adversely affected by the economic and market disruptions caused by pandemics, such as the COVID-19 pandemic.***

We have non-controlling equity interests in certain loan originators, and we expect that our interest in Longbridge will become a controlling interest upon the completion of the purchase set forth in the Longbridge Purchase Agreement. The economic and market disruptions caused by the COVID-19 pandemic could adversely impact over the near and long term the business and results of operations of these entities, which in turn, could adversely impact our business and results of operations. Future outbreaks involving other highly infectious or contagious diseases could have similar adverse effects.

***Market and economic disruptions caused by pandemics, such as the COVID-19 pandemic, have made it more difficult, and could in the future make it more difficult, for our Manager to determine the fair value of our investments.***

Market and economic disruptions caused by the COVID-19 pandemic have made it more difficult, and could in the future make it more difficult, for our Manager, and for the providers of third-party valuations that we use, to rely on market-based inputs in connection with the valuation of our assets under U.S. GAAP. The value of our common and preferred stock and our results of operations could be adversely affected if our determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon their disposal. See "Valuations of some of our assets are inherently uncertain, may be based on estimates, may fluctuate over short periods of time, and may differ from the values that would have been used if a ready market for these assets existed" above.

***Measures intended to prevent the spread of COVID-19 have disrupted our ability to operate our business, and could continue to do so in the future.***

In response to the outbreak of COVID-19 and the federal and state mandates implemented to control its spread, certain of Ellington's personnel, as well as the third-party service providers that provide services to us, are working remotely. If these personnel are unable to work effectively as a result of the COVID-19 pandemic, including because of illness, quarantines, office closures, ineffective remote work arrangements, or technology failures or limitations, our operations would be adversely impacted. Further, remote work arrangements may increase the risk of cybersecurity incidents and cyber-attacks on us or our third-party service providers, which could have a material adverse effect on our business and results of operations, due to, among other things, the loss of investor or proprietary data, interruptions or delays in the operation of our business, and damage to our reputation.

#### **Risks Related to our Relationship with our Manager and Ellington**

***We are dependent on our Manager and certain key personnel of Ellington that are provided to us through our Manager and may not find a suitable replacement if our Manager terminates the management agreement or such key personnel are no longer available to us.***

We do not have any employees of our own. Our officers are employees of Ellington or one or more of its affiliates. We have no separate facilities and are completely reliant on our Manager, which has significant discretion as to the implementation of our operating policies and execution of our business strategies and risk management practices. We also depend on our Manager's access to the professionals of Ellington as well as information and deal flow generated by Ellington. The employees of Ellington identify, evaluate, negotiate, structure, close, and monitor our portfolio. The departure of any of the senior officers of our Manager, or of a significant number of investment professionals of Ellington or the inability of such personnel to

perform their duties due to acts of God, including pandemics such as the COVID-19 pandemic, could have a material adverse effect on our ability to achieve our objectives. We can offer no assurance that our Manager will remain our manager or that we will continue to have access to our Manager's senior management. We are subject to the risk that our Manager will terminate the management agreement or that we may deem it necessary to terminate the management agreement or prevent certain individuals from performing services for us and that no suitable replacement will be found to manage us.

***The base management fee payable to our Manager is payable regardless of the performance of our portfolio, which may reduce our Manager's incentive to devote the time and effort to seeking profitable opportunities for our portfolio.***

We pay our Manager substantial base management fees based on our equity capital (as defined in the management agreement) regardless of the performance of our portfolio. The base management fee takes into account the net issuance proceeds of both common and preferred stock offerings. Our Manager's entitlement to non-performance-based compensation might reduce its incentive to devote the time and effort of its professionals to seeking profitable opportunities for our portfolio, which could result in a lower performance of our portfolio and materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

***Our Manager's incentive fee may induce our Manager to acquire certain assets, including speculative or high risk assets, or to acquire assets with increased leverage, which could increase the risk to our portfolio.***

In addition to its base management fee, our Manager is entitled to receive an incentive fee based, in large part, upon our achievement of targeted levels of net income. In evaluating asset acquisition and other management strategies, the opportunity to earn an incentive fee based on net income may lead our Manager 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 credit risk or market risk, in order to achieve a higher incentive fee. Assets with higher yield potential are generally riskier or more speculative. This could result in increased risk to our portfolio.

***Our Board of Directors has approved very broad investment guidelines for our Manager and will not approve each decision made by our Manager to acquire, dispose of, or otherwise manage an asset.***

Our Manager is authorized to follow very broad guidelines in pursuing our strategy. While our Board of Directors periodically reviews our guidelines and our portfolio and asset-management decisions, it generally does not review all of our proposed acquisitions, dispositions, and other management decisions. In addition, in conducting periodic reviews, our Board of Directors relies primarily on information provided to them by our Manager. Furthermore, our Manager may arrange for us to use complex strategies or to enter into complex transactions that may be difficult or impossible to unwind by the time they are reviewed by our Board of Directors. Our Manager has great latitude within the broad guidelines in determining the types of assets it may decide are proper for us to acquire and other decisions with respect to the management of those assets. Poor decisions could have a material adverse effect on our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

***We compete with Ellington's other accounts for access to Ellington.***

Ellington has sponsored and/or currently manages accounts with a focus that overlaps with our investment focus, and expects to continue to do so in the future. Ellington is not restricted in any way from sponsoring or accepting capital from new accounts, even for investing in asset classes or strategies that are similar to, or overlapping with, our asset classes or strategies. Therefore, we compete for access to the benefits that our relationship with our Manager and Ellington provides us. For the same reasons, the personnel of Ellington and our Manager may be unable to dedicate a substantial portion of their time to managing our assets.

***We compete with other Ellington accounts for opportunities to acquire assets, which are allocated in accordance with Ellington's investment allocation policies.***

Many of our targeted assets are also targeted assets of other Ellington accounts, and Ellington has no duty to allocate such opportunities in a manner that preferentially favors us. Ellington makes available to us all opportunities to acquire assets that it determines, in its reasonable and good faith judgment, based on our objectives, policies and strategies, and other relevant factors, are appropriate for us in accordance with Ellington's written investment allocation policy, it being understood that we might not participate in each such opportunity, but will on an overall basis equitably participate with Ellington's other accounts in all such opportunities.

Since many of our targeted assets are typically available only in specified quantities and are also targeted assets for other Ellington accounts, Ellington often is not able to buy as much of any asset or group of assets as would be required to satisfy the needs of all of Ellington's accounts. In these cases, Ellington's investment allocation procedures and policies typically allocate

such assets to multiple accounts in proportion to their needs and available capital. As part of these policies, accounts that are in a "start-up" or "ramp-up" phase may get allocations above their proportion of available capital, which could work to our disadvantage, particularly because there are no limitations surrounding Ellington's ability to create new accounts. In addition, the policies permit departure from proportional allocations under certain circumstances, for example when such allocation would result in an inefficiently small amount of the security or assets being purchased for an account, which may also result in our not participating in certain allocations.

***There are conflicts of interest in our relationships with our Manager and Ellington, which could result in decisions that are not in the best interests of our stockholders.***

We are subject to conflicts of interest arising out of our relationship with Ellington and our Manager. Currently, all of our executive officers, and one of our directors, are employees of Ellington or one or more of its affiliates. As a result, our Manager and our officers may have conflicts between their duties to us and their duties to, and interests in, Ellington or our Manager. For example, Mr. Penn, our President and Chief Executive Officer and one of our directors, also serves as the President and Chief Executive Officer of, and as a member of the Board of Trustees of, Ellington Residential Mortgage REIT, and as Vice Chairman and Chief Operating Officer of Ellington. Mr. Vranos, our Co-Chief Investment Officer, also serves as the Co-Chief Investment Officer of, and as a member of the Board of Trustees of, Ellington Residential Mortgage REIT, and as Chairman of Ellington. Mr. Tecotzky, our Co-Chief Investment Officer, also serves as the Co-Chief Investment Officer of Ellington Residential Mortgage REIT, and as Vice Chairman - Co-Head of Credit Strategies of Ellington. Mr. Herlihy, our Chief Financial Officer, also serves as the Chief Operating Officer of Ellington Residential Mortgage REIT, and as a Managing Director of Ellington. Mr. Smernoff, our Chief Accounting Officer, also serves as the Chief Financial Officer of Ellington Residential Mortgage REIT.

We may acquire or sell assets in which Ellington or its affiliates have or may have an interest. Similarly, Ellington 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 Ellington or its affiliates, including the purchase and sale of all or a portion of a portfolio asset. We may also, either directly or indirectly through an entity in which we invest, pay Ellington or an affiliate of Ellington to perform administrative services for us. Furthermore, if we securitize any of our assets, Ellington or an affiliate of Ellington may be required under the U.S. Risk Retention Rules to acquire and retain an economic interest in the credit risk of such assets. In connection with any of these transactions we may indemnify, alongside other Ellington affiliates, Ellington or its affiliates or third parties.

Acquisitions made for entities with similar objectives may be different from those made on our behalf. Ellington 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, Ellington may, in its 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 such securities 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.

In deciding whether to issue additional debt or equity securities, we will rely in part on recommendations made by our Manager. While such decisions are subject to the approval of our Board of Directors, one of our directors is also an Ellington employee. Because our Manager earns base management fees that are based on the total amount of our equity capital, and earns incentive fees that are based in part on the total net income that we are able to generate, our Manager may have an incentive to recommend that we issue additional debt or equity securities. See "—Future offerings of debt securities, which would rank senior to our common and preferred stock upon our liquidation, and future offerings of equity securities, which could dilute our existing stockholders and, in the case of preferred equity, 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."

The officers of our Manager and its affiliates devote as much time to us as our Manager deems appropriate; however, these officers may have conflicts in allocating their time and services among us and Ellington and its affiliates' accounts. 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 Manager and Ellington employees, other entities that Ellington advises or manages will likewise require greater focus and attention, placing our Manager and Ellington's resources 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 or if Ellington or its affiliates did not act as a manager for other entities.

We, directly or through Ellington, 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 Manager's and Ellington's management of other accounts could create a conflict of interest to the extent our Manager or Ellington is aware of material non-public information concerning potential investment decisions. We have implemented compliance procedures and practices designed to ensure that investment decisions are not made while in possession of material non-public information. We cannot assure you, however, that these procedures and practices will be effective. In addition, this conflict and these procedures and practices may limit the freedom of our Manager to make potentially profitable investments, which could have an adverse effect on our operations. These limitations imposed by access to confidential information could therefore materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

As of December 31, 2021, the Manager Group owned approximately 6.6% of our outstanding common shares and other equity interests convertible into our common shares. In evaluating opportunities for us and other management strategies, this may lead our Manager to emphasize certain asset acquisition, disposition, or management objectives over others, such as balancing risk or capital preservation objectives against return objectives. This could increase the risks, or decrease the returns, of your investment.

***The management agreement with our Manager was not negotiated on an arm's-length basis and may not be as favorable to us as if it had been negotiated with an unaffiliated third party and may be costly and difficult to terminate.***

Our management agreement with our Manager was negotiated between related parties, and its terms, including fees payable, may not be as favorable to us as if it had been negotiated with an unaffiliated third party. Various potential and actual conflicts of interest may arise from the activities of Ellington and its affiliates by virtue of the fact that our Manager is controlled by Ellington.

Termination of our management agreement without cause, including termination for poor performance or non-renewal, is subject to several conditions which may make such a termination difficult and costly. The management agreement has a current term that expires on December 31, 2022, and will be automatically renewed for successive one-year terms thereafter unless notice of non-renewal is delivered by either party to the other party at least 180 days prior to the expiration of the then current term. The management agreement provides that it may be terminated by us based on performance upon the affirmative vote of at least two-thirds of our independent directors, or by a vote of the holders of at least a majority of our outstanding common stock, based either upon unsatisfactory performance by our Manager that is materially detrimental to us or upon a determination by the Board of Directors that the fees payable to our Manager are not fair, subject to our Manager's right to prevent such a termination by accepting a mutually acceptable reduction of the fees. In the event we terminate the management agreement as discussed above or elect not to renew the management agreement, we will be required to pay our Manager a termination fee equal to the amount of three times the sum of the average annual base management fee and the average annual incentive fee earned by our Manager during the 24-month period immediately preceding the date of notice of termination or non-renewal, calculated as of the end of the most recently completed fiscal quarter prior to the date of notice of termination or non-renewal. These provisions will increase the effective cost to us of terminating the management agreement, thereby adversely affecting our ability to terminate our Manager without cause.

Pursuant to the management agreement, our Manager will not assume any responsibility other than to render the services called for thereunder and will not be responsible for any action of our Board of Directors in following or declining to follow its advice or recommendations. Under the terms of the management agreement, our Manager, Ellington, and their affiliates and each of their officers, directors, members, shareholders, managers, investment and risk management committee members, employees, agents, successors and assigns, will not be liable to us for acts or omissions performed in accordance with and pursuant to the management agreement, except because of acts or omissions constituting bad faith, willful misconduct, gross negligence, or reckless disregard of their duties under the management agreement. In addition, we will indemnify our Manager, Ellington, and their affiliates and each of their officers, directors, members, shareholders, managers, investment and risk management committee members, employees, agents, successors and assigns, with respect to all liabilities, judgments, costs, charges, losses, expenses, and claims arising from acts or omissions of our Manager not constituting bad faith, willful misconduct, gross negligence, or reckless disregard of duties under the management agreement.

***If our Manager ceases to be our Manager pursuant to the management agreement or one or more of our Manager's key personnel ceases to provide services to us, our lenders and our derivative counterparties may cease doing business with us.***

If our Manager ceases to be our Manager, including upon non-renewal of our management agreement, or if one or more of our Manager's key personnel ceases to provide services to us, it could constitute an event of default or early termination event under many of our repo or derivative transaction agreements, upon which our counterparties would have the right to terminate

their agreements with us. If our Manager ceases to be our Manager for any reason, including upon the non-renewal of our management agreement and we are unable to obtain or renew financing or enter into or maintain derivative transactions, our business, financial condition and results of operations, and our ability to pay dividends to our stockholders may be materially adversely affected.

***Our Manager's failure to identify and acquire assets that meet our asset criteria or perform its responsibilities under the management agreement could materially adversely affect our business, financial condition and results of operations, our ability to maintain our qualification as a REIT, and our ability to pay dividends to our stockholders.***

Our ability to achieve our objectives depends on our Manager's ability to identify and acquire assets that meet our asset criteria. Accomplishing our objectives is largely a function of our Manager's structuring of our investment process, our access to financing on acceptable terms, and general market conditions. Our stockholders do not have input into our investment decisions. All of these factors increase the uncertainty, and thus the risk, of investing in our common or preferred stock. The senior management team of our Manager has substantial responsibilities under the management agreement. In order to implement certain strategies, our Manager may need to hire, train, supervise, and manage new employees successfully. Any failure to manage our future growth effectively could have a material adverse effect on our business, financial condition and results of operations, our ability to maintain our qualification as a REIT, and our ability to pay dividends to our stockholders.

***We do not own the Ellington brand or trademark, but may use the brand and trademark as well as our logo pursuant to the terms of a license granted by Ellington.***

Ellington has licensed the "Ellington" brand, trademark, and logo to us for so long as our Manager or another affiliate of Ellington continues to act as our manager. We do not own the brand, trademark, or logo that we will use in our business and may be unable to protect this intellectual property against infringement from third parties. Ellington retains the right to continue using the "Ellington" brand and trademark. We will further be unable to preclude Ellington from licensing or transferring the ownership of the "Ellington" brand and trademark to third parties, some of whom may compete against us. Consequently, we will be unable to prevent any damage to goodwill that may occur as a result of the activities of Ellington or others.

Furthermore, in the event our Manager or another affiliate of Ellington ceases to act as our manager, or in the event Ellington terminates the license, we will be required to change our name and trademark. Any of these events could disrupt our recognition in the marketplace, damage any goodwill we may have generated, and otherwise harm our business. Finally, the license is a domestic license in the United States only and does not give us any right to use the "Ellington" brand, trademark, and logo overseas even though we are using the brand, trademark, and logo overseas. Our use of the "Ellington" brand, trademark, and logo overseas will therefore be unlicensed and could expose us to a claim of infringement.

#### **Risks Related to Our Common Stock and Preferred Stock**

***Our stockholders may not receive dividends or dividends may not grow over time.***

The declaration, amount, nature, and payment of any future dividends on shares of our common and preferred stock are at the sole discretion of our Board of Directors. It is possible that we may not be able to pay dividends or other distributions on shares of our common stock or preferred stock. Under Delaware law, cash dividends on capital stock may only be paid from "surplus" or, if there is no "surplus," from the corporation's net profits for the then-current or the preceding fiscal year. Unless we operate profitably, our ability to pay cash dividends on shares of our common stock and preferred stock would require the availability of adequate "surplus," which is defined as the excess, if any, of our net assets (total assets less total liabilities) over our capital. Further, even if an adequate surplus is available to pay cash dividends on shares of our common stock or preferred stock, we may not have sufficient cash to pay dividends on shares of our common stock or preferred stock. In addition, in order to preserve our liquidity, our Board of Directors may declare all or any portion of a dividend to be payable in stock, may delay the record date or payment date for any previously declared, but unpaid, dividend, convert a previously declared, but unpaid, cash dividend on our common stock to a dividend paid partially or completely in stock, or even revoke a declared, but unpaid, dividend.

Our ability to pay dividends may be impaired if any of the risks described in this Annual Report on Form 10-K, or any of our other periodic or current reports filed with the SEC, were to occur. In addition, payment of dividends depends upon our earnings, liquidity, financial condition, the REIT distribution requirements, our financial covenants, and other factors that our Board of Directors may deem relevant from time to time. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings or other capital will be available to us in an amount sufficient to enable us to make distributions on our shares of common stock or preferred stock, to pay our indebtedness, or to fund other liquidity needs. Our Board of Directors will continue to assess our common stock dividend rate and our preferred stock dividend payment schedule on an ongoing basis, as market conditions and our financial position continue to evolve. Our Board of Directors is

under no obligation to declare any dividend distribution. We cannot assure you that we will achieve results that will allow us to pay a specified level of dividends or to increase dividends from one period to the next.

Among the factors that could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders are:

- our inability to realize positive or attractive returns on our portfolio, whether because of defaults in our portfolio, decreases in the value of our portfolio, or otherwise;
- margin calls or other expenditures that reduce our cash flow and impact our liquidity; and
- increases in actual or estimated operating expenses.

***An increase in interest rates may have an adverse effect on the market price of our equity or debt securities and our ability to pay dividends to our stockholders.***

One of the factors that investors may consider in deciding whether to buy or sell our common stock is our dividend rate (or expected future dividend rates) as a percentage of our common stock price, relative to prevailing market interest rates. Similarly, investors in our preferred equity securities or our debt securities may consider the dividend rate or yield on such securities relative to prevailing market interest rates. If market interest rates increase, prospective investors in our equity or debt securities may demand a higher dividend rate or yield on our securities or seek alternative investments paying higher dividends or interest. As a result, interest rate fluctuations and capital market conditions can affect the market price of our securities independent of the effects such conditions may have on our portfolio. For instance, if interest rates rise without an increase in our dividend rate, the market price of our common stock could decrease because potential investors may require a higher dividend yield on our common stock as market rates on interest-bearing instruments such as bonds rise. In addition, to the extent we have variable rate debt, such as our repo financings, rising interest rates would result in increased interest expense on this variable rate debt, thereby potentially adversely affecting our cash flow and our ability to service our indebtedness and pay dividends to our stockholders.

***Investing in our securities involves a high degree of risk.***

The assets we purchase in accordance with our objectives may result in a higher amount of risk than other alternative asset acquisition options. The assets we acquire may be highly speculative and aggressive and may be subject to a variety of risks, including credit risk, prepayment risk, interest rate risk, and market risk. As a result, an investment in our securities may not be suitable for investors with lower risk tolerance.

**Risks Related To Our Organization and Structure**

***Our certificate of incorporation, bylaws and management agreement contain provisions that may inhibit potential acquisition bids that stockholders may consider favorable, and the market price of our common stock may be lower as a result.***

Our certificate of incorporation and bylaws contain provisions that may have an anti-takeover effect and inhibit a change in our Board of Directors. These provisions include:

- allowing only our Board of Directors to fill newly created directorships resulting from any increase in the authorized number of directors and any vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office or other cause, even if the remaining directors do not constitute a quorum;
- requiring advance notice for our stockholders to nominate candidates for election to our Board of Directors or to propose business to be considered by our stockholders at a meeting of stockholders;
- the ability of our Board of Directors to cause us to issue additional authorized but unissued shares of common stock or preferred stock without the approval of our stockholders;
- the ability of the Board of Directors to amend, modify or repeal our bylaws without the approval of our stockholders;
- restrictions on the ability of stockholders to call a special meeting without a majority of all the votes entitled to be cast at such meeting; and
- limitations on the ability of stockholders to act by written consent.

Certain provisions of the management agreement also could make it more difficult for third parties to acquire control of us by various means, including limitations on our right to terminate the management agreement and a requirement that, under certain circumstances, we make a substantial payment to our Manager in the event of a termination.

***There are ownership limits and restrictions on transferability in our certificate of incorporation.***

Our certificate of incorporation provides that (subject to certain exceptions described below) no person may own, or be deemed to own by virtue of the attribution provisions of the Code, more than 9.8%, in value or in number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our capital stock.

Any person who acquires or attempts or intends to acquire beneficial or constructive ownership of shares of our capital stock that will or may violate any of the foregoing restrictions on transferability and ownership will be required to give written notice immediately to us, or in the case of proposed or attempted transactions will be required to give at least 15 days written notice to us, and provide us with such other information as we may request in order to determine the effect of such transfer on our status as a REIT.

Our Board of Directors, in its sole discretion, may exempt any person from the foregoing restrictions. Any person seeking such an exemption must provide to our Board of Directors such representations, covenants, and undertakings as our Board of Directors may deem appropriate. Our Board of Directors may also condition any such exemption on the receipt of a ruling from the Internal Revenue Service, or "IRS," or an opinion of counsel as it deems appropriate. Our Board of Directors has granted an exemption from this limitation to Ellington and certain affiliated entities of Ellington, subject to certain conditions.

***Our rights and the rights of our stockholders to take action against our directors and officers or against our Manager or Ellington are limited, which could limit your recourse in the event actions are taken that are not in your best interests.***

Our certificate of incorporation provides that each person that is or was a director, officer, employee, or agent of ours shall not be liable to us or any of our stockholders for any acts or omissions by any such person arising from the performance of their duties and obligations in connection with us, except to the extent such exemption from liability or limitation thereof is not permitted under the Delaware General Corporation Law.

In addition, our certificate of incorporation provides that we may indemnify, to the fullest extent permitted by law, each person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding (other than an action by or in our right), by reason of the fact that the person is or was a director, officer, employee, or agent of ours, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding, if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to our best interests, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the person's conduct was unlawful. Our certificate of incorporation also provides that we may indemnify, to the fullest extent permitted by law, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in our right to procure a judgment in our favor by reason of the fact that the person is or was a director, officer, employee, or agent of ours, against expenses (including attorneys' fees) actually and reasonably incurred by the person in connection with the defense or settlement of such action or suit if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to our best interests, except that no indemnification may be made in respect of any claim, issue or matter as to which such person had been adjudged to be liable to us unless and only to the extent that the Court of Chancery of the State of Delaware or the court in which such action or suit was brought determines that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses. We have entered into indemnification agreements with our directors and officers implementing these indemnification provisions that obligate us to indemnify them to the maximum extent permitted by Delaware law. Such indemnification includes defense costs and expenses incurred by such officers and directors.

Our management agreement with our Manager requires us to indemnify our Manager and its affiliates against any and all claims and demands arising out of claims by third parties caused by acts or omissions of our Manager and its affiliates not constituting bad faith, willful misconduct, gross negligence, or reckless disregard of our Manager's duties under the management agreement.

In light of the liability limitations contained in our certificate of incorporation and our management agreement with our Manager, as well as our indemnification arrangements with our directors and officers and our Manager, our and our stockholders' rights to take action against our directors, officers, and Manager are limited, which could limit your recourse in the event actions are taken that are not in your best interests.

***Our certificate of incorporation designates the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors or officers.***

Our certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for: any derivative action or proceeding



brought on our behalf; any action asserting a claim of breach of fiduciary duty owed by any current or former director, officer or stockholder of ours to us or our stockholders; any action asserting a claim against us arising pursuant to any provision of the Delaware General Corporation Law or our certificate of incorporation or bylaws; or any action asserting a claim against us governed by the internal affairs doctrine. This choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that the stockholder believes is favorable for disputes with us or our directors or officers, which may discourage lawsuits against us and our directors or officers. Alternatively, if a court were to find these provisions of our certificate of incorporation inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business, financial condition or results of operations.

***Maintenance of our exclusion from registration as an investment company under the Investment Company Act imposes significant limitations on our operations.***

We have conducted and intend to continue to conduct our operations so that neither we nor any of our subsidiaries are required to register as an investment company under the Investment Company Act. Both we and our Operating Partnership are organized as holding companies and conduct our business primarily through wholly-owned subsidiaries of our Operating Partnership. Our Operating Partnership's investments in its 3(c)(7) subsidiaries and its other investment securities cannot exceed 40% of the value of our Operating Partnership's total assets (excluding U.S. government securities and cash) on an unconsolidated basis. In addition, the Holding Subsidiary's investment in its 3(c)(7) subsidiaries and its other investment securities cannot exceed 40% of the value of our Holding Subsidiary's total assets (excluding U.S. government securities and cash) on an unconsolidated basis. These requirements limit the types of businesses in which we may engage and the assets we may hold. Our 3(c)(5)(C) subsidiaries rely on the exclusion provided by Section 3(c)(5)(C) of the Investment Company Act. Section 3(c)(5)(C) of the Investment Company Act is designed for entities "primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate." This exclusion generally requires that at least 55% of the entity's assets on an unconsolidated basis consist of qualifying real estate assets and at least 80% of the entity's assets on an unconsolidated basis consist of qualifying real estate assets or real estate-related assets. Both the 40% Test and the requirements of the Section 3(c)(5)(C) limit the types of businesses in which we may engage and the types of assets we may hold, as well as the timing of sales and purchases of those assets.

To classify the assets held by our subsidiaries as qualifying real estate assets or real estate-related assets, we rely on no-action letters and other guidance published by the SEC staff regarding those kinds of assets, as well as upon our analyses (in consultation with outside counsel) of guidance published with respect to other types of assets. There can be no assurance that the laws and regulations governing the Investment Company Act status of companies similar to ours, or the guidance from the SEC staff regarding the treatment of assets as qualifying real estate assets or real estate-related assets, will not change in a manner that adversely affects our operations. In fact, in August 2011, the SEC published a concept release in which it asked for comments on this exclusion from registration. To the extent that the SEC staff provides more specific guidance regarding any of the matters bearing upon our exclusion from the definition of an investment company under the Investment Company Act, we may be required to adjust our strategy accordingly. Any additional guidance from the SEC staff could further inhibit our ability to pursue the strategies that we have chosen. Furthermore, although we monitor the assets of our subsidiaries regularly, there can be no assurance that our subsidiaries will be able to maintain their exclusion from registration. Any of the foregoing could require us to adjust our strategy, which could limit our ability to make certain investments or require us to sell assets in a manner, at a price or at a time that we otherwise would not have chosen. This could negatively affect the value of our common or preferred stock, the sustainability of our business model, and our ability to pay dividends to our stockholders.

***If we were required to register as an investment company under the Investment Company Act, we would be subject to the restrictions imposed by the Investment Company Act, which would require us to make material changes to our strategy.***

If we are deemed to be an investment company under the Investment Company Act, we would be required to materially restructure our activities or to register as an investment company under the Investment Company Act, which would have a material adverse effect on our business, financial condition, and results of operations. In connection with any such restructuring, we may be required to sell portfolio assets at a time we otherwise might not choose to do so, and we may incur losses in connection with such sales. Further, our Manager may unilaterally terminate the management agreement if we become regulated as an investment company under the Investment Company Act. Further, if it were established that we were an unregistered investment company, there would be a risk that we would be subject to monetary penalties and injunctive relief in an action brought by the SEC, that we would be unable to enforce contracts with third parties and that third parties could seek to obtain rescission of transactions undertaken during the period it was established that we were an unregistered investment company.

## U.S. Federal Income Tax Risks

### *Your investment has various U.S. federal, state, and local income tax risks.*

We strongly urge you to consult your tax advisor concerning the effects of U.S. federal, state, and local income tax law on an investment in our common and preferred stock and on your individual tax situation.

### *Our failure to qualify as a REIT would subject us to U.S. federal, state and local income taxes, which could adversely affect the value of our common stock and would substantially reduce the cash available for distribution to our stockholders.*

We elected to be treated as a REIT for U.S. federal income tax purposes commencing with our taxable year ended December 31, 2019. While we believe that we operated and intend to continue to operate in a manner that will enable us to meet the requirements for taxation as a REIT commencing on January 1, 2019, we cannot assure you that we will remain qualified as a REIT.

The U.S. federal income tax laws governing REITs are complex, and interpretations of the U.S. federal income tax laws governing qualification as a REIT are limited. Qualifying as a REIT requires us to meet various tests regarding the nature of our assets, our income and our earnings and profits, or "E&P" (calculated pursuant to Sections 316 and 857(d) of the Code and the regulations thereunder), the ownership of our outstanding stock, and the amount of our distributions on an ongoing basis. Our ability to satisfy the asset tests depends upon the characterization and fair market values of our assets, some of which are not precisely determinable, and for which we may not obtain independent appraisals. Our compliance with the REIT income and asset tests and the accuracy of our tax reporting to stockholders also depend upon our ability to successfully manage the calculation and composition of our gross and net taxable income, our E&P and our assets on an ongoing basis. Even a technical or inadvertent mistake could jeopardize our REIT status. In addition, our ability to satisfy the requirements to qualify as a REIT depends in part on the actions of third parties over which we have no control or only limited influence, including in cases where we own an equity interest in an entity that is classified as a partnership for U.S. federal income tax purposes. Although we operated and intend to operate so as to maintain our qualification as a REIT, given the complex nature of the rules governing REITs, the ongoing importance of factual determinations, including the potential tax treatment of the investments we make, and the possibility of future changes in our circumstances, no assurance can be given that our actual results of operations for any particular taxable year will satisfy such requirements.

We also own an entity that has elected to be taxed as a REIT under the U.S. federal income tax laws, or a "Subsidiary REIT." Our Subsidiary REIT is subject to the same REIT qualification requirements that are applicable to us. If our Subsidiary REIT were to fail to qualify as a REIT, then (i) that Subsidiary REIT would become subject to regular U.S. federal, state and local corporate income tax, (ii) our interest in such Subsidiary REIT would cease to be a qualifying asset for purposes of the REIT asset tests, and (iii) it is possible that we would fail certain of the REIT asset and/or income tests, in which event we also would fail to qualify as a REIT unless we could avail ourselves of certain relief provisions. While we believe that the Subsidiary REIT has qualified as a REIT under the Code, we have joined the Subsidiary REIT in filing a "protective" TRS election under Section 856(l) of the Code for each taxable year in which we have owned an interest in the Subsidiary REIT. We cannot assure you that such "protective" TRS election would be effective to avoid adverse consequences to us. Moreover, even if the "protective" election were to be effective, the Subsidiary REIT would be subject to regular corporate income tax, dividends we receive from the Subsidiary REIT would not qualify as good income for our 75% gross income test, and we cannot assure you that we would not fail to satisfy the requirement that not more than 20% of the value of our total assets may be represented by the securities of one or more TRSs. See "Our ownership of and relationship with our TRSs will be limited, and a failure to comply with the limits would jeopardize our REIT status and may result in the application of a 100% excise tax," below.

If we fail to qualify as a REIT in any calendar year, and do not qualify for certain statutory relief provisions, we would be required to pay U.S. federal income tax (and any applicable state and local taxes) on our taxable income at regular corporate rates, and dividends paid to our stockholders would not be deductible by us in computing our taxable income (although such dividends received by certain non-corporate U.S. taxpayers generally would be subject to a preferential rate of taxation). Further, if we fail to qualify as a REIT, we might need to borrow money or sell assets in order to pay any resulting tax. Our payment of income tax would decrease the amount of our income available for distribution to our stockholders. Furthermore, if we fail to maintain our qualification as a REIT, we no longer would be required under U.S. federal tax laws to distribute substantially all of our REIT taxable income to our stockholders. Unless our failure to qualify as a REIT was subject to relief under the U.S. federal tax laws, we could not re-elect to qualify as a REIT until the fifth calendar year following the year in which we failed to qualify.

### *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 shares of beneficial

interest. In order to meet these tests, we may be required to forego investments we might otherwise make. Thus, we may choose not to make certain types of investments that we made in prior years or pursue certain strategies that we pursued in prior years, which could include certain hedges that would otherwise reduce certain investment risks, or we could make such investments or pursue such strategies in a TRS. Any domestic TRS will be subject to regular U.S. federal, state and local corporate income tax, which may reduce the cash available to be distributed to our stockholders as compared with prior years.

As a REIT, we may be required to pay dividends 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.

In particular, we must ensure that at the end of each calendar quarter, we satisfy the REIT 75% asset test, which requires that at least 75% of the value of our total assets consist of cash, cash items, government securities and qualified REIT real estate assets, including RMBS. The remainder of our investments in securities (other than government securities and qualified REIT real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our total assets (other than government securities, TRS securities and qualified REIT real estate assets) can consist of the securities of any one issuer, and no more than 20% of the value of our total assets can be represented by securities of one or more TRSs. Generally, if we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and becoming subject to U.S. federal income tax and any applicable state and local taxes on all of our income.

In addition, we must also ensure that each taxable year we satisfy the REIT 75% and 95% gross income tests, which require that, in general, 75% of our gross income come from certain real estate-related sources and 95% of our gross income consist of gross income that qualifies for the 75% gross income test or certain other passive income sources. As a result of the requirement that we satisfy both the REIT 75% asset test and the REIT 75% and 95% gross income tests, we may be required to liquidate from our portfolio otherwise attractive investments or contribute such investments to a TRS, in which event they would be subject to regular corporate U.S. federal, state and local taxes assuming that the TRS is organized in the United States. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders. Generally, if we fail to comply with these requirements at the end of any calendar year, we will lose our REIT qualification and may be subject to U.S. federal income tax and any applicable state and local taxes on all of our income.

***Failure to make required distributions would subject us to tax, which would reduce the cash available for distribution to our stockholders.***

To qualify as a REIT, we must distribute to our stockholders each calendar year at least 90% of our REIT taxable income (including certain items of non-cash income), determined excluding any net capital gains and without regard to the deduction for dividends paid. Distributions of our taxable income must generally occur in the taxable year to which they relate, or in the following taxable year if declared before we timely file our tax return for the year and if paid with or before the first regular dividend payment after such declaration. To the extent that we satisfy the 90% distribution requirement, but distribute less than 100% of our taxable income, we will be subject to U.S. federal corporate income tax on our undistributed income. In addition, we will incur a 4% nondeductible excise tax on the amount, if any, by which our distributions in any calendar year are less than the sum of:

- 85% of our REIT ordinary income for that year;
- 95% of our REIT capital gain net income for that year; and
- any undistributed taxable income from prior years.

We intend to distribute our taxable income to our stockholders in a manner intended to satisfy the 90% distribution requirement and to avoid the corporate income tax. These distributions will limit our ability to retain earnings and thereby replenish or increase capital from operations. However, there is no requirement that TRSs distribute their after-tax net income to their parent REIT.

Our taxable income may substantially exceed our net income as determined based on GAAP, because, for example, realized capital losses will be deducted in determining our GAAP net income, but may not be deductible in computing our taxable income. Our Operating Partnership and certain of its subsidiaries have made an election under Section 475(f) of the Code to mark their securities to market, which may cause us to recognize taxable gains for a taxable year with respect to such securities without the receipt of any cash corresponding to such gains. Additionally, E&P in our foreign TRSs are taxable to us, regardless of whether such earnings are distributed. Losses in our TRSs will not reduce our taxable income, and will generally not provide any tax benefit to us, except for being carried forward against future TRS taxable income in the case of a domestic

TRS. Also, our ability, or the ability of our subsidiaries, to deduct interest may be limited under Section 163(j) of the Code. In addition, we may invest in assets that generate taxable income in excess of economic income or in advance of the corresponding cash flow from the assets, or we may modify assets in a way that produces taxable income prior to or in excess of economic income. As a result of the foregoing, we may generate less cash flow than taxable income in a particular year. To the extent that we generate such non-cash taxable income in a taxable year or have limitations on our deductions, we may incur corporate income tax and the 4% nondeductible excise tax on that income if we do not distribute such income to stockholders in that year. In that event, we may be required to use cash reserves, incur debt, sell assets, make taxable distributions of our shares or debt securities or liquidate non-cash assets at rates, at terms or at times that we regard as unfavorable, in order to satisfy the distribution requirement and to avoid corporate income tax and the 4% nondeductible excise tax in that year.

Determination of our REIT taxable income involves the application of highly technical and complex Code provisions for which only limited judicial and administrative authorities exist. If the IRS disagrees with our determination, it could affect our satisfaction of the distribution requirement. Under certain circumstances, we may be able to correct a failure to meet the distribution requirement for a year by paying "deficiency dividends" to our stockholders in a later year. We may include such deficiency dividends in our deduction for dividends paid for the earlier year. Although we may be able to avoid income tax on amounts distributed as deficiency dividends, we will be required to pay interest and a penalty to the IRS based upon the amount of any deduction we take for deficiency dividends.

***Even if we qualify as a REIT, we may face other tax liabilities that reduce our cash flows.***

Even if we qualify for taxation as a REIT, we may be subject to certain U.S. federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes. In addition, our domestic TRSs will be subject to regular corporate U.S. federal, state and local taxes. Any of these taxes would decrease cash available for distributions to stockholders.

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

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

***Uncertainty exists with respect to the treatment of our TBAs for purposes of the REIT asset and income tests.***

We purchase and sell Agency RMBS through TBAs and recognize income or gains from the disposition of those TBAs, through dollar roll transactions or otherwise, and may continue to do so in the future. While there is no direct authority with respect to the qualification of TBAs as real estate assets or U.S. Government securities for purposes of the REIT 75% asset test or the qualification of income or gains from dispositions of TBAs as gains from the sale of real property or other qualifying income for purposes of the REIT 75% gross income test, we treat the GAAP value of our TBAs under which we contract to purchase to-be-announced Agency RMBS ("long TBAs") as qualifying assets for purposes of the REIT 75% asset test, and we treat income and gains from our long TBAs as qualifying income for purposes of the REIT 75% gross income test, based on an opinion of Hunton Andrews Kurth LLP substantially to the effect that (i) for purposes of the REIT asset tests, our ownership of a long TBA should be treated as ownership of real estate assets, and (ii) for purposes of the REIT 75% gross income test, any gain recognized by us in connection with the settlement of our long TBAs should be treated as gain from the sale or disposition of an interest in mortgages on real property. Opinions of counsel are not binding on the IRS, and no assurance can be given that the IRS will not successfully challenge the conclusions set forth in such opinions. In addition, it must be emphasized that the opinion of counsel is based on various assumptions relating to our TBAs and is conditioned upon fact-based representations and covenants made by our management regarding our TBAs. No assurance can be given that the IRS would not assert that such assets or income are not qualifying assets or income. If the IRS were to successfully challenge the opinion of counsel, we could be subject to a penalty tax or we could fail to remain qualified as a REIT if a sufficient portion of our assets consists of TBAs or a sufficient portion of our income consists of income or gains from the disposition of TBAs.

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

The REIT provisions of the Code substantially limit our ability to hedge. Under these provisions, any income that we generate from transactions intended to hedge our interest rate or foreign currency risks will be excluded from gross income for purposes of the REIT 75% and 95% gross income tests if the instrument hedges (i) interest rate risk on liabilities incurred to carry or acquire real estate or (ii) risk of foreign currency fluctuations with respect to any item of income or gain that would be

qualifying income under the REIT 75% or 95% gross income tests, and such instrument is properly identified under applicable Treasury Regulations. The requirements in the Treasury Regulations related to identifying hedging transactions are highly technical and complex for which only limited judicial and administrative authorities exist, and the IRS could disagree with and successfully challenge our treatment and identifications of such hedging transactions. Income from hedging transactions that are not properly identified or hedge different risks will generally constitute non-qualifying income for purposes of both the REIT 75% and 95% gross income tests and could cause us to fail to maintain our qualification as a REIT. Our aggregate gross income from such transactions, along with other gross income that does not qualify for the 95% gross income test, cannot exceed 5% of our annual gross income. As a result, we might have to limit our use of advantageous hedging techniques, and we have implemented and may in the future implement certain hedges through a TRS. Any hedging income earned by a domestic TRS would be subject to U.S. 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 interest rate changes or other changes than we would otherwise want to bear. In addition, losses in our TRSs will generally not provide any tax benefit, except for being carried forward against future TRS taxable income in the case of a domestic TRS. Even if the income from certain of our hedging transactions is excluded from gross income for purposes of the REIT 75% and 95% gross income tests, such income and any loss will be taken into account in determining our REIT taxable income and our distribution requirement. If the IRS disagrees with our calculation of the amount or timing of recognition of gain or loss with respect to our hedging transactions, including the impact of our elections under Section 475(f) of the Code and the treatment of hedging expense and losses under Section 163(j) of the Code and Treasury Regulation Section 1.446-4, our distribution requirement could increase, which could require that we correct any shortfall in distributions by paying deficiency dividends to our stockholders in a later year.

***Our ownership of and relationship with our TRSs will be limited, and a failure to comply with the limits would jeopardize our REIT status and may result in the application of a 100% excise tax.***

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may earn income that would not be qualifying income for purposes of the REIT 75% or 95% gross income tests if earned directly by the parent REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation (other than a REIT) of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 20% of the value of a REIT's total assets may consist of stock or securities of one or more TRSs. Many of the investments that we made and activities we undertook prior to our REIT election have been contributed to or will be made in one of our TRSs; thus, we hold a significant portion of our assets through, and derive a significant portion of our taxable income and gains in, TRSs. While we intend to manage our affairs so as to satisfy the requirement that no more than 20% of the value of our total assets consists of stock or securities of our TRSs, as well as the requirement that taxable income from our TRSs plus other non-qualifying gross income not exceed 25% of our total gross income, there can be no assurance that we will be able to do so in all market circumstances. Even if we are able to do so, compliance with these rules may reduce our flexibility in operating our business. In addition, the two rules may conflict with each other in that our ability to reduce the value of our TRSs below 20% of our assets by causing a TRS to distribute a dividend to us may be limited by our need to comply with the REIT 75% gross income test, which requires that, in general, 75% of our gross income come from certain real estate-related sources (and TRS dividends are not qualifying income for such test). There can be no assurance that we will be able to comply with either or both of these tests in all market conditions. Our inability to comply with both of these tests could have a material adverse effect on our business, financial condition, liquidity, results of operations, qualification as a REIT and ability to make distributions to our stockholders.

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. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis. Our domestic TRSs will pay U.S. federal, state and local income tax on their taxable income (net of deductible interest expense) at regular corporate tax rates, and their after-tax net income will be available for distribution to us but is not required to be distributed to us. In certain circumstances, the ability to deduct interest expense by any TRS that we may form could be limited. In addition, losses in our domestic TRSs generally will not provide any tax benefit prior to liquidation, except for being carried forward against future TRS taxable income.

We generally structure our foreign TRSs with the intent that their income and operations will not be subject to U.S. federal, state and local income tax. For example, the Internal Revenue Code and the Treasury Regulations promulgated thereunder specifically provide that a non-U.S. corporation is not a U.S. trade or business and therefore is not subject to U.S. federal income tax if it restricts its activities in the United States to trading in stock and securities (or any activity closely related thereto) for its own account irrespective of whether such trading (or such other activity) is conducted by such a non-U.S. corporation or its employees through a resident broker, commission agent, custodian or other agent. However, there is no assurance that our foreign TRSs will successfully operate so that they are not subject to federal, state and local income tax. If the IRS successfully challenged that tax treatment, it would reduce the amount that those foreign TRSs would have available to distribute to us. E&P in our foreign TRSs, including gains from securities marked to market for tax purposes, are taxable to us,

and are not qualifying income for the purposes of the REIT 75% gross income tests, regardless of whether such earnings are distributed to us. In addition, losses in our foreign TRSs generally will not provide any tax benefit prior to liquidation.

We intend to monitor the value of and the income from our respective investments in our domestic and foreign TRSs for the purpose of ensuring compliance with TRS ownership limitations and the REIT 75% gross income test. In addition, we will review all of our transactions with our TRSs to ensure that they are entered into on arm's-length terms to avoid incurring the 100% excise tax described above. There can be no assurance, however, that we will be able to comply with the 20% limitation, the REIT 75% gross income test or avoid application of the 100% excise tax discussed above.

***Our ownership limitation may restrict change of control or business combination opportunities in which our stockholders might receive a premium for their common shares.***

In order for us to qualify as a REIT, no more than 50% in value of our outstanding shares may be owned, directly or indirectly, by five or fewer individuals during the last half of any calendar year. "Individuals" for this purpose include natural persons, private foundations, some employee benefit plans and trusts, and some charitable trusts. In order to help us qualify as a REIT, among other purposes, our certificate of incorporation provides that no person may own, or be deemed to own by virtue of the attribution provisions of the Code, more than 9.8%, in value or in number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our capital stock.

The ownership limitation and other restrictions could have the effect of discouraging a takeover or other transaction in which holders of our common shares might receive a premium for their common shares over the then-prevailing market price or which holders might believe to be otherwise in their best interests.

***Dividends payable by REITs do not qualify for the reduced tax rates available for "qualified dividend income."***

Qualified dividend income payable to U.S. investors that are individuals, trusts, and estates is subject to the reduced maximum tax rate applicable to long-term capital gains. Common and preferred dividends payable by REITs, however, generally are not eligible for the reduced rates on qualified dividend income. Rather, for taxable years beginning prior to January 1, 2026, non-corporate taxpayers may deduct up to 20% of certain pass-through business income, including "qualified REIT dividends" (generally, dividends received by a REIT stockholder that are not designated as capital gain dividends or qualified dividend income), subject to certain limitations. To qualify for this deduction, the shareholder receiving such dividend must hold the dividend-paying REIT shares for at least 46 days (taking into account certain special holding period rules) of the 91-day period beginning 45 days before the shares become ex-dividend, and cannot be under an obligation to make related payments with respect to a position in substantially similar or related property. However, even if a domestic shareholder qualifies for this deduction, the effective rate for such REIT dividends still remains higher than the top marginal rate applicable to "qualified dividend income" received by U.S. individuals. Although the reduced U.S. federal income tax rate applicable to qualified dividend income does not adversely affect the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends and the reduction in the corporate tax rate under the TCJA could cause investors who are taxed at individual rates and regulated investment companies to perceive investments in the stocks of REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends treated as qualified dividend income, which could adversely affect the value of the stock of REITs, including our common stock.

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

At any time, the U.S. federal income tax laws or regulations governing REITs or the administrative interpretations of those laws or regulations may be amended. We cannot predict when or if any new U.S. federal income tax law, regulation or administrative interpretation, or any amendment to any existing U.S. federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective and any such law, regulation or interpretation may take effect retroactively. Changes to the tax laws, with or without retroactive application, could significantly and negatively affect our stockholders or us. Several recent proposals have been made that would make substantial changes to the U.S. federal income tax laws. We cannot predict the long-term effect of any future changes on REITs or assure our stockholders that any such changes will not adversely affect the taxation of a stockholder. We and our stockholders could be adversely affected by any such change in, or any new, U.S. federal income tax law, regulation or administrative interpretation.

***Our recognition of "phantom" income may reduce a stockholder's after-tax return on an investment in our common stock.***

We may recognize phantom income, which is taxable income in excess of our economic income, in the earlier years that we hold certain investments or in the year that we modify certain loan investments, and we may only experience an offsetting excess of economic income over our taxable income in later years, if at all. As a result, stockholders at times may be required to pay U.S. federal income tax on distributions taxable as dividends that economically represent a return of capital rather than a dividend. Taking into account the time value of money, this acceleration or increase of U.S. federal income tax liabilities may

reduce a stockholder's after-tax return on his or her investment to an amount less than the after-tax return on an investment with an identical before-tax rate of return that did not generate phantom income.

***Liquidation of our assets may jeopardize our REIT qualification or may be subject to a 100% tax.***

To maintain our qualification as a REIT, we must comply with requirements regarding our assets and our sources of income. If we are compelled to liquidate our assets to repay obligations to our lenders or for other reasons, we may be unable to comply with these requirements, thereby jeopardizing our qualification as a REIT, or we may be subject to a 100% tax on any resultant gain if we sell assets that are treated as inventory or property held primarily for sale to customers in the ordinary course of business.

***The tax on prohibited transactions will limit our ability to engage in transactions, including certain methods of securitizing MBS, that would be treated as sales of dealer property for U.S. federal income tax purposes.***

A REIT's net income from prohibited transactions is subject to a 100% tax with no offset for losses. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, but including mortgage loans, held primarily for sale to customers in the ordinary course of business. We might be subject to this tax if we dispose of or securitize mortgage loans or MBS in a manner that was treated as dealer activity for U.S. federal income tax purposes. Therefore, in order to avoid the prohibited transactions tax, we may choose not to engage in certain sales or securitization structures, even though the transactions might otherwise be beneficial to us. Alternatively, in order to avoid the prohibited transactions tax, we may choose to implement certain transactions through a TRS, including by contributing or selling the assets to a TRS.

Although we expect to avoid the prohibited transactions tax by conducting the sale of property that may be characterized as dealer property through a TRS, such 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 conducted through the TRS. No assurance can be given that any property that we sell will not be treated as property held for sale to customers, or that we can satisfy certain safe-harbor provisions of the Code that would prevent such treatment. Moreover, no assurance can be given that the IRS will respect the transaction by which property that may be characterized as dealer property is contributed to the TRS. If any property sold is treated as property held for sale to customers or if the contribution of property is not respected, then we may be treated as having engaged in a prohibited transaction, and our net income therefrom would be subject to a 100% tax.

***Our Operating Partnership and certain other subsidiaries have made a mark-to-market election under Section 475(f) of the Code. If the IRS challenges our application of that election, it may jeopardize our REIT qualification.***

Our Operating Partnership, our subsidiary REIT and certain other subsidiaries have made elections under Section 475(f) of the Code to mark their securities to market. There are limited authorities under Section 475(f) of the Code as to what constitutes a trader for U.S. federal income tax purposes. Under other sections of the Code, the status of a trader in securities depends on all of the facts and circumstances, including the nature of the income derived from the taxpayer's activities, the frequency, extent and regularity of the taxpayer's securities transactions, and the taxpayer's investment intent. There can be no assurance that our Operating Partnership and these subsidiaries will continue to qualify as a trader in securities eligible to make the mark-to-market election. We have not received, nor are we seeking, an opinion from counsel or a ruling from the IRS regarding our or our subsidiaries' qualification as a trader. If the qualification for, or our application of, the mark-to-market election were successfully challenged by the IRS, in whole or in part, it could, depending on the circumstances, result in retroactive (or prospective) changes in the amount or timing of gross income we recognize. Furthermore, the law is unclear as to the treatment of mark-to-market gains and losses under the various REIT tax rules, including, among others, the prohibited transaction and qualified liability hedging rules. While there is limited analogous authority, we treat any mark-to-market gains as qualifying income for purposes of the 75% gross income test to the extent that the gain is recognized with respect to a qualifying real estate asset, based on an opinion of Hunton Andrews Kurth LLP substantially to the effect that any such gains recognized with respect to assets that would produce qualifying income for purposes of the 75% and/or 95% gross income test, as applicable, if they were actually sold should be treated as qualifying income to the same extent for purposes of the 75% and/or 95% gross income test, as applicable, and any such gains should not be subject to the prohibited transaction tax. If the IRS were to successfully treat our mark-to-market gains as subject to the prohibited transaction tax or to successfully challenge the treatment or timing of recognition of our mark-to-market gains or losses with respect to our qualified liability hedges, we could owe material federal income or penalty tax or, in some circumstances, even fail to qualify as a REIT. Finally, mark-to-market gains and losses could cause volatility in the amount of our taxable income. For instance, the mark-to-market election could generate losses in one taxable year that we are unable to use to offset taxable income, followed by mark-to-market gains in a subsequent taxable year that force us to make additional distributions to our stockholders. Hence, the mark-to-market gains and losses could cause us to distribute more dividends to our stockholders in a particular period than would otherwise be desirable from a business perspective.

***The interest apportionment rules may affect our ability to comply with the REIT asset and gross income tests.***

Most of the distressed mortgage loans that we have acquired were acquired by us at a discount from their outstanding principal amount, because our pricing was generally based on the value of the underlying real estate that secures those mortgage loans. Treasury Regulation Section 1.856-5(c) (the "interest apportionment regulation") provides that if a mortgage is secured by both real property and other property, a REIT is required to apportion its annual interest income to the real property security based on a fraction, the numerator of which is the value of the real property securing the loan, determined when the REIT commits to acquire the loan, and the denominator of which is the highest "principal amount" of the loan during the year. If a mortgage is secured by both real property and personal property and the value of the personal property does not exceed 15% of the aggregate value of the property securing the mortgage, the mortgage is treated as secured solely by real property for this purpose. Revenue Procedure 2014-51 interprets the "principal amount" of the loan to be the face amount of the loan, despite the Code requiring taxpayers to treat any market discount, that is the difference between the purchase price of the loan and its face amount, for all purposes (other than certain withholding and information reporting purposes) as interest rather than principal.

The interest apportionment regulation applies only if the debt in question is secured both by real property and personal property. We believe that most of the mortgage loans that we acquire at a discount under the circumstances contemplated by Revenue Procedure 2014-51 are secured only by real property (including mortgage loans secured by both real property and personal property where the value of the personal property does not exceed 15% of the aggregate value of the property securing the mortgage). Accordingly, we believe that the interest apportionment regulation generally does not apply to our loans.

Nevertheless, if the IRS were to assert successfully that such mortgage loans were secured by property other than real estate, that the interest apportionment regulation applied for purposes of our REIT testing, and that the position taken in Revenue Procedure 2014-51 should be applied to our portfolio, then depending upon the value of the real property securing our loans and their face amount, and the sources of our gross income generally, we might not be able to meet the REIT 75% gross income test, and possibly the asset tests applicable to REITs. If we did not meet these tests, we could potentially either lose our REIT status or be required to pay a tax penalty to the IRS. With respect to the REIT 75% asset test, Revenue Procedure 2014-51 provides a safe harbor under which the IRS will not challenge a REIT's treatment of a loan as being a real estate asset in an amount equal to the lesser of (1) the greater of (a) the current value of the real property securing the loan or (b) the fair market value of the real property securing the loan determined as of the date the REIT committed to acquire the loan or (2) the fair market value of the loan on the date of the relevant quarterly REIT asset testing date. This safe harbor, if it applied to us, would help us comply with the REIT asset tests following the acquisition of distressed debt if the value of the real property securing the loan were to subsequently decline. If we did not meet one or more of the REIT asset tests, then we could potentially either lose our REIT status or be required to pay a tax penalty to the IRS.

***Generally, our investments in residential transition loans, or "RTLs," and occasionally, our investments in small balance commercial mortgage loans, or "SBCs," will require us to make estimates about the fair value of land improvements that may be challenged by the IRS.***

Generally, our investments in RTLs, and occasionally our investments in SBCs, are short term loans secured by a mortgage on real estate assets where the proceeds of the loan will be used, in part, to renovate the property. The interest from these investments will be qualifying income for purposes of the REIT income tests, provided that the loan value of the real property securing the investment is equal to or greater than the highest outstanding principal amount of the loan during any taxable year. Under the REIT provisions, where improvements will be constructed with the proceeds of the loan, the loan value of the real property is the fair value of the land and existing real property improvements plus the reasonably estimated cost of the improvements or developments (other than personal property) that will secure the loan and that are to be constructed from the proceeds of the loan. There can be no assurance that the IRS would not challenge our estimate of the loan value of the real property.

***The failure of a mezzanine loan or similar debt to qualify as a real estate asset could adversely affect our ability to qualify as a REIT.***

We may invest in mezzanine loans or similar debt. The IRS has provided a safe harbor for mezzanine loans but not rules of substantive law. Pursuant to the safe harbor, if a mezzanine loan meets certain requirements, it will be treated by the IRS as a real estate asset for purposes of the REIT asset tests, and interest derived from the mezzanine loan will be treated as qualifying income for purposes of the REIT 75% gross income test. We may acquire mezzanine loans or similar debt that meet most but do not meet all of the requirements of this safe harbor, and we may treat such loans as real estate assets for purposes of the REIT asset and income tests. In the event that we own a mezzanine loan or similar debt that does not meet the safe harbor, the IRS could challenge such loan's treatment as a real estate asset for purposes of the REIT asset and income tests and, if such a challenge were sustained, we could fail to qualify as a REIT.



***Our qualification as a REIT and exemption from U.S. federal income tax with respect to certain assets may be dependent on the accuracy of legal opinions or advice rendered or given or statements by the issuers of assets that we acquire, and the inaccuracy of any such opinions, advice or statements may adversely affect our REIT qualification and result in significant corporate-level tax.***

When purchasing securities, we may rely on opinions or advice of counsel for the issuer of such securities, or statements made in related offering documents, for purposes of determining whether such securities represent debt or equity securities for U.S. federal income tax purposes, the value of such securities, and also to what extent those securities constitute qualified real estate assets for purposes of the REIT asset tests and produce income which qualifies under the REIT 75% gross income test. The inaccuracy of any such opinions, advice or statements may adversely affect our REIT qualification and result in significant corporate-level tax. Additionally, counsel is generally under no obligation to update any such opinions after they are issued. Hence, subsequent changes to the purchased securities or in the applicable law may cause such opinions to become inaccurate or outdated despite being accurate when issued and may also adversely affect our REIT qualification and result in significant corporate-level tax.

***If we failed in a prior year to satisfy the "qualifying income exception" under the rules for publicly traded partnerships, our income for such years could be subject to an entity-level tax, and the value of our shares could be adversely affected.***

We believe, for our taxable years prior to January 1, 2019, we were organized and had operated so that we qualified to be treated as a partnership for U.S. federal income tax purposes based on the "qualifying income exception" within the meaning of Section 7704(d) of the Code. If we failed to satisfy the "qualifying income exception" for any of our prior taxable years, we would be treated as a corporation for such years for U.S. federal income tax purposes. In that event, we would be required to pay U.S. federal, state and local income tax at regular corporate rates for all of the affected years, together with interest and penalties, which would likely result in a material expense for us.

#### **General Risk Factors**

***We, Ellington, or its affiliates may be subject to adverse legislative or regulatory changes.***

At any time, U.S. federal, state, local, or foreign laws or regulations that impact our business, or the administrative interpretations of those laws or regulations, may be enacted or amended.

We cannot predict when or if any new law, regulation, or administrative interpretation, including those related to the Dodd-Frank Act, or any amendment to or repeal of any existing law, regulation, or administrative interpretation, will be adopted or promulgated or will become effective. Additionally, the adoption or implementation of any new law, regulation, or administrative interpretation, or any revisions in or repeals of these laws, regulations, or administrative interpretations, including those related to the Dodd-Frank Act, could cause us to change our portfolio, could constrain our strategy, or increase our costs. We could be adversely affected by any change in or any promulgation of new law, regulation, or administrative interpretation.

***We, Ellington, or its affiliates may be subject to regulatory inquiries and proceedings, or other legal proceedings.***

At any time, industry-wide or company-specific regulatory inquiries or proceedings can be initiated and we cannot predict when or if any such regulatory inquiries or proceedings will be initiated that involve us or Ellington or its affiliates, including our Manager. We believe that the heightened scrutiny of the financial services industry increases the risk of inquiries and requests from regulatory or enforcement agencies. For example, as discussed under the caption Item 3. Legal Proceedings, over the years, Ellington and its affiliates have received, and we expect in the future that we and they may receive, inquiries and requests for documents and information from various federal, state, and foreign regulators.

We can give no assurances that, whether the result of regulatory inquiries or otherwise, neither we nor Ellington nor its affiliates will become subject to investigations, enforcement actions, fines, penalties or the assertion of private litigation claims. If any such events were to occur, we, or our Manager's ability to perform its obligations to us under the management agreement between us and our Manager, or Ellington's ability to perform its obligations to our Manager under the services agreement between Ellington and our Manager, could be materially adversely impacted, which could in turn have a material adverse effect on our business, financial condition and results of operations, and our ability to pay dividends to our shareholders.

***The market for our common stock and our preferred stock may be limited, which may adversely affect the price at which our common stock and our preferred stock trade and make it difficult to sell our common stock or our preferred stock.***

While our common stock and preferred stock are listed on the NYSE, such listing does not provide any assurance as to:

- whether the market prices of our common stock and/or our preferred stock will reflect our actual financial performance;

- the liquidity of our common and our preferred stock;
- the ability of any holder to sell our common stock or our preferred stock; or
- the prices that may be obtained for our common stock or our preferred stock.

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

The market prices of our common stock and our preferred stock may be highly volatile and could be subject to wide fluctuations. In addition, the trading volume in our common stock and our preferred stock may fluctuate and cause significant price variations to occur. We cannot assure you that the market price of our common stock or our preferred stock will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect our common stock price, our preferred stock price, or result in fluctuations in the price or trading volume of our common stock and/or our preferred stock include:

- actual or anticipated variations in our quarterly operating results or dividends;
- changes in our earnings estimates, failure to meet earnings or operating results expectations of public market analysts and investors, or publication of research reports about us or the real estate specialty finance industry;
- increases in market interest rates that lead purchasers of our common stock or our preferred stock to demand a higher yield;
- repurchases and issuances by us of our common stock or our preferred stock;
- passage of legislation, changes in applicable law, court rulings, enforcement actions, or regulatory developments that adversely affect us or our industry;
- changes in government policies or changes in timing of implementation of government policies, including with respect to Fannie Mae, Freddie Mac, and Ginnie Mae;
- changes in market valuations of similar companies;
- adverse market reaction to any increased indebtedness we incur in the future;
- additions or departures of key management personnel;
- actions by stockholders;
- speculation in the press or investment community;
- adverse changes in global, national, regional and local economic and market conditions, including those relating to pandemics, such as the COVID-19 pandemic;
- our inclusion in, or exclusion from, various stock indices;
- our operating performance and the performance of other similar companies; and
- changes in accounting principles.

***Future offerings of debt securities, which would rank senior to our common and preferred stock upon our liquidation, and future offerings of equity securities, which could dilute our existing stockholders and, in the case of preferred equity, 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 additional offerings of debt or equity securities, including commercial paper, medium-term notes, senior or subordinated notes, convertible securities, and additional classes of preferred stock. If we decide to issue additional senior securities in the future, it is likely that they will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Holders of senior securities may be granted specific rights, including the right to hold a perfected security interest in certain of our assets, the right to accelerate payments due under an indenture, rights to restrict dividend payments, and rights to require approval to sell assets. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences, and privileges more favorable than those of our then-outstanding securities and could dilute our existing stockholders. We and, indirectly, our stockholders, will bear the cost of issuing and servicing such securities. Upon liquidation, holders of our debt securities and preferred stock, and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings, including offerings of our common or preferred stock or other securities convertible into our common stock, may dilute the holdings of our existing stockholders or reduce the market price of our existing equity securities, or both. We cannot predict the effect, if any, of future sales of our common or preferred stock or other securities convertible into our common stock, or the availability of such securities for future sales, on the market price of

our common stock. Sales of substantial amounts of our common or preferred stock or other securities convertible into our common stock, or the perception that such sales could occur, may adversely affect the prevailing market price for our common stock. Our preferred stock has a preference on liquidating distributions and a preference on dividend payments that could limit our ability to make a dividend distribution to the holders of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing, or nature of our future offerings. Thus, holders of our securities bear the risk of our future offerings reducing the market price of our securities and, in the case of holders of our equity securities, diluting their holdings.

***Certain provisions of Delaware law may inhibit potential acquisition bids that stockholders may consider favorable, and the market price of our common stock may be lower as a result.***

We are a Delaware corporation, and Section 203 of the Delaware General Corporation Law applies to us. In general, Section 203 prevents an "interested stockholder" (as defined below) from engaging in a "business combination" (as defined in the statute) with us for three years following the date that person becomes an interested stockholder unless one or more of the following occurs:

- before that person became an interested stockholder, our board of directors approved the transaction in which the interested stockholder became an interested stockholder or approved the business combination;
- upon completion of the transaction that resulted in the interested stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of our voting stock outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding (but not the outstanding voting stock owned by the interested stockholder) stock held by directors who are also officers of our company and by employee stock plans that do not provide employees with the right to determine confidentially whether shares held under the plan will be tendered in a tender or exchange offer; and
- following the transaction in which that person became an interested stockholder, the business combination is approved by our board of directors and authorized at a meeting of stockholders by the affirmative vote of the holders of at least two-thirds of our outstanding voting stock not owned by the interested stockholder.

The statute defines "interested stockholder" as any person that is the owner of 15% or more of our outstanding voting stock or is an affiliate or associate of us and was the owner of 15% or more of our outstanding voting stock at any time within the three-year period immediately before the date of determination.

These provisions may delay, deter or prevent a change in control of our company, even if a proposed transaction is at a premium over the then current market price for our common stock. Further, these provisions may apply in instances where some stockholders consider a transaction beneficial to them. As a result, our stock price may be negatively affected by these provisions.

***Failure to procure adequate funding and capital would adversely affect our results and may, in turn, negatively affect the value of our common shares and our ability to pay dividends 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 to our stockholders at least 90% of our REIT taxable income annually, determined excluding any net capital gains and without regard to the deduction for dividends paid. As a result, we are not able to retain much or any of 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 shares of common stock and our ability to pay dividends to our stockholders, and you may lose part or all of your investment.

***Climate change has the potential to impact the properties underlying our investments.***

Currently, it is not possible to predict how legislation or new regulations that may be adopted to address greenhouse gas emissions will impact the properties underlying our investments. However, any such future laws and regulations imposing reporting obligations, limitations on greenhouse gas emissions, or additional taxation of energy use could require the owners of properties to make significant expenditures to attain and maintain compliance. Any new legislative or regulatory initiatives related to climate change could adversely affect our business.

The physical impact of climate change could also have a material adverse effect on the properties underlying our investments. Physical effects of climate change such as increases in temperature, sea levels, the severity of weather events and the frequency of natural disasters, such as hurricanes, tropical storms, tornadoes, wildfires, floods and earthquakes, among other effects, could damage the properties underlying our investments. The costs of remediating or repairing such damage, or of investments made in advance of such weather events to minimize potential damage, could be considerable. Additionally, such

actual or threatened climate change related damage could increase the cost of, or make unavailable, insurance on favorable terms on the properties underlying our investments. Such repair, remediation or insurance expenses could reduce the net operating income of the properties underlying our investments which may in turn adversely affect us.

***We are subject to risks related to corporate social responsibility.***

Our business faces public scrutiny related to environmental, social and governance (“ESG”) activities. We risk damage to our reputation if we or affiliates of our Manager are viewed as failing to act responsibly in a number of areas, such as diversity and inclusion, environmental stewardship, support for local communities, corporate governance and transparency and considering ESG factors in our investment processes. Investors are increasingly taking into account ESG factors in determining whether to invest in companies. Adverse incidents with respect to ESG activities could impact the cost of our operations and relationships with investors, all of which could adversely affect our business and results of operations. Additionally, new legislative or regulatory initiatives related to ESG could adversely affect our business.

***We are largely dependent on external sources of capital in order to grow.***

In order to qualify as a REIT, we generally will have to distribute to our stockholders 90% of our REIT taxable income. As with other mortgage REITs, the vast majority of our income is expected to constitute REIT taxable income, and therefore we expect to have to distribute, and not retain, the vast majority of our income. As a result, any material growth in our equity capital base must largely be funded by external sources of capital. Our access to external capital will depend upon a number of factors, including the market price of our common and preferred stock, the market’s perception of our financial condition and potential future earnings, and general market conditions.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

We do not own any properties. Our principal offices are located in leased space at 53 Forest Avenue, Old Greenwich, CT 06870. The offices of our Manager and Ellington are at the same location. As part of our management agreement, our Manager is responsible for providing offices necessary for all operations, and accordingly, all lease responsibilities belong to our Manager.

**Item 3. Legal Proceedings**

Neither we nor Ellington nor its affiliates (including our Manager) are currently subject to any legal proceedings that we or our Manager consider material. Nevertheless, we and Ellington and its affiliates operate in highly regulated markets that currently are under regulatory scrutiny, and over the years, Ellington and its affiliates have received, and we expect in the future that we and they may receive, inquiries and requests for documents and information from various federal, state and foreign regulators.

We and Ellington cannot provide any assurance that, whether the result of regulatory inquiries or otherwise, neither we nor Ellington nor its affiliates will become subject to investigations, enforcement actions, fines, penalties or the assertion of private litigation claims or that, if any such events were to occur, they would not materially adversely affect us. For a discussion of these and other related risks, see “Part I, Item 1A. Risk Factors—General Risk Factors—We, Ellington, or its affiliates may be subject to regulatory inquiries and proceedings, or other legal proceedings” of this Annual Report on Form 10-K.

**Item 4. Mine Safety Disclosures**

Not applicable.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### Market Information

Our common shares have been listed on the NYSE under the symbol "EFC" since October 8, 2010.

#### Holders of Our Common Stock

Based upon a review of a securities position listing as of February 18, 2022, we had an aggregate of 135 holders of record and holders of our common stock who are nominees for an undetermined number of beneficial owners.

#### Dividends

While we have historically paid dividends to our common stockholders on a monthly (prior to April 2019, on a quarterly) basis, the declaration of dividends to holders of our common stockholders and the amount of such dividends are at the sole discretion of our Board of Directors. In setting our dividends, our Board of Directors takes into account, among other things, our earnings, liquidity, financial condition, the REIT distribution requirements, our financial covenants, and other factors that our Board of Directors may deem relevant from time to time. In addition, in order to preserve our liquidity, our Board of Directors may declare all or any portion of a dividend to be payable in stock, may delay the record date or payment date for any previously declared, but unpaid, dividend, convert a previously declared, but unpaid, cash dividend on our common stock to a dividend paid partially or completely in stock, or even revoke a declared, but unpaid, dividend. Furthermore, it is possible that some of our future financing arrangements could contain provisions restricting our ability to pay dividends. In addition, our ability to pay dividends is subject to certain restrictions under the Delaware General Corporation Law, or the "DGCL." Under the DGCL, cash dividends on capital stock may only be paid from "surplus" or, if there is no "surplus," from the corporation's net profits for the then-current or the preceding fiscal year.

We cannot assure you that we will pay any future dividends to our stockholders and previously declared dividends are not intended to be indicative of the amount and timing of future dividends, if any.

#### Unregistered Sales of Equity Securities

On November 12, 2021, we issued 28,453 shares of our common stock to our Manager for payment of 10% of the incentive fee incurred. This issuance was exempt from the registration requirements of the Securities Act based on the exemption provided by Section 4(a)(2) of the Securities Act.

Additionally on November 12, 2021, we issued 1,025 common shares in exchange for limited liability company interests ("OP LTIP Units") held by a member of the Manager Group. This issuance was exempt from the registration requirements of the Securities Act based on the exemption provided by Section 4(a)(2) of the Securities Act.

On November 16, 2021, we issued 1,024 common shares in exchange for OP LTIP Units held by a member of the Manager Group. This issuance was exempt from the registration requirements of the Securities Act based on the exemption provided by Section 4(a)(2) of the Securities Act.

Pursuant to our 2017 Plan, on December 16, 2021, we granted 35,490 OP LTIP Units to certain of our partially dedicated employees. The OP LTIP Units are subject to forfeiture restrictions that will lapse with respect to 19,701 of the OP LTIP Units on December 16, 2022 and 15,789 of the OP LTIP Units on December 16, 2023. Once vested, the OP LTIP Units may be converted at the election of the holder, or at any time at our election, into OP Units on a one-for-one basis. Subject to certain conditions, the OP Units are redeemable by the holder for an equivalent number of shares of our common stock or, at our election, for the cash value of such shares of our common stock. Such grants were exempt from the registration requirements of the Securities Act based on the exemption provided in Section 4(a)(2) of the Securities Act.

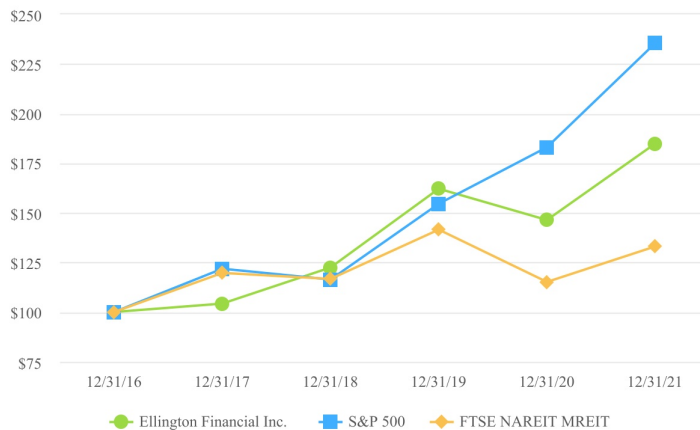
#### Issuer Purchases of Equity Securities

None.

**Performance**

*This performance graph is furnished and shall not be deemed filed with the SEC or subject to Section 18 of the Exchange Act, nor shall it be deemed incorporated by reference in any of our filings under the Securities Act.*

The following graph provides a comparison of the cumulative total return on our common shares to the cumulative total return on the Standard & Poor's 500 Composite Stock Price Index, or the "S&P 500," and the FTSE National Association of Real Estate Investment Trusts Mortgage REIT Index, or the "FTSE NAREIT MREIT." The comparison is for the period from December 31, 2016 to December 31, 2021, and assumes in each case, a \$100 investment on December 31, 2016 and the reinvestment of dividends.



The actual cumulative total returns shown on the graph above are as follows:

	<b>December 31,</b>					
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Ellington Financial Inc.	\$ 100.00	\$ 104.35	\$ 122.40	\$ 162.10	\$ 146.16	\$ 184.66
S&P 500	\$ 100.00	\$ 121.82	\$ 116.47	\$ 154.46	\$ 182.86	\$ 235.30
FTSE NAREIT MREIT	\$ 100.00	\$ 119.75	\$ 116.61	\$ 141.41	\$ 115.09	\$ 133.00

The performance information above has been obtained from sources believed to be reliable, but neither its accuracy nor its completeness can be guaranteed. The historical information set forth above is not necessarily indicative of future performance. Accordingly, we do not make or endorse any predictions as to future share performance.

**Item 6. Reserved**

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

### Executive Summary

We invest in a diverse array of real-estate-related and other financial assets, including residential and commercial mortgage loans, residential mortgage-backed securities, or "RMBS," commercial mortgage-backed securities, or "CMBS," consumer loans and asset-backed securities, or "ABS," including ABS backed by consumer loans, collateralized loan obligations, or "CLOs," non-mortgage- and mortgage-related derivatives, equity investments in loan origination companies, and other strategic investments. We are externally managed and advised by our Manager, an affiliate of Ellington. Ellington is a registered investment adviser with a 27-year history of investing in the Agency and credit markets.

We conduct all of our operations and business activities through the Operating Partnership. As of December 31, 2021, we have an ownership interest of approximately 99.0% in the Operating Partnership. The remaining ownership interest of approximately 1.0% in the Operating Partnership represents the interests in the Operating Partnership that are owned by an affiliate of our Manager, our current and certain former directors, and certain current and former Ellington employees and their related parties, and is reflected in our financial statements as a non-controlling interest.

Our primary objective is to generate attractive, risk-adjusted total returns for our stockholders. We seek to attain this objective by utilizing an opportunistic strategy to make investments, without restriction as to ratings, structure, or position in the capital structure, that we believe compensate us appropriately for the risks associated with them rather than targeting a specific yield. Our evaluation of the potential risk-adjusted return of any potential investment typically involves weighing the potential returns of such investment under a variety of economic scenarios against the perceived likelihood of the various scenarios. Potential investments subject to greater risk (such as those with lower credit ratings and/or those with a lower position in the capital structure) will generally require a higher potential return to be attractive in comparison to investment alternatives with lower potential return and a lower degree of risk. However, at any particular point in time, depending on how we perceive the market's pricing of risk both generally and across sectors, we may favor higher-risk assets or we may favor lower-risk assets, or a combination of the two, in the interests of portfolio diversification or other considerations.

Through December 31, 2021, our credit portfolio, which includes all of our investments other than RMBS for which the principal and interest payments are guaranteed by a U.S. government agency or a U.S. government-sponsored entity, or "Agency RMBS," has been the primary driver of our risk and return, and we expect that this will continue in the near- to medium-term. For more information on our targeted assets, see "—Our Targeted Asset Classes" below. We believe that Ellington's capabilities allow our Manager to identify attractive assets in these classes, value these assets, monitor and forecast the performance of these assets, and opportunistically hedge our risk with respect to these assets.

We continue to maintain a highly leveraged portfolio of Agency RMBS to take advantage of opportunities in that market sector, to help maintain our exclusion from registration as an investment company under the Investment Company Act, and to help maintain our qualification as a REIT. Unless we acquire very substantial amounts of whole mortgage loans or there are changes to the rules and regulations applicable to us under the Investment Company Act and/or to our qualification as a REIT, we expect that we will continue to maintain some amount of Agency RMBS.

The strategies that we employ are intended to capitalize on opportunities in the current market environment. Subject to maintaining our qualification as a REIT, we intend to adjust our strategies to changing market conditions by shifting our asset allocations across various asset classes as credit and liquidity trends evolve over time. We believe that this flexibility, combined with Ellington's experience, will help us generate more consistent returns on our capital throughout changing market cycles.

Subject to maintaining our qualification as a REIT, we opportunistically hedge our credit risk, interest rate risk, and foreign currency risk; however, at any point in time we may choose not to hedge all or a portion of these risks, and we will generally 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.

We also use leverage in our credit strategy, albeit significantly less leverage than that used in our Agency RMBS strategy. Through December 31, 2021, we financed the vast majority of our Agency RMBS assets, and a portion of our credit assets, through repurchase agreements, which we sometimes refer to as "repos," which we account for as collateralized borrowings. We expect to continue to finance the vast majority of our Agency RMBS through the use of repos. In addition to financing assets through repos, we also enter into other secured borrowing transactions, which are accounted for as collateralized borrowings, to finance certain of our loan assets. We have also obtained, through the securitization markets, term financing for certain of our non-qualified mortgage, or "non-QM," loans, certain of our consumer loans, and certain of our leveraged corporate loans. Additionally, we have issued unsecured long-term debt.

As of December 31, 2021, outstanding borrowings under repos and Total other secured borrowings (which include Other secured borrowings and Other secured borrowings, at fair value, as presented on our Consolidated Balance Sheet) were \$3.6 billion, of which approximately 46%, or \$1.6 billion, relates to our Agency RMBS holdings. The remaining outstanding borrowings relate to our credit portfolio.

As of December 31, 2021, we also had \$86.0 million outstanding of unsecured long-term debt, maturing in September of 2022, or the "Senior Notes." The Senior Notes bear interest at a rate of 5.50%, subject to adjustment based on changes, if any, in the ratings of the Senior Notes. The indenture governing the Senior Notes contains a number of covenants, including several financial covenants. The Senior Notes are currently rated "A" by Egan-Jones Rating Company<sup>1</sup>. See Note 11 of the notes to our consolidated financial statements for further detail on the Senior Notes.

As of December 31, 2021, our book value per share of common stock, calculated using Total Stockholders' Equity less the aggregate liquidation preference of outstanding preferred stock, was \$18.39. Our debt-to-equity ratio was 2.7:1 as of December 31, 2021. Our debt-to-equity ratio does not account for liabilities other than debt financings and does not include debt associated with securitization transactions accounted for as sales. Our recourse debt-to-equity ratio was 2.0:1 as of December 31, 2021. Adjusted for unsettled purchases and sales, our debt-to-equity ratio and recourse debt-to-equity ratio were 2.8:1 and 2.0:1, respectively, as of December 31, 2021.

On July 9, 2021, we completed a follow-on offering of 6,000,000 shares of our common stock. On July 29, 2021, we issued an additional 303,000 shares of common stock pursuant to the exercise of the underwriters' option. The issuance and sale of the 6,303,000 shares of common stock generated net proceeds, after underwriters' discounts and commissions and offering costs, of \$113.1 million.

On August 6, 2021, we commenced an "at-the-market" offering for shares of our common stock, or the "Common ATM Program," by entering into equity distribution agreements with third party sales agents under which we are authorized to offer and sell up to 10.0 million shares of common stock from time to time. From the commencement of the Common ATM Program through December 31, 2021, we issued 1,549,900 shares of common stock under the Common ATM Program which provided \$28.2 million of net proceeds after \$0.4 million of agent commissions and offering costs.

On October 15, 2021, we completed a follow-on offering of 5,750,000 shares of our common stock, including 750,000 shares of common stock issued pursuant to the exercise of the underwriters' option. The issuance and sale of the 5,750,000 shares of common stock generated net proceeds, after underwriters' discounts and commissions and offering costs, of \$103.5 million.

On December 13, 2021, we issued 4,800,000 shares of 6.250% Series B Fixed-Rate Reset Cumulative Redeemable Preferred Stock, \$0.001 par value per share ("Series B Preferred Stock"), of which 400,000 shares were issued pursuant to the exercise of the underwriters' over-allotment option. The issuance and sale of the 4,800,000 shares of Series B Preferred Stock resulted in total net proceeds to us of approximately \$115.9 million, after underwriters' discounts and offering costs. Our preferred stock is rated "A-" by Egan-Jones Rating Company<sup>1</sup>.

On January 20, 2022, we commenced an "at-the-market" offering for our preferred stock, or the "Preferred ATM Program," by entering into equity distribution agreements with third party sales agents under which we are authorized to offer and sell up to \$100.0 million of Series A Preferred Stock and/or Series B Preferred Stock from time to time. From commencement of the Preferred ATM Program through February 25, 2022, we have issued 20,421 shares of Series B Preferred Stock, which provided \$0.5 million of net proceeds after \$11 thousand of commissions and offering costs.

On February 18, 2022, we entered into an agreement with Home Point Capital Inc. ("Home Point") to purchase Home Point's 49.6% ownership interest in Longbridge Financial, LLC ("Longbridge"), a reverse mortgage originator in which we also held a 49.6% ownership interest as of December 31, 2021. The consummation of this transaction is subject to regulatory approvals and customary closing conditions and is expected to close in the second quarter of 2022. Upon closing of the transaction, we will own substantially all of the equity interests in Longbridge, which will result in the consolidation of Longbridge's financial results in our financial statements following the closing.

<sup>1</sup> A rating is not a recommendation to buy, sell or hold securities. Ratings may be subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating.



The consolidation of Longbridge, into the financial statements of the Company will impact the Company's financial position, financial reporting, and operations. As of December 31, 2021, Longbridge had total assets of \$6.7 billion and total liabilities of \$6.6 billion. See Exhibit 99.1 to this Annual Report on Form 10-K for Longbridge's financial statements as of December 31, 2021 and 2020, and for the years ended December 31, 2021, 2020, and 2019. In addition to the effect on the Company's financial position and operations as a result of consolidation, management anticipates a number of changes to the Company's financial reporting including reporting more than one segment, new asset classes and products such as reverse mortgage loans and MSRs, inclusion of goodwill as a result of the acquisition, and general disclosures related to operating businesses.

We elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, or "the Code," commencing with our taxable year ended December 31, 2019. Provided that we maintain our qualification as a REIT, we generally will not be subject to U.S. federal, state, and local income tax on our REIT taxable income that is currently distributed to our stockholders. Any taxes paid by a domestic taxable REIT subsidiary, or "TRS," will reduce the cash available for distribution to our stockholders. REITs are subject to a number of organizational and operational requirements, including a requirement that they currently distribute at least 90% of their annual REIT taxable income excluding net capital gains.

**Our Targeted Asset Classes**

Our targeted asset classes currently include investments in the U.S. and Europe (as applicable) in the categories listed below. Subject to maintaining our qualification as a REIT, we expect to continue to invest in these targeted asset classes. Also, we expect to continue to hold certain of our targeted assets through one or more TRSs. As a result, a portion of the income from such assets will be subject to U.S. federal and certain state corporate income taxes, as applicable.

<b>Asset Class</b>	<b>Principal Assets</b>
Agency RMBS	<ul style="list-style-type: none"> <li>• Whole pool pass-through certificates;</li> <li>• Partial pool pass-through certificates;</li> <li>• Agency collateralized mortgage obligations, or "CMOs," including interest only securities, or "IOs," principal only securities, or "POs," inverse interest only securities, or "IIOs"; and</li> </ul>
CLOs	<ul style="list-style-type: none"> <li>• Retained tranches from CLO securitizations, including participating in the accumulation of the underlying assets for such securitization by providing capital to the vehicle accumulating assets; and</li> <li>• Other CLO debt and equity tranches.</li> </ul>
CMBS and Commercial Mortgage Loans	<ul style="list-style-type: none"> <li>• CMBS; and</li> <li>• Commercial mortgage loans and other commercial real estate debt.</li> </ul>
Consumer Loans and ABS	<ul style="list-style-type: none"> <li>• Consumer loans;</li> <li>• ABS, including ABS backed by consumer loans; and</li> <li>• Retained tranches from securitizations to which we have contributed assets.</li> </ul>
Mortgage-Related Derivatives	<ul style="list-style-type: none"> <li>• To-Be-Announced mortgage pass-through certificates, or "TBAs";</li> <li>• Credit default swaps, or "CDS," on individual RMBS, on the ABX, CMBX and PrimeX indices and on other mortgage-related indices; and</li> <li>• Other mortgage-related derivatives.</li> </ul>
Non-Agency RMBS	<ul style="list-style-type: none"> <li>• RMBS backed by prime jumbo, Alt-A, non-QM, manufactured housing, and subprime mortgages;</li> <li>• RMBS backed by fixed rate mortgages, Adjustable rate mortgages, or "ARMs," Option-ARMs, and Hybrid ARMs;</li> <li>• RMBS backed by mortgages on single-family-rental properties;</li> <li>• RMBS backed by first lien and second lien mortgages;</li> <li>• Investment grade and non-investment grade securities;</li> <li>• Senior and subordinated securities;</li> <li>• IOs, POs, IIOs, and inverse floaters;</li> <li>• Collateralized debt obligations, or "CDOs";</li> <li>• RMBS backed by European residential mortgages, or "European RMBS"; and</li> <li>• Retained tranches from securitizations in which we have participated.</li> </ul>

Asset Class	Principal Assets
(continued) Residential Mortgage Loans	<ul style="list-style-type: none"> <li>• Non-QM loans;</li> <li>• Residential "transition loans," such as residential bridge loans and residential "fix-and-flip" loans;</li> <li>• Residential non-performing mortgage loans, or "NPLs";</li> </ul> <p style="margin-left: 20px;">Re-performing loans, or "RPLs," which generally are loans that were modified and/or formerly NPLs where the borrower has resumed making payments in some form or amount; and</p> <ul style="list-style-type: none"> <li>• Retained tranches from securitizations to which we have contributed assets.</li> </ul>
Strategic Investments in Loan Originators	<ul style="list-style-type: none"> <li>• Strategic equity and/or debt investments in loan originators and mortgage-related entities;</li> </ul>
Other	<ul style="list-style-type: none"> <li>• Real estate, including commercial and residential real property;</li> <li>• Strategic equity and/or debt investments in entities related to our business;</li> <li>• Corporate debt and equity securities and corporate loans;</li> <li>• Mortgage servicing rights, or "MSRs";</li> <li>• Credit risk transfer securities, or "CRTs"; and</li> <li>• Other non-mortgage-related derivatives.</li> </ul>

#### Agency RMBS

Our Agency RMBS assets consist primarily of whole pool (and to a lesser extent, partial pool) pass-through certificates, the principal and interest of which are guaranteed by a federally chartered corporation, such as the Federal National Mortgage Association, or "Fannie Mae," the Federal Home Loan Mortgage Corporation, or "Freddie Mac," or the Government National Mortgage Association, within the U.S. Department of Housing and Urban Development, or "Ginnie Mae," and which are backed by ARMs, Hybrid ARMs, or fixed-rate mortgages. In addition to investing in pass-through certificates which are backed by traditional mortgages, we have also invested in Agency RMBS backed by reverse mortgages. Reverse mortgages are mortgage loans for which neither principal nor interest is due until the borrower dies, the home is sold, or other trigger events occur. Mortgage pass-through certificates are securities representing undivided interests in pools of mortgage loans secured by real property where payments of both interest and principal, plus prepaid principal, on the securities are made monthly to holders of the security, in effect "passing through" monthly payments made by the individual borrowers on the mortgage loans that underlie the securities, net of fees paid to the issuer/guarantor and servicers of the securities. Whole pool pass-through certificates are mortgage pass-through certificates that represent the entire ownership of (as opposed to merely a partial undivided interest in) a pool of mortgage loans.

Our Agency RMBS assets are typically concentrated in specified pools. Specified pools are fixed-rate Agency pools consisting of mortgages with special characteristics, such as mortgages with low loan balances, mortgages backed by investor properties, mortgages originated through the government-sponsored "Making Homes Affordable" refinancing programs, and mortgages with various other characteristics. Our Agency strategy also includes RMBS that are backed by ARMs or Hybrid ARMs and reverse mortgages, and CMOs, including IOs, POs, and IIOs.

#### CLOs

CLOs are a form of asset-backed security collateralized by syndicated corporate loans. We have retained, and may retain in the future, tranches from CLO securitizations for which we have participated in the accumulation of the underlying assets, typically by providing capital to a vehicle accumulating assets for such CLO securitization. Such vehicles may enter into warehouse financing facilities in order to facilitate such accumulation. Securitizations can effectively provide us with long-term, locked-in financing on the related collateral pool, with an effective cost of funds well below the expected yield on the collateral pool. Our CLO holdings may include both debt and equity interests.

#### CMBS

We acquire CMBS, which are securities collateralized by mortgage loans on commercial properties. The majority of CMBS issued are fixed rate securities backed by fixed rate loans made to multiple borrowers on a variety of property types, though single-borrower CMBS and floating rate CMBS have also been issued.

The majority of CMBS utilize senior/subordinate structures, similar to those found in non-Agency RMBS. Subordination levels vary so as to provide for one or more AAA credit ratings on the most senior classes, with less senior securities rated

investment grade and non-investment grade, including a first loss component which is typically unrated. This first loss component is commonly referred to as the "B-piece," which is the most subordinated (and therefore highest yielding and riskiest) tranche of a CMBS securitization. Much of our focus within the CMBS sector has been on B-pieces, but we also acquire other CMBS with more senior credit priority.

#### ***Commercial Mortgage Loans and Other Commercial Real Estate Debt***

We acquire commercial mortgage loans, which are loans secured by liens on commercial properties, including hotel, industrial, mixed-use, multi-family, office and retail properties. Loans may be fixed or floating rate and will generally have maturities ranging from one to ten years. We typically acquire first lien loans but may also acquire subordinated loans. As of December 31, 2021, all of our commercial mortgage loans were first lien loans. Commercial real estate debt typically limits the borrower's right to freely prepay for a period of time through provisions such as prepayment fees, lockout, yield maintenance, or defeasance provisions. Some of the commercial mortgage loans that we acquire may be non-performing, underperforming, or otherwise distressed; these loans are typically acquired at a discount both to their unpaid principal balances and to the value of the underlying real estate.

We also participate in the origination of "bridge" loans, which have shorter terms and higher interest rates than more traditional commercial mortgage loans. Bridge loans are typically secured by properties in transition, where the borrower is in the process of either re-developing or stabilizing operations at the property. Property types securing these loans may include hotel, industrial, mixed-use, multi-family, office, and retail.

Within both our loan acquisition and loan origination strategies, we generally focus on smaller balance loans and/or loan packages that are less-competitively-bid. These loans typically have balances that are less than \$30 million, and are secured by real estate and, in some cases, a personal guarantee from the borrower.

#### ***Consumer Loans and ABS***

We acquire U.S. consumer whole loans and ABS, including ABS backed by U.S. consumer loans. Our U.S. consumer loan portfolio consists of unsecured loans and secured auto loans. We are currently purchasing newly originated consumer loans under flow agreements with originators, as well as seasoned consumer loans in the secondary market, and we continue to evaluate new opportunities.

#### ***TBAs and Other Mortgage-Related Derivatives***

In addition to investing in specified pools of Agency RMBS, we utilize TBA transactions, whereby we agree to purchase or sell, for future delivery, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered is not identified until shortly before the TBA settlement date. TBAs are liquid, have quoted market prices, and represent the most actively traded class of mortgage-backed securities, or "MBS." TBA trading is based on the assumption that mortgage pools that are eligible to be delivered at TBA settlement are fungible and thus the specific mortgage pools to be delivered do not need to be explicitly identified at the time a trade is initiated.

We generally engage in TBA transactions for purposes of managing certain risks associated with our investment strategies. Other than with respect to TBA transactions entered into by our TRSs, most of our TBA transactions are treated for tax purposes as hedging transactions used to hedge indebtedness incurred to acquire or carry real estate assets, or "qualifying liability hedges." The principal risks that we use TBAs to mitigate are interest rate and yield spread risks. For example, we may hedge the interest rate and/or yield spread risk inherent in our long Agency RMBS by taking short positions in TBAs that are similar in character. Alternatively, we may opportunistically engage in TBA transactions because we find them attractive in their own right, from a relative value perspective or otherwise. For accounting purposes, in accordance with generally accepted accounting principles in the United States of America, or "U.S. GAAP," we classify TBA transactions as derivatives.

We also take long and short positions in various other mortgage-related derivative instruments, including mortgage-related credit default swaps. A credit default swap is a credit derivative contract in which one party (the protection buyer) pays an ongoing periodic premium (and often an upfront payment as well) to another party (the protection seller) in return for compensation for default (or similar credit event) by a reference entity. In this case, the reference entity can be an individual MBS or an index of several MBS, such as an ABX, PrimeX, or CMBX index. Payments from the protection seller to the protection buyer typically occur if a credit event takes place. A credit event can be triggered by, among other things, the reference entity's failure to pay its principal obligations or a severe ratings downgrade of the reference entity.

### **Non-Agency RMBS**

We acquire non-Agency RMBS backed by prime jumbo, Alt-A, non-QM, manufactured housing, subprime residential, and single-family-rental mortgage loans. Our non-Agency RMBS holdings can include investment-grade and non-investment grade classes, including non-rated classes.

Non-Agency RMBS are generally debt obligations issued by private originators of, or investors in, residential mortgage loans. Non-Agency RMBS generally are issued as CMOs and are backed by pools of whole mortgage loans or by mortgage pass-through certificates. Non-Agency RMBS generally are securitized in senior/subordinated structures, or in excess spread/over-collateralization structures. In senior/subordinated structures, the subordinated tranches generally absorb all losses on the underlying mortgage loans before any losses are borne by the senior tranches. In excess spread/over-collateralization structures, losses are first absorbed by any existing over-collateralization, then borne by subordinated tranches and excess spread, which represents the difference between the interest payments received on the mortgage loans backing the RMBS and the interest due on the RMBS debt tranches, and finally by senior tranches and any remaining excess spread.

We also have acquired, and may acquire in the future, European RMBS, including retained tranches from European RMBS securitizations in which we have participated.

### **Residential Mortgage Loans**

Our residential mortgage loans include newly originated non-QM loans, residential transition loans, as well as legacy residential NPLs and RPLs. A non-QM loan is not necessarily high-risk, or subprime, but is instead a loan that does not conform to the complex Qualified Mortgage, or "QM," rules of the Consumer Financial Protection Bureau. For example, many non-QM loans are made to creditworthy borrowers who cannot provide traditional documentation for income, such as borrowers who are self-employed. There is also demand from certain creditworthy borrowers for loans above the QM 43% debt-to-income ratio limit that still meet all ability-to-repay standards. We hold an equity investment in a non-QM originator, and to date we have purchased the vast majority of our non-QM loans from this originator, although we could potentially purchase a greater share of non-QM loans from other sources in the future.

The residential transition loans that we originate or purchase include: (i) "fix and flip" loans, which are made to real estate investors for the purpose of acquiring residential homes, making value-add improvements to such homes, and reselling the newly rehabilitated homes for a potential profit, and (ii) loans made to real estate investors for a "business purpose," such as purchasing a rental investment property, financing or refinancing a fully rehabilitated home awaiting sale, or securing short-term financing pending qualification for longer-term lower-rate financing. Our residential transition loans are secured by non-owner occupied properties, and are typically structured as fixed-rate, interest-only loans with terms to maturity between 6 and 24 months. Our underwriting guidelines focus on both the "as is" and "as repaired" property values, borrower experience as a real estate investor, and asset verification.

We remain active in the market for residential NPLs and RPLs. The market for large residential NPL and RPL pools has remained highly concentrated, with the great majority having traded to only a handful of large players who typically securitize the residential NPLs and RPLs that they purchase. As a result, we have continued to focus our acquisitions on less-competitively-bid, and more attractively-priced mixed legacy pools sourced from motivated sellers.

### **Strategic Equity Investments in Loan Originators**

We have made, and in the future may make additional, equity investments in loan originators and other related entities; historically, our investments have represented non-controlling interests, although we are not restricted from holding controlling interests in such entities. We have also acquired debt investments and/or warrants in certain of these loan originators. We have also entered into various other arrangements, such as entering into flow agreements or providing guarantees or financing lines, with certain of the loan originators in which we have invested.

On February 18, 2022, we entered into an agreement with Home Point to purchase Home Point's 49.6% ownership interest in Longbridge. The consummation of this transaction is subject to regulatory approvals and customary closing conditions and is expected to close in the second quarter of 2022. Upon closing of the transaction, we will own substantially all of the equity interests in Longbridge, which will result in the consolidation of Longbridge's financial results in our financial statements following the closing. See Exhibit 99.1 to this Annual Report on Form 10-K for Longbridge's financial statements as of December 31, 2021 and 2020, and for the years ended December 31, 2021, 2020, and 2019.

### **Other Investment Assets**

Our other investment assets include real estate, including residential and commercial real property, strategic equity and/or debt investments in entities related to our business, corporate debt and equity securities, corporate loans, which can include

litigation finance loans, CRTs, and other non-mortgage-related derivatives. We do not typically purchase real property directly; rather, our real estate ownership usually results from foreclosure activity with respect to our acquired residential and commercial loans. We have not yet acquired mortgage servicing rights directly, but we may do so in the future.

## **Hedging Instruments**

### *Interest Rate Hedging*

We opportunistically hedge our interest rate risk by using various hedging strategies, subject to maintaining our qualification as a REIT. The interest rate hedging instruments that we use and may use in the future include, without limitation:

- TBAs;
- interest rate swaps (including floating-to-fixed, fixed-to-floating, floating-to-floating, or more complex swaps such as floating-to-inverse floating, callable or non-callable);
- CMOs;
- U.S. Treasury securities;
- swaptions, caps, floors, and other derivatives on interest rates;
- futures and forward contracts; and
- options on any of the foregoing.

Because fluctuations in short-term interest rates may expose us to fluctuations in the spread between the interest we earn on certain of our investments and the interest we pay on certain of our borrowings, we may seek to manage such exposure by entering into short positions in interest rate swaps. An interest rate swap is an agreement to exchange interest rate cash flows, calculated on a notional principal amount, at specified payment dates during the life of the agreement. Typically, one party pays a fixed interest rate and receives a floating interest rate and the other party pays a floating interest rate and receives a fixed interest rate. Each party's payment obligation is computed using a different interest rate. In an interest rate swap, the notional principal is generally not exchanged. We generally enter into these transactions to offset the potential adverse effects of rising interest rates on short-term repurchase agreements. Our repurchase agreements generally have maturities of up to 364 days and carry interest rates that are determined by reference to a benchmark rate such as LIBOR or the Secured Overnight Financing Rate, or "SOFR." As each then-existing fixed-rate repo borrowing matures, it will generally be replaced with a new fixed-rate repo borrowing based on market interest rates established at that future date.

In the case of interest rate swaps, most of our agreements are structured such that we receive payments based on a variable interest rate and make payments based on a fixed interest rate. The variable interest rate on which payments are received is generally calculated based on various reset mechanisms for a benchmark rate such as LIBOR or SOFR. To the extent that the benchmark rates used to calculate the payments we receive on our interest rate swaps continue to be highly correlated with our repo borrowing costs, our interest rate swap contracts should help to reduce the variability of our overall repo borrowing costs, thus reducing risk to the extent we hold fixed-rate assets that are financed with repo borrowings. While for the time being the majority of our interest rate swaps are LIBOR-based interest rate swap contracts, we have entered into interest rate swap contracts based on other benchmark rates, such as SOFR.

### *Credit Risk Hedging*

We enter into credit-hedging positions in order to protect against adverse credit events with respect to our credit investments, subject to maintaining our qualification as a REIT. Our credit hedging portfolio can vary significantly from period to period, and can encompass a wide variety of financial instruments, including corporate debt or equity-related instruments, RMBS- or CMBS-related instruments, or instruments involving other markets. Our hedging instruments can include both "single-name" instruments (i.e., instruments referencing one underlying entity or security) and hedging instruments referencing indices.

Currently, our credit hedges consist primarily of financial instruments tied to corporate credit, such as CDS on corporate bond indices, short positions in and CDS on corporate bonds; and positions involving exchange traded funds, or "ETFs," of corporate bonds. Our credit hedges also currently include CDS tied to individual MBS or an index of several MBS, such as CDS on CMBS indices, or "CMBX."

### *Foreign Currency Hedging*

To the extent that we hold instruments denominated in currencies other than U.S. dollars, we may enter into transactions to offset the potential adverse effects of changes in currency exchange rates, subject to maintaining our qualification as a REIT. In particular, we may use currency forward contracts and other currency-related derivatives to mitigate this risk.

## Trends and Recent Market Developments

### Market Overview

- In 2021, the U.S. Federal Reserve, or the "Federal Reserve," maintained the target range of 0.00%—0.25% throughout the year, and for the first ten months of the year, it directed the Open Market Desk to increase its holdings of U.S. Treasury securities by \$80 billion per month, and of Agency RMBS by \$40 billion per month. This activity reflected a continuation of the Federal Reserve's response in 2020 to the negative economic effects caused by the COVID-19 pandemic when the Federal Reserve lowered the target range for the federal funds rate to 0.00%—0.25% from 1.50%—1.75%, committed to purchase U.S. Treasury securities and Agency MBS without explicit limits on the amounts purchased, and also announced several funding and liquidity programs.

At the end of the first quarter of 2021, the U.S. Congress passed the American Rescue Plan Act of 2021, which provided for an additional \$1.9 trillion of COVID-related stimulus and economic aid. Additionally, in July, the Federal Reserve announced the establishment of a standing repurchase agreement facility to support financing markets.

At its November 2021 meeting, citing "the substantial further progress the economy has made," the Federal Reserve announced a tapering schedule for its asset purchases, beginning with a reduction of its monthly net asset purchases by \$10 billion for U.S. Treasury securities and by \$5 billion for Agency RMBS in November; by an additional \$10 billion for U.S. Treasury securities and \$5 billion for Agency RMBS in December; and with an increasing pace of tapering anticipated in subsequent months, until incremental monthly net purchases reach zero. The Federal Reserve also noted that it expected elevated inflation to be "transitory."

At its final meeting of the year, in December, "in light of inflation developments and the further improvement in the labor market," the Federal Reserve announced that it would further accelerate the tapering of its asset purchases. Beginning in January 2022, it would reduce the monthly pace of net asset purchases by an additional \$20 billion per month for U.S. Treasury securities and \$10 billion per month for Agency RMBS, with an increasing pace of tapering in subsequent months, until incremental monthly net purchases reach zero. In addition, given the persistently high rate of inflation, the Federal Reserve shifted to a more hawkish position on interest rates, signaling that multiple increases of the target range for the federal funds rate could be imminent, and also that it could begin to reduce the size of the Federal Reserve's balance sheet soon (as opposed to tapering net purchases to zero, but still maintaining the size of its balance sheet).

In December 2021, US consumer prices increased by 7% year-over-year, which was the fastest pace in nearly four decades. In a congressional hearing in January 2022, the Chairman of the Federal Reserve, Jerome Powell, discussed his focus on inflation and stated, "If we have to raise interest rates more over time, we will. The economy no longer needs or wants the very highly accommodative policies we have had in place."

- During the first quarter of 2021, long-term interest rates rose significantly and the U.S. Treasury yield curve steepened, with the 10-year U.S. Treasury yield increasing 83 basis points to finish the quarter at 1.74%, and the 2-year U.S. Treasury yield up just 4 basis points to 0.16%. The yield spread between the 2-year and 10-year U.S. Treasury increased to 158 basis points, which was its widest level since 2015. Interest rate volatility also increased in the quarter, with the MOVE Index, which measures U.S. interest rate volatility, reaching a 10-month high in February.

In the second quarter, long-term interest rates reversed course, with the 10-year U.S. Treasury yield falling 27 basis points to 1.47%, while the 2-year U.S. Treasury yield increased 9 basis points to 0.25%. The yield spread between the 2-year and 10-year U.S. Treasury decreased to 122 basis points at June 30<sup>th</sup>, but was still meaningfully higher than the 79 basis point spread at the start of the year. Interest rate volatility subsided for most of the quarter, before increasing modestly during the second half of June.

In the third quarter, interest rates declined in July, before reversing course and rising in August and September. For the quarter, the 10-year U.S. Treasury yield rose 2 basis points to 1.49%, while the 2-year U.S. Treasury yield increased 3 basis points to 0.28%, and the yield spread between the 2-year and 10-year U.S. Treasury was essentially unchanged. Interest rate volatility remained relatively elevated for much of the third quarter.

During the fourth quarter, short-term interest rates spiked, the yield curve flattened significantly, and interest rate volatility rose, as the market reacted to imminent Fed tapering, potential upcoming interest rate increases, and consistently strong inflation reports. The 2-year U.S. Treasury yield increased 46 basis points to 0.73%, its highest level since early March 2020, while the 10-year U.S. Treasury yield rose just 2 basis points to 1.51%. The spread between the 2-year and 10-year U.S. Treasury narrowed to 78 basis points, back to about where it started the year. Meanwhile, the MOVE Index reached its high for the year in November.

- After declining to all-time lows over the course of 2020, mortgage rates reversed course during the first quarter of 2021 as long-term interest rates rose. The Freddie Mac survey 30-year mortgage rate rose steadily throughout the quarter, increasing to 3.18% as of April 1<sup>st</sup>, as compared to 2.67% at year end. Although still elevated on an historical

basis, refinancing applications declined during the quarter, with the Mortgage Bankers Association's Refinance Index decreasing 21.7% between January 1<sup>st</sup> and April 2<sup>nd</sup> of 2021. Still, overall Fannie Mae 30-year MBS prepayments remained well above pre-pandemic levels, declining slightly from a CPR of 35.1 in December 2020 to 30.8 in January 2021, before increasing to 31.8 in February 2021 and 35.4 in March 2021.

In the second quarter, however, mortgage rates declined as long-term interest rates fell. The Freddie Mac survey 30-year mortgage rate decreased to 2.98% as of June 30<sup>th</sup>, while refinancing applications continued to decline. The Mortgage Bankers Association's Refinance Index decreased another 9% between April 2<sup>nd</sup> and July 2<sup>nd</sup>. Overall Fannie Mae 30-year MBS prepayments declined from a CPR of 35.4 in March to 27.8 in April and 23.4 in May, before increasing moderately to 24.6 in June.

Mortgage rates also declined in July before reversing course and rising in August and September, in sympathy with long-term interest rates. For the third quarter, the Freddie Mac survey 30-year mortgage rate increased by 3 basis points to 3.01%. Refinancing applications rose modestly during the quarter, with the Mortgage Bankers Association's Refinance Index increasing by 9% between July 2<sup>nd</sup> and October 1<sup>st</sup>. Overall Fannie Mae 30-year MBS prepayments decreased from a CPR of 24.6 in June 2021 to 22.2 in July, before returning to 24.6 in August and declining slightly to 24.1 in September.

Mortgage rates continued to rise in the fourth quarter as the Freddie Mac survey 30-year mortgage rate increased another 10 basis points to finish the year at 3.11%. Refinancing applications declined during the fourth quarter, with the Mortgage Bankers Association's Refinance Index falling 29% between September 3<sup>rd</sup> and December 31<sup>st</sup>. Overall Fannie Mae 30-year MBS prepayments continued to fall throughout the quarter, declining to 22.2 in October, 20.2 in November, and 18.7 in December.

- LIBOR rates declined modestly during the first nine months of 2021. Between December 31, 2020 and September 30, 2021, one-month LIBOR declined 6 basis points to 0.08%, and three-month LIBOR fell 11 basis points to 0.13%. In the fourth quarter, LIBOR ticked up slightly, with one-month LIBOR increasing 2 basis points to 0.10% and three-month LIBOR up by 8 basis points to 0.21%.
- U.S. real GDP increased at an annualized rate of 6.3% in the first quarter and 6.7% in the second quarter, before slowing to 2.3% in the third quarter, but accelerating again to an estimated annualized rate of 6.9% in the fourth quarter.
- Positive economic activity drove steady growth in U.S. employment in each quarter of 2021. The unemployment rate dropped from 6.7% at the end of 2020, to 6.0% on March 31<sup>st</sup>, 5.9% on June 30<sup>th</sup>, 4.8% on September 30<sup>th</sup>, and 3.9% at year end.
- Driven by the economic recovery and strong employment, forbearance rates on residential mortgages steadily declined throughout 2021. According to the Mortgage Bankers Association, the total forbearance rate decreased from 5.5% as of January 3<sup>rd</sup>, to 4.9% on March 28<sup>th</sup>, 3.9% on June 27<sup>th</sup>, 2.9% on September 26<sup>th</sup>, and 1.4% on December 31<sup>st</sup>.
- In the first quarter, the Bloomberg Barclays U.S. MBS Index ("BB MBS Index") generated a negative return of (1.10%), driven by rising interest rates, but a positive excess return (on a duration-adjusted basis) of 0.15% relative to the Bloomberg Barclays U.S. Treasury Index. In the second quarter, long-term interest rates declined and the BB MBS Index generated a positive return of 0.33%, but a negative excess return of (0.60%). After generating a modest return and positive excess return in the third quarter, the BB MBS Index generated a negative return of (0.37%) and a negative excess return of (0.26%) in the fourth quarter, as volatility increased and short-term Treasury yields spiked. For the full year 2021, the BB MBS Index generated a negative return of (1.04%), and a negative excess return of (0.68%).
- In the first quarter, the Bloomberg Barclays U.S. Corporate Bond Index ("BB IG Index") generated a negative return of (4.65%), but an excess return of 0.95%, and in the second quarter, a positive return of 3.38% and positive excess return of 1.09%. In the third quarter, the BB IG Index generated a breakeven return and had a negative excess return of (0.15%), and in the fourth quarter, it generated a positive return of 0.23% but a negative excess return of (0.28%). For the full year 2021, the BB IG Index generated a negative return of (1.04%), but an excess return of 1.61%. Meanwhile, the Bloomberg Barclays U.S. Corporate High Yield Bond Index ("BB HY Index") generated positive returns and positive excess returns in each quarter of 2021. For the year, the BB HY Index generated a gain of 5.28% and an excess return of 6.63%.
- U.S. equities performed well in 2021, driven by the ongoing economic and employment recovery, continued monetary and fiscal policy support, the development and distribution of vaccines, and other positive factors, which outweighed negative factors including supply-chain challenges, uncertainty about the path of the virus, concerns about the quickening pace of inflation, rising interest rates, and the actual and anticipated removal of stimulus measures.

For the year, the S&P 500 rose 26.9%, the Dow Jones Industrial Average increased 18.7%, and the NASDAQ rose 21.4%. Meanwhile, London's FTSE 100 index increased 14.3% and the MSCI World global equity index increased 20.1%.

The VIX volatility index remained relatively low during 2021, as compared to the months surrounding the onset of the pandemic in early 2020, although it did spike toward the end of the fourth quarter in response to the spread of a new COVID variant and a hawkish shift from the Federal Reserve.

Portfolio Overview and Outlook

The following tables summarize our investment portfolio as of December 31, 2021 and 2020.

*Credit Portfolio<sup>(1)</sup>*

(\$ in thousands)	December 31, 2021		December 31, 2020	
	Fair Value	% of Total Long Credit Portfolio	Fair Value	% of Total Long Credit Portfolio
<b>Dollar Denominated:</b>				
CLOs <sup>(2)</sup>	\$ 60,903	2.0 %	\$ 181,229	8.3 %
CMBS	25,643	0.8 %	117,652	5.4 %
Commercial Mortgage Loans and REO <sup>(4)(5)</sup>	387,165	12.8 %	269,287	12.4 %
Consumer Loans and ABS backed by Consumer Loans <sup>(2)</sup>	153,124	5.1 %	112,077	5.1 %
Corporate Debt and Equity and Corporate Loans	20,128	0.7 %	12,606	0.6 %
Debt and Equity Investments in Loan Origination Entities <sup>(3)</sup>	141,315	4.7 %	79,536	3.7 %
Non-Agency RMBS	191,728	6.3 %	154,492	7.1 %
Residential Mortgage Loans and REO <sup>(4)</sup>	2,017,219	66.6 %	1,188,731	54.7 %
<b>Non-Dollar Denominated:</b>				
CLOs <sup>(2)</sup>	3,092	0.1 %	6,108	0.3 %
Consumer Loans and ABS backed by Consumer loans	213	— %	306	— %
Corporate Debt and Equity	13	— %	28	— %
RMBS <sup>(6)</sup>	25,846	0.9 %	51,388	2.4 %
<b>Total Long Credit Portfolio</b>	<b>\$ 3,026,389</b>	<b>100.0 %</b>	<b>\$ 2,173,440</b>	<b>100.0 %</b>
Less: Non-retained Tranches of Consolidated Securitization Trusts	961,495		739,670	
<b>Total Long Credit Portfolio excluding Non-retained Tranches of Consolidated Securitization Trusts</b>	<b>\$ 2,064,894</b>		<b>\$ 1,433,770</b>	

- (1) This information does not include U.S. Treasury securities, interest rate swaps, TBA positions, or other hedge positions.
- (2) Includes equity investments in securitization-related vehicles.
- (3) Includes a corporate loan to a loan origination entity in which we hold an equity investment.
- (4) REO is not considered a financial instrument and, as a result, is included at the lower of cost or fair value, as discussed in Note 2 of the notes to consolidated financial statements.
- (5) Includes investments in unconsolidated entities holding small balance commercial mortgage loans and REO.
- (6) Includes an investment in an unconsolidated entity holding European RMBS.

*Agency RMBS Portfolio*

(\$ in thousands)	December 31, 2021		December 31, 2020	
	Fair Value	% of Long Agency Portfolio	Fair Value	% of Long Agency Portfolio
<b>Long Agency RMBS:</b>				
Fixed Rate	\$ 1,600,862	94.3 %	\$ 807,704	84.2 %
Floating Rate	9,456	0.6 %	6,454	0.7 %
Reverse Mortgages	53,010	3.1 %	97,629	10.2 %
IOs	33,288	2.0 %	47,656	4.9 %
<b>Total Long Agency RMBS</b>	<b>\$ 1,696,616</b>	<b>100.0 %</b>	<b>\$ 959,443</b>	<b>100.0 %</b>



Our total long credit portfolio, excluding non-retained tranches of consolidated securitization trusts, grew by 44% during the year, to \$2.065 billion as of December 31, 2021, from \$1.434 billion as of December 31, 2020, as we deployed proceeds from our common and preferred equity offerings completed in the second half of the year. The majority of the growth occurred in the non-QM, residential transition, and small balance commercial mortgage loan strategies. In addition, our investments in loan origination entities increased, driven by the appreciation in the fair value of our existing investments and the addition of five new equity stakes over the course of the year. Our holdings of consumer loans and non-Agency RMBS also grew during the year. These increases were partially offset by three non-QM loan securitizations completed during the year, loan payoffs and resolutions, and opportunistic sales of CLOs and CMBS.

Our long Agency RMBS portfolio also increased significantly during the year, by 77% to \$1.697 billion as of December 31, 2021, from \$959.4 million as of December 31, 2020, as we ramped the Agency portfolio back up following a significant reduction in the prior year. During March and April of 2020, in light of the heightened levels of market volatility and systemic liquidity risk associated with the outbreak of the COVID-19 pandemic, we had strategically reduced the size of our Agency portfolio significantly, in order to lower our leverage, enhance our liquidity position, and avoid forced asset sales. Over the course of 2020, our total long Agency RMBS portfolio decreased by 50%, from \$1.937 billion as of December 31, 2019.

As of December 31, 2021, we had cash and cash equivalents of \$92.7 million, along with unencumbered assets of \$808.1 million. These amounts compared to cash and cash equivalents of \$111.6 million, and unencumbered assets of \$442.5 million, as of December 31, 2020.

*Credit Portfolio Performance Summary*

Our credit portfolio performed well in 2021, driven by higher net interest income year over year, net realized and unrealized gains, and strong results from the loan originators in which we hold strategic equity investments.

The increase in net interest income was driven by the growth and strong credit performance of our proprietary loan portfolios, specifically non-QM loans, residential transition loans, small balance commercial mortgage loans, and consumer loans, as well as by lower financing costs. We also benefited from the results in our CMBS and CLO strategies, which drove our net realized and unrealized gains.

The appreciation in the fair value of our equity investments in loan originators was primarily driven by the sustained strong performance of LendSure Mortgage Corp., a non-QM originator, and of Longbridge. LendSure posted record profitability and origination volume in 2021, while Longbridge increased its market share and delivered strong earnings as well.

*Supplemental Credit Portfolio Information*

The table below details certain information regarding our investments in commercial mortgage loans as of December 31, 2021:

(\$ in thousands)	Unpaid Principal Balance	Premium (Discount)	Amortized Cost	Gross Unrealized		Fair Value	Weighted Average		
				Gains	Losses		Coupon	Yield <sup>(1)</sup>	Life (Years) <sup>(2)</sup>
Commercial mortgage loans, held-for-investment <sup>(3)(4)</sup>	\$ 458,591	\$ (1,071)	\$ 457,520	\$ 1,168	\$ (329)	\$ 458,359	6.80 %	6.73 %	1.38

(1) Excludes commercial mortgage loans in non-accrual status, with a fair value of \$15.5 million.

(2) Expected average lives of loans are generally shorter than stated contractual maturities. Average lives are affected by scheduled periodic payments of principal and unscheduled prepayments of principal.

(3) Includes our allocable portion of small-balance commercial loans, based on our ownership percentage, held in variable interest entities. Our equity investments in such variable interest entities are included in Investments in unconsolidated entities, at fair value on the Consolidated Balance Sheet.

(4) As of December 31, 2021 all of our commercial mortgage loans were first lien mortgages, of which 99.8% have floating rates with a rate floor.

The table below summarizes our interests in commercial mortgage loans by property type of the underlying real estate collateral, as a percentage of total outstanding unpaid principal balance, as of December 31, 2021:

Property Type	December 31, 2021
Multifamily <sup>(1)</sup>	64.9 %
Hotel	9.5 %
Industrial <sup>(1)</sup>	9.4 %
Retail	3.6 %
Mixed Use	1.9 %
Other <sup>(1)</sup>	10.7 %
	<u>100.0 %</u>

(1) Includes our allocable portion of small-balance commercial loans, based on our ownership percentage, held in variable interest entities. Our equity investments in such variable interest entities are included in Investments in unconsolidated entities, at fair value on the Consolidated Balance Sheet.

The table below summarizes our interests in commercial mortgage loans by geographic location of the underlying real estate collateral, as a percentage of total outstanding unpaid principal balance, as of December 31, 2021:

Property Location by U.S. State	December 31, 2021
Florida <sup>(1)</sup>	20.7 %
Texas <sup>(1)</sup>	17.8 %
New York	7.6 %
Georgia <sup>(1)</sup>	6.7 %
Arizona	5.2 %
All other states <5% <sup>(1)</sup>	42.0 %
	<u>100.0 %</u>

(1) Includes our allocable portion of small-balance commercial loans, based on our ownership percentage, held in variable interest entities. Our equity investments in such variable interest entities are included in Investments in unconsolidated entities, at fair value on the Consolidated Balance Sheet.

The table below summarizes our interests in residential mortgage loans by loan type and REO resulting from the foreclosure of residential mortgage loans as of December 31, 2021:

Loan Type	December 31, 2021	
	Unpaid Principal Balance	Fair Value
	<i>In thousands</i>	
Non-QM loans	\$ 1,649,036	\$ 1,697,082
Residential transition loans	292,302	292,341
Other residential loans	28,536	26,805
Total residential mortgage loans	<u>\$ 1,969,874</u>	<u>\$ 2,016,228</u>
Residential REO <sup>(1)</sup>		991
Total residential mortgage loans and residential REO <sup>(1)</sup>		<u>\$ 2,017,219</u>

(1) REO is not considered a financial instrument and, as a result, is included at the lower of cost or fair value, as discussed in Note 2 of the notes to consolidated financial statements.

The following table provides additional details about our investments in unconsolidated entities as of December 31, 2021:

Investment in Unconsolidated Entity	Description	Fair Value
<b>Loan Originators:</b>	<b>Entity Type</b>	<i>(In thousands)</i>
Longbridge Financial, LLC	Reverse Mortgage Loan Originator	\$ 74,488
LendSure Mortgage Corp.	Residential Mortgage Loan Originator	45,511
Other	Residential Mortgage Loan, Commercial Mortgage Loan, and Consumer Loan Originators	17,768
		<u>137,767</u>
<b>Other Unconsolidated Entities:</b>	<b>Underlying Product Type</b>	
Co-investments with Ellington affiliate(s)	Commercial Mortgage Loans	37,278
Equity investments in securitization-related risk retention vehicles	Consumer Loans and European RMBS	12,499
Other	Various	8,099
		<u>57,876</u>
		<u>\$ 195,643</u>

#### Agency RMBS Portfolio Performance Summary

The return on our Agency RMBS portfolio was slightly less than breakeven for the year, in the face of a challenging Agency market marked by rising interest rates, widening yield spreads, and elevated interest rate volatility for much of the year.

During the first quarter of the year, long-term interest rates rose, the yield curve steepened, and interest rate volatility increased. As a result, most Agency RMBS prices declined, with lower-coupon RMBS performing the worst in the face of heightened extension risk. Next, in a reversal from the prior quarter, long-term interest rates declined and the yield curve flattened in the second quarter; most Agency RMBS underperformed U.S. Treasury securities and interest rate swaps, with higher-coupon Agency RMBS faring the worst. Moving to the third quarter, performance of Agency RMBS was again mixed, with incrementally higher mortgage rates leading to reduced expectations for prepayments, which boosted higher-coupon RMBS, while the anticipated withdrawal of Federal Reserve purchases negatively impacted lower-coupon RMBS. As a result, higher coupons outperformed lower coupons for the third quarter.

In the fourth quarter, short-term interest rates rose sharply, actual and implied volatility increased, and the yield curve flattened as the Federal Reserve signaled that interest rate increases could be imminent. The Federal Reserve also began the tapering of its asset purchases in November, and then accelerated the pace of that tapering starting in December. In response to these developments, most Agency RMBS underperformed U.S. Treasury securities during the fourth quarter, with higher-coupon specified pools and other shorter-duration RMBS particularly underperforming in light of the flattening of the yield curve.

Over the course of the year, most Agency RMBS prices declined, which led to net realized and unrealized losses on our Agency RMBS portfolio. Virtually all of these losses were offset, however, by net interest income and net gains on our interest rate hedges.

Pay-ups on our existing specified pool investments declined over the course of the year, while our new purchases during the year primarily consisted of pools with lower pay-ups. As a result, the average pay-ups on our specified pools decreased to 0.82% as of December 31, 2021, from 2.05% as of December 31, 2020. Pay-ups are price premiums for specified pools relative to their TBA counterparts.

During the year, we continued to hedge interest rate risk, primarily through the use of interest rate swaps, and short positions in TBAs, U.S. Treasury securities, and futures. The size of our short TBA position increased significantly in conjunction with the increased size of our Agency RMBS portfolio, year over year, as measured by 10-year equivalents. 10-year equivalents for a group of positions represent the amount of 10-year U.S. Treasury securities that would be expected to experience a similar change in market value under a standard parallel move in interest rates. In addition, we continued to maintain a long TBA portfolio concentrated in lower coupons.

As of December 31, 2021 and 2020, the weighted average net pass-through rate on our fixed-rate specified pools was 3.2% and 3.7%, respectively. Portfolio turnover for our Agency strategy, as measured by sales and excluding paydowns, was approximately 67% for the year ended December 31, 2021.

We expect to continue to target specified pools that, taking into account their particular composition and based on our prepayment projections, should: (1) generate attractive yields relative to other Agency RMBS and U.S. Treasury securities, (2) have less prepayment sensitivity to government policy shocks, and/or (3) create opportunities for trading gains once the market recognizes their value, which for newer pools may come only after several months, when actual prepayment experience can be observed. We believe that our research team, proprietary prepayment models, and extensive databases remain essential tools in our implementation of this strategy.

The following table summarizes the prepayment rates for our portfolio of fixed-rate specified pools (excluding those backed by reverse mortgages) for the three-month periods ended December 31, 2021, September 30, 2021, June 30, 2021, March 31, 2021, and December 31, 2020.

	<b>Three-Month Period Ended</b>				
	<b>December 31, 2021</b>	<b>September 30, 2021</b>	<b>June 30, 2021</b>	<b>March 31, 2021</b>	<b>December 31, 2020</b>
Three-Month Constant Prepayment Rates <sup>(1)</sup>	18.5%	21.6%	21.7%	23.4%	24.4%

(1) Excludes Agency fixed-rate RMBS without any prepayment history.

The following table provides details about the composition of our portfolio of fixed-rate specified pools (excluding those backed by reverse mortgages) as of December 31, 2021 and 2020:

	December 31, 2021			December 31, 2020			
	Coupon (%)	Current Principal	Fair Value	Weighted Average Loan Age (Months)	Current Principal	Fair Value	Weighted Average Loan Age (Months)
		<i>(In thousands)</i>			<i>(In thousands)</i>		
<b>Fixed-rate Agency RMBS:</b>							
<b>15-year fixed-rate mortgages:</b>							
	2.00-2.49	\$ 56,016	\$ 57,801	11	\$ —	\$ —	—
	2.50-2.99	76,857	79,757	21	20,248	21,476	46
	3.00-3.49	63,774	66,931	15	13,714	14,405	20
	3.50-3.99	19,879	21,086	67	22,820	24,505	60
	4.00-4.49	4,085	4,336	64	6,878	7,366	51
	4.50-4.99	2,529	2,640	136	4,215	4,462	124
<b>Total 15-year fixed-rate mortgages</b>		<b>223,140</b>	<b>232,551</b>	<b>23</b>	<b>67,875</b>	<b>72,214</b>	<b>51</b>
<b>20-year fixed-rate mortgages:</b>							
	2.00-2.49	2,779	2,826	13	—	—	—
	2.50-2.99	43,174	44,624	14	48,350	51,466	2
	4.00-4.49	—	—	—	1,204	1,292	31
	4.50-4.99	400	439	97	577	652	85
<b>Total 20-year fixed-rate mortgages</b>		<b>46,353</b>	<b>47,889</b>	<b>15</b>	<b>50,131</b>	<b>53,410</b>	<b>4</b>
<b>30-year fixed-rate mortgages:</b>							
	2.00-2.49	118,886	118,930	3	—	—	—
	2.50-2.99	531,357	545,208	7	29,043	30,753	3
	3.00-3.49	239,696	250,884	16	122,851	130,817	18
	3.50-3.99	132,754	141,769	42	133,713	145,590	46
	4.00-4.49	126,990	137,212	52	169,080	184,495	48
	4.50-4.99	76,959	83,756	58	101,664	112,481	48
	5.00-5.49	35,360	38,705	63	63,240	70,533	46
	5.50-5.99	2,467	2,778	74	5,083	5,845	61
	6.00-6.49	1,030	1,180	115	1,347	1,566	90
<b>Total 30-year fixed-rate mortgages</b>		<b>1,265,499</b>	<b>1,320,422</b>	<b>21</b>	<b>626,021</b>	<b>682,080</b>	<b>40</b>
<b>Total fixed-rate Agency RMBS</b>		<b>\$ 1,534,992</b>	<b>\$ 1,600,862</b>	<b>21</b>	<b>\$ 744,027</b>	<b>\$ 807,704</b>	<b>38</b>

Our net Agency premium as a percentage of the fair value of our specified pool holdings is one metric that we use to measure the overall prepayment risk of our specified pool portfolio. Net Agency premium represents the total premium (excess of market value over outstanding principal balance) on our specified pool holdings less the total premium on related net short TBA positions. The lower our net Agency premium, the less we believe that our specified pool portfolio is exposed to market-wide increases in Agency RMBS prepayments. Our net Agency premium as a percentage of fair value of our specified pool holdings was approximately 1.8% and 4.8% as of December 31, 2021 and 2020, respectively. These figures take into account the net short TBA positions that we use to hedge our specified pool holdings, which had a notional value of \$640.2 million and a fair value of \$679.2 million as of December 31, 2021, as compared to a notional value of \$383.6 million and a fair value of \$412.2 million as of December 31, 2020. Excluding these TBA hedging positions, our Agency premium as a percentage of fair value was approximately 4.1% and 7.9% as of December 31, 2021 and 2020, respectively. Our Agency premium percentage and net Agency premium percentage may fluctuate from period to period based on a variety of factors, including market factors such as interest rates and mortgage rates, and, in the case of our net Agency premium percentage, based on the degree to which

we hedge prepayment risk with short TBA positions. We believe that our focus on purchasing pools with specific prepayment characteristics provides a measure of protection against prepayments.

#### Financing

The following table details our borrowings outstanding and debt-to-equity ratios as of December 31, 2021 and 2020:

(\$ in thousands)	As of	
	December 31, 2021	December 31, 2020
<b>Recourse<sup>(1)</sup> Borrowings:</b>		
Repurchase Agreements	\$ 2,469,763	\$ 1,364,090
Other Secured Borrowings	50,618	37,372
Senior Notes, at par	86,000	86,000
<b>Total Recourse Borrowings</b>	<b>\$ 2,606,381</b>	<b>\$ 1,487,462</b>
Debt-to-Equity Ratio Based on Total Recourse Borrowings <sup>(1)</sup>	2.0:1	1.6:1
<b>Non-Recourse<sup>(2)</sup> Borrowings:</b>		
Repurchase Agreements	\$ —	\$ 132,841
Other Secured Borrowings	46,004	13,690
Other Secured Borrowings, at fair value <sup>(3)</sup>	984,168	754,921
<b>Total Recourse and Non-Recourse Borrowings</b>	<b>\$ 3,636,553</b>	<b>\$ 2,388,914</b>
Debt-to-Equity Ratio Based on Total Recourse and Non-Recourse Borrowings	2.7:1	2.6:1

- (1) As of December 31, 2021 and 2020, excludes borrowings at certain unconsolidated entities that are recourse to us. Including such borrowings, our debt-to-equity ratio based on total recourse borrowings was 2.0:1 and 1.6:1 as of December 31, 2021 and 2020, respectively.
- (2) All of our non-recourse borrowings are secured by collateral. In the event of default under a non-recourse borrowing, the lender has a claim against the collateral but not any of the Operating Partnership's other assets. In the event of default under a recourse borrowing, the lender's claim is not limited to the collateral (if any).
- (3) Relates to our non-QM loan securitizations, where we have elected the fair value option on the related debt.

Our debt-to-equity ratio including repos, Total other secured borrowings, and our Senior Notes, increased slightly to 2.7:1 as of December 31, 2021 as compared to 2.6:1 as of December 31, 2020, as borrowings related to our larger portfolio increased roughly in proportion to our larger total equity. Over the same period, the proportion of recourse borrowings increased, causing our recourse debt-to-equity ratio to increase to 2.0:1 from 1.6:1. Our recourse debt-to-equity ratio, adjusted for unsettled purchases and sales, was also 2.0:1 and 1.6:1 as of December 31, 2021 and 2020, respectively.

Our debt-to-equity ratio may fluctuate period over period based on portfolio management decisions, market conditions, capital markets activities, and the timing of security purchase and sale transactions.

Our financing costs include interest expense related to our repo borrowings, Total other secured borrowings, and Senior Notes. For the year ended December 31, 2021, our average cost of funds decreased to 1.29%, as compared to 2.25% for the year ended December 31, 2020. The year-over-year decline in our average cost of funds was primarily due to lower financing rates on our both our Agency and credit borrowings.

#### Critical Accounting Estimates

Our consolidated financial statements include the accounts of Ellington Financial Inc., its Operating Partnership, its subsidiaries, and variable interest entities, or "VIEs," for which we are deemed to be the primary beneficiary. All intercompany balances and transactions have been eliminated.

The preparation of our consolidated financial statements in accordance with U.S. GAAP require us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Our critical accounting estimates are those which require assumptions to be made about matters that are highly uncertain. Actual results could differ from those estimates and such differences could have a material impact on our financial condition and/or results of operations. We believe that all of the decisions and assessments upon which our consolidated financial statements are based were reasonable at the time made based upon information available to us at that time. We rely on the experience of our Manager and Ellington and analysis of historical and current market data in order to arrive at what we believe to be reasonable estimates. See Note 2 of the notes to our consolidated financial statements for a complete discussion of our significant accounting policies. We have identified our most critical accounting estimates to be the following:

**Valuation:** We have elected the fair value option for the vast majority of our assets and liabilities for which such election is permitted, as provided for under ASC 825, *Financial Instruments* ("ASC 825"). For financial instruments that are traded in an "active market," the best measure of fair value is the quoted market price. However, many of our financial instruments are not traded in an active market. Therefore, management generally uses third-party valuations when available. If third-party valuations are not available, management uses other valuation techniques, such as the discounted cash flow methodology.

Summary descriptions, for various categories of financial instruments, of the valuation methodologies management uses in determining fair value of our financial instruments are detailed in Note 2 of the notes to our consolidated financial statements. Management utilizes such methodologies to assign a good faith fair value (the estimated price that, in an orderly transaction at the valuation date, would be received to sell an asset, or paid to transfer a liability, as the case may be) to each such financial instrument. See the notes to our consolidated financial statements for more information on valuation techniques used by management in the valuation of our assets and liabilities.

Because of the inherent uncertainty of valuation, the estimated fair value of our financial instruments may differ significantly from the values that would have been used had a ready market for the financial instruments existed, and the differences could be material to our consolidated financial statements.

The determination of estimated fair value of those of our financial instruments that are not traded in an active market requires the use of both macroeconomic and microeconomic assumptions and/or inputs, which are generally based on current market and economic conditions. Changes in market and/or economic conditions could have a significant adverse effect on the estimated fair value of our financial instruments. Changes to assumptions, including assumed market yields, may significantly impact the estimated fair value of our investments. Our valuations are sensitive to changes in interest rate; see the interest rate sensitivity analysis included in Item 7A. Quantitative and Qualitative Disclosures about Market Risk in this Annual Report on Form 10-K for further information.

**VIEs:** We evaluate each of our investments and other contractual arrangements to determine whether our interest constitutes a variable interest in a VIE, and if so whether we are the primary beneficiary of such VIE. In making these determinations we use both qualitative and quantitative analyses involving a significant amount of judgment, taking into consideration factors such as which interests in the VIE create or absorb variability, the contractual terms related to such interests, other transactions or agreements with the entity, key decision makers and their impact on the VIE's economic performance, and related party relationships.

**Purchases and Sales of Investments and Investment Income:** Purchase and sales transactions are generally recorded on trade date. Realized and unrealized gains and losses are calculated based on identified cost.

We generally amortize premiums and accrete discounts on our fixed-income investments using the effective interest method. For certain of our securities, for purposes of estimating future expected cash flows, management uses assumptions including, but not limited to, assumptions for future prepayment rates, default rates, and loss severities (each of which may in turn incorporate various macroeconomic assumptions, such as future housing prices, GDP growth rates, and unemployment rates). In estimating future cash flows on certain of our loans, there are a number of assumptions that are subject to significant uncertainties and contingencies, including assumptions relating to prepayment rates, default rates, loan loss severities, and loan repurchases. These estimates require the use of a significant amount of judgment. Any resulting changes in effective yield are recognized prospectively based on the current amortized cost of the investment as adjusted for credit impairment, if any.

The effective yield on our debt securities that are deemed to be of high credit quality (including Agency RMBS, exclusive of interest only securities) can be significantly impacted by our estimate of future prepayments. Future prepayment rates are difficult to predict. We estimate prepayment rates over the remaining life of our securities using models that generally incorporate the forward yield curve, current mortgage rates, mortgage rates on the outstanding loans, age and size of the outstanding loans, and other factors. We compare estimated prepayments to actual prepayments on a quarterly basis, and effective yields are recalculated retroactive to the time of purchase. When differences arise between our previously calculated effective yields and our current calculated effective yields, a catch-up adjustment, or "Catch-up Premium Amortization Adjustment," is made to interest income to reflect the cumulative impact of the changes in effective yields. For the years ended December 31, 2021, 2020, and 2019, we recognized a Catch-up Premium Amortization Adjustment of \$1.3 million, \$(4.5) million, and (4.7) million reflected as an increase (decrease) to interest income on the Consolidated Statement of Operations.

See the notes to our consolidated financial statements for more information on the assumptions and methods that we use to amortize purchase premiums and accrete purchase discounts.

**Income Taxes:** We made an election to be taxed as a REIT for U.S. federal income tax purposes commencing with our taxable year ended December 31, 2019, and are generally are not subject to corporate-level federal and state income tax on net income we distribute to our stockholders within the prescribed timeframes. We have elected to treat certain domestic and

foreign subsidiaries as TRSs. Our financial results are generally not expected to reflect provisions for current or deferred income taxes, except for any activities conducted through one or more TRSs that are subject to corporate income taxation. Establishing a provision for income tax expense requires judgement and interpretation of the application of various federal, state, local, and foreign jurisdiction's tax laws. We may take positions with respect to certain tax issues which depend on legal interpretation of facts or applicable tax regulations. Should the relevant tax regulators successfully challenge any such positions, we might be found to have a tax liability that has not been recorded in the accompanying consolidated financial statements. Also, management's conclusions regarding the authoritative guidance may be subject to review and adjustment at a later date based on changing tax laws, regulations, and interpretations thereof. See Note 2 and Note 12 to our consolidated financial statements for additional details on income taxes.

**Recent Accounting Pronouncements**

Refer to Note 2 to our consolidated financial statements for a description of relevant recent accounting pronouncements.

**Financial Condition**

The following table summarizes the fair value our investment portfolio<sup>(1)</sup> as of December 31, 2021 and 2020.

<i>(In thousands)</i>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
<b>Long:</b>		
Credit:		
Dollar Denominated:		
CLO <sup>(2)</sup>	\$ 60,903	\$ 181,229
CMBS	25,643	117,652
Commercial Mortgage Loans and REO <sup>(3)(5)</sup>	387,165	269,287
Consumer Loans and ABS backed by Consumer Loans <sup>(2)</sup>	153,124	112,077
Corporate Debt and Equity and Corporate Loans	20,128	12,606
Debt and Equity Investments in Loan Origination Entities <sup>(4)</sup>	141,315	79,536
Non-Agency RMBS	191,728	154,492
Residential Mortgage Loans and REO <sup>(3)</sup>	2,017,219	1,188,731
Non-Dollar Denominated:		
CLO <sup>(2)</sup>	3,092	6,108
Consumer Loans and ABS backed by Consumer Loans	213	306
Corporate Debt and Equity	13	28
RMBS <sup>(6)</sup>	25,846	51,388
Agency:		
Fixed-Rate Specified Pools	1,600,862	807,704
Floating-Rate Specified Pools	9,456	6,454
IOs	33,288	47,656
Reverse Mortgage Pools	53,010	97,629
<b>Total Long</b>	<b>\$ 4,723,005</b>	<b>\$ 3,132,883</b>
<b>Short:</b>		
Credit:		
Dollar Denominated:		
Corporate Debt and Equity	\$ —	\$ (218)
Government Debt:		
Dollar Denominated	(92,190)	—
Non-Dollar Denominated	(28,335)	(38,424)
<b>Total Short</b>	<b>\$ (120,525)</b>	<b>\$ (38,642)</b>

- (1) For more detailed information about the investments in our portfolio, please see the notes to the consolidated financial statements.
- (2) Includes equity investments in securitization-related vehicles.
- (3) REO is not eligible to elect the fair value option as described in Note 2 of the notes to the consolidated financial statements and, as a result, is included at the lower of cost or fair value.
- (4) Includes a corporate loan to a loan origination entity in which we hold an equity investment.
- (5) Includes investments in unconsolidated entities holding small balance commercial mortgage loans and REO.
- (6) Includes an investment in an unconsolidated entity holding European RMBS.



The following table summarizes our financial derivatives portfolio<sup>(1)(2)</sup> as of December 31, 2021.

	December 31, 2021			
	Notional			Net Fair Value
	Long	Short	Net	
<i>(In thousands)</i>				
<b>Mortgage-Related Derivatives:</b>				
CDS on MBS and MBS Indices	\$ 573	\$ (15,348)	\$ (14,775)	\$ 2,015
<b>Total Net Mortgage-Related Derivatives</b>				<b>2,015</b>
<b>Corporate-Related Derivatives:</b>				
CDS on Corporate Bonds and Corporate Bond Indices	2,168	(24,583)	(22,415)	(1,813)
Options	30,000	—	30,000	278
Warrants <sup>(3)</sup>	1,897	—	1,897	706
<b>Total Net Corporate-Related Derivatives</b>				<b>(829)</b>
<b>Interest Rate-Related Derivatives:</b>				
TBAs	273,223	(913,382)	(640,159)	320
Interest Rate Swaps	474,741	(1,519,488)	(1,044,747)	4,895
U.S. Treasury Futures <sup>(4)</sup>	1,900	(221,400)	(219,500)	403
<b>Total Interest Rate-Related Derivatives</b>				<b>5,618</b>
<b>Other Derivatives:</b>				
Foreign Currency Forwards <sup>(5)</sup>	—	(16,494)	(16,494)	(208)
<b>Total Net Other Derivatives</b>				<b>(208)</b>
<b>Net Total</b>				<b>\$ 6,596</b>

(1) For more detailed information about the financial derivatives in our portfolio, please refer to Note 8 of the notes to the consolidated financial statements.

(2) In the table above, fair value of certain derivative transactions are shown on a net basis. The accompanying financial statements separate derivative transactions as either assets or liabilities. As of December 31, 2021, derivative assets and derivative liabilities were \$18.9 million and \$(12.3) million, respectively, for a net fair value of \$6.6 million, as reflected in "Net Total" above.

(3) Notional represents the maximum number of shares available to be purchased upon exercise.

(4) Notional value represents the total face amount of U.S. Treasury securities underlying all contracts held. As of December 31, 2021, a total of 19 long and 1,965 short U.S. Treasury futures contracts were held.

(5) Short notional value represents U.S. Dollars to be received by us at the maturity of the forward contract.

The following table summarizes our financial derivatives portfolio<sup>(1)(2)</sup> as of December 31, 2020.

	December 31, 2020			
	Notional			Net Fair Value
	Long	Short	Net	
<i>(In thousands)</i>				
<b>Mortgage-Related Derivatives:</b>				
CDS on MBS and MBS Indices	\$ 874	\$ (13,846)	\$ (12,972)	\$ 2,401
<b>Total Net Mortgage-Related Derivatives</b>				<b>2,401</b>
<b>Corporate-Related Derivatives:</b>				
CDS on Corporate Bonds and Corporate Bond Indices	67,779	(121,197)	(53,418)	(3,765)
Total Return Swaps on Corporate Bond Indices and Corporate Debt <sup>(3)</sup>	4,161	—	4,161	(475)
Warrants <sup>(4)</sup>	1,897	—	1,897	36
<b>Total Net Corporate-Related Derivatives</b>				<b>(4,204)</b>
<b>Interest Rate-Related Derivatives:</b>				
TBAs	149,990	(504,067)	(354,077)	37
Interest Rate Swaps	253,423	(408,295)	(154,872)	(6,655)
U.S. Treasury Futures <sup>(5)</sup>	1,900	(178,500)	(176,600)	(374)
<b>Total Interest Rate-Related Derivatives</b>				<b>(6,992)</b>
<b>Other Derivatives:</b>				
Foreign Currency Forwards <sup>(6)</sup>	—	(22,330)	(22,330)	(279)
<b>Total Net Other Derivatives</b>				<b>(279)</b>
<b>Net Total</b>				<b>\$ (9,074)</b>

(1) For more detailed information about the financial derivatives in our portfolio, please refer to Note 8 of the notes to consolidated financial statements.

(2) In the table above, fair value of certain derivative transactions are shown on a net basis. The accompanying financial statements separate derivative transactions as either assets or liabilities. As of December 31, 2020, derivative assets and derivative liabilities were \$15.5 million and \$(24.6) million, respectively, for a net fair value of \$(9.1) million, as reflected in "Net Total" above.

(3) Notional value represents the face amount of the underlying asset.

(4) Notional represents the maximum number of shares available to be purchased upon exercise.

(5) Notional value represents the total face amount of U.S. Treasury securities underlying all contracts held. As of December 31, 2020, a total of 19 long and 1,558 short U.S. Treasury futures contracts were held.

(6) Short notional value represents U.S. Dollars to be received by us at the maturity of the forward contract.

As of December 31, 2021, our Consolidated Balance Sheet reflected total assets of \$5.2 billion and total liabilities of \$3.9 billion. As of December 31, 2020, our Consolidated Balance Sheet reflected total assets of \$3.4 billion and total liabilities of \$2.5 billion. Our investments in securities, loans, and unconsolidated entities, financial derivatives, and real estate owned included in total assets were \$4.7 billion and \$3.1 billion as of December 31, 2021 and 2020, respectively. Our investments in securities sold short and financial derivatives included in total liabilities were \$132.8 million and \$63.2 million as of December 31, 2021 and 2020, respectively. As of December 31, 2021, investments in securities sold short consisted principally of short positions in U.S. Treasury securities and sovereign bonds. As of December 31, 2020, investments in securities sold short consisted principally of short positions in sovereign bonds. We primarily use short positions in sovereign bonds and U.S. Treasury securities to hedge the risk of rising interest rates and foreign currency risk.

Typically, we hold a net short position in TBAs. The amounts of net short TBAs, as well as of other hedging instruments, may fluctuate according to the size of our investment portfolio as well as according to how we view market dynamics as favoring the use of one hedging instrument or another. As of December 31, 2021 and 2020, we had a net short notional TBA position of \$640.2 million and \$354.1 million, respectively. The size of the net short notional TBA position increased in conjunction with the increased size of our Agency RMBS portfolio. In addition, we increased the notional amount of long TBAs held for investment as of December 31, 2021 as compared to December 31, 2020.

For a more detailed discussion of our investment portfolio, see "*Trends and Recent Market Developments—Portfolio Overview and Outlook*" above.

We use mortgage-related credit derivatives primarily to hedge credit risk in certain credit strategies, although we also take net long positions in certain CDS on RMBS and CMBS indices. Our CDS on individual RMBS represent "single-name" positions whereby we have synthetically purchased credit protection on specific non-Agency RMBS bonds. As there is no longer an active market for CDS on individual RMBS, our portfolio in this sector continues to run off. We also use CDS on corporate bond indices, options thereon, and various other instruments as a means to hedge credit risk. As market conditions

change, especially as the pricing of various credit hedging instruments changes in relation to our outlook on future credit performance, we continuously re-evaluate both the extent to which we hedge credit risk and the particular mix of instruments that we use to hedge credit risk.

We may hold long and/or short positions in corporate bonds or equities. Our long and short positions in corporate bonds or equities may serve as outright investments or portfolio hedges.

We use a variety of instruments to hedge interest rate risk in our portfolio, including non-derivative instruments such as U.S. Treasury securities and sovereign debt instruments, and derivative instruments such as interest rate swaps, TBAs, Eurodollar and U.S. Treasury futures, and options on the foregoing. The mix of instruments that we use to hedge interest rate risk may change materially from one period to the next.

We have also entered into foreign currency forward and futures contracts in order to hedge risks associated with foreign currency fluctuations.

We have entered into repos to finance many of our assets. We account for our repos as collateralized borrowings. As of December 31, 2021 indebtedness outstanding on our repos was approximately \$2.5 billion. As of December 31, 2021, our assets financed with repos consisted of Agency RMBS of \$1.663 billion and credit assets of \$1.089 billion. As of December 31, 2021, outstanding indebtedness under repos was \$1.640 billion for Agency RMBS and \$829.9 million for credit assets. As of December 31, 2020 indebtedness outstanding on our repos was approximately \$1.5 billion. As of December 31, 2020, our assets financed with repos consisted of Agency RMBS of \$947.0 million and credit assets of \$884.2 million. As of December 31, 2020, outstanding indebtedness under repos was \$921.9 million for Agency RMBS and \$575.1 million for credit assets.

In addition to our repos, as of December 31, 2021 we had Total other secured borrowings of \$1.1 billion, used to finance \$1.2 billion of non-QM loans, consumer loans and ABS backed by consumer loans, and small balance commercial mortgage loans. This compares to Total other secured borrowings of \$806.0 million as of December 31, 2020, used to finance \$906.4 million of non-QM loans, consumer loans and ABS backed by consumer loans, and small balance commercial mortgage loans. In addition to our secured borrowings, we had \$86.0 million of Senior Notes outstanding as of both December 31, 2021 and 2020.

As of December 31, 2021 and 2020 our debt-to-equity ratio was 2.7:1 and 2.6:1, respectively. Our recourse debt-to-equity ratio was 2.0:1 as of December 31, 2021 as compared to 1.6:1 as of December 31, 2020. See the discussion in "*Liquidity and Capital Resources*" below for further information on our borrowings.

#### **Equity**

As of December 31, 2021, our equity increased by \$402.0 million to \$1.324 billion from \$921.6 million as of December 31, 2020. The increase principally consisted of net income of \$140.6 million, net proceeds from the issuance of shares of common stock of \$244.8 million, after underwriters' discounts and commissions and offering costs, net proceeds from the issuance of shares of preferred stock of \$115.9 million, net of underwriters' commissions and offering costs, and contributions from our non-controlling interests of \$16.0 million. These increases were partially offset by common and preferred dividends of \$90.3 million and distributions to non-controlling interests of \$27.1 million. Stockholders' equity, which excludes the non-controlling interests related to the minority interest in the Operating Partnership as well as the minority interests of our joint venture partners, was \$1.291 billion as of December 31, 2021.

**Results of Operations for the Years Ended December 31, 2021, 2020 and 2019**

The following table summarizes our results of operations for the years ended December 31, 2021, 2020, and 2019:

	Year Ended December 31,		
	2021	2020	2019
<i>(In thousands except per share amounts)</i>			
<b>Interest Income (Expense)</b>			
Interest income	\$ 175,505	\$ 173,531	\$ 159,901
Interest expense	(44,030)	(61,665)	(78,479)
Net interest income	131,475	111,866	81,422
<b>Other Income (Loss)</b>			
Realized and unrealized gains (losses) on securities and loans, net	(25,785)	(31,743)	41,693
Realized and unrealized gains (losses) on financial derivatives, net	21,857	(30,532)	(36,250)
Realized and unrealized gains (losses) on real estate owned, net	452	(634)	1,048
Other, net	23,038	(2,298)	5,350
Total other income (loss)	19,562	(65,207)	11,841
<b>Expenses</b>			
Base management fee to affiliate (Net of fee rebates of \$2,593, \$1,051, and \$1,967, respectively) <sup>(1)</sup>	13,422	11,508	7,988
Incentive fee to affiliate	15,658	—	116
Other investment related expenses	18,544	18,144	17,777
Other operating expenses	17,817	15,186	12,856
<b>Total expenses</b>	65,441	44,838	38,737
<b>Net Income (Loss) before Income Tax Expense (Benefit) and Earnings (Losses) from Investments in Unconsolidated Entities</b>	<b>85,596</b>	<b>1,821</b>	<b>54,526</b>
Income tax expense (benefit)	3,144	11,377	1,558
Earnings (losses) from investments in unconsolidated entities	58,104	37,933	10,209
<b>Net Income (Loss)</b>	<b>140,556</b>	<b>28,377</b>	<b>63,177</b>
Net income (loss) attributable to non-controlling interests	7,093	3,369	5,244
Dividends on preferred stock	8,117	7,763	1,466
<b>Net Income (Loss) Attributable to Common Stockholders</b>	<b>\$ 125,346</b>	<b>\$ 17,245</b>	<b>\$ 56,467</b>
<b>Net Income (Loss) Per Common Share</b>	<b>\$ 2.58</b>	<b>\$ 0.39</b>	<b>\$ 1.76</b>

(1) See Note 13 of the notes to the consolidated financial statements for further details on management fee rebates.

**Core Earnings**

We calculate Core Earnings as U.S. GAAP net income (loss) as adjusted for: (i) realized and unrealized gain (loss) on securities and loans, REO, financial derivatives (excluding periodic settlements on interest rate swaps), other secured borrowings, at fair value, and foreign currency transactions; (ii) incentive fee to affiliate; (iii) Catch-up Premium Amortization Adjustment (as defined below); (iv) non-cash equity compensation expense; (v) provision for income taxes; and (vi) certain other income or loss items that are of a non-recurring nature. For certain investments in unconsolidated entities, we include the relevant components of net operating income in Core Earnings. The Catch-up Premium Amortization Adjustment is a quarterly adjustment to premium amortization triggered by changes in actual and projected prepayments on our Agency RMBS (accompanied by a corresponding offsetting adjustment to realized and unrealized gains and losses). The adjustment is calculated as of the beginning of each quarter based on our then-current assumptions about cashflows and prepayments, and can vary significantly from quarter to quarter.

Core Earnings is a supplemental non-GAAP financial measure. We believe that the presentation of Core Earnings provides a consistent measure of operating performance by excluding the impact of gains and losses and other adjustments listed above from operating results. We believe that Core Earnings provides information useful to investors because it is a metric that we use to assess our performance and to evaluate the effective net yield provided by our portfolio. In addition, we believe that presenting Core Earnings enables our investors to measure, evaluate, and compare our operating performance to that of our peers. However, because Core Earnings is an incomplete measure of our financial results and differs from net income (loss) computed in accordance with U.S. GAAP, it should be considered as supplementary to, and not as a substitute for, net income (loss) computed in accordance with U.S. GAAP.

The following table reconciles, for the years ended December 31, 2021, 2020, and 2019, Core Earnings to the line on our Consolidated Statement of Operations entitled Net Income (Loss), which we believe is the most directly comparable U.S. GAAP measure.

	Year Ended December 31,		
	2021	2020	2019
<i>(In thousands, except per share amounts)</i>			
<b>Net income (loss)</b>	\$ 140,556	\$ 28,377	\$ 63,177
Income tax expense (benefit)	3,144	11,377	1,558
Net income (loss) before income tax expense (benefit)	143,700	39,754	64,735
Adjustments:			
Realized (gains) losses on securities and loans, net	(5,017)	5,960	12,785
Realized (gains) losses on financial derivatives, net	(11,502)	31,521	30,912
Realized (gains) losses on real estate owned, net	(1,711)	(15)	(2,327)
Unrealized (gains) losses on securities and loans, net	30,802	25,783	(54,478)
Unrealized (gains) losses on financial derivatives, net	(10,355)	(989)	5,338
Unrealized (gains) losses on real estate owned, net	1,259	649	1,279
Other realized and unrealized (gains) losses, net <sup>(1)</sup>	(14,628)	7,703	829
Net realized gains (losses) on periodic settlements of interest rate swaps	(2,277)	(2,038)	1,695
Net unrealized gains (losses) on accrued periodic settlements of interest rate swaps	(763)	219	(764)
Incentive fee to affiliate	15,658	—	116
Non-cash equity compensation expense	971	722	475
Negative (positive) component of interest income represented by Catch-up Premium Amortization Adjustment	(1,260)	4,523	4,660
Debt issuance costs related to Other secured borrowings, at fair value	5,290	3,894	3,536
Non-recurring expenses	1,894	174	1,333
(Earnings) losses from investments in unconsolidated entities <sup>(2)</sup>	(48,406)	(34,664)	(5,561)
<b>Total Core Earnings</b>	<b>103,655</b>	<b>83,196</b>	<b>64,563</b>
Dividends on preferred stock	8,117	7,763	1,466
Core Earnings attributable to non-controlling interests	6,621	4,532	4,883
<b>Core Earnings Attributable to Common Stockholders</b>	<b>\$ 88,917</b>	<b>\$ 70,901</b>	<b>\$ 58,214</b>
<b>Core Earnings Attributable to Common Stockholders, per share</b>	<b>\$ 1.83</b>	<b>\$ 1.63</b>	<b>\$ 1.82</b>

(1) Includes realized and unrealized gains (losses) on foreign currency and unrealized gain (loss) on other secured borrowings, at fair value, included in Other, net, on the Consolidated Statement of Operations.

(2) Adjustment represents, for certain investments in unconsolidated entities, the net realized and unrealized gains and losses of the underlying investments of such entities.

#### Results of Operations for the Years Ended December 31, 2021 and 2020

##### Net Income (Loss) Attributable to Common Stockholders

For the year ended December 31, 2021 we had net income (loss) attributable to common stockholders of \$125.3 million compared to \$17.2 million for the year ended December 31, 2020. The increase in our results of operations was primarily due to a decrease in interest expense; net realized and unrealized gains on our financial derivatives and income from Other, net as compared to losses in the prior year; and an increase in earnings from investments in unconsolidated entities.

##### Interest Income

Interest income was \$175.5 million for the year ended December 31, 2021, as compared to \$173.5 million for the year ended December 31, 2020. Interest income for both periods included coupon payments received and accrued on our holdings, the net accretion and amortization of purchase discounts and premiums on those holdings, and interest on our cash balances, including those balances held by our counterparties as collateral.

For the year ended December 31, 2021, interest income from our credit portfolio was \$140.2 million, as compared to \$144.6 million for the year ended December 31, 2020. This year-over-year decrease was primarily due to lower average asset yields, partially offset by the larger size of the credit portfolio for the year ended December 31, 2021.

For the year ended December 31, 2021, interest income from our Agency RMBS was \$33.9 million, as compared to \$28.0 million for the year ended December 31, 2020. This year-over-year increase was due to the larger size of the Agency portfolio, partially offset by lower average asset yields, for the year ended December 31, 2021.

The following table details our interest income, average holdings of yield-bearing assets, and weighted average yield based on amortized cost for the years ended December 31, 2021 and 2020:

(In thousands)	Credit <sup>(1)</sup>			Agency <sup>(1)</sup>			Total <sup>(1)</sup>		
	Interest Income	Average Holdings	Yield	Interest Income	Average Holdings	Yield	Interest Income	Average Holdings	Yield
Year ended December 31, 2021	\$ 140,177	\$ 2,278,001	6.15 %	\$ 33,853	\$ 1,488,913	2.27 %	\$ 174,030	\$ 3,766,914	4.62 %
Year ended December 31, 2020	\$ 144,603	\$ 1,943,650	7.44 %	\$ 28,012	\$ 1,121,737	2.50 %	\$ 172,615	\$ 3,065,387	5.63 %

(1) Amounts exclude interest income on cash and cash equivalents (including when posted as margin) and long positions in U.S. Treasury securities. Also excludes long holdings of corporate securities that represent components of certain relative value trading strategies.

Some of the variability in our interest income and portfolio yields is due to the Catch-up Premium Amortization Adjustment. For the year ended December 31, 2021 we had a positive Catch-up Premium Amortization Adjustment of \$1.3 million, which increased our interest income. In contrast, for the year ended December 31, 2020 we had a negative Catch-up Premium Amortization Adjustment of \$(4.5) million, which decreased our interest income. Excluding the Catch-up Premium Amortization Adjustment, the weighted average yield of our Agency portfolio and our total portfolio was 2.19% and 4.59%, respectively, for the year ended December 31, 2021. Excluding the Catch-up Premium Amortization Adjustment, the weighted average yield of our Agency portfolio and our total portfolio was 2.90% and 5.78%, respectively, for the year ended December 31, 2020.

#### Interest Expense

Interest expense primarily includes interest on funds borrowed under repos and Total other secured borrowings, interest on our Senior Notes, coupon interest on securities sold short, the related net accretion and amortization of purchase discounts and premiums on those short holdings, and interest on our counterparties' cash collateral held by us. Our total interest expense decreased to \$44.0 million for the year ended December 31, 2021, as compared to \$61.7 million for the year ended December 31, 2020. The decline in interest expense was the result of a significant decrease in borrowing rates on both our Agency and credit assets.

The table below summarizes the components of interest expense for the years ended December 31, 2021 and 2020.

(In thousands)	Year Ended December 31,	
	2021	2020
Repos and Total other secured borrowings	\$ 37,174	\$ 56,005
Senior Notes	4,993	4,993
Securities sold short <sup>(1)</sup>	1,152	471
Other <sup>(2)</sup>	711	196
<b>Total</b>	<b>\$ 44,030</b>	<b>\$ 61,665</b>

(1) Amount includes the related net accretion and amortization of purchase discounts and premiums.

(2) Primarily includes interest expense on our counterparties' cash collateral held by us and reverse repurchase agreements with negative interest rates.

The following table summarizes our aggregate secured borrowings, including repos and Total other secured borrowings, for the years ended December 31, 2021 and 2020.

	Year Ended					
	December 31, 2021			December 31, 2020		
Collateral for Secured Borrowing	Average Borrowings	Interest Expense	Average Cost of Funds	Average Borrowings	Interest Expense	Average Cost of Funds
<i>(In thousands)</i>						
Credit <sup>(1)</sup>	\$ 1,489,653	\$ 34,414	2.31 %	\$ 1,387,152	\$ 44,106	3.18 %
Agency RMBS	1,394,792	2,760	0.20 %	1,099,416	11,895	1.08 %
Subtotal <sup>(1)</sup>	2,884,445	37,174	1.29 %	2,486,568	56,001	2.25 %
U.S. Treasury Securities	220	—	0.04 %	408	4	0.91 %
Total	\$ 2,884,665	\$ 37,174	1.29 %	\$ 2,486,976	\$ 56,005	2.25 %
Average One-Month LIBOR			0.10 %			0.52 %
Average Six-Month LIBOR			0.20 %			0.69 %

(1) Excludes U.S. Treasury Securities.

Among other instruments, we use interest rate swaps to hedge against the risk of rising interest rates. If we were to include as a component of our cost of funds the amortization of upfront payments and the actual and accrued periodic payments on our interest rate swaps used to hedge our assets, our total average cost of funds would increase to 1.44% and 2.35% for the years ended December 31, 2021 and 2020, respectively. Excluding the Catch-up Premium Amortization Adjustment, our net interest margin, defined as the yield on our portfolio of yield-bearing targeted assets less our cost of funds (including amortization of upfront payments and actual and accrued periodic payments on interest rate swaps as described above), was 3.15% and 3.43% for the years ended December 31, 2021 and 2020, respectively. These metrics do not include costs associated with other instruments that we use to hedge interest rate risk, such as TBAs and futures.

#### Base Management Fees

For the year ended December 31, 2021, the gross base management fee, which is based on total equity at the end of each quarter, was \$16.0 million, and our Manager credited us with rebates on our base management fee of \$2.6 million, resulting in a net base management fee of \$13.4 million. For the year ended December 31, 2020, the gross base management fee was \$12.6 million, and our Manager credited us with rebates on our base management fee of \$1.1 million, resulting in a net base management fee of \$11.5 million. For each period, the base management fee rebates related to those of our CLO investments for which Ellington or one of its affiliates earned CLO management fees. The increase in the net base management fee period over period was due to a larger capital base at each quarter end in 2021, as compared to the respective quarter ends in 2020. Such increases were partially offset by the increase in the base management fee rebates.

#### Incentive Fees

In addition to the base management fee, our Manager is also entitled to a quarterly incentive fee if our performance (as measured by adjusted net income, as defined in the management agreement) over the relevant rolling four quarter calculation period (including any opening loss carryforward) exceeds a defined return hurdle for the period. For the year ended December 31, 2021, the incentive fee was \$15.7 million. There was no incentive fee for the year ended December 31, 2020, since for each quarter during that period, our income did not exceed the prescribed hurdle amount on a rolling four quarter basis. Because our operating results can vary materially from one period to another, incentive fee expense can be highly variable.

#### Other Investment Related Expenses

Other investment related expenses consist of servicing fees on our mortgage and consumer loans, as well as various other expenses and fees directly related to our financial assets and certain financial liabilities carried at fair value. For the years ended December 31, 2021 and 2020 other investment related expenses were \$18.5 million and \$18.1 million, respectively. The increase in other investment related expenses was primarily due to an increase in debt issuance costs related to our non-QM loan securitizations, as well as an increase in various other expenses related to our residential mortgage loan portfolio partially offset by a decrease in servicing expenses on our consumer loan portfolios.

#### **Other Operating Expenses**

Other operating expenses consist of professional fees, compensation expense related to our dedicated or partially dedicated personnel, and various other operating expenses necessary to run our business. Other operating expenses exclude management and incentive fees, interest expense, and other investment related expenses. Other operating expenses were \$17.8 million for the year ended December 31, 2021 as compared to \$15.2 million for the year ended December 31, 2020. The increase in other operating expenses for the year ended December 31, 2021 was primarily due to an increase in compensation expense.

#### **Other Income (Loss)**

Other income (loss) consists of net realized and unrealized gains (losses) on securities and loans, financial derivatives, and real estate owned. Other, net, another component of Other income (loss), includes rental income and income related to loan originations, as well as realized gains (losses) on foreign currency transactions and unrealized gains (losses) on foreign currency remeasurement and Other Secured Borrowings, at fair value.

For the year ended December 31, 2021, other income (loss) was \$19.6 million, consisting primarily of \$21.9 million of net realized and unrealized gains on our financial derivatives and \$23.0 million of Other, net, consisting primarily of unrealized gains on our Other secured borrowings, at fair value, partially offset by net realized and unrealized losses on our securities and loans of \$(25.8) million. Net realized and unrealized gains of \$21.9 million on our financial derivatives were primarily related to net realized and unrealized gains on interest rate swaps, short TBAs, futures, and forwards, which were driven by rising interest rates over the course of the year, partially offset by net realized and unrealized losses on CDS on corporate bonds and corporate bond indices, and total return swaps. Net realized and unrealized losses of \$(25.8) million on our securities and loans primarily resulted from net realized and unrealized losses on our Agency securities, which were driven by declining Agency RMBS prices, as well as unrealized losses on non-QM loans, and net realized and unrealized losses on consumer loans and ABS backed by consumer loans. Such losses were partially offset by net realized and unrealized gains on CLOs and CMBS, as well as non-Agency RMBS, corporate loans, and equity securities.

For the year ended December 31, 2020, other income (loss) was \$(65.2) million, consisting primarily of net realized and unrealized losses of \$(31.7) million on our securities and loans and net realized and unrealized losses on our financial derivatives of \$(30.5) million. Net realized and unrealized losses of \$(31.7) million on our securities and loans primarily resulted from net realized and unrealized losses on CLOs, CMBS, and consumer loans and ABS backed by consumer loans, partially offset by net realized and unrealized gains on Agency RMBS and non-QM loans. These net realized and unrealized losses were primarily incurred during the first quarter of 2020, and were driven by market and economic disruptions caused by the COVID-19 pandemic. Net realized and unrealized losses of \$(30.5) million on our financial derivatives were primarily related to net realized and unrealized losses on interest rate swaps, TBAs, futures, forwards, and total return swaps, as interest rates declined significantly during the year, partially offset by net realized and unrealized gains on CDS on asset-backed indices, CDS on corporate bond indices, and CDS on corporate bonds.

#### **Income Tax Expense (Benefit)**

Income tax expense (benefit) was \$3.1 million for the year ended December 31, 2021, as compared to \$11.4 million for the year ended December 31, 2020. The decrease in income tax expense was related to a decrease in net unrealized gains on investments held in a domestic TRS.

#### **Earnings (Losses) from Investments in Unconsolidated Entities**

We have elected the fair value option for our equity investments in unconsolidated entities. Earnings (losses) from investments in unconsolidated entities was \$58.1 million for the year ended December 31, 2021, as compared to \$37.9 million for the year ended December 31, 2020. The increase in earnings from investments in unconsolidated entities primarily relates to an increase in unrealized gains on investments in loan originators year over year, an increase in net realized and unrealized gains on our investments in entities holding commercial mortgage loans and REO, in which we co-invest with other Ellington affiliates, and an increase in net realized and unrealized gains on an equity investment in a securitization-related risk retention vehicle for the year ended December 31, 2021.

#### **Results of Operations for the Years Ended December 31, 2020 and 2019**

##### **Net Income (Loss) Attributable to Common Stockholders**

For the year ended December 31, 2020 we had net income (loss) attributable to common stockholders of \$17.2 million compared to \$56.5 million for the year ended December 31, 2019. The year-over-year decrease in our results of operations was



primarily due to net realized and unrealized losses on securities and loans, partially offset by an increase in net interest income and earnings from investments in unconsolidated entities for the year ended December 31, 2020.

**Interest Income**

Interest income was \$173.5 million for the year ended December 31, 2020, as compared to \$159.9 million for the year ended December 31, 2019. Interest income for both periods included coupon payments received and accrued on our holdings, the net accretion and amortization of purchase discounts and premiums on those holdings, and interest on our cash balances, including those balances held by our counterparties as collateral.

For the year ended December 31, 2020, interest income from our credit portfolio was \$144.6 million, as compared to \$120.3 million for the year ended December 31, 2019. This year-over-year increase was primarily due to the larger size of the credit portfolio for the year ended December 31, 2020, partially offset by lower average asset yields on this portfolio.

For the year ended December 31, 2020, interest income from our Agency RMBS was \$28.0 million, as compared to \$37.4 million for the year ended December 31, 2019. This year-over-year decrease was due to the smaller size of the Agency portfolio, as well as lower average asset yields, for the year ended December 31, 2020.

The following table details our interest income, average holdings of yield-bearing assets, and weighted average yield based on amortized cost for the years ended December 31, 2020 and 2019:

(In thousands)	Credit <sup>(1)</sup>			Agency <sup>(1)</sup>			Total <sup>(1)</sup>		
	Interest Income	Average Holdings	Yield	Interest Income	Average Holdings	Yield	Interest Income	Average Holdings	Yield
Year ended December 31, 2020	\$ 144,603	\$ 1,943,650	7.44 %	\$ 28,012	\$ 1,121,737	2.50 %	\$ 172,615	\$ 3,065,387	5.63 %
Year ended December 31, 2019	\$ 120,342	\$ 1,415,358	8.50 %	\$ 37,372	\$ 1,331,654	2.81 %	\$ 157,714	\$ 2,747,012	5.74 %

(1) Amounts exclude interest income on cash and cash equivalents (including when posted as margin) and long positions in U.S. Treasury securities. Also excludes long holdings of corporate securities that represent components of certain relative value trading strategies.

Some of the variability in our interest income and portfolio yields is due to the Catch-up Premium Amortization Adjustment. For the years ended December 31, 2020 and 2019, we had a negative Catch-up Premium Amortization Adjustment of approximately \$(4.5) million and \$(4.7) million, respectively, which decreased our interest income. Excluding the Catch-up Premium Amortization Adjustment, the weighted average yield of our Agency portfolio and our total portfolio was 2.90% and 5.78%, respectively, for the year ended December 31, 2020. Excluding the Catch-up Premium Amortization Adjustment, the weighted average yield of our Agency portfolio and our total portfolio was 3.16% and 5.91%, respectively, for the year ended December 31, 2019.

**Interest Expense**

Interest expense primarily includes interest on funds borrowed under repos and Total other secured borrowings, interest on our Senior Notes, coupon interest on securities sold short, the related net accretion and amortization of purchase discounts and premiums on those short holdings, and interest on our counterparties' cash collateral held by us. Our total interest expense decreased to \$61.7 million for the year ended December 31, 2020, as compared to \$78.5 million for the year ended December 31, 2019. Although average borrowings increased year over year, interest expense declined as a result of a significant decrease in borrowing rates on our both our Agency and credit assets.

The table below summarizes the components of interest expense for the years ended December 31, 2020 and 2019.

(In thousands)	Year Ended	
	December 31, 2020	December 31, 2019
Repos and Total other secured borrowings	\$ 56,005	72,702
Senior Notes <sup>(1)</sup>	4,993	4,968
Securities sold short <sup>(2)</sup>	471	746
Other <sup>(3)</sup>	196	63
<b>Total</b>	<b>\$ 61,665</b>	<b>78,479</b>

(1) Amount includes the related amortization of debt issuance costs. For the year ended December 31, 2020, amount includes interest expense on the Senior Notes. For the year ended December 31, 2019, amount includes interest expense on the Senior Notes and the Old Senior Notes.

(2) Amount includes the related net accretion and amortization of purchase discounts and premiums.

(3) Primarily includes interest expense on our counterparties' cash collateral held by us.

The following table summarizes our aggregate secured borrowings, which, other than Other secured borrowings, at fair value, including repos and Total other secured borrowings, for the years ended December 31, 2020 and 2019.

Collateral for Secured Borrowing	Year Ended					
	December 31, 2020			December 31, 2019		
	Average Borrowings	Interest Expense	Average Cost of Funds	Average Borrowings	Interest Expense	Average Cost of Funds
<i>(In thousands)</i>						
Credit <sup>(1)</sup>	\$ 1,387,152	\$ 44,106	3.18 %	\$ 1,041,209	\$ 41,932	4.03 %
Agency RMBS	1,099,416	11,895	1.08 %	1,241,957	30,703	2.47 %
Subtotal <sup>(2)</sup>	2,486,568	56,001	2.25 %	2,283,166	72,635	3.18 %
U.S. Treasury Securities	408	4	0.91 %	2,771	67	2.40 %
Total	\$ 2,486,976	\$ 56,005	2.25 %	\$ 2,285,937	\$ 72,702	3.18 %
Average One-Month LIBOR			0.52 %			2.22 %
Average Six-Month LIBOR			0.69 %			2.32 %

Excludes U.S. Treasury Securities.

Among other instruments, we use interest rate swaps to hedge against the risk of rising interest rates. If we were to include as a component of our cost of funds the amortization of upfront payments and the actual and accrued periodic payments on our interest rate swaps used to hedge our assets, our total average cost of funds would increase to 2.35% for the year ended December 31, 2020 and decrease to 3.11% for the year ended December 31, 2019. Excluding the Catch-up Premium Amortization Adjustment, our net interest margin, defined as the yield on our portfolio of yield-bearing targeted assets less our cost of funds (including amortization of upfront payments and actual and accrued periodic payments on interest rate swaps as described above), was 3.43% and 2.80% for the years ended December 31, 2020 and 2019, respectively. These metrics do not include costs associated with other instruments that we use to hedge interest rate risk, such as TBAs and futures.

#### Base Management Fees

For the year ended December 31, 2020, the gross base management fee, which is based on total equity at the end of each quarter, was \$12.6 million, and our Manager credited us with rebates on our base management fee of \$1.1 million, resulting in a net base management fee of \$11.5 million. For the year ended December 31, 2019, the gross base management fee was \$10.0 million, and our Manager credited us with rebates on our base management fee of \$2.0 million, resulting in a net base management fee of \$8.0 million. For each period, the base management fee rebates related to those of our CLO investments for which Ellington or one of its affiliates earned CLO management fees. The year-over-year increase in the net base management fee was due to our larger capital base at the end of each quarter in 2020 as compared to each respective quarter end in 2019.

#### Incentive Fees

In addition to the base management fee, our Manager is also entitled to a quarterly incentive fee if our performance (as measured by adjusted net income, as defined in the management agreement) over the relevant rolling four quarter calculation period exceeds a defined return hurdle for the period. Incentive fee incurred for the year ended December 31, 2019 was \$0.1 million; no incentive fee was incurred for the year ended December 31, 2020, since on a rolling four quarter basis, our income did not exceed the prescribed hurdle amount. Because our operating results can vary materially from one period to another, incentive fee expense can be highly variable.

#### Other Investment Related Expenses

Other investment related expenses consist of servicing fees on our mortgage and consumer loans, as well as various other expenses and fees directly related to our financial assets and certain financial liabilities carried at fair value. For the years ended December 31, 2020 and 2019 other investment related expenses were \$18.1 million and \$17.8 million, respectively. The increase in other investment related expenses was primarily due to year-over-year increases in debt issuance costs related to our non-QM loan securitizations and servicing expenses on our consumer loan portfolios, partially offset by a decrease in various other expenses related to our residential and commercial mortgage loan and REO portfolios.

#### Other Operating Expenses

Other operating expenses consist of professional fees, compensation expense related to our dedicated or partially dedicated personnel, and various other operating expenses necessary to run our business. Other operating expenses exclude management and incentive fees, interest expense, and other investment related expenses. Other operating expenses were \$15.2

million for the year ended December 31, 2020 as compared to \$12.9 million for the year ended December 31, 2019. The increase in other operating expenses for the year ended December 31, 2020 was primarily due to an increase in fund administration expenses, the recognition of Delaware corporate franchise tax, and compensation expense.

#### **Other Income (Loss)**

Other income (loss) consists of net realized and unrealized gains (losses) on securities and loans, financial derivatives, and real estate owned. Other, net, another component of Other income (loss), includes rental income and income related to loan originations, as well as realized gains (losses) on foreign currency transactions and unrealized gains (losses) on foreign currency remeasurement and Other Secured Borrowings, at fair value. For the year ended December 31, 2020, other income (loss) was \$(65.2) million, consisting primarily of net realized and unrealized losses of \$(31.7) million on our securities and loans and net realized and unrealized losses on our financial derivatives of \$(30.5) million. Net realized and unrealized losses of \$(31.7) million on our securities and loans primarily resulted from net realized and unrealized losses on CLOs, CMBS, and consumer loans and ABS backed by consumer loans, partially offset by net realized and unrealized gains on Agency RMBS and non-QM loans. These net realized and unrealized losses were primarily incurred during the first quarter of 2020, and were driven by market and economic disruptions caused by the COVID-19 pandemic. Net realized and unrealized losses of \$(30.5) million on our financial derivatives were primarily related to net realized and unrealized losses on interest rate swaps, TBAs, futures, forwards, and total return swaps, as interest rates declined significantly during the year, partially offset by net realized and unrealized gains on CDS on asset-backed indices, CDS on corporate bond indices, and CDS on corporate bonds.

For the year ended December 31, 2019, other income was \$11.8 million, consisting primarily of net realized and unrealized gains of \$41.7 million on our securities and loans, gains included in Other, net of \$5.4 million, and net realized and unrealized gains of \$1.0 million on our real estate owned, partially offset by net realized and unrealized losses of \$(36.3) million on our financial derivatives. Net realized and unrealized gains of \$41.7 million on our securities and loans primarily resulted from net realized and unrealized gains on Agency RMBS, residential mortgage loans, and non-Agency RMBS and CMBS, partially offset by net realized and unrealized losses on CLOs, consumer loans, and corporate debt and equity. Net realized and unrealized losses of \$(36.3) million on our financial derivatives was primarily related to net realized and unrealized losses on interest rate swaps, TBAs, futures, CDS on corporate bond indices, and CDS on asset-backed indices, partially offset by net realized and unrealized gains on forwards.

#### **Income Tax Expense (Benefit)**

Income tax expense was \$11.4 million for the year ended December 31, 2020, as compared to \$1.6 million for the year ended December 31, 2019. The increase in income tax expense for the year ended December 31, 2020 was primarily due to an increase in deferred tax liabilities related to unrealized gains on investments held in a domestic TRS.

#### **Earnings (Losses) from Investments in Unconsolidated Entities**

We have elected the fair value option for our equity investments in unconsolidated entities. Earnings (losses) from investments in unconsolidated entities was \$37.9 million for the year ended December 31, 2020, as compared to \$10.2 million for the year ended December 31, 2019. The increase in Earnings (losses) from investments in unconsolidated entities was primarily due to unrealized gains on our investments in loan originators.

#### **Liquidity and Capital Resources**

Liquidity refers to our ability to generate and obtain adequate amounts of cash to meet our requirements, including repaying our borrowings, funding and maintaining positions in our targeted assets, making distributions in the form of dividends, and other general business needs. Our short-term (the 12 months ending December 31, 2022) and long-term (beyond December 31, 2022) liquidity requirements include acquisition costs for assets we acquire, payment of our base management fee and incentive fee, compliance with margin requirements under our repos, reverse repos, and financial derivative contracts, repayment of repo borrowings and other secured borrowings to the extent we are unable or unwilling to extend such borrowings, payment of our general operating expenses, payment of interest payments on our Senior Notes, and payment of our dividends. Our capital resources primarily include cash on hand, cash flow from our investments (including principal and interest payments received on our investments and proceeds from the sale of investments), borrowings under repos and other secured borrowings, and proceeds from equity and debt offerings. We expect that these sources of funds will be sufficient to meet our short-term and long-term liquidity needs.

The following summarizes our borrowings under repos by remaining maturity:

<i>(In thousands)</i>	December 31, 2021		December 31, 2020	
	Outstanding Borrowings	% of Total	Outstanding Borrowings	% of Total
<b>Remaining Days to Maturity</b>				
30 Days or Less	\$ 557,499	22.5 %	\$ 303,351	20.3 %
31 - 60 Days	356,594	14.4 %	469,695	31.4 %
61 - 90 Days	251,343	10.2 %	327,012	21.8 %
91 - 120 Days	164,403	6.7 %	89,931	6.0 %
121 - 150 Days	279,268	11.3 %	69,104	4.6 %
151 - 180 Days	159,687	6.5 %	70,920	4.7 %
181 - 364 Days	570,694	23.1 %	72,670	4.9 %
> 364 Days	130,275	5.3 %	94,248	6.3 %
	<u>\$ 2,469,763</u>	<u>100.0 %</u>	<u>\$ 1,496,931</u>	<u>100.0 %</u>

Repos involving underlying investments that were sold prior to period end for settlement following period end, are shown using their contractual maturity dates even though such repos may be expected to be terminated early upon settlement of the sale of the underlying investment.

The amounts borrowed under our repo agreements are generally subject to the application of "haircuts." A haircut is the percentage discount that a repo lender applies to the market value of an asset serving as collateral for a repo borrowing, for the purpose of determining whether such repo borrowing is adequately collateralized. As of December 31, 2021, the weighted average contractual haircut applicable to the assets that serve as collateral for our outstanding repo borrowings was 22.4% with respect to credit assets, 5.4% with respect to Agency RMBS assets, and 12.1% overall. As of December 31, 2020 these respective weighted average contractual haircuts were 33.0%, 6.0%, and 19.1%. The decrease in the weighted average contractual haircut on our overall portfolio is primarily due to lower haircuts on repo borrowings related to our Credit portfolio assets at December 31, 2021 as compared to December 31, 2020.

We expect to continue to borrow funds in the form of repos as well as other similar types of financings. The terms of our repo borrowings are predominantly governed by master repurchase agreements, which generally conform to the terms in the standard master repurchase agreement as published by the Securities Industry and Financial Markets Association as to repayment and margin requirements. In addition, each lender may require that we include supplemental terms and conditions to the standard master repurchase agreement. Typical supplemental terms and conditions include the addition of or changes to provisions relating to margin calls, net asset value requirements, cross default provisions, certain key person events, changes in corporate structure, and requirements that all controversies related to the repurchase agreement be litigated in a particular jurisdiction. These provisions may differ for each of our repo lenders.

As of December 31, 2021 and 2020, we had \$2.5 billion and \$1.5 billion, respectively, of borrowings outstanding under our repos. As of December 31, 2021, the remaining terms on our repos ranged from 3 days to 638 days, with a weighted average remaining term of 134 days. Our repo borrowings were with a total of 23 counterparties as of December 31, 2021. As of December 31, 2021, our repos had a weighted average borrowing rate of 0.82%. As of December 31, 2021, our repos had interest rates ranging from 0.10% to 3.75%. As of December 31, 2020, the remaining terms on our repos ranged from 4 days to 516 days, with a weighted average remaining term of 94 days. Our repo borrowings were with a total of 24 counterparties as of December 31, 2020. As of December 31, 2020, our repos had a weighted average borrowing rate of 1.20%. As of December 31, 2020, our repos had interest rates ranging from 0.20% to 5.00%. Investments transferred as collateral under repos had an aggregate fair value of \$2.8 billion and \$1.8 billion as of December 31, 2021 and 2020, respectively.

It is expected that amounts due upon maturity of our repos will be funded primarily through the roll/re-initiation of repos and, if we are unable or unwilling to roll/re-initiate our repos, through free cash and proceeds from the sale of securities.

We have continued to extend and improve our sources of financing and leverage in 2021. In addition to adding two new loan financing facilities and extending the terms of other financing facilities, we completed three non-QM loan securitizations during the year ended December 31, 2021.

The following table details total outstanding borrowings, average outstanding borrowings, and the maximum outstanding borrowings at any month end for each quarter under repos for the past twelve quarters:

Quarter Ended	Borrowings Outstanding at Quarter End		Average Borrowings Outstanding <i>(In thousands)</i>		Maximum Borrowings Outstanding at Any Month End
December 31, 2021	\$	2,469,763	\$	2,187,363	\$ 2,469,763
September 30, 2021		2,105,836		1,958,411	2,175,918
June 30, 2021		1,916,749		1,971,441	2,062,580
March 31, 2021		1,909,511		1,736,912	1,909,511
December 31, 2020		1,496,931		1,408,935	1,496,931
September 30, 2020		1,439,984		1,368,191	1,551,147
June 30, 2020 <sup>(1)</sup>		1,294,549		1,520,985	1,542,577
March 31, 2020 <sup>(2)</sup>		2,034,225		2,440,982	2,485,496
December 31, 2019 <sup>(3)</sup>		2,445,300		2,119,394	2,445,300
September 30, 2019		2,056,422		1,796,310	2,056,422
June 30, 2019		1,715,506		1,769,909	1,962,866
March 31, 2019		1,550,016		1,471,592	1,550,016

(1) During this quarter, we continued to lower leverage and improve our liquidity given the uncertainty as a result of the COVID-19 pandemic.

(2) In March 2020, in response to significant volatility and heightened risks in the financial markets as a result of the spread of COVID-19, we significantly reduced our outstanding borrowings to lower leverage and increase our liquidity.

(3) At the end of 2019 we increased the size of both our credit and Agency portfolios which we subsequently financed through repos.

In addition to our borrowings under repos, we have entered into various other types of transactions to finance certain of our investments, including non-QM loans and REO, commercial mortgage loans, and consumer loans and ABS backed by consumer loans; such transactions are accounted for as collateralized borrowings. As of December 31, 2021 and 2020, we had outstanding borrowings related to such transactions in the amount of \$1.081 billion and \$806.0 million, respectively, which is reflected under the captions "Other secured borrowings" and "Other secured borrowings, at fair value" on the Consolidated Balance Sheet. As of December 31, 2021 and 2020, the fair value of non-QM loans, consumer loans and ABS backed by consumer loans, and small balance commercial mortgage loans collateralizing our Total other secured borrowings was \$1.190 billion and \$906.4 million, respectively. See Note 11 in the notes to our consolidated financial statements for further information on our other secured borrowings.

As of both December 31, 2021 and 2020, we had \$86.0 million outstanding of Senior Notes, maturing in September 2022 and bearing interest at a rate of 5.50%, subject to adjustment based on changes, if any, in the ratings of the Senior Notes. The Company expects to refinance the Senior Notes on or prior to maturity. See Note 11 in the notes to our consolidated financial statements for further detail on the Senior Notes.

As of December 31, 2021, we had an aggregate amount at risk under our repos with 22 counterparties of approximately \$353.2 million, and as of December 31, 2020, we had an aggregate amount at risk under our repos with 24 counterparties of approximately \$363.1 million. Amounts at risk represent the excess, if any, for each counterparty of the fair value of collateral held by such counterparty over the amounts outstanding under repos. If the amounts outstanding under repos with a particular counterparty are greater than the collateral held by the counterparty, there is no amount at risk for the particular counterparty. Amount at risk as of December 31, 2021 and 2020 does not include approximately \$4.0 million and \$4.2 million, respectively, of net accrued interest receivable, which is defined as accrued interest on securities held as collateral less interest payable on cash borrowed.

Our derivatives are predominantly subject to bilateral master trade agreements or clearing in accordance with the Dodd-Frank Act. We may be required to deliver or receive cash or securities as collateral upon entering into derivative transactions. Changes in the relative value of derivative transactions may require us or the counterparty to post or receive additional collateral. Entering into derivative contracts involves market risk in excess of amounts recorded on our balance sheet. In the case of cleared derivatives, the clearinghouse becomes our counterparty and the future commission merchant acts as an intermediary between us and the clearinghouse with respect to all facets of the related transaction, including the posting and receipt of required collateral.

As of December 31, 2021, we had an aggregate amount at risk under our derivative contracts, excluding TBAs, with eight counterparties of approximately \$18.5 million. We also had \$16.2 million of initial margin for cleared over-the-counter, or

"OTC," derivatives posted to central clearinghouses as of that date. As of December 31, 2020, we had an aggregate amount at risk under our derivatives contracts, excluding TBAs, with eight counterparties of approximately \$11.2 million. We also had \$7.2 million of initial margin for cleared OTC derivatives posted to central clearinghouses as of that date. Amounts at risk under our derivatives contracts represent the excess, if any, for each counterparty of the fair value of our derivative contracts plus our collateral held directly by the counterparty less the counterparty's collateral held by us. If a particular counterparty's collateral held by us is greater than the aggregate fair value of the financial derivatives plus our collateral held directly by the counterparty, there is no amount at risk for the particular counterparty.

We purchase and sell TBAs and Agency pass-through certificates on a when-issued or delayed delivery basis. The delayed delivery for these securities means that these transactions are more prone to market fluctuations between the trade date and the ultimate settlement date, and therefore are more vulnerable, especially in the absence of margining arrangements with respect to these transactions, to increasing amounts at risk with the applicable counterparties. As of December 31, 2021, in connection with our forward settling TBA and Agency pass-through certificates, we had an aggregate amount at risk with ten counterparties of approximately \$1.0 million. As of December 31, 2020, in connection with our forward settling TBA and Agency pass-through certificates, we had an aggregate amount at risk with six counterparties of approximately \$4.1 million. Amounts at risk in connection with our forward settling TBA and Agency pass-through certificates represent the excess, if any, for each counterparty of the net fair value of the forward settling transactions plus our collateral held directly by the counterparty less the counterparty's collateral held by us. If a particular counterparty's collateral held by us is greater than the aggregate fair value of the forward settling transactions plus our collateral held directly by the counterparty, there is no amount at risk for the particular counterparty.

We held cash and cash equivalents of approximately \$92.7 million and \$111.6 million as of December 31, 2021 and 2020, respectively.

On June 13, 2018, our Board of Directors approved the adoption of a share repurchase program under which we are authorized to repurchase up to 1.55 million shares of common stock, or the "Common Share Repurchase Program." The Common Share Repurchase Program, which is open-ended in duration, allows us to make repurchases from time to time on the open market or in negotiated transactions, including under 10b5-1 plans. Repurchases are at our discretion, subject to applicable law, share availability, price and our financial performance, among other considerations. In addition to making discretionary repurchases, we from time to time use 10b5-1 plans to increase the number of trading days available to implement these repurchases. From inception of the Common Share Repurchase Program through February 25, 2022, we repurchased 701,965 shares at an average price per share of \$13.36 and a total cost of \$9.4 million, and have authorization to repurchase an additional 848,035 common shares. We did not purchase any shares under this program during the year ended December 31, 2021.

On February 21, 2021, our Board of Directors approved the adoption of a share repurchase program under which we are authorized to repurchase up to \$30.0 million of preferred stock, or the "Preferred Share Repurchase Program." The Preferred Share Repurchase Program, which is open-ended in duration, allows us to make repurchases from time to time on the open market or in negotiated transactions, including under 10b5-1 plans. Repurchases are at our discretion, subject to applicable law, share availability, price and our financial performance, among other considerations. From inception of the Preferred Share Repurchase Program through February 25, 2022, we have not repurchased any shares of preferred stock.

We may declare dividends based on, among other things, our earnings, our financial condition, the REIT qualification requirements of the Internal Revenue Code of 1986, as amended, our working capital needs and new opportunities. The declaration of dividends to our stockholders and the amount of such dividends are at the discretion of our Board of Directors.

The following table sets forth the dividend distributions authorized by the Board of Directors payable to common stockholders and holders of Convertible Non-controlling Interest Units (as defined in Note 2 of the consolidated financial statements) for the periods indicated below:

**Year Ended December 31, 2021**

<b>Declaration Date</b>	<b>Dividend Per Share</b>	<b>Dividend Amount</b> <i>(In thousands)</i>	<b>Record Date</b>	<b>Payment Date</b>
December 7, 2021	\$ 0.15	\$ 8,727	December 31, 2021	January 25, 2022
November 5, 2021	0.15	8,722	November 30, 2021	December 27, 2021
October 7, 2021	0.15	8,717	October 29, 2021	November 26, 2021
September 8, 2021	0.15	7,855	September 30, 2021	October 25, 2021
August 4, 2021	0.15	7,691	August 31, 2021	September 27, 2021
July 8, 2021	0.15	7,614	July 30, 2021	August 25, 2021
June 7, 2021	0.15	6,669	June 30, 2021	July 26, 2021
May 6, 2021	0.15	6,669	May 28, 2021	June 25, 2021
April 4, 2021	0.14	6,224	April 30, 2021	May 25, 2021
March 5, 2021	0.10	4,446	March 31, 2021	April 26, 2021
February 5, 2021	0.10	4,444	February 26, 2021	March 25, 2021
January 8, 2021	0.10	4,444	January 29, 2021	February 25, 2021

**Year Ended December 31, 2020**

<b>Declaration Date</b>	<b>Dividend Per Share</b>	<b>Dividend Amount</b> <i>(In thousands)</i>	<b>Record Date</b>	<b>Payment Date</b>
December 7, 2020	\$ 0.10	\$ 4,445	December 31, 2020	January 25, 2021
November 2, 2020	0.10	4,441	November 30, 2020	December 28, 2020
October 7, 2020	0.09	3,997	October 30, 2020	November 25, 2020
September 8, 2020	0.09	3,997	September 30, 2020	October 26, 2020
August 7, 2020	0.09	3,995	August 31, 2020	September 25, 2020
July 8, 2020	0.09	3,995	July 31, 2020	August 25, 2020
June 5, 2020	0.09	3,995	June 30, 2020	July 27, 2020
May 7, 2020	0.08	3,551	May 29, 2020	June 25, 2020
April 7, 2020	0.08	3,551	April 30, 2020	May 26, 2020
March 6, 2020	0.15	6,658	March 31, 2020	April 27, 2020
February 7, 2020	0.15	6,699	February 28, 2020	March 25, 2020
January 8, 2020	0.15	6,699	January 31, 2020	February 25, 2020

On January 7, 2022, the Board of Directors approved a dividend in the amount of \$0.15 per share of common stock payable on February 25, 2022 to stockholders of record as of January 31, 2022. On February 7, 2022, the Board of Directors approved a dividend in the amount of \$0.15 per share of common stock payable on March 25, 2022 to stockholders of record as of February 28, 2022.

The following table sets forth the dividend distributions authorized by the Board of Directors during the years ended December 31, 2021 and 2020 and payable to holders of our preferred stock:

Declaration Date	Dividend Per Share	Dividend Amount <i>(In thousands)</i>	Record Date	Payment Date
<b>Series A Preferred Stock:</b>				
December 7, 2021	\$ 0.421875	\$ 1,941	December 30, 2021	January 31, 2022
October 7, 2021	0.421875	1,941	October 18, 2021	November 1, 2021
July 8, 2021	0.421875	1,941	July 19, 2021	July 30, 2021
April 4, 2021	0.421875	1,941	April 19, 2021	April 30, 2021
January 8, 2021	0.421875	1,941	January 19, 2021	February 1, 2021
October 7, 2020	0.421875	1,941	October 19, 2020	October 30, 2020
July 8, 2020	0.421875	1,941	July 20, 2020	July 30, 2020
April 7, 2020	0.421875	1,941	April 17, 2020	April 30, 2020
<b>Series B Preferred Stock:</b>				
December 16, 2021	\$ 0.203990	\$ 979	December 30, 2021	January 28, 2022

On August 6, 2021, we commenced the Common ATM Program by entering into equity distribution agreements with third party sales agents under which we are authorized to offer and sell up to 10.0 million shares of common stock from time to time. From commencement of the Common ATM Program through December 31, 2021, we issued 1,549,900 shares of common stock under the Common ATM Program, which provided \$28.2 million of net proceeds after \$0.4 million of agent commissions and offering costs. Through February 25, 2022, we have issued 1,549,900 shares of common stock under the ATM program.

On July 9, 2021, we completed a follow-on offering of 6,000,000 shares of our common stock. On July 29, 2021, we issued an additional 303,000 shares of common stock pursuant to the exercise of the underwriters' option. The issuance and sale of the 6,303,000 shares of common stock generated net proceeds, after underwriters' discounts and offering costs, of \$113.1 million.

On October 15, 2021, we completed a follow-on offering of 5,750,000 shares of our common stock, including 750,000 shares of common stock issued pursuant to the exercise of the underwriters' option. The issuance and sale of the 5,750,000 shares of common stock generated net proceeds, after underwriters' discounts and commissions and offering costs, of \$103.5 million.

On December 13, 2021, we issued 4,800,000 shares of 6.250% Series B Fixed-Rate Reset Cumulative Redeemable Preferred Stock, \$0.001 par value per share ("Series B Preferred Stock"), of which 400,000 shares were issued pursuant to the exercise of the underwriters' over-allotment option. The issuance and sale of the 4,800,000 shares of Series B Preferred Stock resulted in total net proceeds to us of approximately \$115.9 million, after underwriters' discounts and offering costs.

On January 20, 2022, we commenced the Preferred ATM Program by entering into equity distribution agreements with third party sales agents under which we are authorized to offer and sell up to \$100.0 million of Series A Preferred Stock and/or Series B Preferred Stock from time to time. From commencement of the Preferred ATM Program through February 25, 2022, we have issued 20,421 shares of Series B Preferred Stock, which provided \$0.5 million of net proceeds after \$11 thousand of commissions and offering costs; we have \$99.5 million of preferred stock available to be issued remaining under the Preferred ATM program.

On February 18, 2022, we entered into an agreement with Home Point to purchase Home Point's 49.6% ownership interest in Longbridge. The consummation of this transaction, which is expected to be an all cash transaction, is subject to regulatory approvals and customary closing conditions and is expected to close in the second quarter of 2022. Upon closing of the transaction, we will own substantially all of the equity interests in Longbridge, which will result in the consolidation of Longbridge's financial results in our financial statements following the closing.

For the year ended December 31, 2021, our operating activities provided net cash in the amount of \$51.3 million and our investing activities used net cash in the amount of \$2.025 billion. Our repo activity used to finance many of our investments (including repayments of amounts borrowed under our repos) provided net cash of \$971.4 million. We received \$867.1 million in proceeds from the issuance of Total other secured borrowings and we used \$146.4 million for principal payments on our Total other secured borrowings. Thus our operating and investing activities, when combined with our repo financings and Other



secured borrowings (net of repayments), used net cash of \$281.8 million for the year ended December 31, 2021. We received proceeds from the issuance of common and preferred stock, net of underwriters' discounts and commissions, agent commissions, and offering costs paid, of \$360.9 million, and we received contributions from non-controlling interests of \$14.7 million. We used \$85.7 million to pay dividends and \$27.1 million for distributions to non-controlling interests (our joint venture partners). As a result there was a decrease in our cash holdings of \$19.0 million, from \$111.8 million as of December 31, 2020 to \$92.8 million as of December 31, 2021.

For the year ended December 31, 2020, our operating activities provided net cash in the amount of \$119.5 million and our investing activities provided net cash in the amount of \$507.3 million. Our repo activity used to finance many of our investments (including repayments of amounts borrowed under our repos) used net cash of \$919.4 million. We received \$485.8 million in proceeds from the issuance of Total other secured borrowings and we used \$179.6 million for principal payments on Other secured borrowings. Thus our operating and investing activities, when combined with our repo financings and Other secured borrowings (net of repayments), provided net cash of \$13.6 million for the year ended December 31, 2020. We received proceeds from the issuance of common stock, net of offering costs paid, of \$95.3 million and contributions from non-controlling interests provided cash of \$9.8 million. We used \$65.0 million to pay dividends, \$11.3 million for distributions to non-controlling interests (our joint venture partners), and \$3.1 million to repurchase common stock. As a result there was an increase in our cash holdings of \$39.3 million, from \$72.5 million as of December 31, 2019 to \$111.8 million as of December 31, 2020.

For the year ended December 31, 2019, our operating activities provided net cash in the amount of \$79.2 million and our investing activities used net cash in the amount of \$1.665 billion. Our repo activity used to finance many of our investments (including repayments of amounts borrowed under our repos) provided net cash of \$1.171 billion. We received \$348.3 million in proceeds from the issuance of Total other secured borrowings and we used \$124.0 million for principal payments on Total other secured borrowings. Thus our operating and investing activities, when combined with our repo financings and Other secured borrowings (net of repayments), used net cash of \$189.5 million for the year ended December 31, 2019. We received proceeds from the issuance of common and preferred stock, net of offering costs paid, of \$267.4 million and contributions from non-controlling interests provided cash of \$27.7 million. We used \$54.3 million to pay dividends, \$23.1 million for distributions to non-controlling interests (our joint venture partners), and \$0.8 million to repurchase common stock. As a result there was an increase in our cash holdings of \$27.4 million, from \$45.1 million as of December 31, 2018 to \$72.5 million as of December 31, 2019.

Based on our current portfolio, amount of free cash on hand, debt-to-equity ratio, and current and anticipated availability of credit, we believe that our capital resources will be sufficient to enable us to meet anticipated short-term and long-term liquidity requirements. However, the unexpected inability to finance our Agency RMBS portfolio would create a serious short-term strain on our liquidity and would require us to liquidate much of that portfolio, which in turn would require us to restructure our portfolio to maintain our exclusion from registration as an investment company under the Investment Company Act and to maintain our qualification as a REIT. Steep declines in the values of our credit assets financed using repos, or in the values of our derivative contracts, would result in margin calls that would significantly reduce our free cash position. Furthermore, a substantial increase in prepayment rates on our assets financed by repos could cause a temporary liquidity shortfall, because we are generally required to post margin on such assets in proportion to the amount of the announced principal paydowns before the actual receipt of the cash from such principal paydowns. If our cash resources are at any time insufficient to satisfy our liquidity requirements, we may have to sell assets or issue additional debt or equity securities.

Although we may from time to time enter into financing arrangements that limit our leverage, our investment guidelines do not limit the amount of leverage that we may use, and we believe that the appropriate leverage for the particular assets we hold depends on the credit quality and risk of those assets, as well as the general availability and terms of stable and reliable financing for those assets.

#### **Contractual Obligations and Commitments**

We are a party to a management agreement with our Manager. Pursuant to that agreement, our Manager is entitled to receive a base management fee, an incentive fee, reimbursement of certain expenses and, in certain circumstances, a termination fee. Such fees and expenses do not have fixed and determinable payments. For a description of the management agreement provisions, see Note 13 to our consolidated financial statements.

We have numerous contractual obligations and commitments related to our outstanding borrowings (see Note 11 of the notes to our consolidated financial statements) and related to our financial derivatives (see Note 8 of the notes to our consolidated financial statements).

See Note 21 of the notes to our consolidated financial statements for further detail on our other contractual obligations and commitments.

### **Off-Balance Sheet Arrangements**

As of December 31, 2021, we did not have any material relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed any obligations of unconsolidated entities nor do we have any commitment to provide funding to any such entities that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or resources that would be material to an investor in our securities. As such, we are not materially exposed to any market, credit, liquidity, or financing risk that could arise if we had engaged in such relationships.

At December 31, 2021 we have not entered into any repurchase agreements for which delivery of the borrowed funds is not scheduled until after period end.

### **Inflation**

Virtually all of our assets and liabilities are interest rate sensitive in nature. As a result, interest rates and other factors influence our performance far more so than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our activities and balance sheet are measured with reference to historical cost and/or fair market value without considering inflation.

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

The primary components of our market risk at December 31, 2021 are related to credit risk, prepayment risk, and interest rate risk. We seek to actively manage these and other risks and to acquire and hold assets that we believe justify bearing those risks, and to maintain capital levels consistent with those risks.

#### **Credit Risk**

We are subject to credit risk in connection with many of our assets, especially non-Agency RMBS, CMBS, residential and commercial mortgage loans, corporate debt investments including CLOs and investments in securitization warehouses, and consumer loans.

Credit losses on real estate loans can occur for many reasons, including, but not limited to, poor origination practices, fraud, faulty appraisals, documentation errors, poor underwriting, legal errors, poor servicing practices, weak economic conditions, decline in the value of homes, businesses or commercial properties, special hazards, earthquakes and other natural events, such as the COVID-19 pandemic, or an outbreak of another highly infectious or contagious disease, over-leveraging of the borrower on a property, reduction in market rents and occupancy rates and poor property management services, changes in legal protections for lenders, reduction in personal income, job loss, and personal events such as divorce or health problems. Property values are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional, and local economic conditions (which may be adversely affected by industry slowdowns and other factors), local real estate conditions (such as an oversupply of housing), changes or continued weakness in specific industry segments, construction quality, age and design, demographic factors, and retroactive changes to building or similar codes.

The ability of borrowers to repay consumer loans may be adversely affected by numerous borrower-specific factors, including unemployment, divorce, major medical expenses or personal bankruptcy. General factors, including an economic downturn, high energy costs or acts of God or terrorism, pandemics such as the COVID-19 pandemic or another highly infectious or contagious disease, may also affect the financial stability of borrowers and impair their ability or willingness to repay their loans. Whenever any of our consumer loans defaults, we are at risk of loss to the extent of any deficiency between the liquidation value of the collateral, if any, securing the loan, and the principal and accrued interest of the loan. Many of our consumer loans are unsecured, or are secured by collateral (such as an automobile) that depreciates rapidly; as a result, these loans may be at greater risk of loss than residential real estate loans.

Our corporate investments, especially our lower-rated or unrated CLO investments, corporate equity, and our investments in loan originators, have significant risk of loss, and our efforts to protect these investments may involve substantial costs and may not be successful. The risk of loss with respect to these investments has been, and will likely continue to be, exacerbated by the COVID-19 pandemic. We also will be subject to significant uncertainty as to when and in what manner and for what value the corporate debt in which we directly or indirectly invest will eventually be satisfied (e.g., through liquidation of the obligor's assets, an exchange offer or plan of reorganization involving the debt securities or a payment of some amount in satisfaction of the obligation). In addition, these investments could involve loans to companies that are more likely to experience bankruptcy or similar financial distress, such as companies that are thinly capitalized, employ a high degree of financial leverage, are in highly competitive or risky businesses, are in a start-up phase, or are experiencing losses.

Similarly, we are exposed to the risk of potential credit losses on the other assets in our credit portfolio. For many of our investments, the two primary components of credit risk are default risk and severity risk.

**Default Risk**

Default risk is the risk that a borrower fails to make scheduled principal and interest payments on a mortgage loan or other debt obligation. We may attempt to mitigate our default risk by, among other things, opportunistically entering into credit default swaps and total return swaps. These instruments can reference various MBS indices, corporate bond indices, or corporate entities. We often rely on third-party servicers to mitigate our default risk, but such third-party servicers may have little or no economic incentive to mitigate loan default rates.

**Severity Risk**

Severity risk is the risk of loss upon a borrower default on a mortgage loan or other secured or unsecured debt obligation. Severity risk includes the risk of loss of value of the property or other asset, if any, securing the mortgage loan or debt obligation, as well as the risk of loss associated with taking over the property or other asset, if any, including foreclosure costs. We often rely on third-party servicers to mitigate our severity risk, but such third-party servicers may have little or no economic incentive to mitigate loan loss severities. In the case of mortgage loans, such mitigation efforts may include loan modification programs and prompt foreclosure and property liquidation following a default. Many of our consumer loans are unsecured, or are secured by collateral (such as an automobile) that depreciates rapidly; as a result, these loans may be at greater risk of loss than residential real estate loans. Pursuing any remaining deficiency following a default on a consumer loan is often difficult or impractical, especially when the borrower has a low credit score, making further substantial collection efforts unwarranted. In addition, repossessing personal property securing a consumer loan can present additional challenges, including locating and taking physical possession of the collateral. We rely on servicers who service these consumer loans, to, among other things, collect principal and interest payments on the loans and perform loss mitigation services, and these servicers may not perform in a manner that promotes our interests. In the case of corporate debt, if a company declares bankruptcy, the bankruptcy process has a number of significant inherent risks. Many events in a bankruptcy proceeding are the product of contested matters and adversarial proceedings and are beyond the control of the creditors. A bankruptcy filing by a company whose debt we have purchased may adversely and permanently affect such company. If the proceeding results in liquidation, the liquidation value of the company may have deteriorated significantly from what we believed to be the case at the time of our initial investment. The duration of a bankruptcy proceeding is also difficult to predict, and our return on investment can be adversely affected by delays until a plan of reorganization or liquidation ultimately becomes effective. A bankruptcy court may also re-characterize our debt investment as equity, and subordinate all or a portion of our claim to that of other creditors. This could occur even if our investment had initially been structured as senior debt.

**Prepayment Risk**

Prepayment risk is the risk of change, whether an increase or a decrease, in the rate at which principal is returned in respect of fixed-income assets in our portfolio, including both through voluntary prepayments and through liquidations due to defaults and foreclosures. Most significantly, our portfolio is exposed to the risk of changes in prepayment rates of mortgage loans, including the mortgage loans underlying our RMBS, and changes in prepayment rates of certain of our consumer loan holdings. This rate of prepayment is affected by a variety of factors, including the prevailing level of interest rates as well as economic, demographic, tax, social, legal, and other factors. Changes in prepayment rates will have varying effects on the different types of securities in our portfolio, and we attempt to take these effects into account in making asset management decisions. Additionally, increases in prepayment rates may cause us to experience losses on our interest only securities and inverse interest only securities, as those securities are extremely sensitive to prepayment rates. Prepayment rates, besides being subject to interest rates and borrower behavior, are also substantially affected by government policy and regulation. For example, the government sponsored HARP program, which was designed to encourage mortgage refinancings, was a steady contributor to Agency RMBS prepayment speeds from its inception in 2009 until its expiration at the end of 2018. Mortgage rates declined significantly during 2020, and remain very low by historical standards. As a result, prepayments continue to represent a meaningful risk, especially with respect to our Agency RMBS.

**Interest Rate Risk**

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations, and other factors beyond our control. We are subject to interest rate risk in connection with most of our assets and liabilities. For some securities in our portfolio, the coupon interest rates on, and therefore also the values of, such securities are highly sensitive to interest rate movements, such as inverse floating rate RMBS, which benefit from falling interest rates. Whenever one of our repo borrowings matures, it will generally be replaced with a new repo borrowing based on market interest rates prevailing at such time. Subject to maintaining our qualification as a REIT and our exclusion from registration under the Investment Company Act, we opportunistically hedge our interest rate risk by

entering into interest rate swaps, TBAs, U.S. Treasury securities, Eurodollar futures, U.S. Treasury futures, and other instruments. In general, such hedging instruments are used to mitigate the interest rate risk arising from the mismatch between the duration of our financed assets and the duration of the liabilities used to finance such assets. The majority of this mismatch currently relates to our Agency RMBS.

The following sensitivity analysis table shows the estimated impact on the value of our portfolio segregated by certain identified categories as of December 31, 2021, assuming a static portfolio and immediate and parallel shifts in interest rates from current levels as indicated below.

Category of Instruments	Estimated Change for a Decrease in Interest Rates by				Estimated Change for an Increase in Interest Rates by			
	50 Basis Points		100 Basis Points		50 Basis Points		100 Basis Points	
	Market Value	% of Total Equity	Market Value	% of Total Equity	Market Value	% of Total Equity	Market Value	% of Total Equity
Agency RMBS—Fixed Pools and IOs excluding TBAs	\$ 24,756	1.87 %	\$ 40,849	3.09 %	\$ (33,419)	(2.52)%	\$ (75,500)	(5.70)%
Non-Agency RMBS, CMBS, ABS and Loans	6,688	0.51 %	10,216	0.77 %	(9,847)	(0.74)%	(22,855)	(1.73)%
U.S. Treasury Securities, and Interest Rate Swaps, Options, and Futures	(24,110)	(1.82)%	(48,972)	(3.7)%	23,354	1.76 %	45,956	3.47 %
Long TBAs	6,354	0.48 %	11,181	0.84 %	(7,880)	(0.60)%	(17,287)	(1.31)%
Short TBAs	(10,462)	(0.79)%	(16,426)	(1.24)%	14,959	1.13 %	34,416	2.60 %
Other Mortgage-Related Derivatives	2	— %	4	— %	(1)	— %	(2)	— %
Corporate Securities and Derivatives on Corporate Securities	6	— %	12	— %	(6)	— %	(11)	— %
Repurchase Agreements, Reverse Repurchase Agreements, and Senior Notes	(1,180)	(0.09)%	(924)	(0.07)%	3,318	0.25 %	6,864	0.52 %
<b>Total</b>	<b>\$ 2,054</b>	<b>0.16 %</b>	<b>\$ (4,060)</b>	<b>(0.31)%</b>	<b>\$ (9,522)</b>	<b>(0.72)%</b>	<b>\$ (28,419)</b>	<b>(2.15)%</b>

The preceding analysis does not show sensitivity to changes in interest rates for instruments for which we believe that the effect of a change in interest rates is not material to the value of the overall portfolio and/or cannot be accurately estimated. In particular, this analysis excludes certain of our holdings of corporate securities and derivatives on corporate securities, and reflects only sensitivity to U.S. interest rates.

Our analysis of interest rate risk is derived from Ellington's proprietary models as well as third-party information and analytics. Many assumptions have been made in connection with the calculations set forth in the table above and, as such, there can be no assurance that assumed events will occur or that other events will not occur that would affect the outcomes. For example, for each hypothetical immediate shift in interest rates, assumptions have been made as to the response of mortgage prepayment rates, the shape of the yield curve, and market volatilities of interest rates; each of the foregoing factors can significantly and adversely affect the fair value of our interest rate-sensitive instruments.

The above analysis utilizes assumptions and estimates based on management's judgment and experience, and relies on financial models, which are inherently imperfect; in fact, different models can produce different results for the same securities. While the table above reflects the estimated impacts of immediate parallel interest rate increases and decreases on specific categories of instruments in our portfolio, we actively trade many of the instruments in our portfolio, and therefore our current or future portfolios may have risks that differ significantly from those of our December 31, 2021 portfolio estimated above. Moreover, the impact of changing interest rates on fair value can change significantly when interest rates change by a greater amount than the hypothetical shifts assumed above. Furthermore, our portfolio is subject to many risks other than interest rate risks, and these additional risks may or may not be correlated with changes in interest rates. For all of the foregoing reasons and others, the table above is for illustrative purposes only and actual changes in interest rates would likely cause changes in the actual fair value of our portfolio that would differ from those presented above, and such differences might be significant and adverse. See "Business—Special Note Regarding Forward-Looking Statements."

**Item 8. Financial Statements and Supplementary Data**

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CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021 AND 2020 AND FOR THE YEARS ENDED DECEMBER 31, 2021, 2020, AND 2019

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## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Ellington Financial Inc.

### **Opinions on the Financial Statements and Internal Control over Financial Reporting**

We have audited the accompanying consolidated balance sheet of Ellington Financial Inc. and its subsidiaries (the "Company") as of December 31, 2021 and 2020, and the related consolidated statements of operations, of changes in equity and of cash flows for each of the three years in the period ended December 31, 2021, including the related notes and the schedule of mortgage loans on real estate as of and for the year ended December 31, 2021 appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

### **Basis for Opinions**

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### **Definition and Limitations of Internal Control over Financial Reporting**

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

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

**Critical Audit Matters**

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

*Valuation of Certain Investments in Securities, Loans and Unconsolidated Entities that are Determined Based on Management's Internal Valuation Techniques*

As described in Notes 2 and 3 to the consolidated financial statements, the Company's investments in securities at fair value, loans at fair value and investments in unconsolidated entities at fair value were \$2.1 billion, \$2.4 billion and \$0.2 billion, respectively as of December 31, 2021. The Company elected the fair value option for those of its assets for which such election is permitted, including its investments in securities, loans, and investments in unconsolidated entities. Management generally uses third party valuations when available. If third-party valuations are not available, management uses other valuation techniques, such as a discounted cash flow methodology. Management's estimate of fair value may be based on several assumptions, including but not limited to management's estimates of yield, projected collateral prepayments, projected collateral losses, projected collateral recoveries, recovery amount, and recovery timeline, as applicable. For certain investments in unconsolidated entities, an equity price-to-book assumption is also considered. Fair value measurements are impacted by the interrelationships of these assumptions.

The principal considerations for our determination that performing procedures relating to the valuation of certain investments in securities, loans and unconsolidated entities that are determined based on management's internal valuation techniques is a critical audit matter are (i) the significant judgment by management in determining the fair value of these investments, which in turn led to (ii) a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating audit evidence related to the valuation of these investments and the interrelated assumptions related to yield, projected collateral prepayments, projected collateral losses, projected collateral recoveries, recovery amount, recovery timeline, and equity price-to-book, as applicable; and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's valuation of certain investments in securities, loans, and unconsolidated entities, including controls over management's comparison of internally developed fair values to fair values obtained from third-party pricing providers. These procedures also included, among others, developing an independent range of fair value estimates, which included (i) testing the completeness and accuracy of data provided by management; (ii) comparing management's estimate of fair value to independent sources, where available; and (iii) for a sample of investments, the involvement of professionals with specialized skill and knowledge to assist in developing an independent range of estimates of fair value by independently developing assumptions related to yield, projected collateral prepayments, projected collateral losses, projected collateral recoveries, recovery amount, recovery timeline, and equity price-to-book assumptions, as applicable.

**/s/PricewaterhouseCoopers LLP**

New York, New York  
March 1, 2022

We have served as the Company's auditor since 2007.

**ELLINGTON FINANCIAL INC.  
CONSOLIDATED BALANCE SHEET**

<i>(In thousands, except share amounts)</i>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
	<i>Expressed in U.S. Dollars</i>	
<b>Assets</b>		
Cash and cash equivalents <sup>(1)</sup>	\$ 92,661	\$ 111,647
Restricted cash <sup>(1)</sup>	175	175
Securities, at fair value <sup>(1)(2)</sup>	2,087,360	1,514,185
Loans, at fair value <sup>(1)(2)</sup>	2,415,321	1,453,480
Investments in unconsolidated entities, at fair value <sup>(1)</sup>	195,643	141,620
Real estate owned <sup>(1)(2)</sup>	24,681	23,598
Financial derivatives—assets, at fair value	18,894	15,479
Reverse repurchase agreements	123,250	38,640
Due from brokers	93,549	63,147
Investment related receivables <sup>(1)</sup>	122,175	49,317
Other assets <sup>(1)</sup>	3,710	2,575
<b>Total Assets</b>	<b>\$ 5,177,419</b>	<b>\$ 3,413,863</b>
<b>Liabilities</b>		
Securities sold short, at fair value	\$ 120,525	\$ 38,642
Repurchase agreements <sup>(1)</sup>	2,469,763	1,496,931
Financial derivatives—liabilities, at fair value	12,298	24,553
Due to brokers	2,233	5,059
Investment related payables	39,048	4,754
Other secured borrowings <sup>(1)</sup>	96,622	51,062
Other secured borrowings, at fair value <sup>(1)</sup>	984,168	754,921
Senior notes, net	85,802	85,561
Base management fee payable to affiliate	3,115	3,178
Incentive fee payable to affiliate	3,246	—
Dividends payable	10,375	5,738
Interest payable <sup>(1)</sup>	4,570	3,233
Accrued expenses and other liabilities <sup>(1)</sup>	22,098	18,659
<b>Total Liabilities</b>	<b>3,853,863</b>	<b>2,492,291</b>
Commitments and contingencies (Note 21)		
<b>Equity</b>		
Preferred stock, par value \$0.001 per share, 100,000,000 shares authorized; 9,400,000 and 4,600,000 shares issued and outstanding, and \$235,000 and \$115,000 aggregate liquidation preference, respectively	226,939	111,034
Common stock, par value \$0.001 per share, 100,000,000 shares authorized; 57,458,169 and 43,781,684 shares issued and outstanding, respectively	58	44
Additional paid-in-capital	1,161,603	915,658
Retained earnings (accumulated deficit)	(97,279)	(141,521)
<b>Total Stockholders' Equity</b>	<b>1,291,321</b>	<b>885,215</b>
Non-controlling interests <sup>(1)</sup>	32,235	36,357
<b>Total Equity</b>	<b>1,323,556</b>	<b>921,572</b>
<b>Total Liabilities and Equity</b>	<b>\$ 5,177,419</b>	<b>\$ 3,413,863</b>

(1) Ellington Financial Inc.'s Consolidated Balance Sheet includes assets and liabilities of variable interest entities it has consolidated. See Note 9 for additional details on Ellington Financial Inc.'s consolidated variable interest entities.

(2) Includes assets pledged as collateral to counterparties. See Note 11 for additional details on the Company's borrowings and related collateral.

See Notes to Consolidated Financial Statements



ELLINGTON FINANCIAL INC.  
CONSOLIDATED STATEMENT OF OPERATIONS

	Year Ended December 31,		
	2021	2020	2019
<i>(In thousands, except per share amounts)</i>			
<b>Net Interest Income</b>			
Interest income	\$ 175,505	\$ 173,531	\$ 159,901
Interest expense	(44,030)	(61,665)	(78,479)
Total net interest income	131,475	111,866	81,422
<b>Other Income (Loss)</b>			
Realized gains (losses) on securities and loans, net	5,017	(5,960)	(12,785)
Realized gains (losses) on financial derivatives, net	11,502	(31,521)	(30,912)
Realized gains (losses) on real estate owned, net	1,711	15	2,327
Unrealized gains (losses) on securities and loans, net	(30,802)	(25,783)	54,478
Unrealized gains (losses) on financial derivatives, net	10,355	989	(5,338)
Unrealized gains (losses) on real estate owned, net	(1,259)	(649)	(1,279)
Other, net	23,038	(2,298)	5,350
Total other income (loss)	19,562	(65,207)	11,841
<b>Expenses</b>			
Base management fee to affiliate (Net of fee rebates of \$2,593, \$1,051, and \$1,967, respectively) <sup>(1)</sup>	13,422	11,508	7,988
Incentive fee to affiliate	15,658	—	116
Investment related expenses:			
Servicing expense	4,422	9,139	8,632
Debt issuance costs related to Other secured borrowings, at fair value	5,290	3,894	3,536
Other	8,832	5,111	5,609
Professional fees	5,416	5,005	4,853
Compensation expense	5,743	3,776	3,649
Other expenses	6,658	6,405	4,354
Total expenses	65,441	44,838	38,737
<b>Net Income (Loss) before Income Tax Expense (Benefit) and Earnings (Losses) from Investments in Unconsolidated Entities</b>	<b>85,596</b>	<b>1,821</b>	<b>54,526</b>
Income tax expense (benefit)	3,144	11,377	1,558
Earnings (losses) from investments in unconsolidated entities	58,104	37,933	10,209
<b>Net Income (Loss)</b>	<b>140,556</b>	<b>28,377</b>	<b>63,177</b>
Net income (loss) attributable to non-controlling interests	7,093	3,369	5,244
Dividends on preferred stock	8,117	7,763	1,466
<b>Net Income (Loss) Attributable to Common Stockholders</b>	<b>\$ 125,346</b>	<b>\$ 17,245</b>	<b>\$ 56,467</b>
<b>Net Income (Loss) per Share of Common Stock:</b>			
Basic and Diluted	\$ 2.58	\$ 0.39	\$ 1.76

(1) See Note 13 for further details on management fee rebates.

**ELLINGTON FINANCIAL INC.**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Common Stock			Additional Paid-in Capital	Retained Earnings/(Accumulated Deficit)	Total Stockholders' Equity	Non-controlling Interest	Total Equity
	Preferred Stock	Shares	Par Value					
<i>(In thousands, except share amounts)</i>								
<b>BALANCE, January 1, 2019</b>	\$ —	29,796,601	\$ —	\$ 665,356	\$ (101,523)	\$ 563,833	\$ 31,337	\$ 595,170
Share conversion <sup>(1)</sup>	—	—	30	(30)	—	—	—	—
Net income (loss)	—	—	—	—	57,933	57,933	5,244	63,177
Net proceeds from the issuance of common stock <sup>(2)</sup>	—	8,855,000	9	156,319	—	156,328	—	156,328
Net proceeds from the issuance of preferred stock <sup>(2)</sup>	111,034	—	—	—	—	111,034	—	111,034
Contributions from non-controlling interests	—	—	—	—	—	—	27,650	27,650
Common dividends <sup>(3)</sup>	—	—	—	—	(58,499)	(58,499)	(1,325)	(59,824)
Preferred dividends <sup>(4)</sup>	—	—	—	—	(1,466)	(1,466)	—	(1,466)
Distributions to non-controlling interests	—	—	—	—	—	—	(23,063)	(23,063)
Conversion of non-controlling interest units to shares of common stock	—	47,167	—	812	—	812	(812)	—
Adjustment to non-controlling interests	—	—	—	(392)	—	(392)	392	—
Repurchase of shares of common stock	—	(50,825)	—	(782)	—	(782)	—	(782)
Share-based long term incentive plan unit awards	—	—	—	464	—	464	11	475
<b>BALANCE, December 31, 2019</b>	\$ 111,034	38,647,943	\$ 39	\$ 821,747	\$ (103,555)	\$ 829,265	\$ 39,434	\$ 868,699
Net income (loss)	—	—	—	—	25,008	25,008	3,369	28,377
Net proceeds from the issuance of common stock <sup>(2)</sup>	—	5,290,000	5	95,287	—	95,292	—	95,292
Shares of common stock issued in connection with incentive fee payment	—	637	—	12	—	12	—	12
Contributions from non-controlling interests	—	—	—	—	—	—	8,270	8,270
Common dividends <sup>(3)</sup>	—	—	—	—	(55,211)	(55,211)	(812)	(56,023)
Preferred dividends <sup>(4)</sup>	—	—	—	—	(7,763)	(7,763)	—	(7,763)
Distributions to non-controlling interests	—	—	—	—	—	—	(12,958)	(12,958)
Conversion of non-controlling interest units to shares of common stock	—	133,154	—	2,437	—	2,437	(2,437)	—
Adjustment to non-controlling interests	—	—	—	(1,480)	—	(1,480)	1,480	—
Repurchase of shares of common stock	—	(290,050)	—	(3,056)	—	(3,056)	—	(3,056)
Share-based long term incentive plan unit awards	—	—	—	711	—	711	11	722
<b>BALANCE, December 31, 2020</b>	\$ 111,034	43,781,684	\$ 44	\$ 915,658	\$ (141,521)	\$ 885,215	\$ 36,357	\$ 921,572

See Notes to Consolidated Financial Statements  
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**ELLINGTON FINANCIAL INC.**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)**

	Common Stock			Additional Paid-in Capital	Retained Earnings/(Accumulated Deficit)	Total Stockholders' Equity	Non-controlling Interest	Total Equity
	Preferred Stock	Shares	Par Value					
<b>BALANCE, December 31, 2020</b>	\$ 111,034	43,781,684	\$ 44	\$ 915,658	\$ (141,521)	\$ 885,215	\$ 36,357	\$ 921,572
Net income (loss)					133,463	133,463	7,093	140,556
Net proceeds from the issuance of common stock <sup>(2)</sup>		13,602,900	14	244,761		244,775	—	244,775
Net proceeds from the issuance of preferred stock <sup>(2)</sup>	115,905					115,905		115,905
Shares of common stock issued in connection with incentive fee payment		65,826	—	1,241		1,241	—	1,241
Contributions from non-controlling interests							15,998	15,998
Common dividends <sup>(3)</sup>					(81,104)	(81,104)	(1,120)	(82,224)
Preferred dividends <sup>(4)</sup>					(8,117)	(8,117)	—	(8,117)
Distributions to non-controlling interests							(27,121)	(27,121)
Conversion of non-controlling interest units to shares of common stock		7,759	—	143		143	(143)	—
Adjustment to non-controlling interests		—	—	(1,157)		(1,157)	1,157	—
Share-based long term incentive plan unit awards				957		957	14	971
<b>BALANCE, December 31, 2021</b>	<u>\$ 226,939</u>	<u>57,458,169</u>	<u>\$ 58</u>	<u>\$ 1,161,603</u>	<u>\$ (97,279)</u>	<u>\$ 1,291,321</u>	<u>\$ 32,235</u>	<u>\$ 1,323,556</u>

(1) See Note 1 for further details on the share conversion.

(2) Net of underwriters' discounts and commissions and offering costs.

(3) For the years ended December 31, 2021, 2020, and 2019, dividends totaling \$1.64, \$1.26, and \$1.81, respectively, per share of common stock and convertible unit outstanding, were declared.

(4) For the years ended December 31, 2021, 2020, and 2019 dividends totaling \$2.313365, \$1.265625, and \$0.45938, respectively, per share of preferred stock were declared.

See Notes to Consolidated Financial Statements

**ELLINGTON FINANCIAL INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Year Ended December 31,		
	2021	2020	2019
<i>Expressed in U.S. Dollars</i>			
<i>(In thousands)</i>			
<b>Cash Flows from Operating Activities:</b>			
Net income (loss)	\$ 140,556	\$ 28,377	\$ 63,177
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Amortization of premiums and accretion of discounts, net	32,578	41,681	48,132
Realized (gains) losses on securities and loans, net	(5,017)	5,960	12,785
Realized (gains) losses on financial derivatives, net	(11,502)	31,521	30,912
Realized (gains) losses on real estate owned, net	(1,711)	(15)	(2,327)
Unrealized (gains) losses on securities and loans, net	30,802	25,783	(54,478)
Unrealized (gains) losses on financial derivatives, net	(10,355)	(989)	5,338
Unrealized (gains) losses on real estate owned, net	1,259	649	1,279
Unrealized (gains) losses other, net	(15,418)	9,562	645
Realized (gains) losses other, net—foreign currency transaction	224	173	2,392
Unrealized (gains) losses other, net—foreign currency translation	(487)	(1,720)	(3,310)
Amortization of deferred debt issuance costs	263	263	263
Shares issued in connection with incentive fee payment	1,241	12	—
Share-based long term incentive plan unit expense	971	722	475
Interest income related to consolidated securitization trust	(20,269)	(21,800)	(16,034)
Interest expense related to consolidated securitization trust	19,366	21,020	15,136
Debt issuance costs related to Other secured borrowings, at fair value	2,273	1,749	1,381
(Earnings) losses from investments in unconsolidated entities	(58,104)	(37,933)	(10,209)
Changes in operating asset and liabilities:			
(Increase) decrease in interest and principal receivable	(63,260)	5,223	(15,449)
(Increase) decrease in other assets	(76)	1,077	(3,663)
Increase (decrease) in base management fee payable to affiliate	(63)	515	919
Increase (decrease) in incentive fee payable to affiliate	3,246	(116)	116
Increase (decrease) in interest payable	1,337	(3,798)	161
Increase (decrease) in accrued expenses and other liabilities	3,439	11,590	1,607
Net cash provided by (used in) operating activities	\$ 51,293	\$ 119,506	\$ 79,248

See Notes to Consolidated Financial Statements  
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ELLINGTON FINANCIAL INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

	Year Ended December 31,		
	2021	2020	2019
	<i>Expressed in U.S. Dollars</i>		
<i>(In thousands)</i>			
<b>Cash Flows from Investing Activities:</b>			
Purchase of securities	\$ (2,523,112)	\$ (1,346,245)	\$ (3,057,372)
Purchase of loans	(2,017,992)	(852,261)	(1,040,006)
Capital improvements of real estate owned	(2,209)	(153)	(240)
Proceeds from disposition of securities	1,485,459	1,888,099	1,838,182
Proceeds from disposition of loans	1,064	25,414	28,878
Contributions to investments in unconsolidated entities	(24,066)	(34,624)	(42,124)
Distributions from investments in unconsolidated entities	172,838	30,644	49,758
Proceeds from disposition of real estate owned	15,611	9,889	24,059
Proceeds from principal payments of securities	472,055	362,987	275,221
Proceeds from principal payments of loans	381,418	443,640	304,953
Proceeds from securities sold short	577,461	268,294	645,553
Repurchase of securities sold short	(493,336)	(310,559)	(650,576)
Payments on financial derivatives	(65,582)	(115,418)	(90,057)
Proceeds from financial derivatives	70,905	84,597	58,578
Payments made on reverse repurchase agreements	(19,349,228)	(7,586,769)	(7,050,581)
Proceeds from reverse repurchase agreements	19,264,823	7,622,670	7,038,216
Due from brokers, net	8,296	16,443	6,483
Due to brokers, net	331	619	(3,458)
Net cash provided by (used in) investing activities	<u>(2,025,264)</u>	<u>507,267</u>	<u>(1,664,533)</u>
<b>Cash Flows from Financing Activities:</b>			
Net proceeds from the issuance of common stock <sup>(1)</sup>	245,292	95,537	156,742
Net proceeds from the issuance of preferred stock <sup>(1)</sup>	116,220	—	111,378
Offering costs paid	(587)	(253)	(712)
Repurchase of common stock	—	(3,056)	(782)
Dividends paid	(85,704)	(65,026)	(54,312)
Contributions from non-controlling interests	14,694	9,848	27,650
Distributions to non-controlling interests	(27,121)	(11,301)	(23,063)
Proceeds from issuance of Other secured borrowings	79,594	57,863	97,642
Principal payments on Other secured borrowings	(34,834)	(67,325)	(61,408)
Borrowings under repurchase agreements	5,912,434	4,138,940	9,047,746
Repayments of repurchase agreements	(4,899,984)	(5,059,445)	(7,862,227)
Proceeds from issuance of Other secured borrowings, at fair value	787,529	427,959	250,666
Repayment of Other secured borrowings, at fair value	(111,530)	(112,253)	(62,608)
Due from brokers, net	(39,216)	49	(13,676)
Due to brokers, net	(1,802)	1,035	(355)
Net cash provided by (used in) financing activities	<u>1,954,985</u>	<u>(587,428)</u>	<u>1,612,681</u>
<b>Net Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash</b>	<u>(18,986)</u>	<u>39,345</u>	<u>27,396</u>
<b>Cash, Cash Equivalents, and Restricted Cash, Beginning of Period</b>	<u>111,822</u>	<u>72,477</u>	<u>45,081</u>
<b>Cash, Cash Equivalents, and Restricted Cash, End of Period</b>	<u>\$ 92,836</u>	<u>\$ 111,822</u>	<u>\$ 72,477</u>

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

	Year Ended December 31,		
	2021	2020	2019
	<i>Expressed in U.S. Dollars</i>		
<i>(In thousands)</i>			
<b>Supplemental disclosure of cash flow information:</b>			
Interest paid	\$ 42,692	\$ 65,751	\$ 78,754
Income tax paid	2,848	543	189
Dividends payable	10,375	5,738	6,978
Shares issued in connection with incentive fee payment (non-cash)	1,241	12	—
Share-based long term incentive plan unit awards (non-cash)	971	722	475
Contributions from non-controlling interests (non-cash)	—	2,340	—
Distributions to non-controlling interests (non-cash)	—	(2,340)	—
Transfers from mortgage loans to real estate owned (non-cash)	14,033	3,384	22,577
Transfers from mortgage loans to investments in unconsolidated entities (non-cash)	144,691	10,833	—
Purchase of investments (non-cash)	—	—	(2,975)
Purchase of loans (non-cash)	(800)	(6,670)	—
Proceeds from principal payments of investments (non-cash)	472,344	193,575	119,683
Proceeds from the disposition of loans (non-cash)	—	113,791	—
Contributions to investments in non-consolidated entities (non-cash)	—	(17,023)	—
Distributions from investments in unconsolidated entities (non-cash)	—	—	2,975
Principal payments on Other secured borrowings, at fair value (non-cash)	(472,344)	(193,575)	(119,683)
Proceeds received from Other secured borrowings, at fair value (non-cash)	40,978	28,818	227,428
Principal payments on Other secured borrowings (non-cash)	—	(96,480)	—
Proceeds from issuance of Other secured borrowings (non-cash)	800	6,670	—
Repayments of repurchase agreements (non-cash)	(39,618)	(27,864)	(226,945)
Repayment of senior notes (non-cash)	—	—	(86,000)
Issuance of senior notes (non-cash)	—	—	86,000

(1) Net of underwriters' discounts and commissions.

See Notes to Consolidated Financial Statements  
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ELLINGTON FINANCIAL INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021

### 1. Organization and Investment Objective

Ellington Financial Inc., formerly known as Ellington Financial LLC, was originally formed as a Delaware limited liability company on July 9, 2007 and commenced operations on August 17, 2007. On February 28, 2019, Ellington Financial LLC filed a certificate of conversion with the Secretary of State of the State of Delaware (the "Secretary") to convert from a Delaware limited liability company to a Delaware corporation (the "Conversion") and change its name to Ellington Financial Inc. The Conversion became effective on March 1, 2019, and upon effectiveness, each of Ellington Financial LLC's existing common shares representing limited liability company interests, no par value, converted into one issued and outstanding, fully paid and nonassessable share of common stock, \$0.001 par value per share, of Ellington Financial Inc. In connection with the Conversion, Ellington Financial Inc.'s Board of Directors (the "Board of Directors") approved Ellington Financial Inc.'s Certificate of Incorporation (which was also filed with the Secretary) and Bylaws.

Ellington Financial Operating Partnership LLC (the "Operating Partnership"), a 99.0% owned consolidated subsidiary of Ellington Financial Inc., was formed as a Delaware limited liability company on December 14, 2012 and commenced operations on January 1, 2013. All of Ellington Financial Inc.'s operations and business activities are conducted through the Operating Partnership. Ellington Financial Inc., the Operating Partnership, and their consolidated subsidiaries are hereafter collectively referred to as the "Company." All intercompany accounts are eliminated in consolidation.

The Company conducts its operations to qualify and be taxed as a real estate investment trust, or "REIT," under the Internal Revenue Code of 1986, as amended (the "Code"), and has elected to be taxed as a corporation effective January 1, 2019. In anticipation of the Company's intended election to be taxed as a REIT under the Code beginning with its 2019 taxable year (the "REIT Election"), the Company implemented an internal restructuring as of December 31, 2018. As part of this restructuring, the Company moved certain of its non-REIT-qualifying investments and financial derivatives to taxable REIT subsidiaries or "TRSs," and disposed of certain of its investments in non-REIT-qualifying investments and financial derivatives.

The Company invests in a diverse array of financial assets, including residential and commercial mortgage loans, residential mortgage-backed securities, or "RMBS," commercial mortgage-backed securities, or "CMBS," consumer loans and asset-backed securities, or "ABS," including ABS backed by consumer loans, collateralized loan obligations, or "CLOs," non-mortgage- and mortgage-related derivatives, equity investments in loan origination companies, and other strategic investments.

Ellington Financial Management LLC (the "Manager") is an SEC-registered investment adviser that serves as the Manager to the Company pursuant to the terms of its Seventh Amended and Restated Management Agreement (the "Management Agreement"), which was approved by the Board of Directors effective March 13, 2018. The Manager is an affiliate of Ellington Management Group, L.L.C. ("Ellington"), an investment management firm that is registered as both an investment adviser and a commodity pool operator. In accordance with the terms of the Management Agreement, the Manager implements the investment strategy and manages the business and operations on a day-to-day basis for the Company and performs certain services for the Company, subject to oversight by the Board of Directors.

### 2. Significant Accounting Policies

*(A) Basis of Presentation:* The Company's consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America, or "U.S. GAAP," and Regulation S-X. The consolidated financial statements include the accounts of the Company, the Operating Partnership, its subsidiaries, and variable interest entities, or "VIEs," for which the Company is deemed to be the primary beneficiary. All intercompany balances and transactions have been eliminated. The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material (particularly in light of the significant volatility, lack of pricing transparency, and market dislocations that have been caused by the novel coronavirus disease, or "COVID-19," pandemic, and associated responses to the pandemic). In management's opinion, all material adjustments considered necessary for a fair statement of the Company's consolidated financial statements have been included and are only of a normal recurring nature.

*(B) Valuation:* The Company applies ASC 820-10, *Fair Value Measurement* ("ASC 820") to its holdings of financial instruments. ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the observability of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1—inputs to the valuation methodology are observable and reflect quoted prices (unadjusted) for identical assets or liabilities in active markets. Currently, the types of financial instruments the Company generally includes in this category are listed equities and exchange-traded derivatives;
- Level 2—inputs to the valuation methodology other than quoted prices included in Level 1 are observable for the asset or liability, either directly or indirectly. Currently, the types of financial instruments that the Company generally includes in this category are RMBS, for which the principal and interest payments are guaranteed by a U.S. government agency or a U.S. government-sponsored entity, or "Agency RMBS," U.S. Treasury securities and sovereign debt, certain non-Agency RMBS, CMBS, CLOs, corporate debt, and actively traded derivatives such as interest rate swaps, foreign currency forwards, and other over-the-counter derivatives; and
- Level 3—inputs to the valuation methodology are unobservable and significant to the fair value measurement. The types of financial instruments that the Company generally includes in this category are certain RMBS, CMBS, CLOs, ABS, credit default swaps, or "CDS," on individual ABS, and total return swaps on distressed corporate debt, in each case where there is less price transparency. Also included in this category are residential and commercial mortgage loans, consumer loans, and private corporate debt and equity investments.

For certain financial instruments, the various inputs that management uses to measure fair value may fall into different levels of the fair value hierarchy. For each such financial instrument, the determination of which category within the fair value hierarchy is appropriate is based on the lowest level of input that is significant to the fair value measurement. ASC 820 prioritizes the various inputs that management uses to measure fair value, with the highest priority given to inputs that are observable and reflect quoted prices (unadjusted) for identical assets or liabilities in active markets (Level 1), and the lowest priority given to inputs that are unobservable and significant to the fair value measurement (Level 3). The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument. The Company may use valuation techniques consistent with the market and income approaches to measure the fair value of its financial instruments. The market approach uses third-party valuations and information obtained from market transactions involving identical or similar financial instruments. The income approach uses projections of the future economic benefit of an instrument to determine its fair value, such as in the discounted cash flow methodology. The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risk associated with investing in these financial instruments. The leveling of each financial instrument is reassessed at the end of each period. Transfers between levels of the fair value hierarchy are assumed to occur at the end of the reporting period.

#### *Summary Valuation Techniques*

For financial instruments that are traded in an "active market," the best measure of fair value is the quoted market price. However, many of the Company's financial instruments are not traded in an active market. Therefore, management generally uses third-party valuations when available. If third-party valuations are not available, management uses other valuation techniques, such as the discounted cash flow methodology. The following are summary descriptions, for various categories of financial instruments, of the valuation methodologies management uses in determining fair value of the Company's financial instruments in such categories. Management utilizes such methodologies to assign a fair value (the estimated price that, in an orderly transaction at the valuation date, would be received to sell an asset, or paid to transfer a liability, as the case may be) to each such financial instrument.

For mortgage-backed securities, or "MBS," forward settling to-be-announced mortgage-backed-securities, or "TBAs," CLOs, and corporate debt and equity, management seeks to obtain at least one third-party valuation, and often obtains multiple valuations when available. Management has been able to obtain third-party valuations on the vast majority of these instruments and expects to continue to solicit third-party valuations in the future. Management generally values each financial instrument at the average of third-party valuations received and not rejected as described below. Third-party valuations are not binding, management may adjust the valuations it receives (e.g., downward adjustments for odd lots), and management may challenge or reject a valuation when, based on its validation criteria, management determines that such valuation is unreasonable or erroneous. Furthermore, based on its validation criteria, management may determine that the average of the third-party valuations received for a given financial instrument does not result in what management believes to be the fair value of such instrument, and in such circumstances management may override this average with its own good faith valuation. The validation criteria may take into account output from management's own models, recent trading activity in the same or similar instruments, and valuations received from third parties. The use of proprietary models requires the use of a significant amount of judgment and the application of various assumptions including, but not limited to, assumptions concerning future prepayment rates and default rates. Given their relatively high level of price transparency, Agency RMBS pass-throughs are typically classified as Level 2. Non-Agency RMBS, CMBS, Agency interest only and inverse interest only RMBS, CLOs, and corporate bonds are generally classified as either Level 2 or Level 3 based on analysis of available market data and/or third-party valuations. The Company's investments in distressed corporate debt can be in the form of loans as well as total return swaps on loans. These investments, as well as related non-listed equity investments, are generally designated as Level 3 assets. Valuations for total



return swaps are typically based on prices of the underlying loans received from third-party pricing services. Private equity investments are generally classified as Level 3. Furthermore, the methodology used by the third-party valuation providers is reviewed at least annually by management, so as to ascertain whether such providers are utilizing observable market data to determine the valuations that they provide.

For residential and commercial mortgage loans, and consumer loans, management determines fair value by taking into account both external pricing data, which includes third-party valuations, and internal pricing models. Management has obtained third-party valuations on the majority of these investments and expects to continue to solicit third-party valuations in the future. In determining fair value for non-performing mortgage loans, management evaluates third-party valuations, if applicable, as well as management's estimates of the value of the underlying real estate, using information including general economic data, broker price opinions, or "BPOs," recent sales, property appraisals, and bids. In determining fair value for performing mortgage loans and consumer loans, management evaluates third-party valuations, if applicable, as well as discounted cash flows of the loans based on market assumptions. Cash flow assumptions typically include projected default and prepayment rates and loss severities, and may include adjustments based on appraisals and BPOs. Mortgage and consumer loans are classified as Level 3.

The Company has securitized certain mortgage loans that are not deemed "qualified mortgage," or "QM," loans under the rules of the Consumer Financial Protection Bureau, or "non-QM loans." The Company's securitized non-QM loans are held as part of a collateralized financing entity, or "CFE." A CFE is a VIE that holds financial assets, issues beneficial interests in those assets, and has no more than nominal equity, and for which the issued beneficial interests have contractual recourse only to the related assets of the CFE. ASC 810, *Consolidation* ("ASC 810") allows the Company to elect to measure both the financial assets and financial liabilities of the CFE using the more observable of the fair value of the financial assets and the fair value of the financial liabilities of the CFE. The Company has elected the fair value option, or "FVO," for initial and subsequent recognition of the debt issued by its consolidated securitization trusts and has determined that each consolidated securitization trust meets the definition of a CFE; see Note 10 "*Securitization Transactions—Residential Mortgage Loan Securitizations*" for further discussion on the Company's securitization trusts. The Company has determined the inputs to the fair value measurement of the financial liabilities of each of its CFEs to be more observable than those of the financial assets and, as a result, has used the fair value of the financial liabilities of each of the CFEs to measure the fair value of the financial assets of each of the CFEs. The fair value of the debt issued by each CFE is typically valued using both external pricing data, which includes third-party valuations, and internal pricing models. The securitized non-QM loans, which are assets of the CFEs, are included in Loans, at fair value, on the Company's Consolidated Balance Sheet. The debt issued by the CFEs is included in Other secured borrowings, at fair value, on the Company's Consolidated Balance Sheet. Unrealized gains (losses) from changes in fair value of Other secured borrowings, at fair value, are included in Other, net, on the Company's Consolidated Statement of Operations. The securitized non-QM loans and the debt issued by the Company's CFEs are both classified as Level 3.

For financial derivatives with greater price transparency, such as CDS on asset-backed indices, CDS on corporate indices, certain options on the foregoing, and total return swaps on publicly traded equities or indices, market-standard pricing sources are used to obtain valuations; these financial derivatives are generally classified as Level 2. Interest rate swaps, swaptions, and foreign currency forwards are typically valued based on internal models that use observable market data, including applicable interest rates and foreign currency rates in effect as of the measurement date; the model-generated valuations are then typically compared to counterparty valuations for reasonableness. These financial derivatives are also generally classified as Level 2. Financial derivatives with less price transparency, such as CDS on individual ABS, are generally valued based on internal models, and are classified as Level 3. In the case of CDS on individual ABS, the valuation process typically starts with an estimation of the value of the underlying ABS. In valuing its financial derivatives, the Company also considers the creditworthiness of both the Company and its counterparties, along with collateral provisions contained in each financial derivative agreement.

Investments in private operating entities, such as loan originators, are valued based on available metrics, such as relevant market multiples and comparable company valuations, company specific-financial data including actual and projected results, and independent third party valuation estimates. These investments are classified as Level 3.

The Company's repurchase and reverse repurchase agreements are carried at cost, which approximates fair value. Repurchase and reverse repurchase agreements are classified as Level 2, based on the adequacy of the collateral and their short term nature.

The Company's valuation process, including the application of validation criteria, is directed by the Manager's Valuation Committee (the "Valuation Committee"), and overseen by the Company's audit committee. The Valuation Committee includes senior level executives from various departments within the Manager, and each quarter, the Valuation Committee reviews and approves the valuations of the Company's financial instruments. The valuation process also includes a monthly review by the

Company's third-party administrator. The goal of this review is to replicate various aspects of the Company's valuation process based on the Company's documented procedures.

Because of the inherent uncertainty of valuation, the estimated fair value of the Company's financial instruments may differ significantly from the values that would have been used had a ready market for the financial instruments existed, and the differences could be material to the Company's consolidated financial statements.

(C) *Accounting for Securities:* Purchases and sales of investments in securities are generally recorded on trade date, and realized and unrealized gains and losses are calculated based on identified cost. Investments in securities are recorded in accordance with ASC 320, *Investments—Debt and Equity Securities* ("ASC 320") or ASC 325-40, *Beneficial Interests in Securitized Financial Assets* ("ASC 325-40"). The Company generally classifies its securities as available-for-sale. The Company has chosen to elect the FVO pursuant to ASC 825, *Financial Instruments* ("ASC 825") for its investments in securities. Electing the FVO allows the Company to record changes in fair value in the Consolidated Statement of Operations, as a component of Unrealized gains (losses) on securities and loans, net, which, in management's view, more appropriately reflects the results of operations for a particular reporting period as all investment activities will be recorded in a similar manner.

Many of the Company's investments in securities, such as MBS and CLOs, are issued by entities that are deemed to be VIEs. For the majority of such investments, the Company has determined it is not the primary beneficiary of such VIEs and therefore has not consolidated such VIEs. The Company's maximum risk of loss in these unconsolidated VIEs is generally limited to the fair value of the Company's investment in the VIE.

The Company evaluates its investments in interest only securities to determine whether they meet the requirements for classification as financial derivatives under ASC 815, *Derivatives and Hedging* ("ASC 815"). For interest only securities, where the holder is entitled only to a portion of the interest payments made on the mortgages underlying certain MBS, and inverse interest only securities, which are interest only securities whose coupon has an inverse relationship to its benchmark rate, such as LIBOR, the Company has determined that such investments do not meet the requirements for treatment as financial derivatives and are classified as securities.

The Company applies the principles of ASU 2016-13, *Financial Instruments—Credit Losses* ("ASU 2016-13") and evaluates the cost basis of its investments in securities on at least a quarterly basis, under ASC 326-30, *Financial Instruments—Credit Losses: Available-for-Sale Debt Securities* ("ASC 326-30"). When the fair value of a security is less than its amortized cost basis as of the balance sheet date, the security's cost basis is considered impaired. The Company must evaluate the decline in the fair value of the impaired security and determine whether such decline resulted from a credit loss or non-credit related factors. In its assessment of whether a credit loss exists, the Company compares the present value of estimated future cash flows of the impaired security with the amortized cost basis of such security. The estimated future cash flows reflect those that a "market participant" would use and typically include assumptions related to fluctuations in interest rates, prepayment speeds, default rates, collateral performance, and the timing and amount of projected credit losses, as well incorporating observations of current market developments and events. Cash flows are discounted at an interest rate equal to the current yield used to accrete interest income. If the present value of estimated future cash flows is less than the amortized cost basis of the security, an expected credit loss exists and is included in Unrealized gains (losses) on securities and loans, net, on the Consolidated Statement of Operations. If it is determined as of the financial reporting date that all or a portion of a security's cost basis is not collectible, then the Company will recognize a realized loss to the extent of the adjustment to the security's cost basis. This adjustment to the amortized cost basis of the security is reflected in Net realized gains (losses) on securities and loans, net, on the Consolidated Statement of Operations.

(D) *Accounting for Loans:* The Company's loan portfolio primarily consists of residential mortgage, commercial mortgage, and consumer loans. The Company's loans are accounted for under ASC 310-10, *Receivables*, and are classified as held-for-investment when the Company has the intent and ability to hold such loans for the foreseeable future or to maturity/payoff. When the Company has the intent to sell loans, such loans will be classified as held-for-sale. Mortgage loans held-for-sale are accounted for under ASC 948-310, *Financial services—mortgage banking*. The Company may aggregate its loans into pools based on common risk characteristics at purchase. The Company has chosen to elect the FVO pursuant to ASC 825 for its loan portfolios. Loans are recorded at fair value on the Consolidated Balance Sheet and changes in fair value are recorded in earnings on the Consolidated Statement of Operations as a component of Unrealized gains (losses) on securities and loans, net. The Company generates income from fees on certain loans, generally commercial mortgage loans, that it originates and holds for investment, including origination and exit fees. Such fee income is recorded when earned and included in Other, net on the Consolidated Statement of Operations. Transfers between held-for-investment and held-for-sale occur once the Company's intent to sell the loans changes.

For residential and commercial mortgage loans, the Company generally accrues interest payments. Such loans are typically moved to non-accrual status if the loan becomes 90 days or more delinquent. The Company does not accrue interest payments on its consumer loans; interest payments are recorded upon receipt. Once consumer loans are more than 120 days past due, the Company will generally charge off such loans. The Company evaluates its charged-off loans and determines collectibility, if any, on such loans.

The Company evaluates the collectibility of both interest and principal on each of its loan investments and whether the cost basis of the loan is impaired. A loan's cost basis is impaired when, based on current information and market developments, it is probable that the Company will be unable to collect all amounts due according to the existing contractual terms. When a loan's cost basis is impaired, the Company does not record an allowance for loan loss as it elected the FVO on all of its loan investments.

Consistent with the Company's application of the principles of ASU 2016-13, in its assessment of whether a credit loss exists, the Company compares the present value of the amount expected to be collected on the impaired loan with the amortized cost basis of such loan. If the present value of the amount expected to be collected on the impaired loan is less than the amortized cost basis of such loan, an expected credit loss exists and is included in Unrealized gains (losses) on securities and loans, net, on the Consolidated Statement of Operations. If it is determined as of the financial reporting date that all or a portion of a loan's cost basis is not collectible, then the Company will recognize a realized loss to the extent of the adjustment to the loan's cost basis. This adjustment to the amortized cost basis of the loan is reflected in Realized gains (losses) on securities and loans, net, on the Consolidated Statement of Operations.

*(E) Interest Income:* The Company amortizes premiums and accretes discounts on its debt securities. Coupon interest income on fixed-income investments is generally accrued based on the outstanding principal balance or notional value and the current coupon rate.

For debt securities that are deemed to be of high credit quality at the time of purchase (generally Agency RMBS, exclusive of interest only securities), premiums and discounts are amortized/accreted into interest income over the life of such securities using the effective interest method. For such securities whose cash flows vary depending on prepayments, an effective yield retroactive to the time of purchase is periodically recomputed based on actual prepayments and changes in projected prepayment activity, and a catch-up adjustment, or "Catch-up Premium Amortization Adjustment," is made to amortization to reflect the cumulative impact of the change in effective yield.

For debt securities (generally non-Agency RMBS, CMBS, ABS, CLOs, and interest only securities) that are deemed not to be of high credit quality at the time of purchase, interest income is recognized based on the effective interest method. For purposes of estimating future expected cash flows, management uses assumptions including, but not limited to, assumptions for future prepayment rates, default rates, and loss severities (each of which may in turn incorporate various macro-economic assumptions, such as future housing prices, GDP growth rates, and unemployment rates). These assumptions are re-evaluated not less than quarterly. Changes in projected cash flows may result in prospective changes in the yield/interest income recognized on such securities based on the updated expected future cash flows.

For each loan purchased with the expectation that both interest and principal will be paid in full, the Company generally amortizes or accretes any premium or discount over the life of the loan utilizing the effective interest method. However, based on current information and market developments, the Company re-assesses the collectibility of interest and principal, and generally designates a loan as in non-accrual status either when any payments have become 90 or more days past due, or when, in the opinion of management, it is probable that the Company will be unable to collect either interest or principal in full. Once a loan is designated as in non-accrual status, as long as principal is still expected to be collectible in full, interest payments are recorded as interest income only when received (i.e., under the cash basis method); accruals of interest income are only resumed when the loan becomes contractually current and performance is demonstrated to be resumed. However, if principal is not expected to be collectible in full, the cost recovery method is used (i.e., no interest income is recognized, and all payments received—whether contractually interest or principal—are applied to cost).

Certain of the Company's debt securities and loans, at the date of acquisition, have experienced or are expected to experience more-than-insignificant deterioration in credit quality since origination. Consistent with the Company's application of the principles of ASU 2016-13, if at the date of acquisition for a particular asset the Company projects a significant difference between contractual cash flows and expected cash flows, it establishes an initial estimate for credit losses as an upward adjustment to the acquisition cost of the asset for the purpose of calculating interest income using the effective yield method.

In estimating future cash flows on the Company's debt securities, there are a number of assumptions that are subject to significant uncertainties and contingencies, including, in the case of MBS, assumptions relating to prepayment rates, default rates, loan loss severities, and loan repurchases. These estimates require the use of a significant amount of judgment.

(F) *Investments in unconsolidated entities*: The Company has made and may in the future make non-controlling equity investments in various entities, such as loan originators. Such investments are generally in the form of preferred and/or common equity, or membership interests. In certain cases, the Company can exercise significant influence over the entity (e.g. by having representation on the entity's board of directors) but the requirements for consolidation under ASC 810 are not met; in such cases the Company is required to account for such equity investments under ASC 323-10, *Investments—Equity Method and Joint Ventures* ("ASC 323-10"). The Company has chosen to elect the FVO pursuant to ASC 825 for its investments in unconsolidated entities, which, in management's view, more appropriately reflects the results of operations for a particular reporting period, as all investment activities will be recorded in a similar manner. The period change in fair value of the Company's investments in unconsolidated entities is recorded on the Consolidated Statement of Operations in Earnings (losses) from investments in unconsolidated entities.

(G) *Real Estate Owned "REO"*: When the Company obtains possession of real property in connection with a foreclosure or similar action, the Company de-recognizes the associated mortgage loan according to ASU 2014-04, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure* ("ASU 2014-04"). Under the provisions of ASU 2014-04, the Company is deemed to have received physical possession of real estate property collateralizing a mortgage loan when it obtains legal title to the property upon completion of a foreclosure or when the borrower conveys all interest in the property to it through a deed in lieu of foreclosure or similar legal agreement. The Company's initial cost basis in REO is equal to the fair value of the real estate associated with the foreclosed mortgage loan, less expected costs to sell. REO valuations are reflected at the lower of cost or fair value. The fair value of such REO is typically based on management's estimates which generally use information including general economic data, BPOs, recent sales, property appraisals, and bids, and takes into account the expected costs to sell the property. REO recorded at fair value on a non-recurring basis are classified as Level 3.

(H) *Securities Sold Short*: The Company may purchase or engage in short sales of U.S. Treasury securities and sovereign debt to mitigate the potential impact of changes in interest rates and/or foreign exchange rates on the performance of its portfolio. When the Company sells securities short, it typically satisfies its security delivery settlement obligation by borrowing or purchasing the security sold short from the same or a different counterparty. When borrowing a security sold short from a counterparty, the Company generally is required to deliver cash or securities to such counterparty as collateral for the Company's obligation to return the borrowed security. The Company has chosen to elect the FVO pursuant to ASC 825 for its securities sold short. Electing the FVO allows the Company to record changes in fair value in the Consolidated Statement of Operations, which, in management's view, more appropriately reflects the results of operations for a particular reporting period as all securities activities will be recorded in a similar manner. As such, securities sold short are recorded at fair value on the Consolidated Balance Sheet and the period change in fair value is recorded in current period earnings on the Consolidated Statement of Operations as a component of Unrealized gains (losses) on securities and loans, net. A realized gain or loss will be recognized upon the termination of a short sale if the market price is less or greater than the original sale price. Such realized gain or loss is recorded on the Company's Consolidated Statement of Operations in Realized gains (losses) on securities and loans, net.

(I) *Financial Derivatives*: The Company enters into various types of financial derivatives subject to its investment guidelines, which include restrictions associated with maintaining qualification as a REIT. The Company's financial derivatives are predominantly subject to bilateral master trade agreements or clearing in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the "Dodd-Frank Act." The Company may be required to deliver or receive cash or securities as collateral upon entering into derivative transactions. In addition, changes in the value of derivative transactions may require the Company or the counterparty to post or receive additional collateral. In the case of cleared derivatives, the clearinghouse becomes the Company's counterparty and a futures commission merchant acts as an intermediary between the Company and the clearinghouse with respect to all facets of the related transaction, including the posting and receipt of required collateral. Cash collateral received by the Company is included in Due to brokers, on the Consolidated Balance Sheet. Conversely, cash collateral posted by the Company is included in Due from brokers, on the Consolidated Balance Sheet. The types of derivatives primarily utilized by the Company are swaps, TBAs, futures, options, and forwards.

*Swaps*: The Company may enter into various types of swaps, including interest rate swaps, credit default swaps, and total return swaps. The primary risk associated with the Company's interest rate swap activity is interest rate risk. The primary risk associated with the Company's credit default swaps and total return swaps is credit risk.

The Company is subject to interest rate risk exposure in the normal course of pursuing its investment objectives. Primarily to help mitigate interest rate risk, the Company enters into interest rate swaps. Interest rate swaps are contractual agreements whereby one party pays a floating interest rate on a notional principal amount and receives a fixed-rate payment on the same notional principal, or vice versa, for a fixed period of time. Interest rate swaps change in value with movements in interest rates. The Company also enters into interest rate swaps whereby the Company pays one floating rate and receives a different floating rate, or "basis swaps."

The Company enters into credit default swaps. A credit default swap is a contract under which one party agrees to compensate another party for the financial loss associated with the occurrence of a "credit event" in relation to a "reference amount" or notional value of a "reference asset" (usually a bond, loan, or an index or basket of bonds or loans). The definition of a credit event may vary from contract to contract. A credit event may occur (i) when the reference asset (or underlying asset, in the case of a reference asset that is an index or basket) fails to make scheduled principal or interest payments to its holders, (ii) with respect to credit default swaps referencing mortgage/asset-backed securities and indices, when the reference asset (or underlying asset, in the case of a reference asset that is an index or basket) is downgraded below a certain rating level, or (iii) with respect to credit default swaps referencing corporate entities and indices, upon the bankruptcy of the obligor of the reference asset (or underlying obligor, in the case of a reference asset that is an index). The Company typically writes (sells) protection to take a "long" position with respect to the underlying reference assets, or purchases (buys) protection to take a "short" position with respect to the underlying reference assets or to hedge exposure to other investment holdings.

The Company enters into total return swaps in order to take a "long" or "short" position with respect to an underlying reference asset. The Company is subject to market price volatility of the underlying reference asset. A total return swap involves commitments to pay interest in exchange for a market-linked return based on a notional value. To the extent that the total return of the corporate debt, security, group of securities or index underlying the transaction exceeds or falls short of the offsetting interest obligation, the Company will receive a payment from or make a payment to the counterparty.

Swaps change in value with movements in interest rates, credit quality, or total return of the reference securities. During the term of swap contracts, changes in value are recognized as unrealized gains or losses on the Consolidated Statement of Operations. When a contract is terminated, the Company realizes a gain or loss equal to the difference between the proceeds from (or cost of) the closing transaction and the Company's basis in the contract, if any. Periodic payments or receipts required by swap agreements are recorded as unrealized gains or losses when accrued and realized gains or losses when received or paid. Upfront payments paid and/or received by the Company to open swap contracts are recorded as an asset and/or liability on the Consolidated Balance Sheet and are recorded as a realized gain or loss on the termination date.

*TBA Securities:* The Company transacts in the forward settling TBA market. A TBA position is a forward contract for the purchase ("long position") or sale ("short position") of Agency RMBS at a predetermined price, face amount, issuer, coupon, and maturity on an agreed-upon future delivery date. For each TBA contract and delivery month, a uniform settlement date for all market participants is determined by the Securities Industry and Financial Markets Association. The specific Agency RMBS to be delivered into the contract at the settlement date are not known at the time of the transaction. The Company typically does not take delivery of TBAs, but rather enters into offsetting transactions and settles the associated receivable and payable balances with its counterparties. The Company uses TBAs to mitigate interest rate risk, usually by taking short positions. The Company also invests in TBAs as a means of acquiring additional exposure to Agency RMBS, or for speculative purposes, including holding long positions.

TBAs are accounted for by the Company as financial derivatives. The difference between the forward contract price and the market value of the TBA position as of the reporting date is included in Unrealized gains (losses) on financial derivatives, net, on the Consolidated Statement of Operations.

*Futures Contracts:* A futures contract is an exchange-traded agreement to buy or sell an asset for a set price on a future date. The Company enters into Eurodollar and/or U.S. Treasury security futures contracts to hedge its interest rate risk. The Company may also enter into various other futures contracts, including equity index futures and foreign currency futures. Initial margin deposits are made upon entering into futures contracts and can generally be either in the form of cash or securities. During the period the futures contract is open, changes in the value of the contract are recognized as unrealized gains or losses by marking-to-market to reflect the current market value of the contract. Variation margin payments are made or received periodically, depending upon whether unrealized losses or gains are incurred. When the contract is closed, the Company records a realized gain or loss equal to the difference between the proceeds of the closing transaction and the Company's basis in the contract.

*Options:* The Company may purchase or write put or call options contracts or enter into swaptions. The Company enters into options contracts typically to help mitigate overall market, credit, or interest rate risk depending on the type of options contract. However, the Company also enters into options contracts from time to time for speculative purposes. When the Company purchases an options contract, the option asset is initially recorded at an amount equal to the premium paid, if any, and is subsequently marked-to-market. Premiums paid for purchasing options contracts that expire unexercised are recognized on the expiration date as realized losses. If an options contract is exercised, the premium paid is subtracted from the proceeds of the sale or added to the cost of the purchase to determine whether the Company has realized a gain or loss on the related transaction. When the Company writes an options contract, the option liability is initially recorded at an amount equal to the premium received, if any, and is subsequently marked-to-market. Premiums received for writing options contracts that expire unexercised are recognized on the expiration date as realized gains. If an options contract is exercised, the premium received is

subtracted from the cost of the purchase or added to the proceeds of the sale to determine whether the Company has realized a gain or loss on the related investment transaction. When the Company enters into a closing transaction, the Company will realize a gain or loss depending upon whether the amount from the closing transaction is greater or less than the premiums paid or received. The Company may also enter into options contracts that contain forward-settling premiums. In this case, no money is exchanged upfront. Instead, the agreed-upon premium is paid by the buyer upon expiration of the option, regardless of whether or not the option is exercised.

*Forward Currency Contracts:* A forward currency contract is an agreement between two parties to purchase or sell a specific quantity of currency with the delivery and settlement at a specific future date and exchange rate. During the period the forward currency contract is open, changes in the value of the contract are recognized as unrealized gains or losses. When the contract is settled, the Company records a realized gain or loss equal to the difference between the proceeds of the closing transaction and the Company's basis in the contract.

Financial derivative assets are included in Financial derivatives—assets, at fair value, on the Consolidated Balance Sheet. Financial derivative liabilities are included in Financial derivatives—liabilities, at fair value, on the Consolidated Balance Sheet. The Company has chosen to elect the FVO pursuant to ASC 825 for its financial derivatives. Electing the FVO allows the Company to record changes in fair value in the Consolidated Statement of Operations, which, in management's view, more appropriately reflects the results of operations for a particular reporting period as all securities activities will be recorded in a similar manner. Changes in unrealized gains and losses on financial derivatives are included in Unrealized gains (losses) on financial derivatives, net, on the Consolidated Statement of Operations. Realized gains and losses on financial derivatives are included in Realized gains (losses) on financial derivatives, net, on the Consolidated Statement of Operations.

*(J) Cash and Cash Equivalents:* Cash and cash equivalents include cash and short term investments with original maturities of three months or less at the date of acquisition. Cash and cash equivalents typically include amounts held in interest bearing overnight accounts and amounts held in money market funds, and these balances generally exceed insured limits. The Company holds its cash at institutions that it believes to be highly creditworthy. Restricted cash represents cash that the Company can use only for specific purposes. See Note 18 for further discussion of restricted cash balances.

*(K) Repurchase Agreements:* The Company enters into repurchase agreements with third-party broker-dealers whereby it sells securities under agreements to be repurchased at an agreed-upon price and date. The Company accounts for repurchase agreements as collateralized borrowings, with the initial sale price representing the amount borrowed, and with the future repurchase price consisting of the amount borrowed plus interest, at the implied interest rate of the repurchase agreement, on the amount borrowed over the term of the repurchase agreement. The interest rate on a repurchase agreement is based on competitive rates (or competitive market spreads, in the case of agreements with floating interest rates) at the time such agreement is entered into. When the Company enters into a repurchase agreement, the lender establishes and maintains an account containing cash and/or securities having a value not less than the repurchase price, including accrued interest, of the repurchase agreement. Repurchase agreements are carried at their contractual amounts, which approximate fair value as the debt is short-term in nature.

*(L) Reverse Repurchase Agreements:* The Company enters into reverse repurchase agreement transactions whereby it purchases securities under agreements to resell at an agreed-upon price and date. In general, securities received pursuant to reverse repurchase agreements are delivered to counterparties of short sale transactions. The interest rate on a reverse repurchase agreement is based on competitive rates (or competitive market spreads, in the case of agreements with floating interest rates) at the time such agreement is entered into. Assets held pursuant to reverse repurchase agreements are reflected as assets on the Consolidated Balance Sheet. Reverse repurchase agreements are carried at their contractual amounts, which approximates fair value due to their short-term nature.

Repurchase and reverse repurchase agreements that are conducted with the same counterparty may be reported on a net basis if they meet the requirements of ASC 210-20, *Balance Sheet Offsetting*. There are no repurchase and reverse repurchase agreements reported on a net basis in the Company's consolidated financial statements.

*(M) Transfers of Financial Assets:* The Company enters into transactions whereby it transfers financial assets to third parties. Upon such a transfer of financial assets, the Company will sometimes retain or acquire interests in the related assets. The Company evaluates transferred assets pursuant to ASC 860-10, *Transfers of Financial Assets*, or "ASC 860-10," which requires that a determination be made as to whether a transferor has surrendered control over transferred financial assets. That determination must consider the transferor's continuing involvement in the transferred financial asset, including all arrangements or agreements made contemporaneously with, or in contemplation of, the transfer, even if they were not entered into at the time of the transfer. When a transfer of financial assets does not qualify as a sale, ASC 860-10 requires the transfer to be accounted for as a secured borrowing with a pledge of collateral. ASC 860-10 is a standard that requires the Company to exercise significant judgment in determining whether a transaction should be recorded as a "sale" or a "financing."

(N) *Variable Interest Entities*: VIEs are entities in which: (i) the equity investors do not have the characteristics of a controlling financial interest, or (ii) there is insufficient equity to permit the entity to finance its activities without additional subordinated financial support from other parties. Consolidation of a VIE is required by the entity that is deemed to be the primary beneficiary of the VIE. The Company evaluates all of its interests in VIEs for consolidation under ASC 810. The primary beneficiary is generally the party with both (i) the power to direct the activities of the VIE that most significantly impact its economic performance, and (ii) the obligation to absorb losses and the right to receive benefits from the VIE which could be potentially significant to the VIE.

When the Company has an interest in an entity that has been determined to be a VIE, the Company assesses whether it is deemed to be the primary beneficiary of the VIE. The Company will only consolidate a VIE for which it has concluded it is the primary beneficiary. To assess whether the Company has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, the Company considers all facts and circumstances, including its role in establishing the VIE and its ongoing rights and responsibilities. This assessment includes (i) identifying the activities that most significantly impact the VIE's economic performance; and (ii) identifying which party, if any, has power over those activities. To assess whether the Company has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE, it considers all of its economic interests, including debt and/or equity investments, as well as other arrangements deemed to be variable interests in the VIE. These assessments to determine whether the Company is the primary beneficiary require significant judgment. In instances where the Company and its related parties have interests in a VIE, the Company considers whether there is a single party in the related party group that meets the criteria to be deemed the primary beneficiary. If one party within the related party group meets such criteria, that reporting entity would be deemed to be the primary beneficiary of the VIE and no further analysis is needed. If no party within the related party group on its own meets the criteria to be deemed the primary beneficiary, but the related party group as a whole meets such criteria, the determination of the primary beneficiary within the related party group requires significant judgment. The Company performs analysis, which is based upon qualitative as well as quantitative factors, such as the relationship of the VIE to each of the members of the related party group, as well as the significance of the VIE's activities to those members, with the objective of determining which party is most closely associated with the VIE.

The Company performs ongoing reassessments of (i) whether any entities previously evaluated have become VIEs, based on certain events, and therefore subject to assessment to determine whether consolidation is appropriate, and (ii) whether changes in the facts and circumstances regarding the Company's involvement with a VIE causes its consolidation conclusion regarding the VIE to change. See Note 9 and Note 13 for further information on the Company's consolidated VIEs.

The Company's maximum amount at risk is generally limited to the Company's investment in the VIE. The Company is generally not contractually required to provide and has not provided any form of financial support to the VIEs.

The Company holds beneficial interests in certain securitization trusts that are considered VIEs. The beneficial interests in these securitization trusts are represented by certificates issued by the trusts. The securitization trusts have been structured as pass-through entities that receive principal and interest payments on the underlying collateral and distribute those payments to the certificate holders, which include both third-party investors and the Company. The certificates held by the Company typically include some or all of the most subordinated tranches. The assets held by the trusts are restricted in that they can only be used to fulfill the obligations of the related trust. In certain cases, the design and structure of the securitization trust is such that the Company effectively retains control of the assets as well as the activities that most significantly impact the economic performance of the trust. In such cases, the Company is determined to be the primary beneficiary, and the Company consolidates the trust and all intercompany transactions are eliminated in consolidation. In cases where the Company does not effectively retain control of the assets of, or have the power to direct the activities that most significantly impact the economic performance of, the related trust, it does not consolidate the trust. See Note 10 for further discussion of the Company's securitization trusts.

(O) *Offering Costs/Underwriters' Discount*: Offering costs and underwriters' discount are generally charged against stockholders' equity upon the completion of a capital raise. Offering costs typically include legal, accounting, and other fees associated with the cost of raising capital.

(P) *Debt Issuance Costs*: Debt issuance costs associated with debt for which the Company has elected the FVO are expensed at the issuance of the debt, and are included in Investment related expenses—Other on the Consolidated Statement of Operations. Costs associated with the issuance of debt for which the Company has not elected the FVO are deferred and amortized over the life of the debt, which approximates the effective interest rate method, and are included in Interest expense on the Consolidated Statement of Operations. Deferred debt issuance costs are presented on the Consolidated Balance Sheet as a direct deduction from the related debt liability, unless such deferred debt issuance costs are associated with borrowing facilities that are expected to have a future benefit, such as giving the Company the ability to access additional borrowings over the contractual term of the debt, in which case such deferred debt issuance costs are included in Other assets on the

Consolidated Balance Sheet. Debt issuance costs include legal and accounting fees, purchasers' or underwriters' discount, as well as other fees associated with the cost of the issuance of the related debt.

*(Q) Expenses:* Expenses are recognized as incurred on the Consolidated Statement of Operations.

*(R) Investment Related Expenses:* Investment related expenses consist of expenses directly related to specific financial instruments. Such expenses generally include dividend expense on common stock sold short, servicing fees and corporate and escrow advances on mortgage and consumer loans, and various other expenses and fees related directly to the Company's financial instruments. The Company has elected the FVO for its investments, and as a result all investment related expenses are expensed as incurred and included in Investment related expenses on the Consolidated Statement of Operations.

*(S) Investment Related Receivables:* Investment related receivables on the Company's Consolidated Balance Sheet includes receivables for securities sold and interest and principal receivable on securities and loans.

*(T) Long Term Incentive Plan Units:* Long term incentive plan units of the Operating Partnership ("OP LTIP Units") have been issued to certain Ellington personnel dedicated or partially dedicated to the Company, certain of the Company's directors, as well as the Manager. Costs associated with OP LTIP Units issued to dedicated or partially dedicated personnel, or to the Company's directors, are measured as of the grant date based on the Company's closing stock price on the New York Stock Exchange and are amortized over the vesting period in accordance with ASC 718-10, *Compensation—Stock Compensation*. The vesting periods for OP LTIP Units are typically one year from issuance for non-executive directors, and are typically one year to two years from issuance for dedicated or partially dedicated personnel.

*(U) Non-controlling interests:* Non-controlling interests include interests in the Operating Partnership represented by units convertible into shares of the Company's common stock ("Convertible Non-controlling Interests"). Convertible Non-controlling Interests include both the OP LTIP Units and those common units ("OP Units") of the Operating Partnership not held by the Company (collectively, the "Convertible Non-controlling Interest Units"). Non-controlling interests also include the interests of joint venture partners in certain of our consolidated subsidiaries. The joint venture partners' interests are not convertible into shares of the Company's common stock. The Company adjusts the Convertible Non-controlling Interests to align their carrying value with their share of total outstanding Operating Partnership units, including both the OP Units held by the Company and the Convertible Non-controlling Interests. Any such adjustments are reflected in Adjustment to non-controlling interests, on the Consolidated Statement of Changes in Equity. See Note 15 for further discussion of non-controlling interests.

*(V) Dividends:* Dividends payable on shares of common stock and Convertible Non-controlling Interest Units are recorded on the declaration date.

*(W) Shares Repurchased:* Shares of common stock that are repurchased by the Company subsequent to issuance are immediately retired upon settlement and decrease the total number of shares of common stock issued and outstanding. The cost of such repurchases is charged against Additional paid-in-capital on the Company's Consolidated Balance Sheet.

*(X) Earnings Per Share ("EPS"):* Basic EPS is computed using the two class method by dividing net income (loss) after adjusting for the impact of Convertible Non-controlling Interests which are participating securities, by the weighted average number of shares of common stock outstanding calculated including Convertible Non-controlling Interests. Because the Company's Convertible Non-controlling Interests are participating securities, they are included in the calculation of both basic and diluted EPS.

*(Y) Foreign Currency:* The functional currency of the Company is U.S. dollars. Assets and liabilities denominated in foreign currencies are remeasured into U.S. dollars at current exchange rates at the following dates: (i) assets, liabilities, and unrealized gains/losses—at the valuation date; and (ii) income, expenses, and realized gains/losses—at the accrual/transaction date. The Company isolates the portion of realized and change in unrealized gain (loss) resulting from changes in foreign currency exchange rates on investments and financial derivatives from the fluctuations arising from changes in fair value of investments and financial derivatives held. Changes in realized and change in unrealized gain (loss) due to foreign currency are included in Other, net, on the Consolidated Statement of Operations.

The Company's reporting currency is U.S. Dollars. If the Company has investments in unconsolidated entities that have a functional currency other than U.S. Dollars, the fair value is translated to U.S. dollars using the current exchange rate at the valuation date. The cumulative translation adjustment, if any, associated with the Company's investments in unconsolidated entities is recorded in accumulated other comprehensive income (loss), a component of consolidated stockholders' equity.

*(Z) Income Taxes:* The Company has elected to be taxed as a REIT under Sections 856 through 860 of the Code. As a REIT, the Company is generally not subject to corporate-level federal and state income tax on net income it distributes to its



stockholders within the prescribed timeframes. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including distributing at least 90% of its annual taxable income to stockholders. Even if the Company qualifies as a REIT, it may be subject to certain federal, state, local and foreign taxes on its income and property, and to federal income and excise taxes on its undistributed taxable income. If the Company fails to qualify as a REIT, and does not qualify for certain statutory relief provisions, it will be subject to U.S. federal, state, and local income taxes and may be precluded from qualifying as a REIT for the four taxable years following the year in which the Company fails to qualify as a REIT.

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

The Company elected to treat certain domestic and foreign subsidiaries as TRSs, and may in the future elect to treat other current or future subsidiaries as TRSs. In general, a TRS may hold assets and engage in activities that the Company cannot hold or engage in directly and generally may engage in any real estate or non-real estate-related business. A domestic TRS may, but is not required to, declare dividends to the Company; such dividends will be included in the Company's taxable income/(loss) and may necessitate a distribution to the Company's stockholders. Conversely, if the Company retains earnings at the level of a domestic TRS, such earnings will increase the book equity of the consolidated entity. A domestic TRS is subject to U.S. federal, state, and local corporate income taxes. The Company has elected and may elect in the future to treat certain of its foreign corporate subsidiaries as TRSs and, accordingly, taxable income generated by these TRSs may not be subject to U.S. federal, state, and local corporate income taxation, but generally will be included in the Company's income on a current basis as Subpart F income, whether or not distributed. However, certain of the Company's foreign subsidiaries may be subject to income taxes in the relevant foreign jurisdictions. The Company's financial results are generally not expected to reflect provisions for current or deferred income taxes, except for any activities conducted through one or more TRSs that are subject to corporate income taxation.

The Company follows the authoritative guidance on accounting for and disclosure of uncertainty on tax positions, which requires management to determine whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For uncertain tax positions, the tax benefit to be recognized is measured as the largest amount of benefit that is more than 50% likely to be realized upon ultimate settlement. The Company did not have any unrecognized tax benefits resulting from tax positions related to the current period or its open tax years. In the normal course of business, the Company may be subject to examination by federal, state, local, and foreign jurisdictions, where applicable, for the current period and its open tax years. The Company may take positions with respect to certain tax issues which depend on legal interpretation of facts or applicable tax regulations. Should the relevant tax regulators successfully challenge any of such positions, the Company might be found to have a tax liability that has not been recorded in the accompanying consolidated financial statements. Also, management's conclusions regarding the authoritative guidance may be subject to review and adjustment at a later date based on changing tax laws, regulations, and interpretations thereof. The Company recognizes interest and penalties, if any, related to uncertain tax positions, as income tax expense included in Income tax expense (benefit) on the Consolidated Statement of Operations.

*(AA) Recent Accounting Pronouncements:* In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform—Facilitation of the Effects of Reference Rate Reform on Financial Reporting* ("ASU 2020-04"), which provides optional guidance for a limited period meant to ease the potential burden in accounting for, or recognizing the effects of, reform to LIBOR and certain other reference rates. The standard became effective for all entities beginning on March 12, 2020 and may be elected over time. However, ASU 2020-04 is only applicable to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform, and that were entered into or evaluated prior to January 1, 2023. In January 2021, the FASB issued ASU No. 2021-01, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* ("ASU 2021-01"), which clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications apply to derivatives that are affected by the reform to LIBOR. The amendments in this update became effective immediately for all entities. ASU 2021-01 provides increased clarity as the Company continues to evaluate the transition of reference rates, and it is currently evaluating the impact that the adoption of ASU 2020-04 would have on the consolidated financial statements.

### 3. Valuation

The tables below reflect the value of the Company's Level 1, Level 2, and Level 3 financial instruments that are measured at fair value on a recurring basis as of December 31, 2021 and 2020:

#### December 31, 2021:

Description	Level 1	Level 2	Level 3	Total
	<i>(In thousands)</i>			
<b>Assets:</b>				
<b>Securities, at fair value:</b>				
Agency RMBS	\$ —	\$ 1,686,906	\$ 9,710	\$ 1,696,616
Non-Agency RMBS	—	81,666	134,888	216,554
CMBS	—	12,509	13,134	25,643
CLOs	—	35,651	26,678	62,329
Asset-backed securities, backed by consumer loans	—	—	73,108	73,108
Corporate debt securities	—	356	5,198	5,554
Corporate equity securities	—	—	7,556	7,556
<b>Loans, at fair value:</b>				
Residential mortgage loans	—	—	2,016,228	2,016,228
Commercial mortgage loans	—	—	326,197	326,197
Consumer loans	—	—	62,365	62,365
Corporate loans	—	—	10,531	10,531
<b>Investment in unconsolidated entities, at fair value</b>				
	—	—	195,643	195,643
<b>Financial derivatives—assets, at fair value:</b>				
Credit default swaps on asset-backed securities	—	—	303	303
Credit default swaps on asset-backed indices	—	1,751	—	1,751
Credit default swaps on corporate bond indices	—	156	—	156
Interest rate swaps	—	13,993	—	13,993
TBAs	—	1,229	—	1,229
Options	—	278	—	278
Warrants	—	706	—	706
Futures	478	—	—	478
<b>Total assets</b>	<b>\$ 478</b>	<b>\$ 1,835,201</b>	<b>\$ 2,881,539</b>	<b>\$ 4,717,218</b>
<b>Liabilities:</b>				
<b>Securities sold short, at fair value:</b>				
Government debt	\$ —	\$ (120,525)	\$ —	\$ (120,525)
<b>Financial derivatives—liabilities, at fair value:</b>				
Credit default swaps on asset-backed indices	—	(39)	—	(39)
Credit default swaps on corporate bonds	—	(99)	—	(99)
Credit default swaps on corporate bond indices	—	(1,870)	—	(1,870)
Interest rate swaps	—	(9,098)	—	(9,098)
TBAs	—	(909)	—	(909)
Futures	(75)	—	—	(75)
Forwards	—	(208)	—	(208)
<b>Other secured borrowings, at fair value</b>	<b>—</b>	<b>—</b>	<b>(984,168)</b>	<b>(984,168)</b>
<b>Total liabilities</b>	<b>\$ (75)</b>	<b>\$ (132,748)</b>	<b>\$ (984,168)</b>	<b>\$ (1,116,991)</b>

December 31, 2020:

Description	Level 1	Level 2	Level 3	Total
	<i>(In thousands)</i>			
<b>Assets:</b>				
<b>Securities, at fair value:</b>				
Agency RMBS	\$ —	\$ 947,780	\$ 11,663	\$ 959,443
Non-Agency RMBS	—	76,276	127,838	204,114
CMBS	—	54,505	63,148	117,653
CLOs	—	70,171	111,100	181,271
Asset-backed securities, backed by consumer loans	—	—	44,925	44,925
Corporate debt securities	—	1,107	4,082	5,189
Corporate equity securities	—	—	1,590	1,590
<b>Loans, at fair value:</b>				
Residential mortgage loans	—	—	1,187,069	1,187,069
Commercial mortgage loans	—	—	213,031	213,031
Consumer loans	—	—	47,525	47,525
Corporate loans	—	—	5,855	5,855
<b>Investment in unconsolidated entities, at fair value</b>	<b>—</b>	<b>—</b>	<b>141,620</b>	<b>141,620</b>
<b>Financial derivatives—assets, at fair value:</b>				
Credit default swaps on asset-backed securities	—	—	347	347
Credit default swaps on asset-backed indices	—	2,184	—	2,184
Credit default swaps on corporate bond indices	—	3,420	—	3,420
Interest rate swaps	—	8,519	—	8,519
TBAs	—	962	—	962
Total return swaps	—	—	9	9
Warrants	—	36	—	36
Futures	2	—	—	2
<b>Total assets</b>	<b>\$ 2</b>	<b>\$ 1,164,960</b>	<b>\$ 1,959,802</b>	<b>\$ 3,124,764</b>
<b>Liabilities:</b>				
<b>Securities sold short, at fair value:</b>				
Government debt	\$ —	\$ (38,424)	\$ —	\$ (38,424)
Corporate debt securities	—	(218)	—	(218)
<b>Financial derivatives—liabilities, at fair value:</b>				
Credit default swaps on asset-backed indices	—	(130)	—	(130)
Credit default swaps on corporate bonds	—	(747)	—	(747)
Credit default swaps on corporate bond indices	—	(6,438)	—	(6,438)
Interest rate swaps	—	(15,174)	—	(15,174)
TBAs	—	(925)	—	(925)
Futures	(376)	—	—	(376)
Forwards	—	(279)	—	(279)
Total return swaps	—	—	(484)	(484)
<b>Other secured borrowings, at fair value</b>	<b>—</b>	<b>—</b>	<b>(754,921)</b>	<b>(754,921)</b>
<b>Total liabilities</b>	<b>\$ (376)</b>	<b>\$ (62,335)</b>	<b>\$ (755,405)</b>	<b>\$ (818,116)</b>

The following tables identify the significant unobservable inputs that affect the valuation of the Company's Level 3 assets and liabilities as of December 31, 2021 and 2020:

**December 31, 2021:**

Description	Fair Value <i>(In thousands)</i>	Valuation Technique	Unobservable Input	Range		Weighted Average
				Min	Max	
Non-Agency RMBS	\$ 89,344	Market Quotes	Non Binding Third-Party Valuation	\$ 0.34	\$ 222.87	\$ 85.17
	45,544	Discounted Cash Flows				
	134,888		Yield <sup>(1)</sup>	— %	38.6 %	6.8 %
			Projected Collateral Prepayments	— %	74.4 %	39.1 %
			Projected Collateral Losses	— %	82.9 %	22.5 %
			Projected Collateral Recoveries	— %	91.5 %	17.5 %
Non-Agency CMBS	12,866	Market Quotes	Non Binding Third-Party Valuation	\$ 7.00	\$ 90.77	\$ 56.98
	268	Discounted Cash Flows				
	13,134		Yield	7.6 %	26.3 %	10.3 %
			Projected Collateral Losses	— %	6.5 %	2.3 %
			Projected Collateral Recoveries	10.0 %	100.0 %	95.0 %
CLOs	18,664	Market Quotes	Non Binding Third-Party Valuation	\$ 14.00	\$ 99.75	\$ 54.99
	8,014	Discounted Cash Flows				
	26,678		Yield <sup>(2)</sup>	9.0 %	292.1 %	32.8 %
			Projected Collateral Prepayments	13.4 %	94.5 %	91.3 %
			Projected Collateral Losses	1.9 %	68.9 %	4.4 %
			Projected Collateral Recoveries	1.3 %	17.8 %	3.4 %
Agency interest only RMBS	3,558	Market Quotes	Non Binding Third-Party Valuation	\$ 0.72	\$ 20.36	\$ 7.31
	6,152	Option Adjusted Spread ("OAS")				
	9,710		LIBOR OAS <sup>(3)(4)</sup>	135	19,247	683
			Projected Collateral Prepayments	49.5 %	100.0 %	78.8 %
ABS backed by consumer loans	73,108	Discounted Cash Flows	Yield	9.5 %	22.8 %	15.7 %
			Projected Collateral Prepayments	0.0 %	11.6 %	9.0 %
			Projected Collateral Losses	1.0 %	31.1 %	20.9 %
Corporate debt and equity	12,754	Discounted Cash Flows	Yield	8.1 %	44.3 %	14.7 %
Performing and re-performing residential mortgage loans	933	Recent Transactions	Transaction Price	n/a	n/a	n/a
	951,723	Discounted Cash Flows				
	952,656		Yield	0.9 %	57.5 %	4.7 %

Description	Fair Value (In thousands)	Valuation Technique	Unobservable Input	Range		Weighted Average
				Min	Max	
(continued)						
Securitized residential mortgage loans <sup>(5)(6)</sup>	\$ 1,003,164	Market Quotes	Non Binding Third-Party Valuation	\$ 88.36	\$ 102.14	\$ 99.83
	38,381	Discounted Cash Flows	Yield	1.3 %	23.5 %	4.2 %
	1,041,545		Yield	0.8 %	35.9 %	11.5 %
Non-performing residential mortgage loans	22,027	Discounted Cash Flows	Recovery Amount	0.5 %	174.8 %	34.8 %
			Months to Resolution	5.8	100.8	29.5
Performing commercial mortgage loans	310,735	Discounted Cash Flows	Yield	5.1 %	10.6 %	7.2 %
Non-performing commercial mortgage loans	15,462	Discounted Cash Flows	Yield	10.6 %	10.6 %	10.6 %
			Recovery Amount	100.2 %	100.2 %	100.2 %
			Months to Resolution	1.8	1.8	1.8
Consumer loans	62,365	Discounted Cash Flows	Yield	5.2 %	75.6 %	9.3 %
			Projected Collateral Prepayments	0.0 %	28.4 %	14.1 %
			Projected Collateral Losses	0.9 %	86.6 %	9.7 %
Corporate loans	7,000	Market Quotes	Non Binding Third-Party Valuation	\$ 100.00	\$ 100.00	\$ 100.00
	3,531	Discounted Cash Flows	Yield	3.0 %	21.9 %	16.1 %
	10,531		Equity Price-to-Book <sup>(7)</sup>	1.2x	1.9x	1.5x
Investment in unconsolidated entities—Loan origination entities	123,779	Enterprise Value	Net Asset Value	n/a	n/a	n/a
Investment in unconsolidated entities—Other	57,828	Enterprise Value	Transaction Price	n/a	n/a	n/a
Investment in unconsolidated entities—Loan origination entities	14,036	Recent Transactions				
	195,643					
Credit default swaps on asset-backed securities	303	Net Discounted Cash Flows	Projected Collateral Prepayments	33.9 %	41.9 %	40.1 %
			Projected Collateral Losses	6.5 %	8.8 %	7.0 %
			Projected Collateral Recoveries	11.2 %	11.4 %	11.3 %
Other secured borrowings, at fair value <sup>(5)</sup>	(984,168)	Market Quotes	Non Binding Third-Party Valuation	\$ 93.34	\$ 102.14	\$ 99.94
			Yield	1.8%	2.5%	2.1%
			Projected Collateral Prepayments	—%	97.2%	68.1%

- (1) For the range minimum, the range maximum, and the weighted average yield, excludes non-Agency RMBS with a negative yield, with a total fair value of \$2.1 million. Including these securities the weighted average yield was 6.5%.
- (2) For the range minimum, the range maximum, and the weighted average yield, excludes CLOs with a negative yield, with a total fair value of \$14 thousand. Including these securities the weighted average yield was 32.7%.
- (3) Shown in basis points.
- (4) For range minimum, range maximum, and the weighted average of LIBOR OAS, excludes Agency interest only securities with a negative LIBOR OAS, with a total fair value of \$2.1 million. Including these securities the weighted average was 485 basis points.
- (5) Securitized residential mortgage loans and Other secured borrowings, at fair value, represent financial assets and liabilities of the Company's CFEs as discussed in Note 2.
- (6) Includes \$8.8 million of non-performing securitized residential mortgage loans.
- (7) Represents an estimation of where market participants might value an enterprise on a price-to-book basis.

December 31, 2020:

Description	Fair Value (In thousands)	Valuation Technique	Unobservable Input	Range		Weighted Average
				Min	Max	
Non-Agency RMBS	\$ 70,619	Market Quotes	Non Binding Third-Party Valuation	\$ 9.53	\$ 204.61	\$ 85.70
	57,219	Discounted Cash Flows				
	<u>127,838</u>		Yield <sup>(1)</sup>	0.7 %	52.6 %	7.4 %
			Projected Collateral Prepayments	— %	99.1 %	45.3 %
			Projected Collateral Losses	0.4 %	72.6 %	18.4 %
			Projected Collateral Recoveries	— %	79.1 %	16.8 %
Non-Agency CMBS	53,199	Market Quotes	Non Binding Third-Party Valuation	\$ 4.79	\$ 98.00	\$ 65.20
	9,949	Discounted Cash Flows				
	<u>63,148</u>		Yield	3.7 %	26.3 %	8.7 %
			Projected Collateral Losses	0.7 %	10.7 %	3.6 %
			Projected Collateral Recoveries	72.4 %	96.1 %	90.6 %
CLOs	102,910	Market Quotes	Non Binding Third-Party Valuation	\$ 2.00	\$ 330.00	\$ 88.66
	8,190	Discounted Cash Flows				
	<u>111,100</u>		Yield	3.4 %	35.4 %	10.5 %
			Projected Collateral Prepayments	41.2 %	97.7 %	65.7 %
			Projected Collateral Losses	1.7 %	28.9 %	11.2 %
			Projected Collateral Recoveries	0.6 %	15.2 %	7.9 %
Agency interest only RMBS	4,844	Market Quotes	Non Binding Third-Party Valuation	\$ 1.91	\$ 18.91	\$ 8.38
	6,819	Option Adjusted Spread ("OAS")				
	<u>11,663</u>		LIBOR OAS <sup>(2)(3)</sup>	297	2,886	914
			Projected Collateral Prepayments	8.3 %	100.0 %	75.9 %
ABS backed by consumer loans	97	Market Quotes	Non Binding Third-Party Valuation	\$ 96.51	\$ 98.43	\$ 97.33
	44,828	Discounted Cash Flows				
	<u>44,925</u>		Yield	12.6 %	27.5 %	15.6 %
			Projected Collateral Prepayments	0.0 %	11.6 %	7.7 %
			Projected Collateral Losses	1.0 %	21.1 %	17.1 %
Corporate debt and equity	5,672	Discounted Cash Flows	Yield	8.1 %	10.8 %	9.7 %
Performing and re-performing residential mortgage loans	338,265	Discounted Cash Flows	Yield	2.5 %	28.5 %	5.4 %
	15,659	Recent Transactions	Transaction Price	\$ 60.00	\$ 103.88	\$ 103.44
	<u>353,924</u>					
Securitized residential mortgage loans <sup>(4)(5)</sup>	783,162	Market Quotes	Non Binding Third-Party Valuation	\$ 5.34	\$ 105.61	\$ 100.22
	18,182	Discounted Cash Flows				
	<u>801,343</u>		Yield	— %	38.7 %	4.4 %

Description (Continued)	Fair Value (In thousands)	Valuation Technique	Unobservable Input	Range		Weighted Average
				Min	Max	
Non-performing residential mortgage loans	\$ 31,802	Discounted Cash Flows	Yield	1.2 %	41.0 %	12.1 %
			Recovery Amount	0.9 %	1713.0 %	30.6 %
			Months to Resolution	0.0	106.6	30.0
Performing commercial mortgage loans	181,545	Discounted Cash Flows	Yield	3.7 %	9.7 %	8.1 %
Non-performing commercial mortgage loans	31,486	Discounted Cash Flows	Yield	8.6 %	14.6 %	10.8 %
			Recovery Amount	100.0 %	102.4 %	100.8 %
			Months to Resolution	1.8	5.8	3.7
Consumer loans	47,525	Discounted Cash Flows	Yield	7.8 %	28.1 %	11.2 %
			Projected Collateral Prepayments	0.0 %	36.0 %	17.3 %
			Projected Collateral Losses	0.9 %	86.6 %	9.4 %
Corporate loans	5,855	Market Quotes	Non Binding Third-Party Valuation	\$ 100.00	\$ 100.00	\$ 100.00
			Yield	21.1 %	21.1 %	21.1 %
Investment in unconsolidated entities—Loan Originators <sup>(1)</sup>	79,536	Enterprise Value	Equity Price-to-Book <sup>(7)</sup>	1.4x	6.2x	1.8x
Investment in unconsolidated entities—Other <sup>(2)</sup>	62,084	Enterprise Value	Net Asset Value	n/a	n/a	n/a
	<u>141,620</u>					
Total return swaps—asset	9	Discounted Cash Flows	Yield	22.0 %	22.0 %	22.0 %
Credit default swaps on asset-backed securities	347	Net Discounted Cash Flows	Projected Collateral Prepayments	32.7 %	39.7 %	38.1 %
			Projected Collateral Losses	6.6 %	10.8 %	8.9 %
			Projected Collateral Recoveries	13.9 %	18.1 %	15.6 %
Total return swaps—liability	(484)	Discounted Cash Flows	Yield	16.8%	16.8%	16.8%
Other secured borrowings, at fair value <sup>(4)</sup>	(754,921)	Market Quotes	Non Binding Third-Party Valuation	\$ 85.37	\$ 105.61	\$ 102.04
			Yield	1.6%	3.0%	2.6%
			Projected Collateral Prepayments	—%	75.3%	48.7%

- (1) For the range minimum, the range maximum, and the weighted average yield, excludes non-Agency RMBS with a negative yield, with a total fair value of \$0.3 million. Including these securities the weighted average yield was 7.3%.
- (2) Shown in basis points.
- (3) For range minimum, range maximum, and the weighted average of LIBOR OAS, excludes Agency interest only securities with a negative LIBOR OAS, with a total fair value of \$4.5 million. Including these securities the weighted average was 396 basis points.
- (4) Securitized residential mortgage loans and Other secured borrowings, at fair value, represent financial assets and liabilities of the Company's CFEs as discussed in Note 2.
- (5) Includes \$26.4 million of non-performing securitized residential mortgage loans.
- (6) Conformed to current period presentation.
- (7) Represent an estimation of where market participants might value an enterprise on a price-to-book basis.

Third-party non-binding valuations are validated by comparing such valuations to internally generated prices based on the Company's models and, when available, to recent trading activity in the same or similar instruments.

For those instruments valued using discounted and net discounted cash flows, collateral prepayments, losses, recoveries, and scheduled amortization are projected over the remaining life of the collateral and expressed as a percentage of the collateral's current principal balance. Averages are weighted based on the fair value of the related instrument. In the case of credit default swaps on asset-backed securities, averages are weighted based on each instrument's bond equivalent value. Bond equivalent value represents the investment amount of a corresponding position in the reference obligation, calculated as the difference between the outstanding principal balance of the underlying reference obligation and the fair value, inclusive of accrued interest, of the derivative contract. For those assets valued using the LIBOR Option Adjusted Spread ("LIBOR OAS") valuation methodology, cash flows are projected using the Company's models over multiple interest rate scenarios, and these projected cash flows are then discounted using the LIBOR rates implied by each interest rate scenario. The LIBOR OAS of an asset is then computed as the unique constant yield spread that, when added to all LIBOR rates in each interest rate scenario

generated by the model, will equate (a) the expected present value of the projected asset cash flows over all model scenarios to (b) the actual current market price of the asset. LIBOR OAS is therefore model-dependent. Generally speaking, LIBOR OAS measures the additional yield spread over LIBOR that an asset provides at its current market price after taking into account any interest rate options embedded in the asset. The Company considers the expected timeline to resolution in the determination of fair value for its non-performing commercial and residential mortgage loans.

Material changes in any of the inputs above in isolation could result in a significant change to reported fair value measurements. Additionally, fair value measurements are impacted by the interrelationships of these inputs. For example, for instruments subject to prepayments and credit losses, such as non-Agency RMBS and consumer loans and ABS backed by consumer loans, a higher expectation of collateral prepayments will generally be accompanied by a lower expectation of collateral losses. Conversely, higher losses will generally be accompanied by lower prepayments. Because the Company's credit default swaps on asset-backed security holdings represent credit default swap contracts whereby the Company has purchased credit protection, such credit default swaps on asset-backed securities generally have the directionally opposite sensitivity to prepayments, losses, and recoveries as compared to the Company's long securities holdings. Prepayments do not represent a significant input for the Company's commercial mortgage-backed securities and commercial mortgage loans. Losses and recoveries do not represent a significant input for the Company's Agency RMBS interest only securities, given the guarantee of the issuing government agency or government-sponsored enterprise.



The tables below includes a roll-forward of the Company's financial instruments for the years ended December 31, 2021, 2020, and 2019 (including the change in fair value), for financial instruments classified by the Company within Level 3 of the valuation hierarchy.

**Year Ended December 31, 2021**

(In thousands)	Beginning Balance as of December 31, 2020	Accreted Discounts / (Amortized Premiums)	Net Realized Gain/ (Loss)	Change in Net Unrealized Gain/(Loss)	Purchases/Payments <sup>(1)</sup>	Sales/Issuances <sup>(2)</sup>	Transfers Into Level 3	Transfers Out of Level 3	Ending Balance as of December 31, 2021
<b>Assets:</b>									
<b>Securities, at fair value:</b>									
Agency RMBS	\$ 11,663	\$ (3,565)	\$ 882	\$ (1,924)	\$ 2,889	\$ (1,533)	\$ 3,683	\$ (2,385)	\$ 9,710
Non-Agency RMBS	127,838	2,484	3,363	(3,735)	51,099	(49,406)	8,181	(4,936)	134,888
CMBS	63,148	434	4,329	5,000	902	(60,449)	389	(619)	13,134
CLOs	111,100	(1,580)	935	18,843	104	(78,892)	1,544	(25,376)	26,678
Asset-backed securities backed by consumer loans	44,925	(5,537)	(1,881)	(2,122)	77,713	(39,990)	—	—	73,108
Corporate debt securities	4,082	—	1,818	212	4,224	(5,138)	—	—	5,198
Corporate equity securities	1,590	—	324	1,783	5,829	(1,970)	—	—	7,556
<b>Loans, at fair value:</b>									
Residential mortgage loans	1,187,069	(13,746)	(423)	(20,204)	1,546,371	(682,839)	—	—	2,016,228
Commercial mortgage loans	213,031	(8)	304	(271)	403,078	(289,937)	—	—	326,197
Consumer loans	47,525	(7,633)	(1,415)	(5)	58,010	(34,117)	—	—	62,365
Corporate loan	5,855	—	—	—	11,334	(6,658)	—	—	10,531
<b>Investments in unconsolidated entities, at fair value</b>	<b>141,620</b>	<b>—</b>	<b>5,510</b>	<b>52,594</b>	<b>168,757</b>	<b>(172,838)</b>	<b>—</b>	<b>—</b>	<b>195,643</b>
<b>Financial derivatives—assets, at fair value:</b>									
Credit default swaps on asset-backed securities	347	—	34	(44)	15	(49)	—	—	303
Total return swaps	9	—	170	(9)	—	(170)	—	—	—
<b>Total assets, at fair value</b>	<b>\$ 1,959,802</b>	<b>\$ (29,151)</b>	<b>\$ 13,950</b>	<b>\$ 50,118</b>	<b>\$ 2,330,325</b>	<b>\$ (1,423,986)</b>	<b>\$ 13,797</b>	<b>\$ (33,316)</b>	<b>\$ 2,881,539</b>
<b>Liabilities:</b>									
<b>Financial derivatives—liabilities, at fair value:</b>									
Total return swaps	\$ (484)	\$ —	\$ (1,427)	\$ 484	\$ 1,427	\$ —	\$ —	\$ —	\$ —
<b>Other secured borrowings, at fair value</b>	<b>(754,921)</b>	<b>—</b>	<b>—</b>	<b>15,843</b>	<b>583,874</b>	<b>(828,964)</b>	<b>—</b>	<b>—</b>	<b>(984,168)</b>
<b>Total liabilities, at fair value</b>	<b>\$ (755,405)</b>	<b>\$ —</b>	<b>\$ (1,427)</b>	<b>\$ 16,327</b>	<b>\$ 585,301</b>	<b>\$ (828,964)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (984,168)</b>

- (1) For Investments in unconsolidated entities, at fair value, amount represents contributions to investments in unconsolidated entities.  
(2) For Investments in unconsolidated entities, at fair value, amount represents distributions from investments in unconsolidated entities.

All amounts of net realized and change in net unrealized gain (loss) in the table above are reflected in the accompanying Consolidated Statement of Operations. The table above incorporates changes in net unrealized gain (loss) for both Level 3 financial instruments held by the Company at December 31, 2021, as well as Level 3 financial instruments disposed of by the Company during the year ended December 31, 2021. For Level 3 financial instruments held by the Company at December 31, 2021, change in net unrealized gain (loss) of \$7.0 million, \$(20.5) million, \$51.7 million, \$(43) thousand, and \$15.8 million, for the year ended December 31, 2021 relate to securities, loans, investments in unconsolidated entities, financial derivatives—assets, and other secured borrowings, at fair value, respectively.

At December 31, 2021, the Company transferred \$33.3 million of assets from Level 3 to Level 2 and \$13.8 million from Level 2 to Level 3. Transfers between these hierarchy levels were based on the availability of sufficient observable inputs to meet Level 2 versus Level 3 criteria. The leveling of each financial instrument is reassessed at the end of each period, and is based on pricing information received from third-party pricing sources.

## Year Ended December 31, 2020

(In thousands)	Beginning Balance as of December 31, 2019	Accreted Discounts / (Amortized Premiums)	Net Realized Gain/ (Loss)	Change in Net Unrealized Gain/(Loss)	Purchases/ Payments <sup>(1)</sup>	Sales/ Issuances <sup>(2)</sup>	Transfers Into Level 3	Transfers Out of Level 3	Ending Balance as of December 31, 2020
<b>Assets:</b>									
<b>Securities, at fair value:</b>									
Agency RMBS	\$ 19,904	\$ (7,903)	\$ 722	\$ 3,175	\$ 8,307	\$ (5,046)	\$ 1,083	\$ (8,579)	\$ 11,663
Non-Agency RMBS	89,581	1,557	1,009	(1,283)	64,362	(40,841)	17,425	(3,972)	127,838
CMBS	29,805	813	62	(2,477)	52,915	(38,553)	20,583	—	63,148
CLOs	44,979	2,185	(8,862)	(13,132)	48,120	(6,747)	53,052	(8,495)	111,100
Asset-backed securities backed by consumer loans	48,610	(4,986)	(138)	(1,245)	30,899	(28,215)	—	—	44,925
Corporate debt securities	1,113	—	914	1,068	5,668	(4,681)	—	—	4,082
Corporate equity securities	1,394	—	7	(165)	366	(12)	—	—	1,590
<b>Loans, at fair value:</b>									
Residential mortgage loans	932,203	(6,445)	(165)	11,593	594,397	(344,514)	—	—	1,187,069
Commercial mortgage loans	274,759	128	135	(166)	121,844	(183,669)	—	—	213,031
Consumer loans	186,954	(24,586)	(4,843)	(2,891)	141,245	(248,354)	—	—	47,525
Corporate loan	18,510	—	—	—	1,445	(14,100)	—	—	5,855
<b>Investment in unconsolidated entities, at fair value</b>	<b>71,850</b>	<b>—</b>	<b>424</b>	<b>37,509</b>	<b>61,589</b>	<b>(29,752)</b>	<b>—</b>	<b>—</b>	<b>141,620</b>
<b>Financial derivatives—assets, at fair value:</b>									
Credit default swaps on asset-backed securities	993	—	(5,451)	5,402	24	(621)	—	—	347
Total return swaps	620	—	288	(611)	126	(414)	—	—	9
<b>Total assets, at fair value</b>	<b>\$ 1,721,275</b>	<b>\$ (39,237)</b>	<b>\$ (15,898)</b>	<b>\$ 36,777</b>	<b>\$ 1,131,307</b>	<b>\$ (945,519)</b>	<b>\$ 92,143</b>	<b>\$ (21,046)</b>	<b>\$ 1,959,802</b>
<b>Liabilities:</b>									
<b>Financial derivatives—liabilities, at fair value:</b>									
Total return swaps	\$ (436)	\$ —	\$ (551)	\$ (48)	\$ 592	\$ (41)	\$ —	\$ —	\$ (484)
<b>Other secured borrowings, at fair value<sup>(3)</sup></b>	<b>(594,396)</b>	<b>—</b>	<b>—</b>	<b>(9,316)</b>	<b>305,828</b>	<b>(457,037)</b>	<b>—</b>	<b>—</b>	<b>(754,921)</b>
<b>Total liabilities, at fair value</b>	<b>\$ (594,832)</b>	<b>\$ —</b>	<b>\$ (551)</b>	<b>\$ (9,364)</b>	<b>\$ 306,420</b>	<b>\$ (457,078)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (755,405)</b>

(1) For Investments in unconsolidated entities, at fair value, amount represents contributions to investments in unconsolidated entities.

(2) For Investments in unconsolidated entities, at fair value, amount represents distributions from investments in unconsolidated entities.

(3) Conformed to current period presentation.

All amounts of net realized and change in net unrealized gain (loss) in the table above are reflected in the accompanying Consolidated Statement of Operations. The table above incorporates changes in net unrealized gain (loss) for both Level 3 financial instruments held by the Company at December 31, 2020, as well as Level 3 financial instruments disposed of by the Company during the year ended December 31, 2020. For Level 3 financial instruments held by the Company at December 31, 2020, change in net unrealized gain (loss) of \$(33.3) million, \$8.6 million, \$37.1 million, \$0.5 million, \$(0.5) million, and \$(9.3) million, for the year ended December 31, 2020 relate to securities, loans, investments in unconsolidated entities, financial derivatives—assets, financial derivatives—liabilities, and other secured borrowings, at fair value, respectively.

At December 31, 2020, the Company transferred \$21.0 million of assets from Level 3 to Level 2 and \$92.1 million from Level 2 to Level 3. Transfers between these hierarchy levels were based on the availability of sufficient observable inputs to meet Level 2 versus Level 3 criteria. The leveling of each financial instrument is reassessed at the end of each period, and is based on pricing information received from third-party pricing sources.

Year Ended December 31, 2019

(In thousands)	Beginning Balance as of January 1, 2019	Accreted Discounts / (Amortized Premiums)	Net Realized Gain/ (Loss)	Change in Net Unrealized Gain/(Loss)	Purchases/ Payments <sup>(1)</sup>	Sales/ Issuances <sup>(2)</sup>	Transfers Into Level 3	Transfers Out of Level 3	Ending Balance as of December 31, 2019
<b>Assets:</b>									
<b>Securities, at fair value:</b>									
Agency RMBS	\$ 7,293	\$ (3,464)	\$ (1,787)	\$ 808	\$ 13,818	\$ (1,306)	\$ 5,370	\$ (828)	\$ 19,904
Non-Agency RMBS	91,291	270	5,636	(3,654)	21,512	(33,664)	15,354	(7,164)	89,581
CMBS	803	16	180	(246)	31,464	(5,271)	2,859	—	29,805
CLOs	14,915	(268)	(3,190)	2,329	25,531	(5,112)	11,984	(1,210)	44,979
Asset-backed securities backed by consumer loans	22,800	(2,520)	(891)	873	42,137	(13,789)	—	—	48,610
Corporate debt securities	6,318	22	(1,341)	188	11,024	(15,098)	—	—	1,113
Corporate equity securities	1,534	—	(1,807)	205	1,462	—	—	—	1,394
<b>Loans, at fair value:</b>									
Residential mortgage loans	496,830	(6,081)	1,466	8,800	661,813	(230,625)	—	—	932,203
Commercial mortgage loans	195,301	(282)	2,412	(2,083)	175,689	(96,278)	—	—	274,759
Consumer loans	183,961	(28,521)	(6,291)	3,000	183,994	(149,189)	—	—	186,954
Corporate loan	—	36	—	(36)	18,510	—	—	—	18,510
<b>Investment in unconsolidated entities, at fair value</b>	<b>72,298</b>	<b>—</b>	<b>1,545</b>	<b>8,664</b>	<b>42,173</b>	<b>(52,830)</b>	<b>—</b>	<b>—</b>	<b>71,850</b>
<b>Financial derivatives—assets, at fair value:</b>									
Credit default swaps on asset-backed securities	1,472	—	528	(479)	33	(561)	—	—	993
Total return swaps	—	—	160	620	—	(160)	—	—	620
<b>Total assets, at fair value</b>	<b>\$ 1,094,816</b>	<b>\$ (40,792)</b>	<b>\$ (3,380)</b>	<b>\$ 18,989</b>	<b>\$ 1,229,160</b>	<b>\$ (603,883)</b>	<b>\$ 35,567</b>	<b>\$ (9,202)</b>	<b>\$ 1,721,275</b>
<b>Liabilities:</b>									
<b>Financial derivatives—liabilities, at fair value:</b>									
Total return swaps	\$ —	\$ —	\$ (15)	\$ (436)	\$ 15	\$ —	\$ —	\$ —	\$ (436)
<b>Other secured borrowings, at fair value<sup>(3)</sup></b>	<b>(297,948)</b>	<b>—</b>	<b>—</b>	<b>(760)</b>	<b>182,291</b>	<b>(477,979)</b>	<b>—</b>	<b>—</b>	<b>(594,396)</b>
<b>Total liabilities, at fair value</b>	<b>\$ (297,948)</b>	<b>\$ —</b>	<b>\$ (15)</b>	<b>\$ (1,196)</b>	<b>\$ 182,306</b>	<b>\$ (477,979)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (594,832)</b>

- (1) For Investments in unconsolidated entities, at fair value, amount represents contributions to investments in unconsolidated entities.  
(2) For Investments in unconsolidated entities, at fair value, amount represents distributions from investments in unconsolidated entities.  
(3) Conformed to current period presentation.

All amounts of net realized and change in net unrealized gain (loss) in the table above are reflected in the accompanying Consolidated Statement of Operations. The table above incorporates changes in net unrealized gain (loss) for both Level 3 financial instruments held by the Company at December 31, 2019, as well as Level 3 financial instruments disposed of by the Company during the year ended December 31, 2019. For Level 3 financial instruments held by the Company at December 31, 2019, change in net unrealized gain (loss) of \$2.4 million, \$11.5 million, \$5.2 million, \$0.1 million, \$(0.4) million, and \$(0.8) million, for the year ended December 31, 2019 relate to securities, loans, investments in unconsolidated entities, financial derivatives—assets, financial derivatives—liabilities, and other secured borrowings, at fair value, respectively.

At December 31, 2019, the Company transferred \$9.2 million of assets from Level 3 to Level 2 and \$35.6 million from Level 2 to Level 3. Transfers between these hierarchy levels were based on the availability of sufficient observable inputs to meet Level 2 versus Level 3 criteria. The leveling of each financial instrument is reassessed at the end of each period, and is based on pricing information received from third-party pricing sources.

The following table summarizes the estimated fair value of all other financial instruments not measured at fair value on a recurring basis as of December 31, 2021 and 2020:

(In thousands)	As of			
	December 31, 2021		December 31, 2020	
	Fair Value	Carrying Value	Fair Value	Carrying Value
<b>Other financial instruments</b>				
<b>Assets:</b>				
Cash and cash equivalents	\$ 92,661	\$ 92,661	\$ 111,647	\$ 111,647
Restricted cash	175	175	175	175
Due from brokers	93,549	93,549	63,147	63,147
Reverse repurchase agreements	123,250	123,250	38,640	38,640
<b>Liabilities:</b>				
Repurchase agreements	2,469,763	2,469,763	1,496,931	1,496,931
Other secured borrowings	96,622	96,622	51,062	51,062
Senior notes, net	86,249	85,802	86,000	85,561
Due to brokers	2,233	2,233	5,059	5,059

Cash and cash equivalents generally includes cash held in interest bearing overnight accounts, for which fair value equals the carrying value, and investments which are liquid in nature, such as investments in money market accounts or U.S. Treasury Bills, for which fair value equals the carrying value; such assets are considered Level 1. Restricted cash includes cash held in a segregated account for which fair value equals the carrying value; such assets are considered Level 1. Due from brokers and Due to brokers include collateral transferred to or received from counterparties, along with receivables and payables for open and/or closed derivative positions. These receivables and payables are short term in nature and any collateral transferred consists primarily of cash; fair value of these items is approximated by carrying value and such items are considered Level 1. The Company's reverse repurchase agreements, repurchase agreements, and other secured borrowings are carried at cost, which approximates fair value due to their short term nature. Reverse repurchase agreements, repurchase agreements, and other secured borrowings are classified as Level 2 based on the adequacy of the collateral and their short term nature. Senior notes, net are considered Level 3 liabilities given the relative unobservability of the most significant inputs to valuation estimation as well as the lack of trading activity of these instruments. As of December 31, 2021 and 2020, the estimated fair value of the Company's Senior notes was based on a third-party valuation.

#### 4. Investment in Securities

The Company's securities portfolio primarily consists of Agency RMBS, non-Agency RMBS, CMBS, CLOs, ABS backed by consumer loans, and corporate debt and equity. The following tables detail the Company's investment in securities as of December 31, 2021 and 2020.

##### December 31, 2021:

(\$ in thousands)	Current Principal	Unamortized Premium (Discount)	Amortized Cost	Gross Unrealized		Fair Value	Weighted Average		
				Gains	Losses		Coupon <sup>(1)</sup>	Yield	Life (Years) <sup>(2)</sup>
Long:									
Agency RMBS:									
15-year fixed-rate mortgages	\$ 223,140	\$ 10,668	\$ 233,808	\$ 696	\$ (1,953)	\$ 232,551	2.65 %	1.44 %	4.45
20-year fixed-rate mortgages	46,353	2,800	49,153	16	(1,280)	47,889	2.42 %	1.31 %	5.62
30-year fixed-rate mortgages	1,265,499	59,047	1,324,546	8,187	(12,311)	1,320,422	3.01 %	2.13 %	7.00
Adjustable rate mortgages	9,131	566	9,697	25	(266)	9,456	3.15 %	2.12 %	4.62
Reverse mortgages	50,601	3,215	53,816	300	(1,106)	53,010	3.06 %	2.21 %	4.17
Interest only securities	n/a	n/a	32,607	3,371	(2,690)	33,288	3.46 %	8.91 %	4.33
Non-Agency RMBS	326,762	(130,015)	196,747	10,276	(5,418)	201,605	4.17 %	6.15 %	3.99
CMBS	46,873	(23,570)	23,303	469	(892)	22,880	2.84 %	7.00 %	7.85
Non-Agency interest only securities	n/a	n/a	16,701	1,405	(394)	17,712	0.64 %	14.71 %	5.43
CLOs	n/a	n/a	70,444	5,919	(14,034)	62,329	3.59 %	8.94 %	3.11
ABS backed by consumer loans	118,154	(43,139)	75,015	1,242	(3,149)	73,108	11.65 %	14.80 %	1.30
Corporate debt	28,565	(24,425)	4,140	1,723	(309)	5,554	0.65 %	7.50 %	1.96
Corporate equity	n/a	n/a	5,788	2,691	(923)	7,556	n/a	n/a	n/a
Total Long	2,115,078	(144,853)	2,095,765	36,320	(44,725)	2,087,360	3.37 %	3.37 %	5.90
Short:									
U.S. Treasury securities	(93,750)	1,421	(92,329)	406	(267)	(92,190)	1.13 %	1.31 %	7.81
European sovereign bonds	(28,086)	170	(27,916)	156	(575)	(28,335)	0.01 %	0.05 %	3.18
Total Short	(121,836)	1,591	(120,245)	562	(842)	(120,525)	0.87 %	1.02 %	6.73
Total	\$ 1,993,242	\$ (143,262)	\$ 1,975,520	\$ 36,882	\$ (45,567)	\$ 1,966,835	3.52 %	3.24 %	5.94

(1) Weighted average coupon represents the weighted average coupons of the securities, rather than, in the case of collateralized securities, the coupon rates or loan rates on the underlying collateral.

(2) Expected average lives of MBS are generally shorter than stated contractual maturities. Average lives are affected by the contractual maturities of the underlying mortgages, scheduled periodic payments of principal, and unscheduled prepayments of principal.

December 31, 2020:

(\$ in thousands)	Current Principal	Unamortized Premium (Discount)	Amortized Cost	Gross Unrealized		Fair Value	Weighted Average		
				Gains	Losses		Coupon <sup>(1)</sup>	Yield	Life (Years) <sup>(2)</sup>
<b>Long:</b>									
<b>Agency RMBS:</b>									
15-year fixed-rate mortgages	\$ 67,875	\$ 2,543	\$ 70,418	\$ 1,832	\$ (36)	\$ 72,214	3.30 %	1.83 %	3.24
20-year fixed-rate mortgages	50,131	3,097	53,228	182	—	53,410	2.57 %	1.08 %	4.46
30-year fixed-rate mortgages	626,021	30,738	656,759	25,765	(444)	682,080	3.99 %	2.35 %	4.17
Adjustable rate mortgages	6,171	159	6,330	124	—	6,454	3.66 %	2.27 %	3.42
Reverse mortgages	89,383	5,152	94,535	3,123	(29)	97,629	3.97 %	2.37 %	4.60
Interest only securities	n/a	n/a	43,406	5,808	(1,558)	47,656	3.36 %	10.01 %	4.85
Non-Agency RMBS	321,842	(131,083)	190,759	15,880	(5,549)	201,090	3.15 %	6.40 %	5.46
CMBS	188,085	(61,763)	126,322	1,655	(16,910)	111,067	2.71 %	7.47 %	8.09
Non-Agency interest only securities	n/a	n/a	8,123	1,792	(305)	9,610	1.17 %	18.85 %	3.49
CLOs	n/a	n/a	208,907	2,563	(30,199)	181,271	3.67 %	8.50 %	3.50
ABS backed by consumer loans	69,646	(24,936)	44,710	221	(6)	44,925	11.95 %	18.57 %	1.11
Corporate debt	27,083	(23,187)	3,896	1,296	(3)	5,189	2.13 %	6.75 %	3.10
Corporate equity	n/a	n/a	1,604	376	(390)	1,590	n/a	n/a	n/a
<b>Total Long</b>	<b>1,446,237</b>	<b>(199,280)</b>	<b>1,508,997</b>	<b>60,617</b>	<b>(55,429)</b>	<b>1,514,185</b>	<b>3.84 %</b>	<b>4.88 %</b>	<b>4.45</b>
<b>Short:</b>									
Corporate debt	(200)	(1)	(201)	—	(17)	(218)	5.09 %	4.67 %	6.42
European sovereign bonds	(37,804)	3,163	(34,641)	—	(3,783)	(38,424)	0.23 %	0.06 %	3.11
<b>Total Short</b>	<b>(38,004)</b>	<b>3,162</b>	<b>(34,842)</b>	<b>—</b>	<b>(3,800)</b>	<b>(38,642)</b>	<b>0.26 %</b>	<b>0.09 %</b>	<b>3.13</b>
<b>Total</b>	<b>\$ 1,408,233</b>	<b>\$ (196,118)</b>	<b>\$ 1,474,155</b>	<b>\$ 60,617</b>	<b>\$ (59,229)</b>	<b>\$ 1,475,543</b>	<b>3.92 %</b>	<b>4.77 %</b>	<b>4.49</b>

(1) Weighted average coupon represents the weighted average coupons of the securities, rather than, in the case of collateralized securities, the coupon rates or loan rates on the underlying collateral.

(2) Expected average lives of MBS are generally shorter than stated contractual maturities. Average lives are affected by the contractual maturities of the underlying mortgages, scheduled periodic payments of principal, and unscheduled prepayments of principal.

The following tables detail weighted average life of the Company's Agency RMBS as of December 31, 2021 and 2020.

**December 31, 2021:**

(\$ in thousands)

Estimated Weighted Average Life <sup>(1)</sup>	Agency RMBS			Agency Interest Only Securities		
	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(2)</sup>	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(2)</sup>
Less than three years	\$ 45,956	\$ 45,678	3.99 %	\$ 8,981	\$ 8,466	3.10 %
Greater than three years and less than seven years	950,723	955,157	3.24 %	22,497	22,379	3.76 %
Greater than seven years and less than eleven years	665,617	669,147	2.46 %	1,810	1,762	1.46 %
Greater than eleven years	1,032	1,038	1.99 %	—	—	— %
<b>Total</b>	<b>\$ 1,663,328</b>	<b>\$ 1,671,020</b>	<b>2.95 %</b>	<b>\$ 33,288</b>	<b>\$ 32,607</b>	<b>3.46 %</b>

- (1) Expected average lives of RMBS are generally shorter than stated contractual maturities. Average lives are affected by the contractual maturities of the underlying mortgages, scheduled periodic payments of principal, and unscheduled prepayments of principal.  
(2) Weighted average coupon represents the weighted average coupons of the securities, rather than the coupon rates or loan rates on the underlying collateral.

**December 31, 2020:**

(\$ in thousands)

Estimated Weighted Average Life <sup>(1)</sup>	Agency RMBS			Agency Interest Only Securities		
	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(2)</sup>	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(2)</sup>
Less than three years	\$ 139,059	\$ 135,844	4.15 %	\$ 8,143	\$ 7,314	3.99 %
Greater than three years and less than seven years	770,173	742,946	3.79 %	32,669	29,362	3.74 %
Greater than seven years and less than eleven years	2,555	2,480	3.01 %	5,165	5,063	1.04 %
Greater than eleven years	—	—	— %	1,679	1,667	0.83 %
<b>Total</b>	<b>\$ 911,787</b>	<b>\$ 881,270</b>	<b>3.84 %</b>	<b>\$ 47,656</b>	<b>\$ 43,406</b>	<b>3.36 %</b>

- (1) Expected average lives of RMBS are generally shorter than stated contractual maturities. Average lives are affected by the contractual maturities of the underlying mortgages, scheduled periodic payments of principal, and unscheduled prepayments of principal.  
(2) Weighted average coupon represents the weighted average coupons of the securities, rather than the coupon rates or loan rates on the underlying collateral.

The following tables detail weighted average life of the Company's long non-Agency RMBS, CMBS, and CLOs and other securities as of December 31, 2021 and 2020.

**December 31, 2021:**

(\$ in thousands)

Estimated Weighted Average Life <sup>(1)</sup>	Non-Agency RMBS and CMBS			Non-Agency IOs			CLOs and Other Securities <sup>(2)</sup>		
	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(3)</sup>	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(3)</sup>	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(3)</sup>
Less than three years	\$ 96,277	\$ 92,396	4.31 %	\$ 6,360	\$ 5,504	0.85 %	\$ 110,953	\$ 114,392	8.82 %
Greater than three years and less than seven years	93,787	90,822	4.79 %	2,187	2,141	0.12 %	30,038	35,207	3.42 %
Greater than seven years and less than eleven years	26,639	28,293	1.80 %	9,165	9,056	0.63 %	—	—	— %
Greater than eleven years	7,782	8,539	0.34 %	—	—	— %	—	—	— %
<b>Total</b>	<b>\$ 224,485</b>	<b>\$ 220,050</b>	<b>4.03 %</b>	<b>\$ 17,712</b>	<b>\$ 16,701</b>	<b>0.64 %</b>	<b>\$ 140,991</b>	<b>\$ 149,599</b>	<b>7.55 %</b>

- (1) Expected average lives of MBS are generally shorter than stated contractual maturities. Average lives are affected by the contractual maturities of the underlying mortgages, scheduled periodic payments of principal, and unscheduled prepayments of principal.  
(2) Other Securities includes asset-backed securities, backed by consumer loans and corporate debt.  
(3) Weighted average coupon represents the weighted average coupons of the securities, rather than the coupon rates or loan rates on the underlying collateral.

**December 31, 2020:**

*(\$ in thousands)*

Estimated Weighted Average Life <sup>(1)</sup>	Non-Agency RMBS and CMBS			Non-Agency IOs			CLOs and Other Securities <sup>(2)</sup>		
	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(3)</sup>	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(3)</sup>	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(3)</sup>
Less than three years	\$ 58,350	\$ 54,339	3.39 %	\$ 5,163	\$ 3,754	0.92 %	\$ 89,235	\$ 90,869	7.73 %
Greater than three years and less than seven years	114,815	109,161	3.45 %	4,447	4,369	1.37 %	139,830	163,670	3.69 %
Greater than seven years and less than eleven years	109,519	123,782	2.74 %	—	—	— %	2,320	2,974	1.14 %
Greater than eleven years	29,473	29,799	1.46 %	—	—	— %	—	—	— %
<b>Total</b>	<b>\$ 312,157</b>	<b>\$ 317,081</b>	<b>2.98 %</b>	<b>\$ 9,610</b>	<b>\$ 8,123</b>	<b>1.17 %</b>	<b>\$ 231,385</b>	<b>\$ 257,513</b>	<b>5.09 %</b>

- (1) Expected average lives of MBS are generally shorter than stated contractual maturities. Average lives are affected by the contractual maturities of the underlying mortgages, scheduled periodic payments of principal, and unscheduled prepayments of principal.  
(2) Other Securities includes asset-backed securities, backed by consumer loans, corporate debt, and U.S. Treasury securities.  
(3) Weighted average coupon represents the weighted average coupons of the securities, rather than the coupon rates or loan rates on the underlying collateral.

The following table details the components of interest income by security type for the years ended December 31, 2021, 2020, and 2019:

<i>(In thousands)</i> Security Type	December 31, 2021			December 31, 2020			December 31, 2019		
	Coupon Interest	Net Amortization	Interest Income	Coupon Interest	Net Amortization	Interest Income	Coupon Interest	Net Amortization	Interest Income
Agency RMBS	\$ 58,495	\$ (24,642)	\$ 33,853	\$ 59,987	\$ (31,975)	\$ 28,012	\$ 62,103	\$ (24,731)	\$ 37,372
Non-Agency RMBS and CMBS	13,987	3,423	17,410	15,257	5,775	21,032	13,855	2,782	16,637
CLOs	10,701	(1,035)	9,666	14,103	3,529	17,632	15,857	(1,599)	14,258
Other securities <sup>(1)</sup>	17,332	(5,538)	11,794	11,545	(4,986)	6,559	7,157	(2,468)	4,689
<b>Total</b>	<b>\$ 100,515</b>	<b>\$ (27,792)</b>	<b>\$ 72,723</b>	<b>\$ 100,892</b>	<b>\$ (27,657)</b>	<b>\$ 73,235</b>	<b>\$ 98,972</b>	<b>\$ (26,016)</b>	<b>\$ 72,956</b>

- (1) Other securities includes ABS backed by consumer loans, corporate debt securities, and U.S. Treasury securities.

For the years ended December 31, 2021, 2020, and 2019 the Catch-Up Premium Amortization Adjustment was \$1.3 million, \$(4.5) million, and \$(4.7) million, respectively.

The following tables present proceeds from sales and the resulting realized gains and (losses) of the Company's securities for the years ended December 31, 2021, 2020, and 2019.

<i>(In thousands)</i> Security Type	Year Ended December 31, 2021			
	Proceeds <sup>(1)</sup>	Gross Realized Gains	Gross Realized Losses <sup>(2)</sup>	Net Realized Gain (Loss)
Agency RMBS	\$ 963,052	\$ 5,389	\$ (10,859)	\$ (5,470)
Non-Agency RMBS and CMBS	207,232	14,144	(2,723)	11,421
CLOs	130,747	4,163	(976)	3,187
Other securities <sup>(3)</sup>	194,025	2,588	(927)	1,661
<b>Total</b>	<b>\$ 1,495,056</b>	<b>\$ 26,284</b>	<b>\$ (15,485)</b>	<b>\$ 10,799</b>

- (1) Includes proceeds on sales of securities not yet settled as of period end.  
(2) Excludes realized losses of \$(3.3) million for the year ended December 31, 2021, related to adjustments to the cost basis of certain securities for which the Company has determined all or a portion of such securities cost basis to be uncollectible.  
(3) Other securities includes ABS backed by consumer loans, corporate debt and equity, exchange-traded equity, and U.S. Treasury securities.



(In thousands)

Security Type	Year Ended December 31, 2020			
	Proceeds <sup>(1)</sup>	Gross Realized Gains	Gross Realized Losses <sup>(2)</sup>	Net Realized Gain (Loss)
Agency RMBS	\$ 1,439,413	\$ 16,260	\$ (3,481)	\$ 12,779
Non-Agency RMBS and CMBS	145,323	13,692	(4,187)	9,505
CLOs	46,632	1,122	(4,251)	(3,129)
Other securities <sup>(3)</sup>	188,152	1,662	(9)	1,653
Total	\$ 1,819,520	\$ 32,736	\$ (11,928)	\$ 20,808

(1) Includes proceeds on sales of securities not yet settled as of period end.

(2) Excludes realized losses of \$(17.7) million for the year ended December 31, 2020, related to adjustments to the cost basis of certain securities for which the Company has determined all or a portion of such securities cost basis to be uncollectible.

(3) Other securities includes ABS backed by consumer loans, corporate debt and equity, exchange-traded equity, and U.S. Treasury securities.

(In thousands)

Security Type	Year Ended December 31, 2019			
	Proceeds <sup>(1)</sup>	Gross Realized Gains	Gross Realized Losses <sup>(2)</sup>	Net Realized Gain (Loss)
Agency RMBS	\$ 1,010,251	\$ 9,006	\$ (2,254)	\$ 6,752
Non-Agency RMBS and CMBS	184,725	12,552	(4,869)	7,683
CLOs	62,063	1,286	(816)	470
Other securities <sup>(3)</sup>	636,886	1,113	2	1,115
Total	\$ 1,893,925	\$ 23,957	\$ (7,937)	\$ 16,020

(1) Includes proceeds on sales of securities not yet settled as of period end.

(2) Excludes realized losses of \$(28.7) million for the year ended December 31, 2019, related to adjustments to the cost basis of certain securities for which the Company has determined all or a portion of such securities cost basis to be uncollectible.

(3) Other securities includes ABS backed by consumer loans, corporate debt and equity, exchange-traded equity, and U.S. Treasury securities.

The following tables present the fair value and gross unrealized losses of our long securities, excluding those where there are expected credit losses as of the balance sheet date in relation to such securities' cost bases, by length of time that such securities have been in an unrealized loss position at December 31, 2021 and 2020.

**December 31, 2021:**

(In thousands)

Security Type	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Agency RMBS	\$ 1,083,017	\$ (15,190)	\$ 39,124	\$ (1,815)	\$ 1,122,141	\$ (17,005)
Non-Agency RMBS and CMBS	11,296	(802)	4,462	(1,850)	15,758	(2,652)
CLOs	624	(14)	1,302	(2,749)	1,926	(2,763)
Total	\$ 1,094,937	\$ (16,006)	\$ 44,888	\$ (6,414)	\$ 1,139,825	\$ (22,420)

**December 31, 2020:**

(In thousands)

Security Type	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Agency RMBS	\$ 126,926	\$ (981)	\$ 832	\$ (44)	\$ 127,758	\$ (1,025)
Non-Agency RMBS and CMBS	20,474	(2,616)	2,599	(348)	23,073	(2,964)
CLOs	5,279	(753)	1,196	(1,131)	6,475	(1,884)
Other securities <sup>(1)</sup>	1,107	(8)	—	—	1,107	(8)
Total	\$ 153,786	\$ (4,358)	\$ 4,627	\$ (1,523)	\$ 158,413	\$ (5,881)

(1) Other securities includes ABS backed by consumer loans, corporate debt and equity, and U.S. Treasury securities.

As described in Note 2, the Company evaluates the cost basis of its securities for impairment on at least a quarterly basis. As of December 31, 2021 and 2020, the Company had expected future credit losses, which it tracks for purposes of calculating interest income, of \$17.5 million and \$24.9 million, respectively, related to adverse changes in estimated future cash flows on its securities. Certain of the Company's securities, at the date of acquisition, have experienced or are expected to experience

more-than-insignificant deterioration in credit quality since origination and the Company has established an initial estimate for credit losses on such securities; as of December 31, 2021 and 2020, the estimated credit losses on such securities was \$0.3 million and \$2.6 million, respectively.

The Company has determined for certain securities that a portion of such securities cost basis is not collectible. For the years ended December 31, 2021 and 2020, the Company recognized realized losses on these securities of \$(3.3) million and \$(17.7) million, respectively. Such losses are reflected in Net realized gains (losses) on securities and loans, net, on the Consolidated Statement of Operations.

For the year ended December 31, 2019, the Company recognized an impairment charge of \$28.7 million on the cost basis of its securities, which is included in Realized gains (losses) on securities and loans, net, on the Consolidated Statement of Operations.

## 5. Investment in Loans

The Company invests in various types of loans, such as residential mortgage, commercial mortgage, consumer, and corporate loans. As discussed in Note 2, the Company has elected the FVO for its investments in loans. The following table is a summary of the Company's investments in loans as of December 31, 2021 and 2020:

(In thousands)	As of			
	December 31, 2021		December 31, 2020	
	Unpaid Principal Balance	Fair Value	Unpaid Principal Balance	Fair Value
Residential mortgage loans	\$ 1,969,874	\$ 2,016,228	\$ 1,150,303	\$ 1,187,0
Commercial mortgage loans	326,438	326,197	212,716	213,0
Consumer loans	59,881	62,365	48,180	47,5
Corporate loans	10,531	10,531	5,855	5,8
Total	\$ 2,366,724	\$ 2,415,321	\$ 1,417,054	\$ 1,453,4

The Company is subject to credit risk in connection with its investments in loans. The two primary components of credit risk are default risk, which is the risk that a borrower fails to make scheduled principal and interest payments, and severity risk, which is the risk of loss upon a borrower default on a mortgage loan or other secured or unsecured loan. Severity risk includes the risk of loss of value of the property or other asset, if any, securing the loan, as well as the risk of loss associated with taking over the property or other asset, if any, including foreclosure costs. Credit risk in our loan portfolio can be amplified by exogenous shocks impacting our borrowers such as man-made or natural disasters, such as the COVID-19 pandemic.

The following table provides details, by loan type, for loans that are 90 days or more past due as of December 31, 2021 and 2020:

(In thousands)	As of			
	December 31, 2021		December 31, 2020	
	Unpaid Principal Balance	Fair Value	Unpaid Principal Balance	Fair Value
<b>90 days or more past due—non-accrual status</b>				
Residential mortgage loans	\$ 36,528	\$ 33,288	\$ 64,509	\$ 60,381
Commercial mortgage loans	15,500	15,462	44,233	44,052
Consumer loans	600	589	1,015	930

*Residential Mortgage Loans*

The tables below detail certain information regarding the Company's residential mortgage loans as of December 31, 2021 and 2020.

**December 31, 2021:**

(\$ in thousands)	Unpaid Principal Balance	Premium (Discount)	Amortized Cost	Gross Unrealized		Fair Value	Weighted Average		
				Gains	Losses		Coupon	Yield	Life (Years) <sup>(1)</sup>
Residential mortgage loans, held-for-investment <sup>(2)</sup>	\$ 1,958,807	\$ 45,462	\$ 2,004,269	\$ 13,792	\$ (13,173)	\$ 2,004,888	5.63 %	4.67 %	2.06
Residential mortgage loans, held-for-sale	11,067	(1,423)	9,644	1,707	(11)	11,340	4.58	5.94 %	0.08
<b>Total residential mortgage loans</b>	<b>\$ 1,969,874</b>	<b>\$ 44,039</b>	<b>\$ 2,013,913</b>	<b>\$ 15,499</b>	<b>\$ (13,184)</b>	<b>\$ 2,016,228</b>	<b>5.63 %</b>	<b>4.68 %</b>	<b>2.05</b>

(1) Average lives of loans are generally shorter than stated contractual maturities. Average lives are affected by scheduled periodic payments of principal and unscheduled prepayments of principal.

(2) Includes \$1.042 billion of non-QM loans that have been securitized and are held in consolidated securitization trusts. Such loans had \$11.5 million and \$(3.7) million of gross unrealized gains and gross unrealized losses, respectively. See Residential Mortgage Loan Securitizations in Note 10 for additional information.

**December 31, 2020:**

(\$ in thousands)	Unpaid Principal Balance	Premium (Discount)	Amortized Cost	Gross Unrealized		Fair Value	Weighted Average		
				Gains	Losses		Coupon	Yield	Life (Years) <sup>(1)</sup>
Residential mortgage loans, held-for-investment <sup>(2)</sup>	\$ 1,150,303	\$ 14,263	\$ 1,164,566	\$ 27,892	\$ (5,389)	\$ 1,187,069	6.19 %	5.60 %	1.90

(1) Average lives of loans are generally shorter than stated contractual maturities. Average lives are affected by scheduled periodic payments of principal and unscheduled prepayments of principal.

(2) Includes \$801.3 million of non-QM loans that have been securitized and are held in consolidated securitization trusts. Such loans had \$24.8 million and \$(0.1) million of gross unrealized gains and gross unrealized losses, respectively. See Residential Mortgage Loan Securitizations in Note 10 for additional information.

The table below summarizes the geographic distribution of the real estate collateral underlying the Company's residential mortgage loans as a percentage of total outstanding unpaid principal balance as of December 31, 2021 and 2020:

Property Location by U.S. State	December 31, 2021	December 31, 2020
California	40.2 %	43.1 %
Florida	14.9 %	14.8 %
Texas	11.9 %	10.2 %
Utah	2.9 %	1.7 %
Massachusetts	2.2 %	2.6 %
Arizona	2.1 %	2.0 %
Colorado	2.0 %	3.1 %
Illinois	2.0 %	1.8 %
Nevada	1.9 %	1.9 %
Oregon	1.8 %	2.2 %
North Carolina	1.8 %	1.1 %
New York	1.7 %	1.6 %
Tennessee	1.6 %	0.8 %
Georgia	1.5 %	1.3 %
Washington	1.5 %	1.4 %
Connecticut	1.2 %	0.9 %
New Jersey	1.1 %	1.4 %
Maryland	0.7 %	1.0 %
Other	7.0 %	7.1 %
	<u>100.0 %</u>	<u>100.0 %</u>

The following table presents information on the Company's residential mortgage loans by re-performing or non-performing status, as of December 31, 2021 and 2020.

(In thousands)	As of					
	December 31, 2021			December 31, 2020		
	Unpaid Principal Balance	Fair Value		Unpaid Principal Balance	Fair Value	
Re-performing	\$ 20,712	\$ 20,611		\$ 18,120	\$ 16,7	
Non-performing	33,949	30,806		62,009	58,1	

As described in Note 2, the Company evaluates the cost basis of its residential mortgage loans for impairment on at least a quarterly basis. As of December 31, 2021 and 2020, the Company had expected future credit losses, which it tracks for purposes of calculating interest income, of \$3.0 million and \$2.2 million, respectively, related to adverse changes in estimated future cash flows on its residential mortgage loans. Certain of the Company's residential mortgage loans, at the date of acquisition, have experienced or are expected to experience more-than-insignificant deterioration in credit quality since origination and the Company has established an initial estimate for credit losses on such loans; as of December 31, 2021 and 2020, the estimated credit losses on such loans was \$0.1 million and \$0.2 million, respectively.

The Company has determined for certain of its residential mortgage loans that a portion of such loans' cost basis is not collectible. For the years ended December 31, 2021 and 2020, the Company recognized realized losses on these loans of \$(33) thousand and \$(0.8) million, respectively. Such losses are reflected in Realized gains (losses) on securities and loans, net, on the Consolidated Statement of Operations.

For the year ended December 31, 2019, the Company recognized an impairment charge of \$0.9 million on the cost basis of its residential mortgage loans, which is included in Realized gains (losses) on securities and loans, net, on the Consolidated Statement of Operations.

As of December 31, 2021 and 2020, the Company had residential mortgage loans that were in the process of foreclosure with a fair value of \$8.1 million and \$14.9 million, respectively.

**Commercial Mortgage Loans**

The tables below detail certain information regarding the Company's commercial mortgage loans as of December 31, 2021 and 2020:

**December 31, 2021:**

(\$ in thousands)	Unpaid Principal Balance	Premium (Discount)	Amortized Cost	Gross Unrealized		Fair Value	Weighted Average		
				Gains	Losses		Coupon	Yield <sup>(1)</sup>	Life (Years) <sup>(2)</sup>
Commercial mortgage loans, held-for-investment	\$ 326,438	\$ —	\$ 326,438	\$ 76	\$ (317)	\$ 326,197	7.05 %	6.99 %	1.33

(1) Excludes non-performing commercial mortgage loans, in non-accrual status, with a fair value of \$15.5 million.

(2) Average lives of loans are generally shorter than stated contractual maturities. Average lives are affected by scheduled periodic payments of principal and unscheduled prepayments of principal.

**December 31, 2020:**

(\$ in thousands)	Unpaid Principal Balance	Premium (Discount)	Amortized Cost	Gross Unrealized		Fair Value	Weighted Average		
				Gains	Losses		Coupon	Yield <sup>(1)</sup>	Life (Years) <sup>(2)</sup>
Commercial mortgage loans, held-for-investment	\$ 212,716	\$ 290	\$ 213,006	\$ 479	\$ (454)	\$ 213,031	8.38 %	8.28 %	0.62

(1) Excludes non-performing commercial mortgage loans, in non-accrual status, with a fair value of \$31.5 million.

(2) Average lives of loans are generally shorter than stated contractual maturities. Average lives are affected by scheduled periodic payments of principal and unscheduled prepayments of principal.

The table below summarizes the geographic distribution of the real estate collateral underlying the Company's commercial mortgage loans as a percentage of total outstanding unpaid principal balance as of December 31, 2021 and 2020:

Property Location by U.S. State	December 31, 2021	December 31, 2020
Florida	32.3 %	23.8 %
New York	13.5 %	15.2 %
Arizona	9.3 %	4.3 %
Tennessee	7.7 %	— %
Ohio	7.3 %	7.3 %
Missouri	7.0 %	7.9 %
North Carolina	5.9 %	2.2 %
New Jersey	5.1 %	5.8 %
Michigan	4.9 %	— %
Connecticut	3.5 %	11.2 %
New Hampshire	3.5 %	— %
Massachusetts	— %	6.1 %
California	— %	5.9 %
Virginia	— %	4.2 %
Indiana	— %	2.8 %
Nevada	— %	1.9 %
Illinois	— %	1.4 %
	100.0 %	100.0 %

As of December 31, 2021, the Company had one non-performing commercial mortgage loan with an unpaid principal balance and fair value of \$15.5 million and \$15.5 million, respectively. As of December 31, 2020, the Company had three non-performing commercial mortgage loans with an unpaid principal balance and fair value of \$31.8 million and \$31.5 million, respectively.

As described in Note 2, the Company evaluates the cost basis of its commercial mortgage loans for impairment on at least a quarterly basis. As of December 31, 2021 and 2020, the expected future credit losses, which the Company tracks for purposes

of calculating interest income, of \$0.3 million and \$0.4 million, related to adverse changes in estimated future cash flows on its commercial mortgage loans.

As of December 31, 2020, the Company had one commercial mortgage loan with a fair value of \$10.5 million that was in the process of foreclosure. The Company did not have any commercial mortgage loans in the process of foreclosure as of December 31, 2021.

**Consumer Loans**

The tables below detail certain information regarding the Company's consumer loans as of December 31, 2021 and 2020:

**December 31, 2021:**

(\$ in thousands)	Unpaid Principal Balance	Premium (Discount)	Amortized Cost	Gross Unrealized		Fair Value <sup>(1)</sup>	Weighted Average	
				Gains	Losses		Life (Years) <sup>(2)</sup>	Delinquency (Days)
Consumer loans, held-for-investment	\$ 59,881	\$ 3,212	\$ 63,093	\$ 809	\$ (1,537)	\$ 62,365	0.94	4

(1) Includes \$0.3 million of charged-off loans for which the Company has determined that it is probable the servicer will be able to collect principal and interest.

(2) Average lives of loans are generally shorter than stated contractual maturities. Average lives are affected by scheduled periodic payments of principal and unscheduled prepayments of principal.

**December 31, 2020:**

(\$ in thousands)	Unpaid Principal Balance	Premium (Discount)	Amortized Cost	Gross Unrealized		Fair Value <sup>(1)</sup>	Weighted Average	
				Gains	Losses		Life (Years) <sup>(2)</sup>	Delinquency (Days)
Consumer loans, held-for-investment	\$ 48,180	\$ 72	\$ 48,252	\$ 1,160	\$ (1,887)	\$ 47,525	1.04	7

(1) Includes \$0.6 million of charged-off loans for which the Company has determined that it is probable the servicer will be able to collect principal and interest.

(2) Average lives of loans are generally shorter than stated contractual maturities. Average lives are affected by scheduled periodic payments of principal and unscheduled prepayments of principal.

The table below provides details on the delinquency status as a percentage of total unpaid principal balance of the Company's consumer loans, which the Company uses as an indicator of credit quality, as of December 31, 2021 and 2020:

Days Past Due	December 31, 2021		December 31, 2020	
		%		%
Current	96.0	%	90.4	%
30-59 Days	1.7	%	3.4	%
60-89 Days	1.3	%	3.3	%
90-119 Days	1.0	%	2.8	%
>120 Days	—	%	0.1	%
	100.0	%	100.0	%

During the years ended December 31, 2021 and 2020, the Company charged off \$3.6 million and \$20.9 million, respectively, of unpaid principal balance of consumer loans that were greater than 120 days delinquent. As of December 31, 2021 and 2020, the Company held charged-off consumer loans with an aggregate fair value of \$0.3 million and \$0.6 million, respectively, for which the Company has determined that it is probable the servicer will be able to collect principal and interest.

As described in Note 2, the Company evaluates the cost basis of its consumer loans for impairment on at least a quarterly basis. As of December 31, 2021 and 2020, the Company had expected future credit losses, which it tracks for purposes of calculating interest income, of \$1.3 million and \$2.9 million, respectively, on its consumer loans. The Company has determined for certain of its consumer loans that a portion of such loans' cost basis is not collectible. For the years ended December 31, 2021 and 2020, the Company recognized realized losses on these loans of \$(1.4) million and \$(3.2) million, respectively.

For the year ended December 31, 2019, the Company recognized an impairment charge of \$6.3 million on the cost basis of its consumer loan pools, which is included in Realized gains (losses) on securities and loans, net, on the Consolidated Statement of Operations.

### Corporate Loans

The tables below detail certain information regarding the Company's corporate loans as of December 31, 2021 and 2020:

#### December 31, 2021:

(\$ in thousands)	Unpaid		Weighted Average	
	Principal Balance	Fair Value	Rate	Remaining Term (Years)
Corporate loans, held-for-investment <sup>(1)</sup>	\$ 10,531	\$ 10,531	16.14 %	4.01

(1) See Note 21 for further details on the Company's unfunded commitments related to certain of its corporate loans.

#### December 31, 2020:

(\$ in thousands)	Unpaid		Weighted Average	
	Principal Balance	Fair Value	Rate	Remaining Term (Years)
Corporate loans, held-for-investment <sup>(1)</sup>	\$ 5,855	\$ 5,855	20.00 %	1.75

(1) See Note 21 for further details on the Company's unfunded commitments related to certain of its corporate loans.

### 6. Investments in Unconsolidated Entities

The Company has various equity investments in entities where it has the ability to exert significant influence over such entity, but does not control such entity. In these cases the criteria for consolidation have not been met and the Company is required to account for such investments under ASC 323-10; the Company has elected the FVO for its investments in unconsolidated entities. As of December 31, 2021 and 2020, the Company's investments in unconsolidated entities had an aggregate fair value of \$195.6 million and \$141.6 million, respectively, which is included on the Consolidated Balance Sheet in Investments in unconsolidated entities, at fair value. For the years ended December 31, 2021, 2020, and 2019, the Company recognized \$58.1 million, \$37.9 million, \$10.2 million, respectively, in Earnings (losses) from investments in unconsolidated entities, on its Consolidated Statement of Operations. Certain of the entities that the Company accounts for under ASC 323-10 are deemed to be VIEs, and the maximum amount at risk is generally limited to the Company's investment in the VIE. As of December 31, 2021 and 2020, the fair value of the Company's investments in unconsolidated entities that have been deemed to be VIEs was \$63.9 million and \$32.7 million, respectively.

The following table provides details about the Company's investments in unconsolidated entities as of December 31, 2021 and 2020:

Investment in Unconsolidated Entity	Form of Investment	Percentage Ownership of Unconsolidated Entity	
		December 31, 2021	December 31, 2020
<b>Loan Originators:</b>			
Longbridge Financial, LLC <sup>(1)</sup>	Preferred shares	49.6%	49.6%
LendSure Mortgage Corp. <sup>(1)(2)</sup>	Common shares	49.9%	49.9%
Other <sup>(1)(3)</sup>	Various	31.5%-80.0%	29.5%
<b>Co-investments with Ellington affiliate(s)<sup>(1)</sup>:</b>			
Elizon DB 2015-1 LLC <sup>(4)(5)</sup>	Membership Interest	3.4%	8.9%
Elizon NM CRE 2020-1 LLC <sup>(4)(6)</sup>	Membership Interest	20.5%	—%
Elizon CH CRE 2021-1 LLC <sup>(4)(7)</sup>	Membership Interest	30.5%	—%
Elizon TCG SBC 2017-1 <sup>(4)</sup>	Membership Interest	—%	36.0%
Other <sup>(4)</sup>	Membership Interest	16.8%	13.4%
<b>Equity investments in securitization-related risk retention vehicles<sup>(8)</sup></b>			
Jepson Holdings Limited <sup>(1)(4)</sup>	Membership Interest	19.6%	30.1%
Other <sup>(1)(4)(9)</sup>	Various	8.0%-79.0%	7.4%-9.9%

- (1) See Note 13 for additional details on the Company's related party transactions.
- (2) Excludes investment in warrants convertible into non-voting common shares; including such warrants the Company's additional non-voting stake in the entity was 13.8% and 15.0% as of December 31, 2021 and 2020, respectively. See Note 13 Related Party Transactions—*Transactions Involving Certain Loan Originators* for additional information.
- (3) Excludes investment in non-voting common shares of a loan originator; including such shares the Company's additional non-voting stake in such entity was 16.4% as of December 31, 2021. There were no additional non-voting shares held by the Company at December 31, 2020. See Note 13 Related Party Transactions—*Transactions Involving Certain Loan Originators* for additional information.
- (4) The Company has evaluated this entity and determined that it meets the definition of a VIE. The Company evaluated its interest in the VIE and determined that the Company does not have the power to direct the activities of the VIE and does not have control of the underlying assets, where applicable. As a result, the Company determined that it is not the primary beneficiary of this VIE and therefore has not consolidated the VIE.
- (5) As discussed in Note 13 Related Party Transactions—*Participation in Multi-Borrower Financing Facilities*, the Company and the Affiliated Entities (as defined in Note 13) each consolidate their segregated silos of the Joint Entity (as defined in Note 13). The Company's effective percentage ownership before the effects of consolidation of both its and the Affiliated Entities' respective segregated silos of the Joint Entity, was 47.5% and 58.2% as of December 31, 2021 and 2020, respectively.
- (6) As discussed in Note 13 Related Party Transactions—*Participation in Multi-Borrower Financing Facilities*, the Company and the Affiliated Entities (as defined in Note 13) each consolidate their segregated silos of the Joint Entity (as defined in Note 13). The Company's effective percentage ownership before the effects of consolidation of both its and the Affiliated Entities' respective segregated silos of the Joint Entity, was 31.0% as of December 31, 2021.
- (7) As discussed in Note 13 Related Party Transactions—*Participation in Multi-Borrower Financing Facilities*, the Company and the Affiliated Entities (as defined in Note 13) each consolidate their segregated silos of the Joint Entity (as defined in Note 13). The Company's effective percentage ownership before the effects of consolidation of both its and the Affiliated Entities' respective segregated silos of the Joint Entity, was 44.8% as of December 31, 2021.
- (8) Includes interest in Consumer Risk Retention Vehicle, as defined in Note 10—*Participation in Multi-Seller Consumer Loan Securitization*. The Company has evaluated this entity and determined that it does not meet the definition of a VIE. The Company evaluated its interest in the entity under the voting interest model outlined in ASC 810, and has determined that the Company does not control this entity. As a result, the Company has not consolidated the entity. See Note 10 for additional details on the Company's securitization transactions.
- (9) Includes interest in warehouse facilities; see Note 13—*Participation in CLO Transactions*, for additional details.

The Company's investment in Longbridge Financial, LLC, or "Longbridge," was considered significant pursuant to Regulation S-X for the year ended December 31, 2020. As a result the audited financial statements of Longbridge for the year ended December 31, 2021 have been provided in Exhibit 99.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2021. For the years ended December 31, 2021, 2020, and 2019, the Company recognized \$13.9 million, \$32.4 million, and \$0.9 million, respectively, of unrealized gains from its investment in Longbridge. As of December 31, 2021 and 2020, the fair value of the Company's investment in Longbridge was \$74.5 million and \$60.6 million, respectively, which is included on the Consolidated Balance Sheet in Investments in unconsolidated entities, at fair value.

The Company's investment in LendSure Mortgage Corp., or "LendSure," was considered significant pursuant to Regulation S-X for the year ended December 31, 2021. As a result the audited financial statements of LendSure for the year ended December 31, 2021 have been provided in Exhibit 99.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2021. For the years ended December 31, 2021, 2020, and 2019, the Company recognized \$30.0 million, \$3.9 million, and \$1.7 million, respectively, of unrealized gains from its investment in LendSure. As of December 31, 2021 and 2020, the fair value of the Company's investment in LendSure was \$45.5 million and \$15.5 million, respectively, which is included on the Consolidated Balance Sheet in Investments in unconsolidated entities, at fair value.

The following table provides a summary of the combined financial position of the unconsolidated entities, excluding Longbridge and LendSure, as of December 31, 2021 and 2020, in which the Company has an investment:

	December 31, 2021	December 31, 2020 <sup>(1)</sup>
	(In thousands)	
<b>Assets</b>		
Investments in securities, loans, and REO <sup>(2)</sup>	\$ 424,203	\$ 225,212
Other assets	40,554	39,873
<b>Total assets</b>	<b>\$ 464,757</b>	<b>\$ 265,085</b>
<b>Liabilities</b>		
Borrowings	\$ 307,725	\$ 63,625
Other liabilities	4,935	11,227
<b>Total liabilities</b>	<b>312,660</b>	<b>74,852</b>
<b>Equity</b>	<b>152,097</b>	<b>190,233</b>
<b>Total liabilities and equity</b>	<b>\$ 464,757</b>	<b>\$ 265,085</b>

- (1) Conformed to current period presentation. Longbridge's and LendSure's financial information has been excluded as they are considered significant pursuant to Regulation S-X for certain of the periods shown.
- (2) Includes investments carried as the lower of cost or fair value as well as investments where the unconsolidated entity has elected the FVO.



The following table provides a summary of the combined results of operations of the unconsolidated entities, excluding Longbridge and LendSure, for the years ended December 31, 2021, 2020, and 2019, in which the Company has an investment:

	Year Ended December 31,		
	2021	2020 <sup>(1)</sup>	2019 <sup>(1)</sup>
	<i>(In thousands)</i>		
<b>Net Interest Income</b>			
Interest income	\$ 53,400	\$ 6,657	\$ 20,876
Interest expense	(5,078)	(1,967)	(7,625)
Total net interest income	48,322	4,690	13,251
<b>Other Income (Loss)</b>			
Realized and unrealized gains (losses) on securities, loans, and REO, net	(35,814)	(16,020)	13,108
Other, net	12,304	5,379	6,568
Total other income (loss)	(23,510)	(10,641)	19,676
Total expenses	16,330	8,111	10,343
<b>Net Income (Loss)</b>	<u>\$ 8,482</u>	<u>\$ (14,062)</u>	<u>\$ 22,584</u>

(1) Conformed to current period presentation. Longbridge's and LendSure's financial information has been excluded as they are considered significant pursuant to Regulation S-X for certain of the periods shown.

## 7. Real Estate Owned

As discussed in Note 2, the Company obtains possession of REO as a result of foreclosures on the associated mortgage loans. The following tables detail activity in the Company's carrying value of REO for the years ended December 31, 2021, 2020, and 2019:

	Year Ended					
	December 31, 2021		December 31, 2020		December 31, 2019	
	Number of Properties	Carrying Value <i>(In thousands)</i>	Number of Properties	Carrying Value <i>(In thousands)</i>	Number of Properties	Carrying Value <i>(In thousands)</i>
Beginning Balance (December 31, 2020, December 31, 2019, and January 1, 2019, respectively)	13	\$ 23,598	15	\$ 30,584	20	\$ 30,778
Transfers from mortgage loans	7	14,033	10	3,384	8	22,577
Capital expenditures and other adjustments to cost		2,209		191		240
Adjustments to record at the lower of cost or fair value		(2,697)		(1,053)		(1,002)
Disposals	(13)	(12,462)	(12)	(9,508)	(13)	(22,009)
Ending Balance (December 31, 2021, 2020, and 2019, respectively)	<u>7</u>	<u>\$ 24,681</u>	<u>13</u>	<u>\$ 23,598</u>	<u>15</u>	<u>\$ 30,584</u>

During the year ended December 31, 2021, the Company sold thirteen REO properties, realizing a net gain (loss) of approximately \$1.7 million. During the year ended December 31, 2020, the Company sold twelve REO properties, realizing a net gain (loss) of approximately \$15 thousand. During the year ended December 31, 2019, the Company sold thirteen REO properties, realizing a net gain (loss) of approximately \$2.3 million. Such realized gains (losses) are included in Realized gains (losses) on real estate owned, net, on the Company's Consolidated Statement of Operations. As of December 31, 2021 and 2020 all of the Company's REO had been obtained as a result of obtaining physical possession through foreclosure. Of the Company's total REO holdings, \$23.9 million and \$22.4 million were measured at fair value on a non-recurring basis as of December 31, 2021 and 2020, respectively.

## 8. Financial Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company manages certain risks associated with its investments and borrowings, including interest rate, credit, liquidity, and foreign exchange rate risk primarily by managing the amount, sources, and duration of its investments and borrowings, and through the use of derivative financial instruments. The Company's derivative financial instruments are used to manage

differences in the amount, timing, and duration of its known or expected cash receipts and its known or expected cash payments principally related to its investments and borrowings.

The following table details the fair value of the Company's holdings of financial derivatives as of December 31, 2021 and 2020:

<i>(In thousands)</i>	December 31, 2021	December 31, 2020
<b>Financial derivatives—assets, at fair value:</b>		
TBA securities purchase contracts	\$ 522	\$ 961
TBA securities sale contracts	707	1
Fixed payer interest rate swaps	11,871	125
Fixed receiver interest rate swaps	2,122	8,394
Credit default swaps on asset-backed securities	303	347
Credit default swaps on asset-backed indices	1,751	2,184
Credit default swaps on corporate bond indices	156	3,420
Total return swaps	—	9
Options	278	—
Futures	478	2
Warrants	706	36
<b>Total financial derivatives—assets, at fair value</b>	<b>18,894</b>	<b>15,479</b>
<b>Financial derivatives—liabilities, at fair value:</b>		
TBA securities purchase contracts	(135)	—
TBA securities sale contracts	(774)	(925)
Fixed payer interest rate swaps	(6,567)	(15,109)
Fixed receiver interest rate swaps	(2,531)	(65)
Credit default swaps on asset-backed indices	(39)	(130)
Credit default swaps on corporate bonds	(99)	(747)
Credit default swaps on corporate bond indices	(1,870)	(6,438)
Total return swaps	—	(484)
Futures	(75)	(376)
Forwards	(208)	(279)
<b>Total financial derivatives—liabilities, at fair value</b>	<b>(12,298)</b>	<b>(24,553)</b>
<b>Total</b>	<b>\$ 6,596</b>	<b>\$ (9,074)</b>

**Interest Rate Swaps**

The following tables provide information about the Company's fixed payer interest rate swaps as of December 31, 2021 and 2020:

**December 31, 2021:**

	Notional Amount	Fair Value	Pay Rate	Weighted Average		Remaining Years to Maturity
					Receive Rate	
	<i>(In thousands)</i>					
2022	\$ 64,100	\$ (282)	0.99 %	0.18 %		0.18
2023	771,110	1,488	0.58	0.19		1.52
2024	314,762	3,685	0.43	0.16		2.23
2025	14,993	426	0.49	0.16		3.81
2026	30,625	481	0.89	0.15		4.48
2027	14,732	448	0.80	0.19		5.60
2028	149,524	470	1.33	0.17		6.55
2029	19,152	(801)	1.98	0.16		7.55
2030	9,585	291	1.09	0.18		8.23
2031	122,509	535	1.45	0.17		9.47
2035	500	38	0.78	0.08		13.81
2036	1,100	25	1.45	0.16		14.13
2040	500	45	0.90	0.08		18.82
2049	5,796	(1,599)	2.89	0.13		27.02
2050	500	54	0.98	0.08		28.82
<b>Total</b>	<b>\$ 1,519,488</b>	<b>\$ 5,304</b>	<b>0.75 %</b>	<b>0.18 %</b>		<b>3.11</b>

**December 31, 2020:**

Maturity	Notional Amount	Fair Value	Pay Rate	Weighted Average		Remaining Years to Maturity
					Receive Rate	
	<i>(In thousands)</i>					
2021	\$ 17,500	\$ (231)	2.75 %	0.24 %		0.22
2022	96,533	(1,535)	1.19	0.22		1.14
2023	146,012	(4,770)	1.50	0.23		2.42
2025	66,503	(1,034)	0.73	0.21		4.75
2026	11,216	(458)	1.23	0.25		5.50
2027	9,732	60	0.49	0.24		6.48
2028	16,644	(2,169)	2.39	0.24		7.32
2029	22,744	(2,289)	1.94	0.23		8.61
2030	13,015	(369)	1.13	0.22		9.29
2035	500	15	0.78	0.09		14.81
2036	1,100	(47)	1.45	0.25		15.13
2040	500	20	0.90	0.09		19.82
2049	5,796	(2,208)	2.89	0.23		28.02
2050	500	31	0.98	0.09		29.82
<b>Total</b>	<b>\$ 408,295</b>	<b>\$ (14,984)</b>	<b>1.39 %</b>	<b>0.23 %</b>		<b>3.82</b>

The following tables provide information about the Company's fixed receiver interest rate swaps as of December 31, 2021 and 2020:

**December 31, 2021:**

Maturity	Notional Amount	Fair Value	Pay Rate	Weighted Average		Remaining Years to Maturity
				(In thousands)	Receive Rate	
2022	\$ 53,974	\$ 475	0.17 %	1.85 %	0.16	
2023	241,407	(265)	0.15	0.73	1.69	
2024	37,142	556	0.13	1.59	2.78	
2026	105,040	(907)	0.18	1.10	4.72	
2031	35,678	(114)	0.15	1.48	9.76	
2035	500	(41)	0.05	0.74	13.81	
2040	500	(50)	0.08	0.84	18.82	
2050	500	(63)	0.08	0.90	28.82	
<b>Total</b>	<b>\$ 474,741</b>	<b>\$ (409)</b>	<b>0.15 %</b>	<b>1.06 %</b>	<b>2.94</b>	

**December 31, 2020:**

Maturity	Notional Amount	Fair Value	Pay Rate	Weighted Average		Remaining Years to Maturity
				(In thousands)	Receive Rate	
2021	\$ 12,950	\$ 205	0.24 %	1.75 %	0.71	
2022	103,974	1,413	0.22	1.07	1.48	
2023	48,657	2,209	0.24	2.00	2.26	
2024	86,342	4,567	0.22	1.65	3.73	
2035	500	(14)	0.09	0.74	14.81	
2040	500	(20)	0.09	0.84	19.82	
2050	500	(31)	0.09	0.90	29.82	
<b>Total</b>	<b>\$ 253,423</b>	<b>\$ 8,329</b>	<b>0.22 %</b>	<b>1.48 %</b>	<b>2.48</b>	

**Credit Default Swaps**

The following table provides information about the Company's credit default swaps as of December 31, 2021 and 2020:

Type <sup>(1)</sup>	As of					
	December 31, 2021			December 31, 2020		
	Notional	Fair Value	Weighted Average Remaining Term (Years)	Notional	Fair Value	Weighted Average Remaining Term (Years)
<i>(\$ in thousands)</i>						
<b>Asset:</b>						
<b>Long:</b>						
Credit default swaps on asset-backed indices	\$ 484	\$ 7	24.32	\$ 395	\$ 5	16.99
Credit default swaps on corporate bond indices	2,168	156	1.97	67,779	3,296	2.52
<b>Short:</b>						
Credit default swaps on asset-backed securities	(910)	303	13.71	(957)	347	14.70
Credit default swaps on asset-backed indices	(13,947)	1,744	42.43	(12,888)	2,179	39.61
Credit default swaps on corporate bond indices	—	—	—	(2,173)	124	2.97
<b>Liability:</b>						
<b>Long:</b>						
Credit default swaps on asset-backed indices	89	(39)	27.41	479	(130)	32.36
<b>Short:</b>						
Credit default swaps on asset-backed indices	(491)	—	24.42	(1)	—	29.00
Credit default swaps on corporate bonds	(3,400)	(99)	3.47	(8,400)	(747)	4.17
Credit default swaps on corporate bond indices	(21,183)	(1,870)	4.75	(110,624)	(6,438)	2.78
	<u>\$ (37,190)</u>	<u>\$ 202</u>	<u>19.10</u>	<u>\$ (66,390)</u>	<u>\$ (1,364)</u>	<u>10.25</u>

(1) Long notional represents contracts where the Company has written protection and short notional represents contracts where the Company has purchased protection.

**Futures**

The following table provides information about the Company's long and short positions in futures as of December 31, 2021 and 2020:

Description	As of					
	December 31, 2021			December 31, 2020		
	Notional Amount	Fair Value	Remaining Months to Expiration	Notional Amount	Fair Value	Remaining Months to Expiration
<i>(In thousands)</i>						
<b>Assets:</b>						
<b>Short Contracts:</b>						
U.S. Treasury futures	\$ (170,000)	\$ 478	3.00	\$ (300)	\$ 2	2.70
<b>Liabilities:</b>						
<b>Long Contracts:</b>						
U.S. Treasury futures	1,900	(36)	2.70	1,900	(9)	2.70
<b>Short Contracts:</b>						
U.S. Treasury futures	(51,400)	(39)	2.70	(178,200)	(367)	2.94
<b>Total, net</b>	<b>\$ (219,500)</b>	<b>\$ 403</b>	<b>2.93</b>	<b>\$ (176,600)</b>	<b>\$ (374)</b>	<b>2.94</b>

**Options**

The following table provides information about the Company's options contracts as of December 31, 2021. The Company did not have any options contracts as of December 31, 2020:

Type	Option			Underlying Swap		
	Fair Value	Months to Expiration	Notional Amount	Term (Years)	Fixed Rate	
<i>(\$ in thousands)</i>						
Put options on credit default swaps on corporate bond indices <sup>(1)</sup>	\$ 278	5.5	\$ 30,000	5.00	5.00 %	

(1) Represents the option on the part of the Company to enter into a credit default swap on a corporate bond index whereby the Company would pay a fixed rate and receive credit protection payments.

**Warrants**

The following table provides information about the Company's warrants contracts to purchase shares as of December 31, 2021 and 2020:

Description	December 31, 2021			December 31, 2020		
	Number of Shares Underlying Warrant	Fair Value	Remaining Years to Expiration	Number of Shares Underlying Warrant	Fair Value	Remaining Years to Expiration
	<i>(In thousands)</i>			<i>(In thousands)</i>		
Warrants	1,521	\$ 706	2.17	1,897	\$ 36	2.40

**TBAs**

The Company transacts in the forward settling TBA market. Pursuant to these TBA transactions, the Company agrees to purchase or sell, for future delivery, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered is not identified until shortly before the TBA settlement date. TBAs are generally liquid, have quoted market prices, and represent the most actively traded class of MBS. The Company uses TBAs to mitigate interest rate risk, usually by taking short positions. The Company also invests in TBAs as a means of acquiring additional exposure to Agency RMBS, or for investment purposes, including holding long positions.

The Company does not generally take delivery of TBAs; rather, it settles the associated receivable and payable with its trading counterparties on a net basis. Transactions with the same counterparty for the same TBA that result in a reduction of the position are treated as extinguished.

As of December 31, 2021 and 2020, the Company had outstanding TBA purchase and sale contracts as follows:

TBA Securities	December 31, 2021				December 31, 2020			
	Notional Amount <sup>(1)</sup>	Cost Basis <sup>(2)</sup>	Market Value <sup>(3)</sup>	Net Carrying Value <sup>(4)</sup>	Notional Amount <sup>(1)</sup>	Cost Basis <sup>(2)</sup>	Market Value <sup>(3)</sup>	Net Carrying Value <sup>(4)</sup>
<i>(In thousands)</i>								
Purchase contracts:								
Assets	\$ 196,723	\$ 196,119	\$ 196,641	\$ 522	\$ 149,990	\$ 155,008	\$ 155,969	\$ —
Liabilities	76,500	76,468	76,333	(135)	—	—	—	—
	273,223	272,587	272,974	387	149,990	155,008	155,969	—
Sale contracts:								
Assets	(416,168)	(439,438)	(438,731)	707	(4,400)	(4,765)	(4,764)	—
Liabilities	(497,214)	(512,675)	(513,449)	(774)	(499,667)	(531,034)	(531,959)	(5)
	(913,382)	(952,113)	(952,180)	(67)	(504,067)	(535,799)	(536,723)	(5)
Total TBA securities, net	\$ (640,159)	\$ (679,526)	\$ (679,206)	\$ 320	\$ (354,077)	\$ (380,791)	\$ (380,754)	\$ —

(1) Notional amount represents the principal balance of the underlying Agency RMBS.

(2) Cost basis represents the forward price to be paid (received) for the underlying Agency RMBS.

(3) Market value represents the current market value of the underlying Agency RMBS (on a forward delivery basis) as of period end.

(4) Net carrying value represents the difference between the market value of the TBA contract as of period end and the cost basis, and is reported in Financial derivatives-assets, at fair value and Financial derivatives-liabilities, at fair value on the Consolidated Balance Sheet.

Gains and losses on the Company's derivative contracts for the years ended December 31, 2021, 2020, and 2019 are summarized in the tables below:

**Year Ended December 31, 2021**

Derivative Type <i>(In thousands)</i>	Primary Risk Exposure	Net Realized Gains (Losses) on Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) on Financial Derivatives Other Than Periodic Settlements of Interest Rate Swaps <sup>(1)</sup>	Net Realized Gains (Losses) on Financial Derivatives <sup>(1)</sup>	Change in Net Unrealized Gains (Losses) on Accrued Periodic Settlements of Interest Rate Swaps	Change in Net Unrealized Gains (Losses) on Financial Derivatives Other Than on Accrued Periodic Settlements of Interest Rate Swaps <sup>(2)</sup>	Change in Net Unrealized Gains (Losses) on Financial Derivatives <sup>(2)</sup>
Interest rate swaps	Interest Rate	\$ (2,277)	\$ 644	\$ (1,633)	\$ (763)	\$ 12,051	\$ 11,288
Credit default swaps on asset-backed securities	Credit		34	34		(43)	(43)
Credit default swaps on asset-backed indices	Credit		931	931		(1,039)	(1,039)
Credit default swaps on corporate bond indices	Credit		(330)	(330)		(963)	(963)
Credit default swaps on corporate bonds	Credit		256	256		(345)	(345)
Total return swaps	Credit		(1,242)	(1,242)		476	476
Options	Credit		(356)	(356)		(148)	(148)
TBAs	Interest Rate		8,020	8,020		283	283
Futures	Interest Rate		4,656	4,656		776	776
Forwards	Currency		1,183	1,183		73	73
Warrants	Equity Market/Credit		—	—		(46)	(46)
<b>Total</b>		<b>\$ (2,277)</b>	<b>\$ 13,796</b>	<b>\$ 11,519</b>	<b>\$ (763)</b>	<b>\$ 11,075</b>	<b>\$ 10,312</b>

(1) Includes realized gain/(loss) on transactions involving foreign-currency-denominated financial derivatives in the amount of \$18 thousand for the year ended December 31, 2021, which is included on the Consolidated Statement of Operations in Other, net.

(2) Includes foreign currency remeasurement on financial derivatives in the amount of \$(43) thousand for the year ended December 31, 2021, which is included on the Consolidated Statement of Operations in Other, net.



Year Ended December 31, 2020:

Derivative Type <i>(In thousands)</i>	Primary Risk Exposure	Net Realized Gains (Losses) on Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) on Financial Derivatives Other Than Periodic Settlements of Interest Rate Swaps <sup>(1)</sup>	Net Realized Gains (Losses) on Financial Derivatives <sup>(1)</sup>	Change in Net Unrealized Gains (Losses) on Accrued Periodic Settlements of Interest Rate Swaps	Change in Net Unrealized Gains (Losses) on Financial Derivatives Other Than on Accrued Periodic Settlements of Interest Rate Swaps <sup>(2)</sup>	Change in Net Unrealized Gains (Losses) on Financial Derivatives <sup>(2)</sup>
Interest rate swaps	Interest Rate	\$ (2,038)	\$ (17,060)	\$ (19,098)	\$ 219	\$ (6,597)	\$ (6,378)
Credit default swaps on asset-backed securities	Credit		(5,452)	(5,452)		5,402	5,402
Credit default swaps on asset-backed indices	Credit		6,486	6,486		2,691	2,691
Credit default swaps on corporate bond indices	Credit		1,502	1,502		(712)	(712)
Credit default swaps on corporate bonds	Credit		285	285		486	486
Total return swaps	Credit		(2,057)	(2,057)		114	114
TBAs	Interest Rate		(4,624)	(4,624)		454	454
Futures	Interest Rate		(7,447)	(7,447)		(477)	(477)
Forwards	Currency		(1,004)	(1,004)		(153)	(153)
Warrants	Equity Market/Credit		—	—		(377)	(377)
Options	Credit		(100)	(100)		—	—
<b>Total</b>		<b>\$ (2,038)</b>	<b>\$ (29,471)</b>	<b>\$ (31,509)</b>	<b>\$ 219</b>	<b>\$ 831</b>	<b>\$ 1,050</b>

(1) Includes realized gain/(loss) on transactions involving foreign-currency-denominated financial derivatives in the amount of \$12 thousand for the year ended December 31, 2020, which is included on the Consolidated Statement of Operations in Other, net.

(2) Includes foreign currency remeasurement on financial derivatives in the amount of \$61 thousand for the year ended December 31, 2020, which is included on the Consolidated Statement of Operations in Other, net.

Year Ended December 31, 2019:

Derivative Type <i>(In thousands)</i>	Primary Risk Exposure	Net Realized Gains (Losses) on Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) on Financial Derivatives Other Than Periodic Settlements of Interest Rate Swaps <sup>(1)</sup>	Net Realized Gains (Losses) on Financial Derivatives <sup>(2)</sup>	Change in Net Unrealized Gains (Losses) on Accrued Periodic Settlements of Interest Rate Swaps	Change in Net Unrealized Gains (Losses) on Financial Derivatives Other Than on Accrued Periodic Settlements of Interest Rate Swaps <sup>(2)</sup>	Change in Net Unrealized Gains (Losses) on Financial Derivatives <sup>(2)</sup>
Interest rate swaps	Interest Rate	\$ 1,695	\$ (876)	\$ 819	\$ (764)	\$ (5,778)	\$ (6,542)
Credit default swaps on asset-backed securities	Credit		528	528		(479)	(479)
Credit default swaps on asset-backed indices	Credit		(1,883)	(1,883)		(1,848)	(1,848)
Credit default swaps on corporate bond indices	Credit		(5,262)	(5,262)		(1,364)	(1,364)
Credit default swaps on corporate bonds	Credit		(708)	(708)		1,007	1,007
Total return swaps	Equity Market/Credit		(1,460)	(1,460)		(584)	(584)
TBAs	Interest Rate		(15,755)	(15,755)		4,026	4,026
Futures	Interest Rate/Currency		(7,924)	(7,924)		458	458
Forwards	Currency		813	813		(12)	(12)
Options	Interest Rate		(35)	(35)		1	1
Total		\$ 1,695	\$ (32,562)	\$ (30,867)	\$ (764)	\$ (4,573)	\$ (5,337)

- (1) Includes realized gain/(loss) on transactions involving foreign-currency-denominated financial derivatives in the amount of \$45 thousand for the year ended December 31, 2019, which is included on the Consolidated Statement of Operations in Other, net.  
(2) Includes foreign currency remeasurement on financial derivatives in the amount of \$1 thousand for the year ended December 31, 2019, which is included on the Consolidated Statement of Operations in Other, net.

The table below details the average notional values of the Company's financial derivatives, using absolute value of month end notional values, for the years ended December 31, 2021 and 2020:

Derivative Type <i>(In thousands)</i>	Year Ended December 31, 2021	Year Ended December 31, 2020
Interest rate swaps	\$ 1,343,094	\$ 1,009,1
TBAs	1,105,311	713,6
Futures	193,600	149,5
Credit default swaps	110,084	277,9
Forwards	21,188	26,4
Options	13,846	1,5
Total return swaps	2,593	6,9
Warrants	1,948	1,5

From time to time the Company enters into credit derivative contracts for which the Company sells credit protection ("written credit derivatives"). As of December 31, 2021 and 2020, all of the Company's open written credit derivatives were credit default swaps on either mortgage/asset-backed indices (ABX and CMBX indices) or corporate bond indices (CDX), collectively referred to as credit indices, or on individual corporate bonds, for which the Company receives periodic payments at fixed rates from credit protection buyers, and is obligated to make payments to the credit protection buyer upon the occurrence of a "credit event" with respect to underlying reference assets.

Written credit derivatives held by the Company at December 31, 2021 and 2020 are summarized below:

<b>Credit Derivatives</b>	<b>December 31, 2021</b>		<b>December 31, 2020</b>	
<i>(In thousands)</i>				
Fair Value of Written Credit Derivatives, Net	\$	124	\$	3,171
Notional Value of Written Credit Derivatives <sup>(1)</sup>		2,741		68,653

(1) The notional value is the maximum amount that a seller of credit protection would be obligated to pay, and a buyer of credit protection would receive, upon occurrence of a "credit event." Movements in the value of credit default swap transactions may require the Company or the counterparty to post or receive collateral. Amounts due or owed under credit derivative contracts with an International Swaps and Derivatives Association, or "ISDA," counterparty may be offset against amounts due or owed on other credit derivative contracts with the same ISDA counterparty. As a result, the notional value of written credit derivatives involving a particular underlying reference asset or index has been reduced (but not below zero) by the notional value of any contracts where the Company has purchased credit protection on the same reference asset or index with the same ISDA counterparty.

A credit default swap on a credit index or a corporate bond typically terminates at the stated maturity date in the case of corporate indices or bonds, or, in the case of ABX and CMBX indices, the date that all of the reference assets underlying the index are paid off in full, retired, or otherwise cease to exist. Implied credit spreads may be used to determine the market value of such contracts and are reflective of the cost of buying/selling credit protection. Higher spreads would indicate a greater likelihood that a seller will be obligated to perform (*i.e.*, make protection payments) under the contract. In situations where the credit quality of the underlying reference assets has deteriorated, the percentage of notional values that would be paid up front to enter into a new such contract ("points up front") is frequently used as an indication of credit risk. Credit protection sellers entering the market in such situations would expect to be paid points up front corresponding to the approximate fair value of the contract. For the Company's written credit derivatives that were outstanding at December 31, 2021 and 2020, implied credit spreads on such contracts ranged between 112.7 and 141.1 basis points and 40.0 and 274.8 basis points, respectively. Excluded from these spread ranges are contracts outstanding for which the individual spread is greater than 2,000 basis points. The Company believes that these contracts would be quoted based on estimated points up front. The total fair value of contracts with individual implied credit spreads in excess of 2,000 basis points was \$(38) thousand and \$(0.1) million as of December 31, 2021 and 2020, respectively. Estimated points up front on these contracts as of December 31, 2021 ranged between 55.4 and 85.2 and as of December 31, 2020 ranged between 56.2 and 85.2. Total net up-front payments (paid) or received relating to written credit derivatives outstanding at December 31, 2021 and 2020 were \$0.8 million and \$(2.0) million, respectively.

**9. Consolidated VIEs**

As discussed in Note 2, the Company has interests in entities that it has determined to be VIEs. The following table summarizes the assets and liabilities of the Company's consolidated VIEs that are included on the Company's Consolidated Balance Sheet as of December 31, 2021 and 2020. See Note 10 and Note 13 for additional information on the Company's consolidated VIEs.

<i>(In thousands)</i>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 9,214	\$ 701
Restricted cash	175	175
Securities, at fair value	72,840	44,523
Loans, at fair value	2,384,078	1,435,067
Investments in unconsolidated entities, at fair value	36,874	6,345
Real estate owned	24,681	23,598
Investment related receivables	46,621	24,824
Other assets	2,434	2,001
<b>Total Assets</b>	<b>\$ 2,576,917</b>	<b>\$ 1,537,234</b>
<b>Liabilities</b>		
Repurchase agreements	\$ 613,314	\$ 275,019
Other secured borrowings	95,621	51,062
Other secured borrowings, at fair value	984,168	754,921
Interest payable	1,087	776
Accrued expenses and other liabilities	1,579	1,103
<b>Total Liabilities</b>	<b>1,695,769</b>	<b>1,082,881</b>
<b>Total Stockholders' Equity</b>	<b>862,632</b>	<b>430,554</b>
Non-controlling interests	18,516	23,799
<b>Total Equity</b>	<b>881,148</b>	<b>454,353</b>
<b>Total Liabilities and Equity</b>	<b>\$ 2,576,917</b>	<b>\$ 1,537,234</b>

**10. Securitization Transactions**

*Participation in CLO Transactions*

Since June 2017, an affiliate of Ellington has sponsored four CLO securitization transactions (the "Ellington-sponsored CLO Securitizations"), collateralized by corporate loans and managed by an affiliate of Ellington (the "CLO Manager"). Ellington, the Company, several other affiliates of Ellington, and in certain cases, third parties, participated in the Ellington-sponsored CLO Securitizations (collectively, the "CLO Co-Participants").

Pursuant to each Ellington-sponsored CLO Securitization, a newly formed securitization trust (each a "CLO Issuer") issued various classes of notes, which were in turn sold to unrelated third parties and the applicable CLO Co-Participants.

The CLO Issuers are each deemed to be a VIE. The Company evaluates its interests in the CLO Issuers under ASC 810, and while the Company retains credit risk in each of the securitization trusts through its beneficial ownership of a portion of the subordinated interests of each of the securitization trusts, which are the first to absorb credit losses on the securitized assets, the Company does not retain control of these assets or the power to direct the activities of the CLO Issuers that most significantly impact the CLO Issuers' economic performance. As a result, the Company determined that it is not the primary beneficiary of the CLO Issuers, and therefore the Company has not consolidated the CLO Issuers. The Company's maximum amount at risk is limited to the Company's investment in each of the CLO Issuers. As of December 31, 2021 and 2020, the fair value of the Company's investment in the notes issued by the CLO Issuers was \$27.6 million and \$17.3 million, respectively.

See Note 13 for further details on the Company's participation in CLO transactions.

### **Residential Mortgage Loan Securitizations**

Since November 2017, the Company, through certain wholly owned subsidiaries (each, a "Sponsor"), has sponsored several securitizations of non-QM loans. In each case, the applicable Sponsor transferred a pool of non-QM loans (each, a Collateral Pool) to a wholly owned entity (each, a "Depositor") and on the closing date such loans were deposited into newly created securitization trusts (collectively, the "Issuing Entities"). Pursuant to the securitizations, the Issuing Entities issued various classes of mortgage pass-through certificates (the "Certificates") which are backed by the cash flows from the underlying non-QM loans.

Under the Dodd-Frank Act, sponsors of securitizations are generally required to retain at least 5% of the economic interest in the credit risk of the securitized assets (the "Risk Retention Rules"). In order to comply with the Risk Retention Rules, in each securitization, the Company purchased and intends to hold, at a minimum, the requisite amount of the most subordinated classes of Certificates and the excess cash flow certificates. The applicable Sponsor also purchased the Certificates entitled to excess servicing fees in each securitization, while the remaining classes of Certificates were purchased by unrelated parties.

Notwithstanding that the Certificates carry final scheduled distribution dates in November 2059 or later, the applicable Depositor may, at its sole option, purchase all of the outstanding Certificates (an "Optional Redemption") following the earlier of (1) the applicable anniversary of the closing date (typically two or three years) of the respective securitization or (2) the date on which the aggregate unpaid principal balance of the applicable Collateral Pool has declined below 30% of the aggregate unpaid principal balance of the applicable Collateral Pool as of the date as of which such loans were originally transferred to the applicable Issuing Entity. The purchase price that the Depositor is required to pay in connection with an Optional Redemption is equal to the sum of the unpaid principal balance of each class of Certificates as of the redemption date and any accrued and unpaid interest thereon. In light of these Optional Redemption rights held by the applicable Depositor, the transfers of non-QM loans to each of the Issuing Entities do not qualify as sales under ASC 860-10.

In the event that certain breaches of representations or warranties are discovered with respect to any underlying non-QM loans, the Company could be required to repurchase or replace such loans.

Each Sponsor also serves as the servicing administrator of its respective securitization, for which it is entitled to receive a monthly fee equal to one-twelfth of the product of (a) 0.03% and (b) the unpaid principal balance of the underlying non-QM loans as of the first day of the related due period. Each Sponsor in its role as servicing administrator provides direction and consent for certain loss mitigation activities to the third-party servicer of the underlying non-QM loans. In certain circumstances, the servicing administrator will be required to reimburse the servicer for principal and interest advances and servicing advances made by the servicer.

In light of the Company's retained interests in each of the securitizations, together with the Optional Redemption rights and the Company's ability to direct the third-party servicer regarding certain loss mitigation activities, the Company is deemed to be the primary beneficiary of the Issuing Entities, which are VIEs, and has consolidated the Issuing Entities. Interest income from these loans and the expenses related to the servicing of these loans are included in Interest income and Investment related expenses—Servicing expense, respectively, on the Consolidated Statement of Operations.

The Issuing Entities each meet the definition of a CFE as defined in Note 2, and as a result the assets of each of the Issuing Entities have been valued using the fair value of the liabilities of the respective Issuing Entity, as such liabilities have been assessed to be more observable than such assets.

The debt of the Issuing Entities is included in Other secured borrowings, at fair value, on the Consolidated Balance Sheet and is shown net of the Certificates held by the Company.

The following table details the Company's outstanding consolidated residential mortgage loan securitizations:

Issuing Entity	Closing Date	Principal Balance of Loans Transferred to the Depositor		Total Face Amount of Certificates Issued
			<i>(In thousands)</i>	
Ellington Financial Mortgage Trust 2019-2	11/19	\$	267,255	\$ 267,255
Ellington Financial Mortgage Trust 2020-1	6/20		259,273	259,273
Ellington Financial Mortgage Trust 2020-2	11/20		219,732	219,732
Ellington Financial Mortgage Trust 2021-1	2/21		251,771	251,771
Ellington Financial Mortgage Trust 2021-2	6/21		331,777	331,777
Ellington Financial Mortgage Trust 2021-3	10/21		257,645	257,645

- (1) In order to comply with the Risk Retention Rules, the Sponsor purchased the two most subordinated classes of Certificates and the excess cash flow certificates, with an aggregate value as of the settlement date equal to 6.4% of the fair value of all Certificates issued. The Sponsor also purchased, for an aggregate purchase price of \$1.7 million, the Certificates entitled to excess servicing fees, while the remaining classes of Certificates were purchased by unrelated third parties.
- (2) In order to comply with the Risk Retention Rules, the Sponsor purchased the most subordinated class of Certificates and the excess cash flow certificates, with an aggregate value as of the settlement date equal to 5.1% of the fair value of all Certificates issued. Additionally, the Sponsor purchased two other subordinated classes of Certificates with an aggregate value equal to 6.4% of the fair value of all Certificates issued as of the settlement date; the Company subsequently sold one such subordinated class of Certificates to a third party. Finally, the Sponsor also purchased, for an aggregate purchase price of \$1.9 million, the Certificates entitled to excess servicing fees, while the remaining classes of Certificates were purchased by unrelated third parties.
- (3) In order to comply with the Risk Retention Rules, the Sponsor purchased the excess cash flow certificates, with an aggregate value as of the settlement date equal to 5.2% of the fair value of all Certificates issued. Additionally, the Sponsor purchased the most subordinated class of Certificates with an aggregate value as of the settlement date equal to 2.4% of the fair value of all Certificates issued. Finally, the Sponsor also purchased, for an aggregate purchase price of \$1.4 million, the Certificates entitled to excess servicing fees, while the remaining classes of Certificates were purchased by unrelated third parties.
- (4) In order to comply with the Risk Retention Rules, the Sponsor purchased the excess cash flow certificates, with an aggregate value as of the settlement date equal to 5.4% of the fair value of all Certificates issued. Additionally, the Sponsor purchased the most subordinated class of Certificates with an aggregate value as of the settlement date equal to 0.4% of the fair value of all Certificates issued. Finally, the Sponsor also purchased, for an aggregate purchase price of \$1.6 million, the Certificates entitled to excess servicing fees, while the remaining classes of Certificates were purchased by unrelated third parties.
- (5) In order to comply with the Risk Retention Rules, the Sponsor purchased the most subordinated class of Certificates and the excess cash flow certificates, with an aggregate value as of the settlement date equal to 6.5% of the fair value of all Certificates issued. The Sponsor also purchased, for an aggregate purchase price of \$2.1 million, the Certificates entitled to excess servicing fees, while the remaining classes of Certificates were purchased by unrelated third parties.
- (6) In order to comply with the Risk Retention Rules, the Sponsor purchased the most subordinated class of Certificates and the excess cash flow certificates, with an aggregate value as of the settlement date equal to 6.3% of the fair value of all Certificates issued. Additionally, the Sponsor purchased one other subordinated class of Certificates with an aggregate value equal to 2.0% of the fair value of all Certificates issued as of the settlement date. The Sponsor also purchased, for an aggregate purchase price of \$1.8 million, the Certificates entitled to excess servicing fees, while the remaining classes of Certificates were purchased by unrelated third parties.

The following table details the assets and liabilities of the consolidated securitization trusts included in the Company's Consolidated Balance Sheet as of December 31, 2021 and 2020:

<i>(In thousands)</i>	December 31, 2021		December 31, 2020	
<b>Assets:</b>				
Loans, at fair value	\$	1,041,545	\$	801,343
Investment related receivables		23,069		15,544
<b>Liabilities:</b>				
Other secured borrowings, at fair value		984,168		754,921

The Company recognized net unrealized gain (loss) on Other secured borrowings, at fair value, of \$15.8 million, \$(9.3) million, and \$(0.8) million, during the years ended December 2021, 2020, and 2019, respectively, which is included in Other, net on the Consolidated Statement of Operations.

**Participation in Multi-Seller Consumer Loan Securitization**

In November 2020, the Company participated in a securitization whereby the Company, together with another entity managed by Ellington (the "Consumer Co-Participant"), sold consumer loans with an aggregate unpaid principal balance of approximately \$205.1 million to a newly formed securitization trust (the "Consumer Securitization Issuer"). Of the \$205.1 million in loans sold to the Consumer Securitization Issuer, the Company's share was 56.3% while the Consumer Co-Participant's share was 43.7%. The transfer was accounted for as a sale in accordance with ASC 860-10. Pursuant to the

securitization, the Consumer Securitization Issuer issued senior and subordinated notes in the principal amounts of \$158.4 million and \$35.2 million, respectively. Trust certificates representing beneficial ownership of the Issuer were also issued. In connection with the transaction, and through a jointly owned newly formed entity (the "Consumer Risk Retention Vehicle"), the Company and the Consumer Co-Participant acquired certain of the subordinated notes as well as the trust certificates in the Issuer. The Company and the Consumer Co-participant acquired 56.3% and 43.7%, respectively, of the interests in the Consumer Risk Retention Vehicle. As of December 31, 2021, the Company's total interest in the Consumer Risk Retention Vehicle, for which the Company has elected the FVO, was 56.3%, or \$11.5 million; as of December 31, 2020, the Company's total interest was 56.3% or \$19.1 million. The fair value of the Consumer Risk Retention Vehicle is included on the Consolidated Balance Sheet in Investments in unconsolidated entities, at fair value.

The notes and trust certificates issued by the Consumer Securitization Issuer are backed by the cash flows from the underlying consumer loans. If there are breaches of representations and warranties with respect to any underlying consumer loans, the Company could, under certain circumstances, be required to repurchase or replace such loans. Absent such breaches, the Company has no obligation to repurchase or replace any underlying consumer loans that become delinquent or otherwise default. In addition, another affiliate of Ellington acts as the administrator for the securitization and is paid a monthly fee for its services.

The Consumer Securitization Issuer is deemed to be a VIE. The Company has evaluated its interest in the Consumer Securitization Issuer under ASC 810, and while the Company retains credit risk in the securitization trust through its beneficial ownership of most of the subordinated interests of the securitization trust, which are the first to absorb credit losses on the securitized assets, neither the Company nor the Consumer Risk Retention Vehicle retains control of these assets or the power to direct the activities of the Consumer Securitization Issuer that most significantly impact the Consumer Securitization Issuer's economic performance. As a result, the Company determined that neither the Company nor the Consumer Risk Retention Vehicle is the primary beneficiary of the Consumer Securitization Issuer, and therefore the Company has not consolidated the Consumer Securitization Issuer. Additionally, the Company evaluated its interest in the Consumer Risk Retention Vehicle, which does not meet the criteria to be deemed a VIE, under the voting interest model provided by ASC 810 and determined the Company does not control the Consumer Risk Retention Vehicle. As a result, the Company has not consolidated the Consumer Risk Retention Vehicle.

## 11. Borrowings

### Secured Borrowings

The Company's secured borrowings consist of repurchase agreements, Other secured borrowings, and Other secured borrowings, at fair value. As of December 31, 2021 and 2020, the Company's total secured borrowings were \$3.6 billion and \$2.3 billion, respectively.

#### *Repurchase Agreements*

The Company enters into repurchase agreements. A repurchase agreement involves the sale of an asset to a counterparty together with a simultaneous agreement to repurchase the transferred asset or similar asset from such counterparty at a future date. The Company accounts for its repurchase agreements as collateralized borrowings, with the transferred assets effectively serving as collateral for the related borrowing. The Company's repurchase agreements typically range in term from 30 to 364 days, although the Company also has repurchase agreements that provide for longer or shorter terms. The principal economic terms of each repurchase agreement—such as loan amount, interest rate, and maturity date—are typically negotiated on a transaction-by-transaction basis. Other terms and conditions, such as those relating to events of default, are typically governed under the Company's master repurchase agreements. Absent an event of default, the Company maintains beneficial ownership of the transferred securities during the term of the repurchase agreement and receives the related principal and interest payments. Interest rates on these borrowings are generally fixed based on prevailing rates corresponding to the terms of the borrowings, and for most repurchase agreements, interest is generally paid at the termination of the repurchase agreement, at which time the Company may enter into a new repurchase agreement at prevailing market rates with the same counterparty, repay that counterparty and possibly negotiate financing terms with a different counterparty, or choose to no longer finance the related asset. Some repurchase agreements provide for periodic payments of interest, such as monthly payments. In response to a decline in the fair value of the transferred securities, whether as a result of changes in market conditions, security paydowns, or other factors, repurchase agreement counterparties will typically make a margin call, whereby the Company will be required to post additional securities and/or cash as collateral with the counterparty in order to re-establish the agreed-upon collateralization requirements. In the event of increases in fair value of the transferred securities, the Company can generally require the counterparty to post collateral with it in the form of cash or securities. The Company is generally permitted to sell or re-pledge any securities posted by the counterparty as collateral; however, upon termination of the repurchase agreement, or other circumstance in which the counterparty is no longer required to post such margin, the Company must return to the counterparty the same security that had been posted.

At any given time, the Company seeks to have its outstanding borrowings under repurchase agreements with several different counterparties in order to reduce the exposure to any single counterparty. The Company had outstanding borrowings under repurchase agreements with 23 and 24 counterparties as of December 31, 2021 and 2020, respectively.

As of December 31, 2021, remaining days to maturity on the Company's open repurchase agreements ranged from 3 days to 638 days. Interest rates on the Company's open repurchase agreements ranged from 0.10% to 3.75% as of December 31, 2021. As of December 31, 2020, remaining days to maturity on the Company's open repurchase agreements ranged from 4 days to 516 days. Interest rates on the Company's open repurchase agreements ranged from 0.20% to 5.00% as of December 31, 2020.

The following table details the Company's outstanding borrowings under repurchase agreements for Agency RMBS and credit assets (which can include non-Agency RMBS, CMBS, CLOs, consumer loans, corporate debt, residential mortgage loans, and commercial mortgage loans and REO), by remaining maturity as of December 31, 2021 and 2020:

Remaining Maturity	December 31, 2021			December 31, 2020		
	Outstanding Borrowings	Weighted Average		Outstanding Borrowings	Weighted Average	
		Interest Rate	Remaining Days to Maturity		Interest Rate	Remaining Days to Maturity
Agency RMBS:	<i>(In thousands)</i>			<i>(In thousands)</i>		
30 Days or Less	\$ 180,059	0.17 %	9	\$ 265,556	0.28 %	17
31-60 Days	254,027	0.23 %	44	385,141	0.25 %	44
61-90 Days	154,520	0.20 %	70	174,586	0.28 %	70
91-120 Days	129,057	0.16 %	105	—	— %	—
121-150 Days	275,915	0.17 %	136	2,692	0.27 %	126
151-180 Days	71,824	0.16 %	164	59,857	0.32 %	162
181-364 Days	570,694	0.20 %	260	34,030	0.32 %	252
> 364 Days	3,791	0.13 %	366	—	— %	—
Total Agency RMBS	1,639,887	0.19 %	144	921,862	0.27 %	57
Credit:						
30 Days or Less	377,440	2.09 %	16	37,795	2.11 %	17
31-60 Days	102,567	1.38 %	44	84,554	2.23 %	50
61-90 Days	96,823	1.50 %	78	152,426	2.11 %	75
91-120 Days	35,346	2.00 %	109	89,931	2.47 %	106
121-150 Days	3,353	1.56 %	139	66,412	4.75 %	125
151-180 Days	87,863	2.82 %	151	11,063	2.27 %	165
181-364 Days	—	— %	—	38,640	2.90 %	289
> 364 Days	126,484	2.58 %	462	94,248	2.99 %	447
Total Credit Assets	829,876	2.08 %	114	575,069	2.69 %	155
Total	\$ 2,469,763	0.82 %	134	\$ 1,496,931	1.20 %	94

Repurchase agreements involving underlying investments that the Company sold prior to period end, for settlement following period end, are shown using their contractual maturity dates even though such repurchase agreements may be expected to be terminated early upon settlement of the sale of the underlying investment.

As of December 31, 2021 and 2020, the fair value of investments transferred as collateral under outstanding borrowings under repurchase agreements was \$2.8 billion and \$1.8 billion, respectively. Collateral transferred under outstanding borrowings under repurchase agreements as of December 31, 2021 and 2020 include investments in the amount of \$4.1 million and \$1.4 million, respectively, that were sold prior to period end but for which such sale had not yet settled. In addition, as of December 31, 2021 and 2020, the Company posted net cash collateral of \$70.3 million and \$28.9 million, respectively, to its counterparties.

Amount at risk represents the excess, if any, for each counterparty of the fair value of collateral held by such counterparty over the amounts outstanding under repurchase agreements. As of both December 31, 2021 and 2020, there was no single counterparty for which the amount at risk relating to our repurchase agreements was greater than 10% of total equity.



#### *Other Secured Borrowings*

The Company has entered into agreements to finance a portfolio of unsecured loans through a recourse secured borrowing facility. The facility has a term ending in February 2022. The facility accrues interest on a floating-rate basis. As of December 31, 2021 and 2020, the Company had outstanding borrowings under this facility in the amount of \$2.7 million and \$8.7 million, respectively, which is included under the caption Other secured borrowings, on the Company's Consolidated Balance Sheet. The effective interest rate, inclusive of related deferred financing costs, was 2.10% and 2.30% as of December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, the fair value of unsecured loans collateralizing this borrowing was \$4.3 million and \$11.5 million, respectively. There are a number of covenants, including several financial covenants, associated with this borrowing; as of December 31, 2021 and 2020, the Company was in compliance with all of its covenants.

The Company has a non-recourse secured borrowing facility that is used to finance a portfolio of unsecured loans. The facility includes a reinvestment period ending in March 2022 (or earlier following an early amortization event), whereby the Company can vary its borrowings based on the size of its portfolio, subject to certain maximum limits. Following the reinvestment period, the facility will begin to amortize based on the collections from the underlying loans. The facility accrues interest on a floating rate basis. As of December 31, 2021 and 2020, the Company had outstanding borrowings under this facility in the amount of \$38.5 million and \$7.0 million, respectively, which is included under the caption Other secured borrowings, on the Company's Consolidated Balance Sheet. The effective interest rate on this facility, inclusive of any related deferred financing costs, was 2.25% as of both December 31, 2021 and 2020. As of December 31, 2021 and 2020, the fair value of unsecured loans collateralizing this borrowing was \$57.1 million and \$31.8 million, respectively. There are a number of covenants, including several financial covenants, associated with this borrowing; as of both December 31, 2021 and 2020, the Company was in compliance with all of its covenants.

The Company has entered into an agreement to finance a portfolio of ABS backed by consumer loans through a recourse secured borrowing facility. The facility includes a revolving borrowing period ending in September 2022 (or earlier following a trigger event), whereby the Company can vary its borrowings based on the size of its portfolio, subject to certain maximum limits. Following the revolving borrowing period, the facility amortizes, with a final termination date in September 2024. The facility accrues interest on a floating rate basis. As of December 31, 2021 and 2020, the Company had outstanding borrowings under this facility in the amount of \$46.9 million and \$28.7 million, respectively, which is included under the caption Other secured borrowings, on the Company's Consolidated Balance Sheet. The effective interest rate on this facility, inclusive of any related deferred financing costs, was 4.70% and 5.22% as of December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, the fair value of ABS backed by consumer loans collateralizing this borrowing was \$67.5 million and \$44.5 million, respectively. There are a number of covenants, including several financial covenants, associated with this borrowing; as of both December 31, 2021 and 2020, the Company was in compliance with all of its covenants.

The Company has completed securitization transactions, as discussed in Note 10, whereby it financed portfolios of non-QM loans. As of December 31, 2021 and 2020, the fair value of the Company's outstanding liabilities associated with these securitization transactions was \$984.2 million and \$754.9 million, respectively, representing the fair value of the securitization trust certificates held by third parties as of such date, and is included on the Company's Consolidated Balance Sheet in Other secured borrowings, at fair value. The weighted average coupon of the Certificates held by third parties was 1.68% and 2.43% as of December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, the fair value of non-QM loans held in the consolidated securitization trusts was \$1.042 billion and \$801.3 million, respectively.

In March 2020, the Company entered into a participation agreement with an unrelated third-party, the "Junior Participant," whereby the Company transferred to the Junior Participant an interest in a small balance commercial mortgage loan, the "Partial Loan," (together with the Company's interest, the "Whole Commercial Loan"). The Partial Loan is subordinate to the interest in the loan held by the Company. In accordance with ASC 860-10, the Partial Loan transferred to the Junior Participant does not meet the definition of a participating interest and, as a result, the Company does not recognize the transfer of the Partial Loan to the Junior Participant as a sale. The Company has recorded the Whole Commercial Loan in Loans, at fair value, on the Consolidated Balance Sheet. As of December 31, 2021 and 2020, the fair value of the Whole Commercial Loan was \$18.0 million and \$17.3 million, respectively. The Company's liability to the Junior Participant as of both December 31, 2021 and 2020, was \$7.5 million and \$6.7 million, respectively, and is included in Other secured borrowings on the Company's Consolidated Balance Sheet. Under the terms of the participation agreement, the Junior Participant is entitled to a portion of the cashflows of the underlying commercial mortgage loan.

The Company and a third-party (the "Participant") have entered into participation agreements whereby in each case the Company sold a participation in a syndicated bank loan (the "Participated Loans"). Simultaneous with the execution of the participation agreement, the Company entered into a forward purchase agreement with the Participant to repurchase the Participated Loan at a predetermined price. As of December 31, 2021, the fair value of the Participated Loans was \$1.1 million.

and is included in Securities, at fair value on the Company's Consolidated Balance Sheet. The Company's liability to the Participant was \$1.0 million, as of December 31, 2021, and is included in Other secured borrowings on the Company's Consolidated Balance Sheet. The effective interest rate on the liability to the Participant was 3.17% as of December 31, 2021.

#### Unsecured Borrowings

##### Senior Notes

The Company has issued \$86.0 million in aggregate principal amount of unsecured long-term debt, which is structured as a joint and several co-issuance by certain of the Company's consolidated subsidiaries and fully guaranteed by the Company (the "Senior Notes"). At any time, the Company is permitted to add others of its consolidated subsidiaries as co-issuers of the Senior Notes. The Senior Notes bear interest at a rate of 5.50%, subject to adjustment based on changes, if any, in the ratings of the Senior Notes. Interest on the Senior Notes is payable semi-annually in arrears on March 1 and September 1 of each year. The Senior Notes mature on September 1, 2022. The Company may redeem the Senior Notes, at its option, in whole or in part, prior to March 1, 2022 at a price equal to 100% of the principal amount thereof, plus the applicable "make-whole" premium as of the applicable date of redemption. At any time on or after March 1, 2022, the Company may redeem the Senior Notes, in whole or in part, at a redemption price equal to 100% of the aggregate principal amount of the Senior Notes to be redeemed, plus accrued and unpaid interest. The Senior Notes are carried at amortized cost. There are a number of covenants, including several financial covenants, associated with the Senior Notes. As of both December 31, 2021 and 2020, the Company was in compliance with all of its covenants.

The Company amortizes debt issuance costs over the life of the associated debt; the amortized portion of debt issuance costs is included in Interest expense on the Consolidated Statement of Operations. The Senior Notes have an effective interest rate of 5.80%, inclusive of debt issuance costs.

The Senior Notes are unsecured and are effectively subordinated to secured indebtedness of the Company, to the extent of the value of the collateral securing such indebtedness.

#### Schedule of Principal Repayments

The following table details the Company's principal repayment schedule, over the next 5 years, for outstanding borrowings as of December 31, 2021:

Year <i>(In thousands)</i>	Repurchase Agreements <sup>(1)</sup>	Other Secured Borrowings <sup>(2)</sup>	Senior Notes <sup>(1)</sup>	Total
Next Twelve Months	\$ 2,339,488	\$ 569,190	\$ 86,000	\$ 2,994,678
Year 2	130,275	279,053	—	409,328
Year 3	—	177,729	—	177,729
Year 4	—	100,203	—	100,203
Year 5	—	—	—	—
Total	\$ 2,469,763	\$ 1,126,175	\$ 86,000	\$ 3,681,938

(1) Reflects the Company's contractual principal repayment dates.

(2) Includes \$1.031 billion of expected principal repayments related to the Company's consolidated residential mortgage loan securitizations, which are projected based upon the underlying assets' expected repayments and may be prior to the stated contractual maturities.

#### 12. Income Taxes

The Company has elected to be taxed as a REIT under the Code. A REIT is generally not subject to U.S. federal, state, and local income tax on the portion of its income that is distributed to its owners if it distributes at least 90% of its REIT taxable income within the prescribed time frames, determined without regard to the deduction for dividends paid and excluding any net capital gains. The Company intends to operate in a manner which will allow it to continue to meet the requirements for qualification as a REIT. Accordingly, Ellington Financial Inc. does not believe that it will be subject to U.S. federal, state, and local income tax on the portion of its net taxable income that is distributed to its stockholders as long as certain asset, income, and share ownership tests are met.

Cash dividends declared by the Company that do not exceed its current or accumulated earnings and profits will be considered ordinary income to stockholders for income tax purposes unless all or a portion of a dividend is designated by the Company as a capital gain dividend. Distributions in excess of the Company's current and accumulated earnings and profits will be characterized as return of capital or capital gains.

The following table details the tax characteristics of the Company's dividends declared on its shares of common and preferred stock for the years ended December 31, 2021, 2020 and 2019.

Tax Characteristic	Year Ended December 31,		
	2021	2020	2019
Ordinary income	96.4 %	58.2 %	85.0 %
Return of capital	— %	37.9 %	9.4 %
Capital gains	3.6 %	3.9 %	5.6 %
	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

Certain foreign and domestic subsidiaries of the Company have elected to be treated as TRSs and therefore are taxed as corporations for U.S. federal, state, and local income tax purposes. To the extent that those entities incur, or are expected to incur, U.S. federal, state, or local income taxes, or foreign income taxes, such taxes are recorded in the Company's consolidated financial statements.

In response to the negative economic impact of the COVID-19 pandemic, the Coronavirus Aid, Relief, and Economic Security Act, or the "CARES Act," was signed into law on March 27, 2020, and provided for significant stimulus spending and included numerous tax provisions. As of December 31, 2021, there was no material impact on the Company's tax provision as a result of the CARES Act.

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes*, or "ASC 740." Deferred income taxes reflect the net tax effects of temporary differences that may exist between the carrying amounts of assets and liabilities under U.S. GAAP and the carrying amounts used for income tax purposes. For the years ended December 31, 2021, 2020, and 2019, the Company recorded income tax expense of \$3.1 million, \$11.4 million, and \$1.6 million respectively.

The following table summarizes the Company's income tax provision for the years ended December 31, 2021, 2020, and 2019.

(In thousands)	As of		
	December 31, 2021	December 31, 2020	December 31, 2019
Current income tax provision			
Federal	\$ 393	\$ 38	\$ 1
State	36	602	2
Total current income tax provision, net	429	640	4
Deferred income tax provision			
Federal	2,927	6,638	1,0
State	(212)	4,099	
Total deferred income tax provision, net	2,715	10,737	1,0
Total income tax provision	\$ 3,144	\$ 11,377	\$ 1,5

The following table details the components of the Company's net deferred tax asset (liability) at December 31, 2021 and 2020.

(In thousands)	As of	
	December 31, 2021	December 31, 2020
Deferred tax asset		
Net operating loss available for carry-back and carry-forward <sup>(1)</sup>	\$ —	\$ 1,937
Basis difference for investments	3,170	1,481
Deferred tax asset	3,170	3,419
Deferred tax liability		
Basis difference for investments	(17,992)	(15,525)
Deferred tax liability	(17,992)	(15,525)
Net deferred tax asset (liability)	\$ (14,822)	\$ (12,106)

(1) Includes state net operating losses available for carry-back and carry-forward as of December 31, 2021 and 2020 of \$0.7 million and \$0.8 million, respectively. These deferred tax assets were fully offset by a valuation allowance.

The following table details the reconciliation between the Company's U.S. federal and state statutory income tax rate and the effective tax rate for the years ended December 31, 2021, 2020, and 2019.

	Year Ended December 31,		
	2021	2020	2019
Federal statutory rate	21.00 %	21.00 %	21.00 %
State statutory rate, net of federal benefit	(0.13)%	11.83 %	0.45 %
Income attributable to non-controlling interests	(1.09)%	(1.78)%	(1.28)%
REIT earnings not subject to corporate taxes	(17.51)%	(2.43)%	(17.76)%
Effective tax rate	2.27 %	28.62 %	2.41 %

Based on its analysis of any potential uncertain income tax positions, the Company concluded it did not have any uncertain tax positions that meet the recognition or measurement criteria of ASC 740 as of December 31, 2021 and 2020. Tax authorities in the relevant jurisdictions may select the Company's tax returns for audit and propose adjustments before the expiration of the statute of limitations. Tax returns filed for the Company's open tax years or any ongoing audits remain open to adjustment in the major tax jurisdictions.

### 13. Related Party Transactions

The Company is party to the Management Agreement (which may be amended from time to time), pursuant to which the Manager manages the assets, operations, and affairs of the Company, in consideration of which the Company pays the Manager management and incentive fees. The descriptions of the Base Management Fees and Incentive Fees are detailed below.

#### Base Management Fees

The Operating Partnership pays the Manager 1.50% per annum of total equity of the Operating Partnership calculated in accordance with U.S. GAAP as of the end of each fiscal quarter (before deductions for base management fees and incentive fees payable with respect to such fiscal quarter), provided that total equity is adjusted to exclude one-time events pursuant to changes in U.S. GAAP, as well as non-cash charges after discussion between the Manager and the Company's independent directors, and approval by a majority of the Company's independent directors in the case of non-cash charges.

Pursuant to the Management Agreement, if the Company invests at issuance in the equity of any collateralized debt obligation that is managed, structured, or originated by Ellington or one of its affiliates, or if the Company invests in any other investment fund or other investment for which Ellington or one of its affiliates receives management, origination, or structuring fees, then, unless agreed otherwise by a majority of the Company's independent directors, the base management and incentive fees payable by the Company to its Manager will be reduced by an amount equal to the applicable portion (as described in the Management Agreement) of any such management, origination, or structuring fees.

For the year ended December 31, 2021, the total base management fee incurred was \$13.4 million, consisting of \$16.0 million of total gross base management fee incurred, less \$2.6 million of management fee rebates. For the year ended December 31, 2020, the total base management fee incurred was \$11.5 million, consisting of \$12.6 million of total gross base management fee incurred, less \$1.1 million of management fee rebates. For the year ended December 31, 2019, the total base management fee incurred was \$8.0 million consisting of \$10.0 million of total gross base management fee incurred, less \$2.0 million of management fee rebates. See "*Participation in CLO Transactions*" below for details on management fee rebates.

#### Incentive Fees

The Manager is entitled to receive a quarterly incentive fee equal to the positive excess, if any, of (i) the product of (A) 25% and (B) the excess of (1) Adjusted Net Income (described below) for the Incentive Calculation Period (which means such fiscal quarter and the immediately preceding three fiscal quarters) over (2) the sum of the Hurdle Amounts (described below) for the Incentive Calculation Period, over (ii) the sum of the incentive fees already paid or payable for each fiscal quarter in the Incentive Calculation Period preceding such fiscal quarter.

For purposes of calculating the incentive fee, "Adjusted Net Income" for the Incentive Calculation Period means the net increase in equity from operations of the Operating Partnership, after all base management fees but before any incentive fees for such period, and excluding any non-cash equity compensation expenses for such period, as reduced by any Loss Carryforward (as described below) as of the end of the fiscal quarter preceding the Incentive Calculation Period.

For purposes of calculating the incentive fee, the "Loss Carryforward" as of the end of any fiscal quarter is calculated by

determining the excess, if any, of (1) the Loss Carryforward as of the end of the immediately preceding fiscal quarter over (2) the Company's net increase in equity from operations (expressed as a positive number) or net decrease in equity from operations (expressed as a negative number) of the Operating Partnership for such fiscal quarter. As of both December 31, 2021 and 2020, there was no Loss Carryforward.

For purposes of calculating the incentive fee, the "Hurdle Amount" means, with respect to any fiscal quarter, the product of (i) one-fourth of the greater of (A) 9% and (B) 3% plus the 10-year U.S. Treasury rate for such fiscal quarter, (ii) the sum of (A) the weighted average gross proceeds per share of all common stock and OP Unit issuances since inception of the Company and up to the end of such fiscal quarter, with each issuance weighted by both the number of shares of common stock and OP Units issued in such issuance and the number of days that such issued shares of common stock and OP Units were outstanding during such fiscal quarter, using a first-in first-out basis of accounting (i.e. attributing any share of common stock and OP Unit repurchases to the earliest issuances first) and (B) the result obtained by dividing (I) retained earnings attributable to shares of common stock and OP Units at the beginning of such fiscal quarter by (II) the average number of shares of common stock and OP Units outstanding for each day during such fiscal quarter, and (iii) the sum of (x) the average number of shares of common stock and long term incentive plan units of the Company outstanding for each day during such fiscal quarter, and (y) the average number of Convertible Non-controlling Interests outstanding for each day during such fiscal quarter. For purposes of determining the Hurdle Amount, issuances of common stock, and Convertible Non-controlling Interests (a) as equity incentive awards, (b) to the Manager as part of its base management fee or incentive fee and (c) to the Manager or any of its affiliates in privately negotiated transactions, are excluded from the calculation. The payment of the incentive fee will be in a combination of shares of common stock and cash, provided that at least 10% of any quarterly payment will be made in shares of common stock.

Total incentive fee incurred for the years ended December 31, 2021 and 2019 was \$15.7 million and \$0.1 million, respectively. The Company did not accrue an incentive fee for the year ended December 31, 2020, since on a rolling four quarter basis, the Company's income did not exceed the prescribed hurdle amount.

#### **Termination Fees**

The Management Agreement requires the Company to pay a termination fee to the Manager in the event of (1) the Company's termination or non-renewal of the Management Agreement without cause or (2) the Company's termination of the Management Agreement based on unsatisfactory performance by the Manager that is materially detrimental to the Company or (3) the Manager's termination of the Management Agreement upon a default by the Company in the performance of any material term of the Management Agreement. Such termination fee will be equal to the amount of three times the sum of (i) the average annual quarterly base management fee amounts paid or payable with respect to the two 12-month periods ending on the last day of the latest fiscal quarter completed on or prior to the date of the notice of termination or non-renewal and (ii) the average annual quarterly incentive fee amounts paid or payable with respect to the two 12-month periods ending on the last day of the latest fiscal quarter completed on or prior to the date of the notice of termination or non-renewal.

#### **Expense Reimbursement**

Under the terms of the Management Agreement the Company is required to reimburse the Manager for operating expenses related to the Company that are incurred by the Manager, including expenses relating to legal, accounting, due diligence, other services, and all other costs and expenses. The Company's reimbursement obligation is not subject to any dollar limitation. Expenses will be reimbursed in cash within 60 days following delivery of the expense statement by the Manager; provided, however, that such reimbursement may be offset by the Manager against amounts due to the Company from the Manager. The Company will not reimburse the Manager for the salaries and other compensation of the Manager's personnel except that the Company will be responsible for expenses incurred by the Manager in employing certain dedicated or partially dedicated personnel as further described below.

The Company reimburses the Manager for the allocable share of the compensation, including, without limitation, wages, salaries, and employee benefits paid or reimbursed, as approved by the Compensation Committee of the Board of Directors to certain dedicated or partially dedicated personnel who spend all or a portion of their time managing the Company's affairs, based upon the percentage of time devoted by such personnel to the Company's affairs. In their capacities as officers or personnel of the Manager or its affiliates, such personnel will devote such portion of their time to the Company's affairs as is necessary to enable the Company to operate its business.

For the years ended December 31, 2021, 2020, and 2019, the Company reimbursed the Manager \$12.7 million, \$9.9 million, and \$10.9 million, respectively, for previously incurred operating expenses. As of December 31, 2021 and 2020, the outstanding payable to the Manager for operating expenses was \$3.7 million and \$2.5 million, respectively, which are included in Accrued expenses and other liabilities on the Consolidated Balance Sheet.

**Transactions Involving Certain Loan Originators**

As of December 31, 2021 and 2020, the loan originators in which the Company holds equity investments represent related parties. Transactions that have been entered into with these related party loan originators are summarized below.

The Company is a party to a mortgage loan purchase and sale flow agreement, with a mortgage loan originator in which the Company holds a non-controlling equity investment, whereby the Company purchases residential mortgage loans that satisfy certain specified criteria. The Company has also provided a \$5.0 million line of credit to the mortgage originator. Under the terms of this line of credit, the Company has agreed to make advances to the mortgage originator solely for the purpose of funding specifically identified residential mortgage loans designated for sale to the Company. To the extent the advances are drawn by the mortgage originator, it must pay interest, at a rate of 15% per annum, on the outstanding balance of each advance from the date the advance is made until such advance is repaid in full. The mortgage originator is required to repay advances in full no later than two business days following the date that the Company purchases the related residential mortgage loans from the mortgage originator. As of both December 31, 2021 and 2020, there were no advances outstanding. The Company has also entered into agreements whereby it guarantees the performance of such mortgage originator under third-party master repurchase agreements. See Note 21, Commitments and Contingencies, for further information on the Company's guarantees of the third-party borrowing arrangements. Additionally, in August 2020, the Company entered into a commitment agreement whereby the Company committed to purchase \$150 million of residential mortgage loans. In connection with satisfying the conditions set forth under such commitment agreement, the Company received warrants to purchase a maximum of 9.329 million shares of non-voting common stock. In December 2021, warrants to purchase 1.049 million shares of non-voting common stock were terminated. As of December 31, 2021 and 2020 the Company held warrants to purchase 8.280 million and 9.329 million shares, respectively; such warrants have a fair value of \$10.0 million and \$3.6 million, respectively, and are included in Investments in unconsolidated entities on the Consolidated Balance Sheet.

The Company, through a related party of Ellington, or the "Loan Purchaser," is a party to a consumer loan purchase and sale flow agreement with a consumer loan originator in which the Company holds an investment in common and preferred stock and warrants to purchase additional preferred stock, whereby the Loan Purchaser purchases consumer loans that satisfy certain specified criteria. The Company has investments in participation certificates related to consumer loans titled in the name of the Loan Purchaser. Through its participation certificates, the Company has beneficial interests in the loan cash flows, net of servicing-related fees and expenses. The total fair value of the Company's participation certificates was \$72.8 million and \$44.5 million as of December 31, 2021 and 2020, respectively, which is included in Securities, at fair value on the Consolidated Balance Sheet. An employee of Ellington has a less-than-10% equity interest in, and serves on the board of, this consumer loan originator. Another employee of Ellington, who serves as an officer of the Company, also serves on the board, as the Company's representative.

In May 2021, the Company entered into a convertible secured promissory note agreement whereby it agreed to lend up to \$6.0 million to a mortgage loan originator (the "Convertible Note") in which the Company also holds an equity investment. The Convertible Note matures on December 31, 2025 and is convertible into non-voting equity interests, at the option of the borrower, at any time prior to maturity. As of December 31, 2021, the outstanding principal balance on the Convertible Note was \$3.0 million and the applicable interest rate was 3.0%. The fair value of the Convertible Note as of December 31, 2021 was \$3.0 million. The Convertible Note is classified as a Corporate loan and is included in Loans, at fair value on the Consolidated Balance Sheet.

In November 2021, the Company entered into a secured promissory note agreement whereby it agreed to lend up to \$3.0 million to a mortgage loan originator (the "Promissory Note to Other Loan Originator") in which the Company also holds an equity investment. The Promissory Note to Other Loan Originator matures on November 19, 2024 and is subject to an interest rate of 9.0% per annum. As of December 31, 2021, there were no draws made on the Promissory Note to Other Loan Originator.

**Consumer, Residential, and Commercial Loan Transactions with Affiliates**

The Company purchases certain of its consumer loans through an affiliate, or the "Purchasing Entity." The Purchasing Entity has entered into purchase agreements, open-ended in duration, with third party consumer loan originators whereby it has agreed to purchase eligible consumer loans. The amount of loans purchased under these purchase agreements is dependent on, among other factors, the amount of loans originated in any given period by the selling originators. The Company and certain other affiliates of Ellington have entered into agreements with the Purchasing Entity whereby the Company and each of those other affiliates of Ellington have agreed to purchase their allocated portion (subject to monthly determination based on available capital and other factors) of the eligible loans acquired by the Purchasing Entity under each purchase agreement. Immediately after the Purchasing Entity purchases beneficial interests in the loans, the Company and other affiliates of Ellington purchase such beneficial interests from the Purchasing Entity, at the same price paid by the Purchasing Entity. During the years ended December 31, 2021, 2020, and 2019, the Company purchased loans under these agreements with an aggregate principal balance

of \$41.4 million, \$115.7 million, and \$134.4 million, respectively. As of December 31, 2021 and 2020, the estimated remaining contingent purchase obligations of the Company under these purchase agreements was approximately \$13.4 million and \$13.0 million, respectively, in principal balance.

The Company's beneficial interests in the consumer loans purchased through the Purchasing Entity are evidenced by participation certificates issued by trusts that hold legal title to the loans. These trusts are owned by a related party of Ellington and were established to hold such loans. Through its participation certificates, the Company participates in the cash flows of the underlying loans held by each trust. The total amount of consumer loans underlying the Company's participation certificates and held in the related party trusts was \$61.7 million and \$45.1 million as of December 31, 2021 and 2020, respectively.

The Company has beneficial interests in residential mortgage loans and REO held in a trust owned by a related party of Ellington. Through these beneficial interests, the Company participates in the cash flows of the underlying loans held by such trust. The total amount of residential mortgage loans and REO underlying the Company's beneficial interests and held in the related party trust was \$975.7 million and \$387.4 million as of December 31, 2021 and 2020, respectively.

The Company is a co-investor in certain small balance commercial mortgage loans with several other investors, including an unrelated third party and various affiliates of Ellington. These loans are beneficially owned by a consolidated subsidiary of the Company. As of both December 31, 2021 and 2020, the aggregate fair value of these small balance commercial loans was \$34.0 million. As of December 31, 2021, the non-controlling interests held by the unrelated third party and the Ellington affiliates were \$2.0 million and \$3.6 million, respectively. As of December 31, 2020, the non-controlling interests held by the unrelated third party and the Ellington affiliates were \$4.1 million and \$8.9 million, respectively.

The Company is also a co-investor in certain small balance commercial mortgage loans and REO with other investors, including various unrelated third parties and various affiliates of Ellington. Each co-investor in a particular loan has an interest in the limited liability company that owns such loan or REO. As of December 31, 2021 and 2020, the aggregate fair value of the Company's investments in the jointly owned limited liability companies was approximately \$36.9 million and \$33.9 million, respectively. Such investments are included in Investments in unconsolidated entities, on the Consolidated Balance Sheet.

The consumer, residential mortgage, and certain commercial mortgage loans that are the subject of the foregoing loan transactions are held in trusts, each of which the Company has determined to be a VIE. The Company has evaluated each of these VIEs and determined that the Company has the power to direct the activities of each VIE that most significantly impact such VIE's economic performance and the Company has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. As a result the Company has determined it is the primary beneficiary of each of these VIEs and has consolidated each VIE.

#### ***Equity Investment in Unconsolidated Entity***

The Company is a co-investor, together with other affiliates of Ellington, in Jepson Holdings Limited ("Jepson"), the parent of an entity (the "Jepson Risk Retention Vehicle") that has sponsored various European mortgage loan securitizations. The Jepson Risk Retention Vehicle is expected to hold certain of the notes it issues for each securitization it completes in order to comply with European risk retention rules.

As of December 31, 2021 and 2020, the Company's equity investment in Jepson Holdings Limited had a fair value of \$1.0 million and \$1.8 million, respectively. See Note 6 for additional details on this equity investment.

#### ***Participation in Multi-Borrower Financing Facilities***

The Company is a co-participant with certain other entities managed by Ellington or its affiliates (the "Affiliated Entities") in various entities (each, a "Joint Entity"), which were formed in order to facilitate the financing of small balance commercial mortgage loans, residential mortgage loans, and REO (collectively, the "Mortgage Loan and REO Assets"), through repurchase agreements. Each Joint Entity has a master repurchase agreement with a particular financing counterparty.

In connection with the financing of the Mortgage Loan and REO Assets under repurchase agreements, each of the Company and the Affiliated Entities transferred certain of their respective Mortgage Loan and REO Assets to one of the Joint Entities in exchange for its pro rata share of the financing proceeds that the respective Joint Entity received from the financing counterparty. While the Company's Mortgage Loan and REO Assets were transferred to the Joint Entity, the Company's Mortgage Loan and REO Assets and the related debt were not derecognized for financial reporting purposes, in accordance with ASC 860-10, because the Company continued to retain the risks and rewards of ownership of its Mortgage Loan and REO Assets. As of December 31, 2021 and 2020, the Joint Entities had aggregate outstanding issued debt under the repurchase agreements in the amount of \$566.0 million and \$192.3 million, respectively. The Company's segregated silo of this debt as of December 31, 2021 and 2020 was \$150.5 million and \$116.1 million, respectively, and is included under the caption

Repurchase agreements on the Company's Consolidated Balance Sheet. To the extent that there is a default under the repurchase agreements, all of the assets of each respective Joint Entity, including those beneficially owned by any non-defaulting owners of such Joint Entity, could be used to satisfy the outstanding obligations under such repurchase agreement. As of both December 31, 2021 and 2020, no party to any of the repurchase agreements was in default.

Each of the Joint Entities has been determined to be a VIE. The Company has evaluated each of these VIEs and determined that it continued to retain the risks and rewards of ownership of certain of the Mortgage Loan and REO Assets, where such Mortgage Loan and REO Assets and the related debt are segregated for the Company and each of the Affiliated Entities. On account of the segregation of certain of each co-participant's assets and liabilities within each of the Joint Entities, as well as the retention by each co-participant of control over its segregated Mortgage Loan and REO Assets within the Joint Entities, the Company has determined that it is the primary beneficiary of, and has consolidated its segregated silo of assets and liabilities within, each of the Joint Entities. See Note 9 and Note 11 for additional information.

#### **Participation in CLO Transactions**

As discussed in Note 10, the Company participated in a number of CLO securitization transactions, all managed by the CLO Manager.

The CLO Manager is entitled to receive management and incentive fees in accordance with the respective management agreements between the CLO Manager and the respective CLO Issuers. In accordance with the Management Agreement, the Manager rebates to the Company the portion of the management fees payable by each CLO Issuer to the CLO Manager that are allocable to the Company's participating interest in the unsecured subordinated notes issued by such CLO Issuer. For the years ended December 31, 2021, 2020, and 2019, the amount of such management fee rebates was \$2.6 million, \$1.1 million, and \$2.0 million, respectively.

In addition, from time to time, the Company along with various other affiliates of Ellington, and in certain cases various third parties, advance funds in the form of loans ("Initial Funding Loans") to securitization vehicles to enable them to establish warehouse facilities for the purpose of acquiring the assets to be securitized. Pursuant to the terms of the warehouse facilities and the Initial Funding Loans, the applicable securitization trust is required, at the closing of each respective CLO securitization, first to repay the warehouse facility, then to repay the Initial Funding Loans, and then to distribute interest earned, net of any necessary reserves and/or interest expense, and the aggregate realized or unrealized gains, if any, on assets purchased into the warehouse facility. In the event that such CLO securitization fails to close, the assets held by the respective securitization vehicle would, subject to a cure period, be liquidated. As of December 31, 2021 and 2020, the Company's investment in such warehouse facilities was \$1.7 million and \$6.1 million, respectively, which are included on the Consolidated Balance Sheet in Investments in unconsolidated entities.

During the years ended December 31, 2021, 2020, and 2019, the Company purchased various underperforming corporate debt and equity securities from certain of the Ellington-sponsored CLO Securitizations at market prices determined through the procedures set forth in the indentures of the respective Ellington-sponsored CLO Securitization. The total amount of such debt and equity securities purchased during the years ended December 31, 2021, 2020, and 2019 was \$5.9 million, \$1.6 million, and \$8.8 million, respectively.

#### **14. Long-Term Incentive Plan Units**

OP LTIP Units subject to the Company's incentive plans are generally exercisable by the holder at any time after vesting. Each OP LTIP Unit is convertible into an OP Unit on a one-for-one basis. Subject to certain conditions, the OP Units are redeemable by the holder for an equivalent number of shares of common stock of the Company or for the cash value of such shares of common stock, at the Company's election. Costs associated with the OP LTIP Units issued under the Company's incentive plans are measured as of the grant date and expensed ratably over the vesting period. Total expense associated with OP LTIP Units issued under the Company's incentive plans for the years ended December 31, 2021, 2020, and 2019 was \$1.0 million, \$0.7 million, and \$0.5 million, respectively.

On March 3, 2021, the Company's Board of Directors authorized the issuance of 17,231 OP LTIP Units to certain of Ellington's personnel dedicated to the Company pursuant to the Company's 2017 Equity Incentive Plan.

On September 14, 2021, the Company's Board of Directors authorized the issuance of 16,264 OP LTIP Units to certain of its directors pursuant to the Company's 2017 Equity Incentive Plan.

On December 16, 2021, the Company's Board of Directors authorized the issuance of 35,490 OP LTIP Units to certain of Ellington's personnel dedicated to the Company pursuant to the Company's 2017 Equity Incentive Plan.



The below table details unvested OP LTIP Units as of December 31, 2021:

Grant Recipient	Number of OP LTIP Units Granted	Grant Date	Vesting Date <sup>(1)</sup>
Directors:	16,264	September 14, 2021	September 13, 2022
Dedicated or partially dedicated personnel:	14,598	December 17, 2020	December 17, 2022
	13,534	March 3, 2021	December 31, 2022
	19,701	December 16, 2021	December 16, 2022
	15,789	December 16, 2021	December 16, 2023
Total unvested OP LTIP Units at December 31, 2021	79,886		

(1) Date at which such OP LTIP Units will vest and become non-forfeitable.

The following tables summarize issuance and exercise activity of OP LTIP Units for the years ended December 31, 2021, 2020, and 2019:

	Year Ended December 31,								
	2021			2020			2019		
	Manager	Director/ Employee	Total	Manager	Director/ Employee	Total	Manager	Director/ Employee	Total
OP LTIP Units Outstanding (12/31/2020, 12/31/2019, and 1/1/2019, respectively)	365,518	247,020	612,538	365,518	180,198	545,716	375,000	146,371	521,371
Granted	—	68,985	68,985	—	70,460	70,460	—	37,437	37,437
Exercised	—	(5,710)	(5,710)	—	(3,638)	(3,638)	(9,482)	(3,610)	(13,092)
OP LTIP Units Outstanding (12/31/2021, 12/31/2020, and 12/31/2019, respectively)	365,518	310,295	675,813	365,518	247,020	612,538	365,518	180,198	545,716
OP LTIP Units Unvested and Outstanding (12/31/2021, 12/31/2020, and 12/31/2019, respectively)	—	79,886	79,886	—	75,550	75,550	—	46,128	46,128
OP LTIP Units Vested and Outstanding (12/31/2021, 12/31/2020, and 12/31/2019, respectively)	365,518	230,409	595,927	365,518	171,470	536,988	365,518	134,070	499,588

There were an aggregate of 1,654,854 and 1,761,212 shares of common stock of the Company underlying awards, including OP LTIP Units, available for future issuance under the Company's 2017 Equity Incentive Plan as of December 31, 2021 and 2020, respectively.

## 15. Non-controlling Interests

### Operating Partnership

Non-controlling interests include the Convertible Non-controlling Interests in the Operating Partnership owned by an affiliate of our Manager, our directors, and certain current and former Ellington employees and their related parties in the form of OP LTIP Units. Income allocated to Convertible Non-controlling Interests is based on the non-controlling interest owners' ownership percentage of the Operating Partnership during the period, calculated using a daily weighted average of all shares of common stock of the Company and Convertible Non-controlling Interests outstanding during the period. Holders of Convertible Non-controlling Interests are entitled to receive the same distributions that holders of shares of common stock of the Company receive. Convertible Non-controlling Interests are non-voting with respect to matters as to which holders of common stock of the Company are entitled to vote.

On March 2, 2020, certain related parties of current Ellington employees converted 129,516 OP Units into shares of common stock.

On November 12, 2021, certain related parties of current Ellington employees converted 1,025 OP Units into shares of common stock.

On November 16, 2021, certain related parties of current Ellington employees converted 1,024 OP Units into shares of common stock.

As of December 31, 2021, the Convertible Non-controlling Interests consisted of the outstanding 675,813 OP LTIP Units and 46,360 OP Units, and represented an interest of approximately 1.0% in the Operating Partnership. As of December 31, 2020, the Convertible Non-controlling Interests consisted of the outstanding 612,538 OP LTIP Units and 48,409 OP Units, and represented an interest of approximately 1.3% in the Operating Partnership. As of December 31, 2021 and 2020, non-controlling interests related to all outstanding Convertible Non-controlling Interests was \$13.4 million and \$11.7 million, respectively.

#### **Joint Venture Interests**

Non-controlling interests also include the interests of joint venture partners in various consolidated subsidiaries of the Company. These subsidiaries hold the Company's investments in certain commercial mortgage loans and REO. The joint venture partners participate in the income, expense, gains and losses of such subsidiaries as set forth in the related operating agreements of the subsidiaries. The joint venture partners make capital contributions to the subsidiaries as new approved investments are purchased by the subsidiaries, and are generally entitled to distributions when investments are sold or otherwise disposed of. As of December 31, 2021 and 2020, the joint venture partners' interests in subsidiaries of the Company were \$18.7 million and \$24.5 million, respectively.

The joint venture partners' interests are not convertible into shares of common stock of the Company or OP Units, nor are the joint venture partners entitled to receive distributions that holders of shares of common stock of the Company receive.

## **16. Equity**

### *Preferred Stock*

The Company has authorized 100,000,000 shares of preferred stock, \$0.001 par value per share. As of December 31, 2021 and 2020, the total amount of cumulative preferred dividends in arrears was \$1.6 million and \$1.3 million.

#### *Series A*

As of both December 31, 2021 and December 31, 2020, there were 4,600,000 shares of 6.750% Series A Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, \$0.001 par value per share ("Series A Preferred Stock") outstanding.

The Company's Series A Preferred Stock ranks senior to its common stock and Convertible Non-controlling Interests with respect to the payment of dividends and the distribution of assets upon a voluntary or involuntary liquidation, dissolution or winding up of the Company. Additionally, the Company's Series A Preferred Stock has no stated maturity and is not subject to any sinking fund or mandatory redemption. The Series A Preferred Stock is not redeemable by the Company prior to October 30, 2024, except under circumstances where it is necessary to allow the Company to maintain its qualification as a REIT for U.S. federal income tax purposes and except in certain instances upon the occurrence of a change of control. Holders of the Company's Series A Preferred Stock generally do not have any voting rights.

Holders of the Series A Preferred Stock are entitled to receive cumulative cash dividends (i) from and including the original issue date to, but excluding, October 30, 2024, at a fixed rate equal to 6.750% per annum of the \$25.00 per share liquidation preference and (ii) from and including October 30, 2024, at a floating rate equal to three-month LIBOR plus a spread of 5.196% per annum of the \$25.00 per share liquidation preference. Dividends are payable quarterly in arrears on or about the 30th day of each January, April, July, and October.

#### *Series B*

As of December 31, 2021, there were 4,800,000 shares of 6.250% Series B Fixed-Rate Reset Cumulative Redeemable Preferred Stock, \$0.001 par value per share ("Series B Preferred Stock") outstanding.

The Company's Series B Preferred Stock ranks senior to its common stock and Convertible Non-controlling Interests but on a parity with the Company's Series A Preferred Stock with respect to the payment of dividends and the distribution of assets upon a voluntary or involuntary liquidation, dissolution or winding up of the Company. Additionally, the Company's Series B Preferred Stock has no stated maturity and is not subject to any sinking fund or mandatory redemption. The Series B Preferred Stock is not redeemable by the Company prior to January 30, 2027, except under circumstances where it is necessary to allow the Company to maintain its qualification as a REIT for U.S. federal income tax purposes and except in certain instances upon the occurrence of a change of control. Holders of the Company's Series B Preferred Stock generally do not have any voting rights.

Holders of the Series B Preferred Stock are entitled to receive cumulative cash dividends from and including the original issue date to, but excluding, January 30, 2027 (the "First Reset Date"), at a fixed rate equal to 6.250% per annum of the \$25.00 per share liquidation preference. The applicable fixed rate resets on the First Reset Date and again on the fifth

anniversary of the preceding reset date (each a "Reset Date"), at a rate equal to the five-year treasury rate as measured three business days prior to the Reset Date plus 4.99% per annum of the \$25.00 per share liquidation preference. Dividends are payable quarterly in arrears on or about the 30th day of each January, April, July, and October.

*Common Stock*

The Company has authorized 100,000,000 shares of common stock, \$0.001 par value per share. The Board of Directors may authorize the issuance of additional shares, subject to the approval of the holders of at least a majority of the shares of common stock then outstanding present in person or represented by proxy at a meeting of the stockholders. As of December 31, 2021 and 2020, there were 57,458,169 and 43,781,684 shares of common stock outstanding, respectively.

On January 24, 2020, the Company completed a follow-on offering of 5,290,000 shares of its common stock, of which 690,000 shares were issued pursuant to the exercise of the underwriters' option. The issuance and sale of the 5,290,000 shares of common stock generated net proceeds, after underwriters' discount and offering costs, of \$95.3 million.

On July 9, 2021, we completed a follow-on offering of 6,000,000 shares of our common stock. On July 29, 2021, we issued an additional 303,000 shares of common stock pursuant to the exercise of the underwriters' option. The issuance and sale of the 6,303,000 shares of common stock generated net proceeds, after underwriters' discounts and commissions and offering costs, of \$113.1 million.

On July 30, 2021, the Company issued 37,373 shares of its common stock to its Manager for payment of 10% of the incentive fee incurred; see Note 13 for additional details on the Management Agreement.

On August 6, 2021, the Company commenced an "at-the-market" offering program, or "ATM program," by entering into equity distribution agreements with third party sales agents under which it was authorized to offer and sell up to 10.0 million shares of common stock (the "Common ATM Program") from time to time. During the year ended December 31, 2021, the Company issued 1,549,900 shares of common stock under the Common ATM Program which provided \$28.2 million of net proceeds after \$0.4 million of agent commissions and offering costs.

On October 15, 2021, the Company completed a follow-on offering of 5,750,000 shares of its common stock, including 750,000 shares of common stock issued pursuant to the exercise of the underwriters' option. The issuance and sale of the 5,750,000 shares of common stock generated net proceeds, after underwriters' discount and offering costs, of \$103.5 million.

On November 12, 2021, the Company issued 30,502 shares of its common stock to its Manager for payment of 10% of the incentive fee incurred; see Note 13 for additional details on the Management Agreement.

The following table summarizes issuance, repurchase, and other activity with respect to the Company's common stock for the years ended December 31, 2021, 2020, and 2019:

	<b>Year Ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
Shares of Common Stock Outstanding (12/31/2020, 12/31/2019, and 1/1/2019, respectively)	43,781,684	38,647,943	29,796,601
Share Activity:			
Shares of common stock issued	13,602,900	5,290,000	8,855,000
Shares of common stock issued in connection with incentive fee payment	67,875	637	—
Shares of common stock repurchased	—	(290,050)	(50,825)
OP LTIP Units exercised	—	—	13,092
OP Units exercised	5,710	133,154	34,075
Shares of Common Stock Outstanding (12/31/2021, 12/31/2020, and 12/31/2019, respectively)	<u>57,458,169</u>	<u>43,781,684</u>	<u>38,647,943</u>

If all Convertible Non-controlling Interests that have been previously issued were to become fully vested and exchanged for shares of common stock as of December 31, 2021 and 2020, the Company's issued and outstanding shares of common stock would increase to 58,180,342 and 44,442,631 shares, respectively.

On June 13, 2018, the Board of Directors approved the adoption of a share repurchase program under which the Company is authorized to repurchase up to 1.55 million shares of common stock. The program, which is open-ended in duration, allows the Company to make repurchases from time to time on the open market or in negotiated transactions, including under Rule 10b5-1 plans. Repurchases are at the Company's discretion, subject to applicable law, share availability, price and financial performance, among other considerations. During the year ended December 31, 2020, the Company

repurchased 290,050 shares at an average price per share of \$10.54 and a total cost of \$3.1 million. During the year ended December 31, 2019, the Company repurchased 50,825 shares at an average price per share of \$15.39 and a total cost of \$0.8 million. The Company did not repurchase any shares of common stock during the year ended December 31, 2021. From inception of the current repurchase plan through December 31, 2021, the Company repurchased 701,965 shares at an average price per share of \$13.36 and a total cost of \$9.4 million.

## 17. Earnings Per Share

The components of the computation of basic and diluted EPS are as follows:

	Year Ended December 31,		
	2021	2020	2019
<i>(In thousands except share amounts)</i>			
Net income (loss) attributable to common stockholders	\$ 125,346	\$ 17,245	\$ 56,467
Add: Net income (loss) attributable to Convertible Non-controlling Interests <sup>(1)</sup>	1,783	(3)	1,305
Net income (loss) attributable to common stockholders and Convertible Non-controlling Interests	127,129	17,242	57,772
<b>Dividends declared:</b>			
Common stockholders	(81,104)	(55,211)	(58,499)
Convertible Non-controlling Interests	(1,120)	(812)	(1,325)
Total dividends declared to common stockholders and Convertible Non-controlling Interests	(82,224)	(56,023)	(59,824)
<b>Undistributed (Distributed in excess of) earnings:</b>			
Common stockholders	44,242	(37,966)	(2,032)
Convertible Non-controlling Interests	663	(815)	(20)
Total undistributed (distributed in excess of) earnings attributable to common stockholders and Convertible Non-controlling Interests	\$ 44,905	\$ (38,781)	\$ (2,052)
Weighted average shares outstanding (basic and diluted):			
Weighted average shares of common stock outstanding	48,535,221	43,486,336	32,067,768
Weighted average Convertible Non-controlling Interest Units outstanding	679,710	635,245	732,456
Weighted average shares of common stock and Convertible Non-controlling Interest Units outstanding	49,214,931	44,121,581	32,800,224
<b>Basic earnings per share of common stock and Convertible Non-controlling Interest Unit:</b>			
Distributed	\$ 1.64	\$ 1.26	\$ 1.81
Undistributed (Distributed in excess of)	0.94	(0.87)	(0.05)
	\$ 2.58	\$ 0.39	\$ 1.76
<b>Diluted earnings per share of common stock and Convertible Non-controlling Interest Unit:</b>			
Distributed	\$ 1.64	\$ 1.26	\$ 1.81
Undistributed (Distributed in excess of)	0.94	(0.87)	(0.05)
	\$ 2.58	\$ 0.39	\$ 1.76

(1) For the years ended December 31, 2021, 2020, and 2019, excludes net income (loss) of \$5.3 million, \$3.4 million, and \$3.9 million, respectively, attributable to joint venture partners, which have non-participating interests as described in Note 15.

## 18. Restricted Cash

The Company is required to maintain a specific cash balance in a segregated account pursuant to a flow consumer loan purchase and sale agreement. As of both December 31, 2021 and 2020, the Company's restricted cash balance related to the flow consumer loan purchase and sale agreement was \$0.2 million.

## 19. Offsetting of Assets and Liabilities

The Company generally records financial instruments at fair value as described in Note 2. Financial instruments are generally recorded on a gross basis on the Consolidated Balance Sheet. In connection with the vast majority of its derivative, reverse repurchase and repurchase agreements, and the related trading agreements, the Company and its counterparties are required to pledge collateral. Cash or other collateral is exchanged as required with each of the Company's counterparties in connection with open derivative positions, and reverse repurchase and repurchase agreements.

The following tables present information about certain assets and liabilities representing financial instruments as of December 31, 2021 and 2020. The Company has not entered into master netting agreements with any of its counterparties. Certain of the Company's reverse repurchase and repurchase agreements and financial derivative transactions are governed by underlying agreements that generally provide a right of net settlement, as well as a right of offset in the event of default or in the event of a bankruptcy of either party to the transaction.

**December 31, 2021:**

Description (In thousands)	Amount of Assets (Liabilities) Presented in the Consolidated Balance Sheet <sup>(1)</sup>	Financial Instruments Available for Offset	Financial Instruments Transferred or Pledged as Collateral <sup>(2)(3)</sup>	Cash Collateral (Received) Pledged <sup>(2)(3)</sup>	Net Amount
<b>Assets</b>					
Financial derivatives—assets	\$ 18,894	\$ (9,909)	\$ —	\$ (1,720)	\$ 7,265
Reverse repurchase agreements	123,250	(123,250)	—	—	—
<b>Liabilities</b>					
Financial derivatives—liabilities	(12,298)	9,909	—	2,169	(220)
Repurchase agreements	(2,469,763)	2,469,763	(70,314)	70,314	—

(1) In the Company's Consolidated Balance Sheet, all balances associated with repurchase agreements, reverse repurchase agreements, and financial derivatives are presented on a gross basis.

(2) For the purpose of this presentation, for each row the total amount of financial instruments transferred or pledged and cash collateral (received) or pledged may not exceed the applicable gross amount of assets or (liabilities) as presented here. Therefore, the Company has reduced the amount of financial instruments transferred or pledged as collateral related to the Company's repurchase agreements and cash collateral pledged on the Company's financial derivative liabilities. Total financial instruments transferred or pledged as collateral on the Company's repurchase agreements as of December 31, 2021 was \$2.8 billion. As of December 31, 2021, total cash collateral on financial derivative assets and liabilities excludes excess net cash collateral pledged (received) of \$10.7 million and \$2.0 million, respectively.

(3) When collateral is pledged to or pledged by a counterparty, it is often pledged or posted with respect to all positions with such counterparty, and in such cases such collateral cannot be specifically identified as relating to a particular asset or liability. As a result, in preparing the above tables, the Company has made assumptions in allocating pledged or posted collateral among the various rows.

**December 31, 2020:**

Description (In thousands)	Amount of Assets (Liabilities) Presented in the Consolidated Balance Sheet <sup>(1)</sup>	Financial Instruments Available for Offset	Financial Instruments Transferred or Pledged as Collateral <sup>(2)(3)</sup>	Cash Collateral (Received) Pledged <sup>(2)(3)</sup>	Net Amount
<b>Assets</b>					
Financial derivatives—assets	\$ 15,479	\$ (12,579)	\$ —	\$ (1,404)	\$ 1,496
Reverse repurchase agreements	38,640	(38,640)	—	—	—
<b>Liabilities</b>					
Financial derivatives—liabilities	(24,553)	12,579	—	10,694	(1,280)
Repurchase agreements	(1,496,931)	1,496,931	(28,884)	28,884	—

(1) In the Company's Consolidated Balance Sheet, all balances associated with repurchase agreements, reverse repurchase agreements, and financial derivatives are presented on a gross basis.

(2) For the purpose of this presentation, for each row the total amount of financial instruments transferred or pledged and cash collateral (received) or pledged may not exceed the applicable gross amount of assets or (liabilities) as presented here. Therefore, the Company has reduced the amount of financial instruments transferred or pledged as collateral related to the Company's repurchase agreements and cash collateral pledged on the Company's financial derivative liabilities. Total financial instruments transferred or pledged as collateral on the Company's repurchase agreements as of December 31, 2020 was \$1.8 billion. As of December 31, 2020, total cash collateral on financial derivative assets and liabilities excludes excess net cash collateral pledged of \$4.5 million and \$10.3 million, respectively.

(3) When collateral is pledged to or pledged by a counterparty, it is often pledged or posted with respect to all positions with such counterparty, and in such cases such collateral cannot be specifically identified as relating to a particular asset or liability. As a result, in preparing the above tables, the Company has made assumptions in allocating pledged or posted collateral among the various rows.

## 20. Counterparty Risk

The Company is exposed to concentrations of counterparty risk. It seeks to mitigate such risk by diversifying its exposure among various counterparties, when appropriate. The following table summarizes the Company's exposure to counterparty risk as of December 31, 2021 and 2020.

### December 31, 2021:

	Amount of Exposure <i>(In thousands)</i>	Number of Counterparties with Exposure	Maximum Percentage of Exposure to a Single Counterparty <sup>(1)</sup>
Cash and cash equivalents	\$ 92,661	9	46.9 %
Collateral on repurchase agreements held by dealers <sup>(2)</sup>	2,822,847	23	33.5 %
Due from brokers	93,549	19	29.1 %
Receivable for securities sold <sup>(3)</sup>	11,014	3	50.7 %

(1) Each counterparty is a large creditworthy financial institution.

(2) Includes securities, loans, and REO as well as cash posted as collateral for repurchase agreements.

(3) Included in Investment related receivables on the Consolidated Balance Sheet.

### December 31, 2020:

	Amount of Exposure <i>(In thousands)</i>	Number of Counterparties with Exposure	Maximum Percentage of Exposure to a Single Counterparty <sup>(1)</sup>
Cash and cash equivalents	\$ 111,647	8	40.1 %
Collateral on repurchase agreements held by dealers <sup>(2)</sup>	1,860,059	24	15.3 %
Due from brokers	63,147	22	28.9 %
Receivable for securities sold <sup>(3)</sup>	1,416	2	94.5 %

(1) Each counterparty is a large creditworthy financial institution.

(2) Includes securities, loans, and REO as well as cash posted as collateral for repurchase agreements.

(3) Included in Investment related receivables on the Consolidated Balance Sheet.

## 21. Commitments and Contingencies

The Company provides current directors and officers with a limited indemnification against liabilities arising in connection with the performance of their duties to the Company.

In the normal course of business the Company may also enter into contracts that contain a variety of representations, warranties, and general indemnifications. The Company's maximum exposure under these arrangements, including future claims that may be made against the Company that have not yet occurred, is unknown. The Company has not incurred any costs to defend lawsuits or settle claims related to these indemnification agreements. As of both December 31, 2021 and 2020, the Company has no liabilities recorded for these agreements.

The Company's maximum risk of loss from credit events on its securities (excluding Agency securities, which are guaranteed by the issuing government agency or government-sponsored enterprise), loans, and investments in unconsolidated entities is limited to the amount paid for such investment.

### *Commitments and Contingencies Related to Investments in Residential Mortgage Loans*

In connection with certain of the Company's investments in residential mortgage loans, the Company has unfunded commitments in the amount of \$43.7 million and \$4.7 million as of December 31, 2021 and 2020, respectively.

### *Commitments and Contingencies Related to Investments in Mortgage Loan Originators*

In connection with certain of its investments in mortgage loan originators, the Company has outstanding commitments and contingencies as described below.

As described in Note 13, the Company is party to a flow mortgage loan purchase and sale agreement with a mortgage loan originator. The Company has entered into agreements whereby it guarantees the performance of this mortgage loan originator

under master repurchase agreements. The Company's maximum guarantees were capped at \$15.0 million and \$25.0 million as of December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, the mortgage loan originator had \$8.4 million and \$5.3 million, respectively, of outstanding borrowings under the agreements guaranteed by the Company. The Company's obligations under these arrangements are deemed to be guarantees under ASC 460-10. The Company has elected the FVO for its guarantees, which are included in Accrued expenses and other liabilities on the Consolidated Balance Sheet. As of both December 31, 2021 and 2020, the estimated fair value of such guarantees was insignificant.

The Company is party to a flow mortgage loan purchase and sale agreement with a mortgage loan originator in which it holds an equity investment and as well as an investment in the Convertible Note, as discussed in Note 13. In addition, in May 2021, the Company committed to purchase \$650.0 million of eligible residential mortgage loans. As of December 31, 2021, the Company had unfunded commitments related to such investments in the amount of \$603.6 million.

As described in Note 13, the Company is a party to the Promissory Note to Other Loan Originator. As of December 31, 2021, the Company had an unfunded commitment related to such Promissory Note to Other Loan Originator of \$3.0 million.

*Commitments and Contingencies Related to Investments in Unconsolidated Entities*

The Company has entered into agreements whereby it guarantees the performance of a securitization-related risk retention vehicle, in which we have an equity investment, under a promissory note. The Company's maximum guarantees were capped at \$15.5 million. As of December 31, 2021, the amount of the promissory note outstanding, for which the Company provided a guarantee, was \$15.5 million.

*Commitments and Contingencies Related to Corporate Loans*

The Company has investments in certain corporate loans whereby the borrowers can request additional funds under the respective agreements. As of December 31, 2021 and 2020, the Company had an unfunded commitment related to such investments in the amount of \$5.4 million and \$0.1 million, respectively.

The Company has extended a line of credit whereby the borrower can draw funds up to \$1.0 million. As of December 31, 2021, the Company had unfunded commitments related to such line of credit in the amount of \$0.9 million.

As described in Note 13, in May 2021, the Company entered into a convertible secured promissory note agreement whereby it agreed to lend up to \$6.0 million to a mortgage loan originator pursuant to the Convertible Note. As of December 31, 2021, the Company had unfunded commitments related to such Convertible Note of \$3.0 million.

**22. Condensed Quarterly Financial Data (Unaudited)**

Detailed below is unaudited quarterly financial data for the years ended December 31, 2021 and 2020.

	Three Month Period Ended			
	March 31, 2021	June 30, 2021	September 30, 2021	December 31, 2021
<i>(In thousands except per share amounts)</i>				
<b>Net Interest Income</b>				
Interest income	\$ 40,079	\$ 45,890	\$ 40,146	\$ 49,390
Interest expense	(11,342)	(11,166)	(10,604)	(10,918)
Total net interest income	28,737	34,724	29,542	38,472
<b>Other Income (Loss)</b>				
Realized gains (losses) on securities and loans, financial derivatives, and real estate owned, net	10,132	(1,658)	4,527	5,229
Unrealized gains (losses) on securities and loans, financial derivatives, and real estate owned, net	8,138	3,003	(1,385)	(31,462)
Other, net	1,960	4,363	2,986	13,729
Total other income (loss)	20,230	5,708	6,128	(12,504)
<b>Expenses</b>				
Base management fee to affiliate (Net of fee rebates of \$194, \$195, \$395, and \$1,809, respectively) <sup>(1)</sup>	3,277	3,355	3,675	3,115
Incentive fee to affiliate	—	7,157	5,255	3,246
<b>Investment related expenses:</b>				
Servicing expense	986	974	1,182	1,280
Debt issuance costs related to Other secured borrowings, at fair value	1,665	2,039	—	1,586
Other	2,204	1,818	1,697	3,113
Professional fees	1,198	1,037	1,202	1,979
Compensation expense	1,420	1,412	1,554	1,357
Other expenses	1,579	1,633	1,682	1,764
Total expenses	12,329	19,425	16,247	17,440
<b>Net Income (Loss) before Income Tax Expense and Earnings from Investments in Unconsolidated Entities</b>				
	36,638	21,007	19,423	8,528
Income tax expense (benefit)	2,017	3,140	(2,009)	(4)
Earnings from investments in unconsolidated entities	6,635	18,602	2,549	30,318
<b>Net Income (Loss)</b>	41,256	36,469	23,981	38,850
Net income (loss) attributable to non-controlling interests	1,459	1,874	1,476	2,284
Dividends on preferred stock	1,941	1,940	1,941	2,295
<b>Net Income (Loss) Attributable to Common Stockholders</b>	\$ 37,856	\$ 32,655	\$ 20,564	\$ 34,271
<b>Net Income (Loss) per Share of Common Stock:</b>				
Basic and Diluted <sup>(2)</sup>	\$ 0.86	\$ 0.75	\$ 0.41	\$ 0.61

(1) See Note 13 for further details on management fee rebates.

(2) For the year ended December 31, 2021 the sum of EPS for the four quarters of the year does not equal EPS as calculated for the entire year (see Note 17) as a result of changes in the number of shares of common stock outstanding during the year due to issuances of shares of common stock, as EPS is calculated using average shares of common stock outstanding during the period.



	Three Month Period Ended			
	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020
<i>(In thousands except per share amounts)</i>				
<b>Net Interest Income</b>				
Interest income	\$ 52,108	\$ 39,281	\$ 43,075	\$ 39,067
Interest expense	(22,090)	(14,686)	(12,937)	(11,952)
Total net interest income	30,018	24,595	30,138	27,115
<b>Other Income (Loss)</b>				
Realized gains (losses) on securities and loans, financial derivatives, and real estate owned, net	204	(27,927)	(192)	(9,551)
Unrealized gains (losses) on securities and loans, financial derivatives, and real estate owned, net	(144,079)	52,057	24,032	42,547
Other, net	1,679	(435)	(2,747)	(795)
Total other income (loss)	(142,196)	23,695	21,093	32,201
<b>Expenses</b>				
Base management fee to affiliate (Net of fee rebates of \$507, \$145, \$201, and \$198, respectively) <sup>(1)</sup>	2,443	2,906	2,981	3,178
Incentive fee to affiliate	—	—	—	—
Investment related expenses:				
Servicing expense	2,531	2,493	2,379	1,736
Debt issuance costs related to Other secured borrowings, at fair value	—	2,075	—	1,819
Other	1,423	707	1,199	1,782
Professional fees	1,277	1,333	1,209	1,186
Compensation expense	788	941	1,085	962
Other expenses	1,752	1,497	1,625	1,531
Total expenses	10,214	11,952	10,478	12,194
<b>Net Income (Loss) before Income Tax Expense and Earnings from Investments in Unconsolidated Entities</b>				
	(122,392)	36,338	40,753	47,122
Income tax expense (benefit)	(547)	1,542	2,494	7,888
Earnings from investments in unconsolidated entities	(6,497)	5,643	11,443	27,344
<b>Net Income (Loss)</b>	(128,342)	40,439	49,702	66,578
Net income (loss) attributable to non-controlling interests	(885)	1,220	1,559	1,475
Dividends on preferred stock	1,941	1,941	1,940	1,941
<b>Net Income (Loss) Attributable to Common Stockholders</b>	\$ (129,398)	\$ 37,278	\$ 46,203	\$ 63,162
<b>Net Income (Loss) per Share of Common Stock:</b>				
Basic and Diluted <sup>(2)</sup>	\$ (3.04)	\$ 0.85	\$ 1.06	\$ 1.44

(1) See Note 13 for further details on management fee rebates.

(2) For the year ended December 31, 2020 the sum of EPS for the four quarters of the year does not equal EPS as calculated for the entire year (see Note 17) as a result of changes in the number of shares of common stock outstanding during the year due to both issuances and repurchases of shares of common stock, as EPS is calculated using average shares of common stock outstanding during the period.

### 23. Subsequent Events

On January 7, 2022, the Board of Directors approved a dividend in the amount of \$0.15 per share of common stock payable on February 25, 2022 to stockholders of record as of January 31, 2022.

On January 20, 2022, the Company commenced an ATM program for its preferred stock by entering into equity distribution agreements with third party sales agents under which it is authorized to offer and sell up to \$100.0 million of Series A Preferred Stock and/or Series B Preferred Stock (the "Preferred ATM Program") from time to time. From commencement of such ATM program the Company has issued 20,421 shares of Series B Preferred Stock, which provided \$0.5 million of net proceeds after \$11 thousand of commissions and offering costs.

On February 7, 2022, the Board of Directors approved a dividend in the amount of \$0.15 per share of common stock payable on March 25, 2022 to stockholders of record as of February 28, 2022.

On February 18, 2022, the Company entered into an agreement with Home Point Capital Inc. ("Home Point") to purchase Home Point's 49.6% ownership interest in Longbridge, for an estimated purchase price of approximately \$75 million. The consummation of this transaction is subject to regulatory approvals and customary closing conditions and is expected to close in the second quarter of 2022. Upon closing of the transaction, the Company will own substantially all of the equity interests in Longbridge, which will result in the consolidation of Longbridge's financial results in the Company's financial statements following the closing. Longbridge's audited financial statements for the year ended December 31, 2021 are attached to this Annual Report on Form 10-K as Exhibit 99.1.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

**Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosures. An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of December 31, 2021. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2021.

**Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

***Management's Annual Report on Internal Control Over Financial Reporting***

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Our internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on our financial statements.

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of our internal control over financial reporting using the criteria set forth in the 2013 *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment and those criteria, our management concluded that our internal control over financial reporting was effective as of December 31, 2021.

The Company's independent registered public accounting firm, PricewaterhouseCoopers LLP, has audited the Company's internal control over financial reporting as of December 31, 2021. Their report appears on page 102 of this Annual Report on Form 10-K.

**Item 9B. Other Information**

None.

**Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections**

Not applicable.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by Item 10 is incorporated by reference to information to be included in our definitive Proxy Statement for our 2022 annual stockholders' meeting.

Our Board of Directors has established a Code of Business Conduct and Ethics that applies to our officers and directors and to our Manager's and certain of its affiliates' officers, directors and employees when such individuals are acting for us or on our behalf which is available on our website at [www.ellingtonfinancial.com](http://www.ellingtonfinancial.com). Any waiver of our Code of Business Conduct and Ethics of our executive officers or directors may be made only by our Board or one of its committees.

We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K relating to amendments to or waivers from any provision of our Code of Business Conduct and Ethics applicable to our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions and that relates to any element of the code of ethics definition enumerated in Item 406(b) of Regulation S-K by posting such information on our website at [www.ellingtonfinancial.com](http://www.ellingtonfinancial.com) under the, "For Our Shareholders—Corporate Governance" section of the website.

**Item 11. Executive Compensation**

The information required by Item 11 is incorporated by reference to information to be included in our definitive Proxy Statement for our 2022 annual stockholders' meeting.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by Item 12 is incorporated by reference to information to be included in our definitive Proxy Statement for our 2022 annual stockholders' meeting.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by Item 13 is incorporated by reference to information to be included in our definitive Proxy Statement for our 2022 annual stockholders' meeting.

**Item 14. Principal Accountant Fees and Services**

The information required by Item 14 is incorporated by reference to information to be included in our definitive Proxy Statement for our 2022 annual stockholders' meeting.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this report:

1. Financial Statements:

See Index to consolidated financial statements, included in Part II, Item 8 of this Annual Report on Form 10-K.

2. Schedules to Financial Statements:

Except as disclosed below, all other financial statement schedules have been omitted because they are either inapplicable or the information required is provided in our Financial Statements and Notes thereto, included in Part II, Item 8, of this Annual Report on Form 10-K.

**Ellington Financial Inc.**  
**Schedule IV—Mortgage Loans on Real Estate**  
**December 31, 2021**

Asset Type	Description	Number of Loans	Interest Rate	Maturity Date	Periodic Payment Terms	Prior Liens	Face Amount of Mortgages	Carrying Amount of Mortgages <sup>(1)(2)</sup>	Principal Amount of loans subject to delinquent principal or interest
<b>Residential Mortgage Loans:</b>									
								<i>(In thousands)</i>	
Adjustable Rate Residential Mortgage Loan	\$0-\$249,999	115	2.00%-11.11%	5/25-7/58	n/a	n/a	n/a	\$ 12,753	4,285
Adjustable Rate Residential Mortgage Loan	\$250,000-\$499,999	41	2.00%-9.25%	3/27-6/59	n/a	n/a	n/a	12,977	7,029
Adjustable Rate Residential Mortgage Loan	\$500,000-\$749,999	12	3.00%-8.78%	7/35-12/56	n/a	n/a	n/a	5,492	5,194
Adjustable Rate Residential Mortgage Loan	\$750,000-\$999,999	3	4.00%-7.75%	3/47-5/49	n/a	n/a	n/a	2,265	2,573
Adjustable Rate Residential Mortgage Loan	\$1,000,000-\$1,249,999	3	4.24%-6.99%	7/48-11/61	n/a	n/a	n/a	3,286	996
Adjustable Rate Residential Mortgage Loan	\$2,500,000-\$2,749,999	1	4.25%	11/61	n/a	n/a	n/a	2,627	—
Adjustable Rate Residential Mortgage Loan Held in Securitization Trust	\$0-\$249,999	267	4.00%-9.99%	8/46-4/50	n/a	n/a	n/a	44,786	1,193
Adjustable Rate Residential Mortgage Loan Held in Securitization Trust	\$250,000-\$499,999	262	4.25%-8.88%	5/46-2/60	n/a	n/a	n/a	86,641	3,656
Adjustable Rate Residential Mortgage Loan Held in Securitization Trust	\$500,000-\$749,999	97	4.50%-8.75%	9/46-3/60	n/a	n/a	n/a	52,388	—
Adjustable Rate Residential Mortgage Loan Held in Securitization Trust	\$750,000-\$999,999	33	4.13%-8.38%	2/47-10/59	n/a	n/a	n/a	25,662	2,345
Adjustable Rate Residential Mortgage Loan Held in Securitization Trust	\$1,000,000-\$1,249,999	20	4.62%-6.99%	10/46-12/59	n/a	n/a	n/a	22,193	—
Adjustable Rate Residential Mortgage Loan Held in Securitization Trust	\$1,250,000-\$1,499,999	8	4.50%-6.88%	11/46-2/60	n/a	n/a	n/a	10,744	—
Adjustable Rate Residential Mortgage Loan Held in Securitization Trust	\$1,500,000-\$1,749,999	6	5.13%-6.50%	12/47-7/59	n/a	n/a	n/a	8,604	—
Adjustable Rate Residential Mortgage Loan Held in Securitization Trust	\$2,250,000-\$2,499,999	5	4.63%-5.99%	11/48-9/59	n/a	n/a	n/a	11,855	—
Adjustable Rate Residential Mortgage Loan Held in Securitization Trust	\$2,500,000-\$2,749,999	1	4.99%	7/49	n/a	n/a	n/a	2,602	—
Fixed Rate Residential Mortgage Loan	\$0-\$249,999	842	3.00%-16.00%	1/22-12/61	n/a	n/a	n/a	134,057	715
Fixed Rate Residential Mortgage Loan	\$250,000-\$499,999	685	3.25%-20.00%	1/22-1/62	n/a	n/a	n/a	236,517	1,521
Fixed Rate Residential Mortgage Loan	\$500,000-\$749,999	283	3.00%-11.90%	1/22-12/61	n/a	n/a	n/a	168,357	1,891
Fixed Rate Residential Mortgage Loan	\$750,000-\$999,999	130	3.25%-11.55%	1/22-12/61	n/a	n/a	n/a	107,014	2,663

Asset Type	Description	Number of Loans	Interest Rate	Maturity Date	Periodic Payment Terms	Prior Liens	Face Amount of Mortgages	Carrying Amount of Mortgages <sup>(1)(2)</sup>	Principal Amount of loans subject to delinquent principal or interest
<b>Residential Mortgage Loans (Continued):</b>								(In thousands)	
Fixed Rate Residential Mortgage Loan	\$1,000,000-\$1,249,999	67	3.00%-11.99%	1/22-12/61	n/a	n/a	n/a	72,044	1,087
Fixed Rate Residential Mortgage Loan	\$1,250,000-\$1,499,999	55	3.25%-10.65%	1/22-1/62	n/a	n/a	n/a	73,721	—
Fixed Rate Residential Mortgage Loan	\$1,500,000-\$1,749,999	30	3.25%-11.90%	1/22-1/62	n/a	n/a	n/a	46,313	—
Fixed Rate Residential Mortgage Loan	\$1,750,000-\$1,999,999	17	3.25%-9.49%	2/22-12/61	n/a	n/a	n/a	30,899	—
Fixed Rate Residential Mortgage Loan	\$2,000,000-\$2,249,999	11	3.25%-10.50%	11/22-12/61	n/a	n/a	n/a	21,468	—
Fixed Rate Residential Mortgage Loan	\$2,250,000-\$2,499,999	4	3.63%-5.25%	1/52-11/61	n/a	n/a	n/a	9,714	—
Fixed Rate Residential Mortgage Loan	\$2,500,000-\$2,749,999	3	3.88%-7.35%	8/23-12/51	n/a	n/a	n/a	7,964	—
Fixed Rate Residential Mortgage Loan	\$2,750,000-\$2,999,999	4	3.25%-10.50%	5/22-11/61	n/a	n/a	n/a	10,298	—
Fixed Rate Residential Mortgage Loan	\$3,000,000-\$3,249,999	4	3.25%-4.88%	10/61-1/62	n/a	n/a	n/a	12,737	—
Fixed Rate Residential Mortgage Loan	\$3,250,000-\$3,499,000	1	4.50%	9/61	n/a	n/a	n/a	3,433	—
Fixed Rate Residential Mortgage Loan	\$4,000,000-\$4,249,999	1	9.99%	2/23	n/a	n/a	n/a	741	—
Fixed Rate Residential Mortgage Loan Held in Securitization Trust	\$0-\$249,999	662	3.38%-8.63%	1/47-8/61	n/a	n/a	n/a	117,024	—
Fixed Rate Residential Mortgage Loan Held in Securitization Trust	\$250,000-\$499,999	559	3.13%-8.38%	12/34-8/61	n/a	n/a	n/a	192,413	1,380
Fixed Rate Residential Mortgage Loan Held in Securitization Trust	\$500,000-\$749,999	207	3.13%-7.63%	11/47-8/61	n/a	n/a	n/a	128,197	—
Fixed Rate Residential Mortgage Loan Held in Securitization Trust	\$750,000-\$999,999	116	3.38%-7.63%	8/48-8/61	n/a	n/a	n/a	96,739	—
Fixed Rate Residential Mortgage Loan Held in Securitization Trust	\$1,000,000-\$1,249,999	61	3.63%-6.63%	10/48-8/61	n/a	n/a	n/a	67,823	—
Fixed Rate Residential Mortgage Loan Held in Securitization Trust	\$1,250,000-\$1,499,999	39	3.25%-6.24%	10/48-8/61	n/a	n/a	n/a	52,875	—
Fixed Rate Residential Mortgage Loan Held in Securitization Trust	\$1,500,000-\$1,749,999	22	3.38%-5.88%	11/47-7/61	n/a	n/a	n/a	34,224	—
Fixed Rate Residential Mortgage Loan Held in Securitization Trust	\$1,750,000-\$1,999,999	11	3.50%-6.13%	4/50-6/61	n/a	n/a	n/a	21,253	—
Fixed Rate Residential Mortgage Loan Held in Securitization Trust	\$2,000,000-\$2,249,999	6	3.88%-6.50%	4/50-4/61	n/a	n/a	n/a	11,564	—
Fixed Rate Residential Mortgage Loan Held in Securitization Trust	\$2,250,000-\$2,499,999	9	3.63%-6.00%	10/50-8/61	n/a	n/a	n/a	21,811	—
Fixed Rate Residential Mortgage Loan Held in Securitization Trust	\$2,500,000-\$2,749,999	6	3.25%-5.25%	1/51-7/61	n/a	n/a	n/a	13,570	—
Fixed Rate Residential Mortgage Loan Held in Securitization Trust	\$2,750,000-\$2,999,999	2	3.25%-3.50%	2/51-8/51	n/a	n/a	n/a	6,008	—
Fixed Rate Residential Mortgage Loan Held in Securitization Trust	\$3,000,000-\$3,249,000	3	3.63%-6.25%	10/50-6/61	n/a	n/a	n/a	9,239	—
Fixed Rate Residential Mortgage Loan Held in Securitization Trust	\$3,250,000-\$3,499,000	1	4.50%	4/51	n/a	n/a	n/a	3,336	—
<b>Total Residential Mortgage Loans</b>								<b>2,016,228</b>	<b>36,528</b>

Asset Type	Description	Number of Loans	Interest Rate	Maturity Date	Periodic Payment Terms	Prior Liens	Face Amount of Mortgages	Carrying Amount of Mortgages <sup>(1)(2)</sup>	Principal Amount of loans subject to delinquent principal or interest
								<i>(In thousands)</i>	
<b>Commercial Mortgage Loans:</b>									
Adjustable Rate Commercial Mortgage Loan	\$0-\$4,999,999	12	5.75%-8.50%	1/22-12/23	n/a	n/a	n/a	40,230	—
Adjustable Rate Commercial Mortgage Loan	\$5,000,000-\$9,999,999	14	5.45%-8.00%	8/22-1/24	n/a	n/a	n/a	101,729	8,525
Adjustable Rate Commercial Mortgage Loan	\$10,000,000-\$14,999,999	6	5.75%-9.50%	1/22-11/23	n/a	n/a	n/a	76,976	—
Adjustable Rate Commercial Mortgage Loan	\$15,000,000-\$19,999,999	5	5.75%-9.00%	9/21-1/24	n/a	n/a	n/a	65,021	15,500
Adjustable Rate Commercial Mortgage Loan	\$40,000,000-\$44,999,999	1	5.25%	1/24	n/a	n/a	n/a	42,241	—
<b>Total Commercial Mortgage Loans</b>								<b>326,197</b>	<b>24,025</b>
<b>Total Mortgage Loans</b>								<b>2,342,425</b>	<b>60,553</b>

- (1) Aggregate cost for federal income tax purposes is \$686.5 million for commercial and non-securitized residential mortgage loans. Excluded from this amount is the cost basis for federal income tax purposes of \$1.042 billion of securitized residential loans; such loans have been deemed to be sold for tax purposes but do not meet the requirements for true sale under U.S. GAAP.
- (2) As of December 31, 2021, all of the Company's mortgage loans were carried at fair value. See Note 2 and Note 3 in the notes to our consolidated financial statements for additional details.

The following table presents a roll-forward of the fair value of the Company's mortgage loans on real estate for the years ended December 31, 2021, 2020, and 2019.

	<b>Year Ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
<i>(In thousands)</i>			
<b>Beginning Balance</b>	\$ 1,400,100	\$ 1,206,962	\$ 692,131
<b>Additions:</b>			
Purchases	1,949,449	716,241	837,502
Net unrealized gain	—	11,427	6,717
Net realized gain	—	—	3,878
<b>Deductions:</b>			
Cost of mortgages sold	(145,755)	(28,613)	(28,805)
Collections of principal	(812,988)	(496,186)	(275,520)
Amortization of premium and (discounts)	(13,754)	(6,317)	(6,363)
Foreclosures	(14,033)	(3,384)	(22,578)
Net unrealized loss	(119)	—	—
Net realized loss	(20,475)	(30)	—
<b>Ending Balance</b>	<b>\$ 2,342,425</b>	<b>\$ 1,400,100</b>	<b>\$ 1,206,962</b>

## 3. Exhibits:

Exhibit	Description
3.1	<a href="#">Certificate of Incorporation of Ellington Financial Inc. (incorporated by reference to the current report on Form 8-K (No. 001-34569), filed on March 4, 2019)</a>
3.2	<a href="#">Bylaws of Ellington Financial Inc. (incorporated by reference to the current report on Form 8-K (No. 001-34569), filed on March 4, 2019)</a>
3.3	<a href="#">Certificate of Designations of 6.750% Series A Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock of Ellington Financial Inc. (incorporated by reference to Exhibit 3.3 of the registration statement on Form 8-A filed on October 21, 2019)</a>
3.4	<a href="#">Certificate of Amendment of Certificate of Designations of 6.750% Series A Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock of Ellington Financial Inc. (incorporated by reference to the Current Report on Form 8-K filed on January 21, 2022)</a>
3.5	<a href="#">Certificate of Designations of 6.250% Series B Fixed-Rate Reset Cumulative Redeemable Preferred Stock of Ellington Financial Inc. (incorporated by reference to Exhibit 3.4 of the registration statement on Form 8-A filed on December 10, 2021)</a>
3.6	<a href="#">Certificate of Amendment of Certificate of Designations of 6.250% Series B Fixed-Rate Reset Cumulative Redeemable Preferred Stock of Ellington Financial Inc. (incorporated by reference to the Current Report on Form 8-K filed on January 21, 2022)</a>
4.1	<a href="#">Form of certificate representing the 6.750% Series A Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock of Ellington Financial Inc. (incorporated herein by reference to Exhibit 4.1 of Ellington Financial Inc.'s Form 8-A filed on October 21, 2019)</a>
4.2	<a href="#">Form of certificate representing the 6.250% Series B Fixed-Rate Reset Cumulative Redeemable Preferred Stock of Ellington Financial Inc. (incorporated herein by reference to Exhibit 4.2 of Ellington Financial Inc.'s Form 8-A filed on December 10, 2021)</a>
4.3	<a href="#">Indenture, dated as of February 13, 2019, among EF Holdco Inc., EF Cayman Holdings Ltd., Ellington Financial LLC and Wilmington Trust, National Association, as trustee (incorporated by reference to the current report on Form 8-K (No. 001-34569), filed on February 13, 2019)</a>
4.4	<a href="#">Form of EF Holdco Inc.'s and EF Cayman Holdings Ltd.'s 5.50% Senior Notes due 2022 (included in Exhibit 4.2)</a>
4.5	<a href="#">Description of Securities Registered under Section 12 of the Exchange Act</a>
10.1†	<a href="#">Seventh Amended and Restated Management Agreement, by and between the Company, Ellington Financial Operating Partnership LLC and Ellington Financial Management LLC, dated as of March 13, 2018 (incorporated by reference to the Annual Report on Form 10-K for the fiscal year ended December 31, 2017)</a>
10.2	<a href="#">Operating Agreement of Ellington Financial Operating Partnership LLC, by and between the Company, Ellington Financial Operating Partnership LLC and EMG Holdings, L.P., dated as of January 1, 2013 (incorporated by reference to the Annual Report on Form 10-K for the fiscal year ended December 31, 2012)</a>
10.3	<a href="#">First Amendment to Limited Liability Company Operating Agreement of Ellington Financial Operating Partnership LLC, by and between the Company, Ellington Financial Operating Partnership LLC and EMG Holdings, L.P., dated as of January 1, 2013 (incorporated by reference to the Current Report on Form 8-K filed on October 22, 2019)</a>
10.4	<a href="#">Second Amendment to Limited Liability Company Operating Agreement of Ellington Financial Operating Partnership LLC, by and between the Company, Ellington Financial Operating Partnership LLC and EMG Holdings, L.P., dated as of January 1, 2013 (incorporated by reference to the Current Report on Form 8-K filed on December 13, 2021)</a>
10.5	<a href="#">Third Amendment to Limited Liability Company Operating Agreement of Ellington Financial Operating Partnership LLC, by and between the Company, Ellington Financial Operating Partnership LLC and EMG Holdings, L.P., dated as of January 1, 2013 (incorporated by reference to the Current Report on Form 8-K filed on January 21, 2022)</a>
10.6†	<a href="#">2007 Incentive Plan for Individuals (incorporated by reference to the registration statement on Form S-11 (No. 333-160562), filed July 14, 2009, as amended)</a>
10.7†	<a href="#">2007 Incentive Plan for Entities (incorporated by reference to the registration statement on Form S-11 (No. 333-160562), filed July 14, 2009, as amended)</a>
10.8†	<a href="#">Ellington Financial LLC 2017 Equity Incentive Plan (incorporated by reference to the Current Report on Form 8-K filed on May 18, 2017)</a>
10.9†	<a href="#">Form of LTIP Unit Award Agreement for Directors (incorporated by reference to the Annual Report on Form 10-K for the fiscal year ended December 31, 2011)</a>



Exhibit	Description
(continued)	
10.10†	<a href="#">Form of LTIP Unit Award Agreement for Individuals (incorporated by reference to the Annual Report on Form 10-K for the fiscal year ended December 31, 2011)</a>
10.11†	<a href="#">Form of Individual LTIP Unit Award Agreement under 2017 Equity Incentive Plan (incorporated by reference to the Current Report on Form 8-K filed on May 18, 2017)</a>
10.12†	<a href="#">Form of Non-Employee Director LTIP Unit Award Agreement under 2017 Equity Incentive Plan (incorporated by reference to the Current Report on Form 8-K filed on May 18, 2017)</a>
10.13†	<a href="#">Form of OP LTIP Unit Award for Directors (incorporated by reference to Form 10-Q for the Quarter Ended September 30, 2019),</a>
10.14†	<a href="#">Form of OP LTIP Unit Award for Officers (incorporated by reference to Form 10-Q for the Quarter Ended September 30, 2019),</a>
10.15†	<a href="#">Form of Indemnity Agreement (incorporated by reference to the registration statement on Form S-11 (No. 333-160562), filed on September 3, 2009, as amended)</a>
21.1	<a href="#">List of Subsidiaries</a>
23.1	<a href="#">Consent of the Independent Registered Public Accounting Firm</a>
23.2	<a href="#">Consent of Richey May &amp; Co., for Financial Statements of Longbridge Financial, LLC</a>
23.3	<a href="#">Consent of Richey May &amp; Co., for Financial Statements of LendSure Mortgage Corp.</a>
24.1	<a href="#">Power of Attorney (included on Signature Page)</a>
31.1	<a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002</a>
31.2	<a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002</a>
32.1*	<a href="#">Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes – Oxley Act of 2002</a>
32.2*	<a href="#">Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes – Oxley Act of 2002</a>
99.1	<a href="#">Financial Statements of Longbridge Financial, LLC</a>
99.2	<a href="#">Financial Statements of LendSure Mortgage Corp.</a>
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

\* Furnished herewith. These certifications are not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

† Management or compensatory plan or arrangement.

**Item 16. Form 10-K Summary**

None.

**SIGNATURES**

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

Date: March 1, 2022

ELLINGTON FINANCIAL INC.  
By: /s/ LAURENCE PENN  
Laurence Penn  
Chief Executive Officer  
(Principal Executive Officer)

**POWER OF ATTORNEY**

We, the undersigned officers and directors of Ellington Financial Inc., hereby severally constitute Laurence Penn, Daniel Margolis, Jason Frank and JR Herlihy, and each of them singly, our true and lawful attorneys with full power to them, and each of them singly, to sign for us and in our names in the capacities indicated below, any and all amendments to this Annual Report on Form 10-K, and generally to do all such things in our names and in our capacities as officers and directors to enable Ellington Financial Inc. to comply with the provisions of the Securities Exchange Act of 1934, as amended, and all requirements of the SEC, hereby ratifying and confirming our signatures as they may be signed by our said attorneys, or any of them, to said Annual Report on Form 10-K and any and all amendments thereto.

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

<b>Signature</b>	<b>Title</b>	<b>Date</b>
<u>/s/ LAURENCE PENN</u> <b>LAURENCE PENN</b>	Chief Executive Officer, President and Director (Principal Executive Officer)	March 1, 2022
<u>/s/ JR HERLIHY</u> <b>JR HERLIHY</b>	Chief Financial Officer (Principal Financial and Accounting Officer)	March 1, 2022
<u>/s/ LISA MUMFORD</u> <b>LISA MUMFORD</b>	Director	March 1, 2022
<u>/s/ RONALD I. SIMON PH.D</u> <b>RONALD I. SIMON PH.D</b>	Chairman of the Board	March 1, 2022
<u>/s/ EDWARD RESENDEZ</u> <b>EDWARD RESENDEZ</b>	Director	March 1, 2022
<u>/s/ STEPHEN J. DANNHAUSER</u> <b>STEPHEN J. DANNHAUSER</b>	Director	March 1, 2022

**DESCRIPTION OF THE REGISTRANT'S SECURITIES  
REGISTERED PURSUANT TO SECTION 12 OF THE  
SECURITIES EXCHANGE ACT OF 1934**

As of December 31, 2021, Ellington Financial Inc. had three classes of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"):

- common stock, par value \$0.001 per share ("common stock");
- 6.750% Series A Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, \$0.001 par value per share ("Series A Preferred Stock"); and
- 6.250% Series B Fixed-Rate Reset Cumulative Redeemable Preferred Stock, \$0.001 par value per share ("Series B Preferred Stock").

Each of our securities registered under Section 12 of the Exchange Act are listed on the New York Stock Exchange (the "NYSE").

Except where the context suggests otherwise, "we," "us," "our" and "our company" refer to Ellington Financial Inc. and its consolidated subsidiaries, including Ellington Financial Operating Partnership LLC, our operating partnership subsidiary. On March 1, 2019, we completed our conversion (the "Conversion") from a Delaware limited liability company named Ellington Financial LLC into a Delaware corporation named Ellington Financial Inc. Our "Manager" refers to Ellington Financial Management LLC, our external manager.

## DESCRIPTION OF COMMON STOCK

Our certificate of incorporation provides for the issuance of our shares of common stock, as well as certain terms of our common stock. The following is a summary of some of the terms of our common stock, our certificate of incorporation and the Delaware General Corporation Law (the "DGCL"), and is not complete and is subject to, and qualified in its entirety by reference to, all of the provisions of our certificate of incorporation and the DGCL. As used herein, the "company," "our company," "we," "us" and "our" mean Ellington Financial Inc., a Delaware corporation.

### Authorized Shares

We are authorized to issue, pursuant to action by our Board of Directors and subject to limitations prescribed by the DGCL, up to 100,000,000 shares of common stock, par value \$0.001 per share.

### Conversion

At 11:59 P.M. Eastern Time on March 1, 2019 (the "Effective Time") and pursuant to a plan of conversion, each common share representing a limited liability company interest in Ellington Financial LLC outstanding immediately prior to the Effective Time converted into one issued and outstanding, fully paid and nonassessable share of common stock.

Our certificate of incorporation and our bylaws provide our stockholders following the Conversion with substantially the same rights and obligations of limited liability company members pursuant to the operating agreement of Ellington Financial LLC immediately prior to the Conversion.

### Voting Rights

The holders of common stock are entitled to one vote per share held of record on all matters submitted to a vote of our stockholders. Generally, all matters to be voted on by our stockholders must be approved by a majority (or, in the case of election of directors, by a plurality) of the votes entitled to be cast by all holders of common stock present in person or represented by proxy, voting together as a group.

### Economic Rights

**Dividends.** In general, holders of common stock will share ratably (based on the number of shares of common stock held) in any dividend declared by our Board of Directors out of funds legally available therefor, subject to any statutory or contractual restrictions on the payment of distributions and to any restrictions on the payment of distributions imposed by the terms of any outstanding preferred stock.

**Liquidation.** Upon our dissolution, liquidation or winding up, after payment in full of all amounts required to be paid to creditors and to the holders of preferred stock having liquidation preferences, if any, the holders of our common stock will be entitled to receive our remaining assets available for distribution.

### Restrictions on Transfer

See "Certain Provisions of Delaware Law and Our Certificate of Incorporation and Bylaws" for a description of restrictions on transfers of our shares including our common stock and for a description of other provisions of the certificate of incorporation and bylaws.

### Transfer Agent and Registrar

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company, LLC. The transfer agent and registrar's address is 6201 15th Avenue, Brooklyn, New York 11219, and its telephone number is (718) 921-8300.

### Listing

Our common stock is listed on the NYSE under the ticker symbol "EFC."

## DESCRIPTION OF THE SERIES A PREFERRED STOCK

*This description of certain terms of the Series A Preferred Stock does not purport to be complete and is in all respects subject to, and qualified in its entirety by references to the relevant provisions of our certificate of incorporation, the certificate of designations designating the Series A Preferred Stock, our bylaws and Delaware law. Terms defined in this "Description of the Series A Preferred Stock" section have the meanings ascribed to such terms herein only when used in this "Description of the Series A Preferred Stock" section.*

### General

Shares of the Series A Preferred Stock represent a single series of our authorized preferred stock. We may elect from time to time to issue additional shares of the Series A Preferred Stock without notice to, or consent from, the existing holders of the Series A Preferred Stock, and all such additional shares of Series A Preferred Stock would be deemed to form a single series with the currently outstanding shares of the Series A Preferred Stock.

Pursuant to our certificate of incorporation, we are currently authorized to designate and issue up to 100,000,000 shares of preferred stock, par value \$0.001 per share, in one or more classes or series and, subject to the limitations prescribed by our certificate of incorporation and Delaware law, to fix the designations, powers, rights, preferences, qualifications, limitations, restrictions and the number of shares constituting any class or series as our board of directors may determine, without any vote or action by our stockholders. As of December 31, 2021, there were 4,600,000 shares of Series A Preferred Stock issued and outstanding. On January 20, 2022, we filed with the Secretary of State of the State of Delaware a Certificate of Amendment (the "Series A Certificate of Amendment") of Certificate of Designations for the Series A Preferred Stock to designate 4,000,000 shares of the Company's authorized preferred stock as additional shares of Series A Preferred Stock. The Series A Certificate of Amendment became effective upon filing on January 20, 2022, and upon such effectiveness, the Company was authorized to issue an aggregate of 8,600,000 shares of Series A Preferred Stock.

Our board of directors may, without the approval of holders of the Series A Preferred Stock or our common stock, designate additional series of authorized preferred stock ranking junior to or on parity with the Series A Preferred Stock or designate additional shares of the Series A Preferred Stock and authorize the issuance of such shares.

The registrar and transfer agent in respect of the Series A Preferred Stock is American Stock Transfer & Trust Company, LLC. The principal business address for American Stock Transfer & Trust Company, LLC is 6201 15th Avenue, Brooklyn, NY 11219. The certificate of designations designating the Series A Preferred Stock provides that we will maintain an office or agency where shares of the Series A Preferred Stock may be surrendered for payment (including redemption), registration of transfer or exchange, or conversion.

### Maturity

The Series A Preferred Stock has no stated maturity and is not subject to any sinking fund or mandatory redemption. Shares of the Series A Preferred Stock will remain outstanding indefinitely unless we decide to redeem or otherwise repurchase them or they become convertible and are converted as described below under "Conversion Rights." We are not required to set aside funds to redeem the Series A Preferred Stock.

### Ranking

The Series A Preferred Stock ranks, with respect to rights to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up:

1. senior to all classes or series of our common stock and to all other classes or series of stock that we may issue in the future with terms specifically providing that such stock ranks junior to the Series A Preferred Stock and Series B Preferred Stock with respect to rights to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up (together with the common stock, the "Junior Stock");
2. on a parity with our Series B Preferred Stock and with all classes or series of stock that we may issue in the future with terms specifically providing that such stock ranks on a parity with the Series A Preferred Stock and Series B Preferred Stock with respect to rights to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up (the "Parity Stock");
3. junior to all classes or series of stock that we may issue in the future with terms specifically providing that such stock ranks senior to the Series A Preferred Stock and Series B Preferred Stock with respect to rights to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up (the "Senior Stock"); and

4. effectively junior to all of our existing and future indebtedness (including indebtedness convertible into or exchangeable for our common stock or preferred stock) and other liabilities and to all liabilities and preferred equity of our existing subsidiaries and any future subsidiaries.

#### Dividends

Holders of shares of the Series A Preferred Stock are entitled to receive, when, as and if declared by our board of directors, out of funds legally available for the payment of dividends, cumulative cash dividends. The initial dividend rate for the Series A Preferred Stock from and including the original issue date to, but excluding, October 30, 2024 (the "Fixed Rate Period") is at the fixed rate equal to 6.750% per annum of the \$25.00 per share liquidation preference of the Series A Preferred Stock (equivalent to \$1.6875 per annum per share of the Series A Preferred Stock). From and including October 30, 2024 (the "Floating Rate Period"), dividends on the Series A Preferred Stock will accumulate at a percentage of the \$25.00 per share liquidation preference of the Series A Preferred Stock equal to an annual floating rate of the Three-Month LIBOR Rate (as defined herein) plus a spread of 5.196% per annum. Dividends on the Series A Preferred Stock shall accumulate daily and be cumulative from, and including, the original issue date and shall be payable quarterly in arrears on or about the 30th day of January, April, July and October of each year (each, a "dividend payment date"), when and as declared, provided that if any dividend payment date is not a business day, as defined in the certificate of designations, then the dividend which would otherwise have been payable on that dividend payment date may be paid on the next succeeding business day and no interest, additional dividends or other sums will accrue on the amount so payable for the period from and after that dividend payment date to that next succeeding business day. Dividends payable for any Dividend Period during the Fixed Rate Period will be calculated on the basis of a 360-day year consisting of twelve 30-day months, and dividends payable for any Dividend Period during the Floating Rate Period will be calculated on the basis of a 360-day year and the number of days actually elapsed in such Dividend Period. Dividends will be payable to holders of record as they appear in our stock transfer records for the Series A Preferred Stock at the close of business on the applicable dividend record date, which will be no fewer than ten days and no more than 35 days prior to the applicable dividend payment date, as shall be fixed by the board of directors (each, a "dividend record date"). The dividends payable on any dividend payment date shall include dividends accumulated to, but excluding, such dividend payment date. No holder of any shares of the Series A Preferred Stock will be entitled to receive any dividends paid or payable on the Series A Preferred Stock with a dividend record date before the date such shares of the Series A Preferred Stock are issued.

For each Dividend Period during the Floating Rate Period, LIBOR (the London interbank offered rate) ("Three-Month LIBOR Rate") will be determined by us or a Calculation Agent (as defined herein) as of the applicable Dividend Determination Date, in accordance with the following provisions:

- LIBOR will be the rate (expressed as a percentage per year) for deposits in U.S. dollars having an index maturity of three months, in amounts of at least \$1,000,000, as such rate appears on "Reuters Page LIBOR01" at approximately 11:00 a.m. (London time) on the relevant Dividend Determination Date; or
- if no such rate appears on "Reuters Page LIBOR01" or if the "Reuters Page LIBOR01" is not available at approximately 11:00 a.m. (London time) on the relevant Dividend Determination Date, then we will select four nationally recognized banks in the London interbank market and request that the principal London offices of those four selected banks provide us with their offered quotation for deposits in U.S. dollars for a period of three months, commencing on the first day of the applicable Dividend Period, to prime banks in the London interbank market at approximately 11:00 a.m. (London time) on that Dividend Determination Date for the applicable Dividend Period. Offered quotations must be based on a principal amount equal to an amount that, in our discretion, is representative of a single transaction in U.S. dollars in the London interbank market at that time. If at least two quotations are provided, the Three-Month LIBOR Rate for such Dividend Period will be the arithmetic mean (rounded upward if necessary, to the nearest 0.00001 of 1%) of those quotations. If fewer than two quotations are provided, the Three-Month LIBOR Rate for such Dividend Period will be the arithmetic mean (rounded upward if necessary, to the nearest 0.00001 of 1%) of the rates quoted at approximately 11:00 a.m. (New York City time) on that Dividend Determination Date for such Dividend Period by three nationally recognized banks in New York, New York selected by us, for loans in U.S. dollars to nationally recognized European banks (as selected by us), for a period of three months commencing on the first day of such Dividend Period. The rates quoted must be based on an amount that, in our discretion, is representative of a single transaction in U.S. dollars in that market at that time. If no quotation is provided as described above, then if a Calculation Agent has not been appointed at such time, we will appoint a Calculation Agent who shall, after consulting such sources as it deems comparable to any of the foregoing quotations or display page, or any such source as it deems reasonable from which to estimate LIBOR or any of the foregoing lending rates or display page, shall determine LIBOR for the second London Business Day (as defined herein) immediately preceding the first day of the applicable Dividend Period in its sole discretion. If the Calculation Agent is unable or unwilling to determine LIBOR as provided in the immediately preceding sentence, then LIBOR will be equal to Three-Month LIBOR for the

then current Dividend Period, or, in the case of the first Dividend Period in the Floating Rate Period, the most recent dividend rate that would have been determined based on the last available Reuters Page LIBOR01 had the Floating Rate Period been applicable prior to the first Dividend Period in the Floating Rate Period.

Notwithstanding the foregoing, if we determine on the relevant Dividend Determination Date that LIBOR has been discontinued, then we will appoint a Calculation Agent and the Calculation Agent will consult with an investment bank of national standing to determine whether there is an industry accepted substitute or successor base rate to Three-Month LIBOR Rate. If, after such consultation, the Calculation Agent determines that there is an industry accepted substitute or successor base rate, the Calculation Agent shall use such substitute or successor base rate. In such case, the Calculation Agent in its sole discretion may (without implying a corresponding obligation to do so) also implement changes to the business day convention, the definition of business day, the Dividend Determination Date and any method for obtaining the substitute or successor base rate if such rate is unavailable on the relevant business day, in a manner that is consistent with industry accepted practices for such substitute or successor base rate. Unless the Calculation Agent determines that there is an industry accepted substitute or successor base rate as so provided above, the Calculation Agent will, in consultation with us, follow the steps specified in the second bullet point in the immediately preceding paragraph in order to determine Three-Month LIBOR Rate for the applicable Dividend Period.

“Calculation Agent” means a third party independent financial institution of national standing with experience providing such services, which has been selected by us.

“Dividend Determination Date” means the second London Business Day immediately preceding the first date of the applicable Dividend Period.

“Dividend Period” means the period from, and including, the immediately preceding dividend payment date to, but excluding, the applicable dividend payment date.

“London Business Day” means any day on which dealings in deposits in U.S. dollars are transacted in the London interbank market.

“Reuters Page LIBOR01” means the display so designated on the Reuters 3000 Xtra (or such other page as may replace the LIBOR01 page on that service, or such other service as may be nominated by the ICE Benchmark Administration Limited, or ICE, or its successor, or such other entity assuming the responsibility of ICE or its successor in the event ICE or its successor no longer does so, as the successor service, for the purpose of displaying London interbank offered rates for U.S. dollar deposits).

No dividends on shares of the Series A Preferred Stock shall be declared by our board of directors or paid or set apart for payment by us at any time when the terms and provisions of any agreement of ours, including any agreement relating to our indebtedness, prohibit the declaration, payment or setting apart for payment thereof or provide that the declaration, payment or setting apart for payment thereof would constitute a breach of the agreement or a default under the agreement, or if the declaration, payment or setting apart for payment is restricted or prohibited by law.

Notwithstanding the foregoing, dividends on the Series A Preferred Stock will accumulate whether or not we have earnings, whether or not there are funds legally available for the payment of those dividends and whether or not those dividends are declared. No interest, or sum in lieu of interest, will be payable in respect of any dividend payment or payments on the Series A Preferred Stock which may be in arrears, and holders of the Series A Preferred Stock will not be entitled to any dividends in excess of full cumulative dividends described above. Any dividend payment made on the Series A Preferred Stock will first be credited against the earliest accumulated but unpaid dividend due with respect to those shares.

Future distributions on our common stock and preferred stock, including the Series A Preferred Stock, will be at the discretion of our board of directors and will depend on, among other things, our results of operations, cash flow from operations, financial condition and capital requirements, the annual distribution requirements under the real estate investment trust, or “REIT,” provisions of the Internal Revenue Code of 1986, as amended (the “Code”), any debt service requirements, financial covenants and any other factors our board of directors deems relevant. Accordingly, we cannot guarantee that we will be able to make cash distributions on the Series A Preferred Stock or what the actual distributions will be for any future period.

Except as noted below, unless full cumulative dividends on the Series A Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past Dividend Periods, no dividends or other distributions (other than in shares of common stock or other Junior Stock we may issue) may be declared or paid or set aside for payment upon shares of our common stock or other Junior Stock or Parity Stock we may issue. In addition, any shares of our common stock or other Junior Stock or Parity Stock we may issue may not be redeemed,

purchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such shares) by us (except by conversion into or exchange for shares of, or options, warrants or rights to purchase or subscribe for, our common stock or other Junior Stock we may issue and except for transfers made pursuant to the provisions of our certificate of incorporation relating to restrictions on ownership and transfers of our capital stock). The foregoing will not, however, prevent the redemption, purchase or acquisition by us of shares of any class or series of stock for the purpose of enforcing restrictions on transfer and ownership of our stock contained in our certificate of incorporation, including in order to qualify and maintain our qualification as a REIT, or the redemption, purchase or acquisition by us of shares of our common stock for purposes of and in compliance with any incentive or benefit plan of ours.

When dividends are not paid in full (or a sum sufficient for such full payment is not so set apart) upon the Series A Preferred Stock and any Parity Stock that we may issue, all dividends declared upon the Series A Preferred Stock and any Parity Stock that we may issue shall be declared pro rata so that the amount of dividends declared per share of the Series A Preferred Stock and such Parity Stock that we may issue shall in all cases bear to each other the same ratio that accumulated dividends per share on the Series A Preferred Stock and accumulated dividends per share on such Parity Stock that we may issue (which shall not include any accumulation in respect of undeclared and unpaid dividends for past Dividend Periods if such stock does not have a cumulative dividend) bear to each other. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on the Series A Preferred Stock which may be in arrears.

#### **Liquidation Preference**

In the event of our voluntary or involuntary liquidation, dissolution or winding up, the holders of shares of the Series A Preferred Stock will be entitled to be paid out of the assets we have legally available for distribution to our stockholders, subject to the preferential rights of the holders of any Senior Stock, a liquidation preference of \$25.00 per share, plus an amount equal to any accumulated and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the date of payment, before any distribution of assets is made to holders of our common stock or any other Junior Stock we may issue.

In the event that, upon any such voluntary or involuntary liquidation, dissolution or winding up, our available assets are insufficient to pay the amount of the liquidating distributions on all outstanding shares of the Series A Preferred Stock and the corresponding amounts payable on all shares of Parity Stock that we may issue, the holders of the Series A Preferred Stock and all such Parity Stock shall share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

Holders of the Series A Preferred Stock will be entitled to written notice of any such liquidation no fewer than 30 days and no more than 60 days prior to the payment date. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of the Series A Preferred Stock will have no right or claim to any of our remaining assets. The consolidation or merger of us with or into any other corporation, trust or entity or of any other entity with or into us, or the sale, lease, transfer or conveyance of all or substantially all of our property or business, individually or in a series of related transactions, shall not be deemed to constitute a liquidation, dissolution or winding up of us (although such events may give rise to the special optional redemption and contingent conversion rights described below).

#### **Redemption**

The Series A Preferred Stock is not redeemable by us prior to October 30, 2024, except as described below under “Special Optional Redemption” and except under circumstances where it is necessary to allow us to qualify and maintain our qualification as a REIT for U.S. federal income tax purposes. Please see the section entitled “Certain Provisions of Delaware Law and Our Certificate of Incorporation and Bylaws-Restrictions on Ownership and Transfer”.

*Optional Redemption.* On or after October 30, 2024, we may, at our option, upon not less than 30 nor more than 60 days’ written notice, redeem the Series A Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price equal to \$25.00 per share of the Series A Preferred Stock, plus any accumulated and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the redemption date, without interest. If we elect to redeem any shares of the Series A Preferred Stock as described in this paragraph, we may use any available cash to pay the redemption price, and we will not be required to pay the redemption price only out of the proceeds from the issuance of other stock or any other specific source.

*Special Optional Redemption.* Upon the occurrence of a Change of Control, we may, at our option, upon not less than 30 nor more than 60 days’ written notice, redeem the Series A Preferred Stock, in whole or in part, within 120 days after the first date on which such Change of Control occurred, for cash at a redemption price of \$25.00 per share of the Series A Preferred Stock, plus any accumulated and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the redemption date, without interest. If, prior to the Change of Control Conversion Date, we have provided notice of our election



to redeem some or all of the shares of the Series A Preferred Stock (whether pursuant to our optional redemption right described above under “-Optional Redemption” or this special optional redemption right), the holders of the Series A Preferred Stock will not have the Change of Control Conversion Right described below under “-Conversion Rights” with respect to the shares of the Series A Preferred Stock called for redemption. If we elect to redeem any shares of the Series A Preferred Stock as described in this paragraph, we may use any available cash to pay the redemption price, and we will not be required to pay the redemption price only out of the proceeds from the issuance of other stock or any other specific source.

A “Change of Control” is deemed to occur when, after the original issuance of the Series A Preferred Stock, the following have occurred and are continuing:

- the acquisition by any person, including any syndicate or group deemed to be a “person” under Section 13(d)(3) of the Exchange Act, of beneficial ownership, directly or indirectly, through a purchase, merger or other acquisition transaction or series of purchases, mergers or other acquisition transactions of our capital stock entitling that person to exercise more than 50% of the total voting power of all our capital stock entitled to vote generally in the election of our directors (except that such person will be deemed to have beneficial ownership of all securities that such person has the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition); and
- following the closing of any transaction referred to in the bullet point above, neither we nor the acquiring or surviving entity has a class of common securities (or American Depositary Receipts representing such securities) listed on the NYSE, the NYSE American or the Nasdaq Stock Market, or listed or quoted on an exchange or quotation system that is a successor to the NYSE, the NYSE American or the Nasdaq Stock Market.

*Redemption Procedures.* In the event we elect to redeem any shares of the Series A Preferred Stock, the notice of redemption will be mailed to each holder of record of the Series A Preferred Stock called for redemption at such holder’s address as it appears on our stock transfer records and will state the following:

- the redemption date;
- the number of shares of the Series A Preferred Stock to be redeemed;
- the redemption price;
- the place or places where certificates (if any) for the Series A Preferred Stock are to be surrendered for payment of the redemption price;
- that dividends on the shares to be redeemed will cease to accumulate on the redemption date;
- whether such redemption is being made pursuant to the provisions described above under “-Optional Redemption” or “-Special Optional Redemption”;
- if applicable, that such redemption is being made in connection with a Change of Control and, in that case, a brief description of the transaction or transactions constituting such Change of Control; and
- if such redemption is being made in connection with a Change of Control, that the holders of the shares of the Series A Preferred Stock being so called for redemption will not be able to tender such shares of the Series A Preferred Stock for conversion in connection with the Change of Control and that each share of the Series A Preferred Stock tendered for conversion that is called, prior to the Change of Control Conversion Date (as defined herein), for redemption will be redeemed on the related date of redemption instead of converted on the Change of Control Conversion Date

If less than all of the shares of the Series A Preferred Stock held by any holder are to be redeemed, the notice mailed to such holder shall also specify the number of shares of the Series A Preferred Stock held by such holder to be redeemed. No failure to give such notice or any defect thereto or in the mailing thereof shall affect the validity of the proceedings for the redemption of any shares of the Series A Preferred Stock except as to the holder to whom notice was defective or not given.

Holders of the Series A Preferred Stock to be redeemed shall surrender the Series A Preferred Stock at the place designated in the notice of redemption and shall be entitled to the redemption price and any accumulated and unpaid dividends payable upon the redemption following the surrender. If notice of redemption of any shares of the Series A Preferred Stock has been given and if we have irrevocably set aside the funds necessary for redemption for the benefit of the holders of the shares of the Series A Preferred Stock so called for redemption, then from and after the redemption date (unless default shall be made by us in providing for the payment of the redemption price plus accumulated and unpaid dividends, if any), dividends will cease to accumulate on those shares of the Series A Preferred Stock, those shares of the Series A Preferred Stock shall no longer be deemed outstanding and all rights of the holders of those shares will terminate, except the right to receive the redemption price plus accumulated and unpaid dividends, if any, payable upon redemption. If any redemption date is not a business day, then the redemption price and accumulated and unpaid dividends, if any, payable upon redemption may be paid on the next business day

and no interest, additional dividends or other sums will accrue on the amount payable for the period from and after that redemption date to that next business day. If less than all of the outstanding Series A Preferred Stock is to be redeemed, the Series A Preferred Stock to be redeemed shall be selected pro rata or by lot (as nearly as may be practicable without creating fractional shares) that will not result in the automatic transfer of any shares of the Series A Preferred Stock to a trust as described below under “-Restrictions on Ownership and Transfer.”

As part of any redemption of the Series A Preferred Stock, we shall pay, in cash, any accumulated and unpaid dividends to, but excluding, the redemption date, unless a redemption date falls after a dividend record date and prior to the corresponding dividend payment date, in which case each holder of the Series A Preferred Stock at the close of business on such dividend record date shall be entitled to the dividend payable on such shares on the corresponding dividend payment date notwithstanding the redemption of such shares before such dividend payment date. Except as provided above, we will make no payment or allowance for unpaid dividends, whether or not in arrears, on shares of the Series A Preferred Stock to be redeemed.

Unless full cumulative dividends on all shares of the Series A Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof has been or contemporaneously is set apart for payment for all past Dividend Periods, no shares of the Series A Preferred Stock shall be redeemed unless all outstanding shares of the Series A Preferred Stock are simultaneously redeemed, and we may not purchase or otherwise acquire directly or indirectly any shares of the Series A Preferred Stock (except by conversion into or exchange for shares of, or options, warrants or rights to purchase or subscribe for, our common stock or other Junior Stock that we may issue); provided, however, that the foregoing shall not prevent the purchase or acquisition by us of shares of the Series A Preferred Stock where it is necessary to allow us to qualify and maintain our qualification as a REIT for U.S. federal income tax purposes or pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding shares of the Series A Preferred Stock.

Subject to applicable law, we may purchase shares of the Series A Preferred Stock in the open market, by tender or by private agreement. Any shares of the Series A Preferred Stock that we acquire may be retired and re-classified as authorized but unissued shares of preferred stock, without designation as to class or series, and may thereafter be reissued as any class or series of preferred stock.

#### **Conversion Rights**

Upon the occurrence of a Change of Control, each holder of the Series A Preferred Stock will have the right (unless, prior to the Change of Control Conversion Date, we have provided notice of our election to redeem some or all of the shares of the Series A Preferred Stock held by such holder as described above under “-Redemption-Optional Redemption” or “-Redemption-Special Optional Redemption,” in which case such holder will have the right only with respect to shares of the Series A Preferred Stock that are not called for redemption) to convert some or all of the shares of the Series A Preferred Stock held by such holder (the “Change of Control Conversion Right”) on the Change of Control Conversion Date into a number of shares of our common stock per share of the Series A Preferred Stock (the “Common Stock Conversion Consideration”) equal to the lesser of:

- the quotient obtained by dividing (i) the sum of the \$25.00 per share liquidation preference of the Series A Preferred Stock plus any accumulated and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the Change of Control Conversion Date (unless the Change of Control Conversion Date is after a dividend record date and prior to the corresponding dividend payment date for the Series A Preferred Stock, in which case no additional amount for such accumulated and unpaid dividends to be paid on such dividend payment date will be included in this sum) by (ii) the Common Stock Price, as defined herein (such quotient, the “Conversion Rate”); and
- 2.75028 (the “Share Cap”), subject to certain adjustments as described below

Notwithstanding anything to the contrary in the certificate of designations and except as otherwise required by law, the persons who are the holders of record of shares of the Series A Preferred Stock at the close of business on a dividend record date will be entitled to receive the dividend payable on the corresponding dividend payment date notwithstanding the conversion of those shares after such dividend record date and on or prior to such dividend payment date and, in such case, the full amount of such dividend shall be paid on such dividend payment date to the persons who were the holders of record at the close of business on such dividend record date. Except as provided above, we will make no allowance for unpaid dividends that are not in arrears on the shares of the Series A Preferred Stock to be converted.

The Share Cap is subject to pro rata adjustments for any share splits (including those effected pursuant to a distribution of our common stock to existing holders of our common stock), subdivisions or combinations (in each case, a “Share Split”) with respect to our common stock as follows: the adjusted Share Cap as the result of a Share Split will be the number of shares of our common stock that is equivalent to the product obtained by multiplying (i) the Share Cap in effect immediately prior to

such Share Split by (ii) a fraction, the numerator of which is the number of shares of our common stock outstanding immediately after giving effect to such Share Split and the denominator of which is the number of shares of our common stock outstanding immediately prior to such Share Split.

For the avoidance of doubt, subject to the immediately succeeding sentence, the aggregate number of shares of our common stock (or equivalent Alternative Conversion Consideration, as applicable) issuable or deliverable, as applicable, in connection with the exercise of the Change of Control Conversion Right will not exceed the product of the Share Cap times the aggregate number of shares of the Series A Preferred Stock issued and outstanding at the Change of Control Conversion Date (or equivalent Alternative Conversion Consideration, as applicable) (the "Exchange Cap"). The Exchange Cap is subject to pro rata adjustments for any Share Splits on the same basis as the corresponding adjustment to the Share Cap.

In the case of a Change of Control pursuant to which our common stock is or will be converted into cash, securities or other property or assets (including any combination thereof) (the "Alternative Form Consideration"), a holder of the Series A Preferred Stock will receive upon conversion of such shares of the Series A Preferred Stock the kind and amount of Alternative Form Consideration which such holder would have owned or been entitled to receive upon the Change of Control had such holder held a number of shares of our common stock equal to the Common Stock Conversion Consideration immediately prior to the effective time of the Change of Control (the "Alternative Conversion Consideration"; the Common Stock Conversion Consideration or the Alternative Conversion Consideration, whichever shall be applicable to a Change of Control, is referred to as the "Conversion Consideration").

If the holders of our common stock have the opportunity to elect the form of consideration to be received in the Change of Control, the Conversion Consideration in respect of such Change of Control will be deemed to be the kind and amount of consideration actually received by holders of a majority of the outstanding shares of our common stock that made or voted for such an election (if electing between two types of consideration) or holders of a plurality of the outstanding shares of our common stock that made or voted for such an election (if electing between more than two types of consideration), as the case may be, and will be subject to any limitations to which all holders of our common stock are subject, including, without limitation, pro rata reductions applicable to any portion of the consideration payable in such Change of Control.

We will not issue fractional shares of our common stock upon the conversion of the Series A Preferred Stock in connection with a Change of Control. Instead, we will make a cash payment equal to the value of such fractional shares based upon the Common Stock Price used in determining the Common Stock Conversion Consideration for such Change of Control.

Within 15 days following the occurrence of a Change of Control, provided that we have not then exercised our right to redeem all shares of the Series A Preferred Stock pursuant to the redemption provisions described above, we will provide to holders of the Series A Preferred Stock a notice of occurrence of the Change of Control that describes the resulting Change of Control Conversion Right. This notice will be delivered to the holders of record of the shares of the Series A Preferred Stock at their addresses as they appear on our stock transfer records. No failure to give such notice or any defect thereto or in the giving thereof will affect the validity of the proceedings for the conversion of any shares of the Series A Preferred Stock except as to the holder to whom notice was defective or not given. This notice will state the following:

- the events constituting the Change of Control;
- the date of the Change of Control;
- the last date on which the holders of the Series A Preferred Stock may exercise their Change of Control Conversion Right;
- the method and period for calculating the Common Stock Price;
- the Change of Control Conversion Date;
- that if, prior to the Change of Control Conversion Date, we have provided notice of our election to redeem all or any shares of the Series A Preferred Stock, holders will not be able to convert the shares of the Series A Preferred Stock called for redemption and such shares will be redeemed on the related redemption date, even if such shares have already been tendered for conversion pursuant to the Change of Control Conversion Right;
- if applicable, the type and amount of Alternative Conversion Consideration entitled to be received per share of the Series A Preferred Stock;
- the name and address of the paying agent and transfer agent for the Series A Preferred Stock;
- the procedures that the holders of the Series A Preferred Stock must follow to exercise the Change of Control Conversion Right (including procedures for surrendering shares for conversion through the facilities of a Share Depository (as defined herein)), including the form of conversion notice to be delivered by such holders as described below; and

- the last date on which holders of the Series A Preferred Stock may withdraw shares surrendered for conversion and the procedures that such holders must follow to effect such a withdrawal.

Under such circumstances, we will also issue a press release containing such notice for publication on Dow Jones & Company, Inc., the Wall Street Journal, Business Wire, PR Newswire or Bloomberg Business News (or, if these organizations are not in existence at the time of issuance of the press release, such other news or press organization as is reasonably calculated to broadly disseminate the relevant information to the public), and post a notice on our website, in any event prior to the opening of business on the first business day following any date on which we provide the notice described above to the holders of the Series A Preferred Stock.

To exercise the Change of Control Conversion Right, the holders of the Series A Preferred Stock will be required to deliver, on or before the close of business on the Change of Control Conversion Date, the certificates (if any) representing the shares of the Series A Preferred Stock to be converted, duly endorsed for transfer (or, in the case of any shares of the Series A Preferred Stock held in book-entry form through a Share Depository, to deliver, on or before the close of business on the Change of Control Conversion Date, the shares of the Series A Preferred Stock to be converted through the facilities of such Share Depository), together with a written conversion notice in the form provided by us, duly completed, to our transfer agent. The conversion notice must state:

- the relevant Change of Control Conversion Date;
- the number of shares of the Series A Preferred Stock to be converted; and
- that the Series A Preferred Stock is to be converted pursuant to the applicable provisions of the Series A Preferred Stock.

The “Change of Control Conversion Date” is the date the Series A Preferred Stock is to be converted, which will be a business day selected by us that is no fewer than 20 days nor more than 35 days after the date on which we provide the notice described above to the holders of the Series A Preferred Stock.

The “Common Stock Price” is (i) if the consideration to be received in the Change of Control by the holders of our common stock is solely cash, the amount of cash consideration per share of our common stock or (ii) if the consideration to be received in the Change of Control by holders of our common stock is other than solely cash (x) the average of the closing sale prices per share of our common stock (or, if no closing sale price is reported, the average of the closing bid and ask prices per share or, if more than one in either case, the average of the average closing bid and the average closing ask prices per share) for the ten consecutive trading days immediately preceding, but not including, the date on which such Change of Control occurred as reported on the principal U.S. securities exchange on which our common stock is then traded, or (y) the average of the last quoted bid prices for our common stock in the over-the-counter market as reported by OTC Markets Group Inc. or similar organization for the ten consecutive trading days immediately preceding, but not including, the date on which such Change of Control occurred, if our common stock is not then listed for trading on a U.S. securities exchange.

Holders of the Series A Preferred Stock may withdraw any notice of exercise of a Change of Control Conversion Right (in whole or in part) by a written notice of withdrawal delivered to our transfer agent prior to the close of business on the business day prior to the Change of Control Conversion Date. The notice of withdrawal delivered by any holder must state:

- the number of withdrawn shares of the Series A Preferred Stock
- if certificated Series A Preferred Stock has been surrendered for conversion, the certificate numbers of the withdrawn shares of the Series A Preferred Stock; and
- the number of shares of the Series A Preferred Stock, if any, which remain subject to the holder’s conversion notice.

Notwithstanding the foregoing, if any shares of the Series A Preferred Stock are held in book-entry form through The Depository Trust Company (“DTC”) or a similar depository (each, a “Share Depository”), the conversion notice and/or the notice of withdrawal, as applicable, must comply with applicable procedures, if any, of the applicable Share Depository.

Series A Preferred Stock as to which the Change of Control Conversion Right has been properly exercised and for which the conversion notice has not been properly withdrawn will be converted into the applicable Conversion Consideration in accordance with the Change of Control Conversion Right on the Change of Control Conversion Date, unless prior to the Change of Control Conversion Date we have provided notice of our election to redeem some or all of the shares of the Series A Preferred Stock, as described above under “-Redemption-Optional Redemption” or “-Redemption-Special Optional Redemption,” in which case only the shares of the Series A Preferred Stock properly surrendered for conversion and not properly withdrawn that are not called for redemption will be converted as aforesaid. If we elect to redeem shares of the Series A Preferred Stock that would otherwise be converted into the applicable Conversion Consideration on a Change of Control

Conversion Date, such shares of the Series A Preferred Stock will not be so converted and the holders of such shares will be entitled to receive on the applicable redemption date the redemption price described above under “-Redemption-Optional Redemption” or “-Redemption-Special Optional Redemption,” as applicable.

We will deliver all securities, cash and any other property owing upon conversion no later than the third business day following the Change of Control Conversion Date. Notwithstanding the foregoing, the persons entitled to receive any shares of our common stock or other securities delivered on conversion will be deemed to have become the holders of record thereof as of the Change of Control Conversion Date.

In connection with the exercise of any Change of Control Conversion Right, we will comply with all applicable federal and state securities laws and stock exchange rules in connection with any conversion of the Series A Preferred Stock into shares of our common stock or other property. Notwithstanding any other provision of the Series A Preferred Stock, no holder of the Series A Preferred Stock will be entitled to convert such Series A Preferred Stock into shares of our common stock to the extent that receipt of such common stock would cause such holder (or any other person) to exceed the applicable share ownership limitations contained in our certificate of incorporation and the certificate of designations, unless we provide an exemption from this limitation to such holder. Please see the section entitled “-Restrictions on Ownership and Transfer” below and “Certain Provisions of Delaware Law and Our Certificate of Incorporation and Bylaws-Restrictions on Ownership and Transfer”.

The Change of Control conversion feature may make it more difficult for a third party to acquire us or discourage a party from acquiring us. If exercisable, the Change of Control Conversion Rights (as defined herein) may not adequately compensate a holder of the Series A Preferred Stock. These Change of Control Conversion Rights may also make it more difficult for a party to acquire us or discourage a party from acquiring us.

Except as provided above in connection with a Change of Control, the Series A Preferred Stock is not convertible into or exchangeable for any other securities or property.

#### **Voting Rights**

Holders of the Series A Preferred Stock do not have any voting rights, except as set forth below or as otherwise required by law or any applicable stock exchange rules.

Whenever dividends on any shares of the Series A Preferred Stock are in arrears for six or more quarterly Dividend Periods, whether or not consecutive, the number of directors constituting our board of directors will be automatically increased by two (if not already increased by two by reason of the election of directors by the holders of the Series B Preferred Stock or any other class or series of our preferred stock that we may issue and upon which like voting rights have been conferred and are exercisable and which are entitled to vote with the Series A Preferred Stock as a class with respect to the election of those two directors) and the holders of the Series A Preferred Stock (voting together as a class with the holders of the Series B Preferred Stock and the holders of all other classes or series of preferred stock that we may issue and upon which like voting rights have been conferred and are exercisable and which are entitled to vote as a class with the Series A Preferred Stock in the election of those two directors) will be entitled to vote for the election of those two additional directors at a special meeting called by us at the request of the holders of record of at least 25% of the outstanding shares of the Series A Preferred Stock or by the holders of any other class or series of preferred stock upon which like voting rights have been conferred and are exercisable and which are entitled to vote as a class with the Series A Preferred Stock in the election of those two directors (unless the request is received less than 90 days before the date fixed for the next annual or special meeting of stockholders, in which case such vote will be held at the earlier of the next annual or special meeting of stockholders), and at each subsequent annual meeting until all dividends accumulated on the Series A Preferred Stock for all past Dividend Periods and the then current Dividend Period shall have been fully paid. In that case, the right of holders of the Series A Preferred Stock to elect any directors will cease and, unless there are other classes or series of our preferred stock upon which like voting rights have been conferred and are exercisable (including the Series B Preferred Stock), any directors elected by holders of the Series A Preferred Stock shall immediately resign and the number of directors constituting the board of directors shall be reduced accordingly. In no event shall the holders of the Series A Preferred Stock be entitled pursuant to these voting rights to elect a director that would cause us to fail to satisfy a requirement relating to director independence of any national securities exchange or quotation system on which any class or series of our capital stock is listed or quoted. For the avoidance of doubt, in no event shall the total number of directors elected by holders of the Series A Preferred Stock (voting together as a class with the holders of the Series B Preferred Stock and all other classes or series of preferred stock that we may issue and upon which like voting rights have been conferred and are exercisable and which are entitled to vote as a class with the Series A Preferred Stock in the election of such directors) pursuant to these voting rights exceed two.

If at any time when the voting rights conferred upon the Series A Preferred Stock (as described above) are exercisable any vacancy in the office of a director elected pursuant to the procedures described above shall occur, then such vacancy may be

filled only by the remaining director or by the vote of the holders of record of the outstanding Series A Preferred Stock and any other classes or series of preferred stock upon which like voting rights have been conferred and are exercisable and which are entitled to vote as a class with the Series A Preferred Stock in the election of directors (as described above). Any director elected or appointed pursuant to the procedures described above may be removed at any time, with or without cause, only by the affirmative vote of holders of the outstanding Series A Preferred Stock and any other classes or series of preferred stock upon which like voting rights have been conferred and are exercisable and which classes or series of preferred stock are entitled to vote as a class with the Series A Preferred Stock in the election of directors pursuant to the procedures described above, such removal to be effected by the affirmative vote of a majority of the votes entitled to be cast by the holders of the outstanding Series A Preferred Stock and any such other classes or series of preferred stock, and may not be removed by the holders of our common stock.

If a special meeting is not called by us within 30 days after request from the holders of the Series A Preferred Stock as described above, then the holders of record of at least 25% of the outstanding Series A Preferred Stock may designate a holder to call the meeting at our expense.

On each matter on which holders of the Series A Preferred Stock are entitled to vote, each share of the Series A Preferred Stock will be entitled to one vote, except that when shares of any other class or series of our preferred stock have the right to vote with the Series A Preferred Stock as a single class on any matter, the Series A Preferred Stock and the shares of each such other class or series will have one vote for each \$25.00 of liquidation preference (excluding accumulated dividends).

So long as any shares of the Series A Preferred Stock remain outstanding, we will not, without the affirmative vote or consent of the holders of at least two-thirds of the shares of the outstanding Series A Preferred Stock and all Parity Stock having like voting rights that are exercisable at the time, voting as a single class, outstanding at the time, given in person or by proxy, either in writing or at a meeting (voting together as a class with all classes or series of Parity Stock that we may issue upon which like voting rights have been conferred and are exercisable (including our Series B Preferred Stock)), (a) authorize or create, or increase the authorized or issued amount of, any class or series of Senior Stock or reclassify any of our authorized capital stock into such shares, or create, authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares; or (b) amend, alter or repeal the provisions of our certificate of incorporation, whether by merger, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of holders of the Series A Preferred Stock (each, an "Event"); provided, however, with respect to the occurrence of any Event set forth in (b) above, so long as the Series A Preferred Stock remains outstanding with the terms thereof materially unchanged, taking into account that, upon an occurrence of an Event, we may not be the surviving entity, the occurrence of any such Event shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers of holders of the Series A Preferred Stock and, provided further, that any increase in the amount of the authorized preferred stock, including the Series A Preferred Stock, or the creation or issuance of any additional shares of the Series A Preferred Stock or other class or series of preferred stock that we may issue (including our Series B Preferred Stock), or any increase in the amounts authorized of any Parity Stock or Junior Stock, shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers.

Notwithstanding the foregoing, if any amendment, alteration or repeal of any provision of our certificate of incorporation would materially and adversely affect any right, preference, privilege or voting power of the Series A Preferred Stock disproportionately relative to any Parity Stock having like voting rights that are exercisable at the time, then the affirmative vote or consent of the holders of at least two-thirds of the outstanding shares of the Series A Preferred Stock (voting as a separate class) shall also be required.

The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of the Series A Preferred Stock shall have been redeemed or called for redemption upon proper notice and sufficient funds shall have been deposited in trust to effect such redemption.

Except as expressly stated in the certificate of designations or as may be required by applicable law, the Series A Preferred Stock do not have any relative, participating, optional and other special voting rights or powers and the consent of the holders thereof shall not be required for the taking of any corporate action.

#### **Information Rights**

During any period in which we are not subject to Section 13 or 15(d) of the Exchange Act and any shares of the Series A Preferred Stock are outstanding, we will use our best efforts to (i) transmit through our website at [www.ellingtonfinancial.com](http://www.ellingtonfinancial.com) (or other permissible means under the Exchange Act) to all holders of the Series A Preferred Stock, as their names and addresses appear on our record books and without cost to such holders, copies of the annual reports on Form 10-K and quarterly reports on Form 10-Q that we would have been required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange

Act if we were subject thereto (other than any exhibits that would have been required) and (ii) promptly, upon request, supply copies of such reports to any holders or prospective holder of the Series A Preferred Stock. We will use our best effort to mail (or otherwise provide) the information to the holders of the Series A Preferred Stock within 15 days after the respective dates by which a periodic report on Form 10-K or Form 10-Q, as the case may be, in respect of such information would have been required to be filed with the SEC, if we were subject to Section 13 or 15(d) of the Exchange Act, in each case, based on the dates on which we would be required to file such periodic reports if we were a "non-accelerated filer" within the meaning of the Exchange Act.

#### **Restrictions on Ownership and Transfer**

In order to maintain our qualification as a REIT under the Code, our shares of capital stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year. Also, no more than 50% of the value of our outstanding shares of capital stock may be owned, directly or constructively, by five or fewer individuals (as defined in the Code to include certain entities) during the second half of any calendar year.

Our certificate of incorporation and the certificate of designations establishing the terms of the Series A Preferred Stock contain restrictions on the ownership and transfer of the Series A Preferred Stock which are intended to assist us in complying with these requirements and continuing to qualify as a REIT. The certificate of designations provides that all holders of the Series A Preferred Stock are subject to our certificate of incorporation, which provides that no person may beneficially or constructively own more than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our stock, subject to certain exceptions.

Moreover, the constructive ownership rules are complex, and may cause shares of the Series A Preferred Stock owned actually or constructively by a group of related individuals and/or entities to be constructively owned by one individual or entity. As a result, the acquisition of less than 9.8% of the shares of the Series A Preferred Stock (or the acquisition of an interest in an entity that owns, actually or constructively, Series A Preferred Stock) by an individual or entity could nevertheless cause that individual or entity, or another individual or entity, to own constructively in excess of 9.8% of the outstanding Series A Preferred Stock and thus violate the ownership limitations, or any other limitations in our certificate of incorporation.

Under our certificate of incorporation, and the certificate of designations for the Series A Preferred Stock, any attempted transfer of our stock, which, if effective, would result in a violation of the foregoing restrictions will cause the number of shares of stock causing the violation (rounded up to the nearest whole share) to be automatically transferred to a trust for the exclusive benefit of one or more charitable beneficiaries, and the proposed transferee will not acquire any rights in such shares. Our board of directors, in its sole discretion, may exempt a person from the foregoing restrictions; however, it is not obligated to do so.

Furthermore, under our certificate of incorporation and, consequently, if the board of directors or any duly authorized committee thereof (or other designees if permitted by Delaware law) shall at any time determine in good faith that a transfer or other event has taken place that results in a violation of the foregoing restrictions, or that a person intends to acquire or has attempted to acquire beneficial or constructive ownership of any shares of our stock in violation of the foregoing restrictions, we may take actions to refuse to give effect to or prevent such transfer or other event, including, without limitation, redeeming shares of stock, refusing to give effect to such transfer on our books or instituting proceedings to enjoin such transfer or other event.

Any person who acquires or attempts or intends to acquire beneficial or constructive ownership of shares of our stock that will or may violate the foregoing restrictions or any person who would have owned shares of stock that resulted in a transfer to the trust for the exclusive benefit of one or more charitable beneficiaries as described above shall immediately give written notice to us of such event, or in the case of such a proposed or attempted transaction, give at least 15 days prior written notice, and shall provide to us such other information as we may request in order to determine the effect, if any, of such transfer on our status as a REIT.

For further information regarding restrictions on ownership and transfer of the Series A Preferred Stock, please see the section entitled "Certain Provisions of Delaware Law and Our Certificate of Incorporation and Bylaws- Restrictions on Ownership and Transfer".

#### **Preemptive Rights**

No holders of the Series A Preferred Stock have any preemptive rights to purchase or subscribe for our common stock or any other security.

#### **Book-Entry Procedures**

All interests in the global securities certificates representing the shares of the Series A Preferred Stock are subject to the operations and procedures of DTC and, therefore, you must allow for sufficient time in order to comply with these procedures if you wish to exercise any of your rights with respect to the Series A Preferred Stock. We provide the following summary of those operations and procedures solely for the convenience of investors. The operations and procedures of DTC are controlled by that settlement system and may be changed at any time. Neither we nor the underwriters are responsible for those operations or procedures or for the accuracy or completeness of the following disclosure.

DTC acts as securities depository for the Series A Preferred Stock. We issued one or more fully registered global securities certificates in the name of DTC's nominee, Cede & Co. These certificates represent the total aggregate number of shares of the Series A Preferred Stock. We deposited these certificates with DTC or a custodian appointed by DTC. We will not issue certificates to you for the shares of the Series A Preferred Stock that you purchase, unless DTC's services are discontinued as described below.

Title to book-entry interests in the Series A Preferred Stock will pass by book-entry registration of the transfer within the records of DTC in accordance with its procedures. Book-entry interests in the securities may be transferred within DTC in accordance with procedures established for these purposes by DTC. So long as DTC's nominee is the registered owner of the global securities certificates, that nominee will be considered the sole owner and holder of the shares of the Series A Preferred Stock represented by those certificates for all purposes. Except as provided below, owners of beneficial interests in the certificates will not be entitled to have shares of the Series A Preferred Stock registered in their names; will not receive or be entitled to receive physical, certificated shares of the Series A Preferred Stock; and will not be considered the owners or holders of the shares of the Series A Preferred Stock for any purpose. As a result, each person owning a beneficial interest in shares of the Series A Preferred Stock must rely on the procedures of DTC and the participant through which such person owns its interest to exercise its rights as a holder of the Series A Preferred Stock.

DTC has advised us that it is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York State banking law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered under the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, including the underwriters, banks, trust companies, clearing corporations, and certain other organizations. Access to the DTC system is also available to others such as securities brokers and dealers, including the underwriters, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Direct and Indirect Participants are on file with the SEC.

When you purchase shares of the Series A Preferred Stock within the DTC system, the purchase must be by or through a Direct Participant. The Direct Participant will receive a credit for the Series A Preferred Stock on DTC's records. You will be considered to be the "beneficial owner" of the Series A Preferred Stock. Your beneficial ownership interest will be recorded on the Direct and Indirect Participants' records, but DTC will have no knowledge of your individual ownership. DTC's records reflect only the identity of the Direct Participants to whose accounts shares of the Series A Preferred Stock are credited.

You will not receive written confirmation from DTC of your purchase. The Direct or Indirect Participants through whom you purchased the Series A Preferred Stock should send you written confirmations providing details of your transactions, as well as periodic statements of your holdings. The Direct and Indirect Participants are responsible for keeping an accurate account of the holdings of their customers like you.

Transfers of ownership interests held through Direct and Indirect Participants will be accomplished by entries on the books of Direct and Indirect Participants acting on behalf of the beneficial owners.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

We understand that, under DTC's existing practices, in the event that we request any action of the holders, or an owner of a beneficial interest in a global security, such as you, desires to take any action which a holder is entitled to take under our certificate of incorporation (including the certificate of designations designating the Series A Preferred Stock), DTC would authorize the Direct Participants holding the relevant shares to take such action, and those Direct Participants and any Indirect Participants would authorize beneficial owners owning through those Direct and Indirect Participants to take such action or would otherwise act upon the instructions of beneficial owners owning through them.



Any redemption notices with respect to the Series A Preferred Stock will be sent to Cede & Co. If less than all of the outstanding shares of the Series A Preferred Stock are being redeemed, DTC will reduce each Direct Participant's holdings of shares of the Series A Preferred Stock in accordance with its procedures.

In those instances where a vote is required, neither DTC nor Cede & Co. itself will consent or vote with respect to the shares of the Series A Preferred Stock. Under its usual procedures, DTC would mail an omnibus proxy to us as soon as possible after the dividend record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants whose accounts the shares of the Series A Preferred Stock are credited to on the dividend record date, which are identified in a listing attached to the omnibus proxy.

Dividends on the Series A Preferred Stock will be made directly to DTC's nominee (or its successor, if applicable). DTC's practice is to credit participants' accounts on the relevant dividend payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on that dividend payment date.

Payments by Direct and Indirect Participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name." These payments will be the responsibility of the Direct and Indirect Participants and not of DTC, us or any agent of ours.

DTC may discontinue providing its services as securities depository with respect to the Series A Preferred Stock at any time by giving reasonable notice to us. Additionally, we may decide to discontinue the book-entry only system of transfers with respect to the Series A Preferred Stock. In that event, we will print and deliver certificates in fully registered form for the Series A Preferred Stock. If DTC notifies us that it is unwilling to continue as securities depository, or it is unable to continue or ceases to be a clearing agency registered under the Exchange Act and a successor depository is not appointed by us within 90 days after receiving such notice or becoming aware that DTC is no longer so registered, we will issue the Series A Preferred Stock in definitive form, at our expense, upon registration of transfer of, or in exchange for, such global security.

According to DTC, the foregoing information with respect to DTC has been provided to the financial community for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.

#### **Global Clearance and Settlement Procedures**

Initial settlement for the Series A Preferred Stock will be made in immediately available funds. Secondary market trading among DTC's Participants will occur in the ordinary way in accordance with DTC's rules and will be settled in immediately available funds using DTC's Same-Day Funds Settlement System.

#### **Transfer Agent and Registrar**

The transfer agent and registrar for our Series A Preferred Stock is American Stock Transfer & Trust Company, LLC. The transfer agent and registrar's address is 6201 15th Avenue, Brooklyn, New York 11219, and its telephone number is (718) 921-8300.

#### **Listing**

Our Series A Preferred Stock is listed on the NYSE under the ticker symbol "EFC PR A."

## DESCRIPTION OF THE SERIES B PREFERRED STOCK

*This description of certain terms of the Series B Preferred Stock does not purport to be complete and is in all respects subject to, and qualified in its entirety by references to the relevant provisions of our certificate of incorporation, the certificate of designations designating the Series B Preferred Stock, our bylaws and Delaware law. Terms defined in this "Description of the Series B Preferred Stock" section have the meanings ascribed to such terms herein only when used in this "Description of the Series B Preferred Stock" section.*

### General

Shares of the Series B Preferred Stock represent a single series of our authorized preferred stock. We may elect from time to time to issue additional shares of the Series B Preferred Stock without notice to, or consent from, the existing holders of the Series B Preferred Stock, and all such additional shares of Series B Preferred Stock would be deemed to form a single series with the shares of the Series B Preferred Stock.

Pursuant to our certificate of incorporation, we are currently authorized to designate and issue up to 100,000,000 shares of preferred stock, par value \$0.001 per share, in one or more classes or series and, subject to the limitations prescribed by our certificate of incorporation and Delaware law, to fix the designations, powers, rights, preferences, qualifications, limitations, restrictions and the number of shares constituting any class or series as our board of directors may determine, without any vote or action by our stockholders. As of December 31, 2021, there were 4,800,000 shares of Series B Preferred Stock issued and outstanding. On January 20, 2022, we filed with the Secretary of State of the State of Delaware a Certificate of Amendment (the "Series B Certificate of Amendment") of Certificate of Designations for the Series B Preferred Stock to designate 3,740,000 shares of the Company's authorized preferred stock as additional shares of Series B Preferred Stock. The Series B Certificate of Amendment became effective upon filing on January 20, 2022, and upon such effectiveness, the Company was authorized to issue an aggregate of 8,800,000 shares of Series B Preferred Stock.

Our board of directors may, without the approval of holders of the Series B Preferred Stock or our common stock, designate additional series of authorized preferred stock ranking junior to or on parity with the Series B Preferred Stock or designate additional shares of the Series B Preferred Stock and authorize the issuance of such shares.

The registrar and transfer agent in respect of the Series B Preferred Stock is American Stock Transfer & Trust Company, LLC. The principal business address for American Stock Transfer & Trust Company, LLC is 6201 15th Avenue, Brooklyn, NY 11219. The certificate of designations designating the Series B Preferred Stock provides that we will maintain an office or agency where shares of the Series B Preferred Stock may be surrendered for payment (including redemption), registration of transfer or exchange, or conversion.

### Maturity

The Series B Preferred Stock has no stated maturity and is not subject to any sinking fund or mandatory redemption. Shares of the Series B Preferred Stock will remain outstanding indefinitely unless we decide to redeem or otherwise repurchase them or they become convertible and are converted as described below under "—Conversion Rights." We are not required to set aside funds to redeem the Series B Preferred Stock.

### Ranking

The Series B Preferred Stock ranks, with respect to rights to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up:

1. senior to all classes or series of our common stock and to all other classes or series of stock that we may issue in the future with terms specifically providing that such stock ranks junior to the Series A Preferred Stock and Series B Preferred Stock with respect to rights to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up (together with the common stock, the "Junior Stock");
2. on a parity with our Series A Preferred Stock and with all classes or series of stock that we may issue in the future with terms specifically providing that such stock ranks on a parity with the Series A Preferred Stock and Series B Preferred Stock with respect to rights to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up (the "Parity Stock");
3. junior to all classes or series of stock that we may issue in the future with terms specifically providing that such stock ranks senior to the Series A Preferred Stock and Series B Preferred Stock with respect to rights to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up (the "Senior Stock"); and

4. effectively junior to all of our existing and future indebtedness (including indebtedness convertible into or exchangeable for our common stock or preferred stock) and other liabilities and to all liabilities and preferred equity of our existing subsidiaries and any future subsidiaries.

#### Dividends

Holders of shares of the Series B Preferred Stock are entitled to receive, when, as and if declared by our board of directors, out of funds legally available for the payment of dividends, cumulative cash dividends based on the stated liquidation preference of \$25.00 per share at a rate equal to (i) from and including the original issue date to, but excluding, January 30, 2027 (the "First Reset Date"), 6.250% per annum (equivalent to \$1.5625 per annum per share of the Series B Preferred Stock) and (ii) from and including First Reset Date, during each Reset Period (as defined below), the five-year treasury rate (as defined below) as of the most recent Reset Dividend Determination Date plus 4.99% per annum. A "Dividend Period" means the period from, and including, each dividend payment date (as defined below) to, but excluding, the next succeeding dividend payment date, except for the initial Dividend Period, which will be the period from, and including, the original issue date of the Series B Preferred Stock to, but excluding, the next succeeding dividend payment date.

Dividends on the Series B Preferred Stock shall accumulate daily and be cumulative from, and including, the original issue date and shall be payable quarterly in arrears on or about the 30th day of January, April, July and October of each year (each, a "dividend payment date"), when and as declared, *provided, however*, that if any dividend payment date is not a business day, as defined in the certificate of designations, then the dividend which would otherwise have been payable on that dividend payment date may be paid, at our option, on either the immediately preceding business day or the next succeeding business day, except that, if such business day is in the next succeeding calendar year, such payment shall be made on the immediately preceding business day, in each case with the same force and effect as if paid on such dividend payment date, and no interest, additional dividends or other sums will accrue on the amount so payable for the period from such dividend payment date to such next succeeding business day. Dividends payable for any Dividend Period will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as they appear in our stock transfer records for the Series B Preferred Stock at the close of business on the applicable dividend record date, which will be no fewer than ten days and no more than 35 days prior to the applicable dividend payment date, as shall be fixed by the board of directors (each, a "dividend record date"). The dividends payable on any dividend payment date shall include dividends accumulated to, but excluding, such dividend payment date. No holder of any shares of the Series B Preferred Stock will be entitled to receive any dividends paid or payable on the Series B Preferred Stock with a dividend record date before the date such shares of the Series B Preferred Stock are issued.

A "Reset Date" means the First Reset Date and each date falling on the fifth anniversary of the preceding Reset Date, whether or not a business day. A "Reset Period" means the period from, and including, the First Reset Date to, but excluding, the next following Reset Date and thereafter each period from, and including, each Reset Date to, but excluding, the next following Reset Date. A "Reset Dividend Determination Date" means, in respect of any Reset Period, the day falling three business days prior to the beginning of such Reset Period.

For any Reset Period commencing on or after the First Reset Date, the five-year treasury rate will be:

- The average of the yields to maturity on actively traded U.S. treasury securities adjusted to constant maturity, for five-year maturities, for the five business days appearing under the caption "Treasury Constant Maturities" in the most recently published statistical release designated H.15 Daily Update or any successor publication which is published by the Federal Reserve Board, as determined by the calculation agent in its sole discretion.
- If no calculation is provided as described above, then the calculation agent, after consulting such sources as it deems comparable to any of the foregoing calculations, or any such source as it deems reasonable from which to estimate the five-year treasury rate, shall determine the five-year treasury rate in its sole discretion, provided that if the calculation agent determines there is an industry-accepted successor five-year treasury rate, then the calculation agent shall use such successor rate. If the calculation agent has determined a substitute or successor rate in accordance with the foregoing, the calculation agent, in its sole discretion, may determine the business day convention, the definition of business day and the Reset Dividend Determination date to be used and any other relevant methodology for calculating such substitute or successor rate, including any adjustment factor needed to make such substitute or successor rate comparable to the five-year treasury rate, in a manner that is consistent with industry-accepted practices for such substitute or successor rate.

The five-year treasury rate will be determined by the calculation agent on the third business day immediately preceding the applicable Reset Date. If the five-year treasury rate for any Dividend Period cannot be determined pursuant to the methods

described in the two bullet points above, the dividend rate for such Dividend Period will be the same as the dividend rate determined for the immediately preceding Dividend Period.

No dividends on shares of the Series B Preferred Stock shall be declared by our board of directors or paid or set apart for payment by us at any time when the terms and provisions of any agreement of ours, including any agreement relating to our indebtedness, prohibit the declaration, payment or setting apart for payment thereof or provide that the declaration, payment or setting apart for payment thereof would constitute a breach of the agreement or a default under the agreement, or if the declaration, payment or setting apart for payment is restricted or prohibited by law.

Notwithstanding the foregoing, dividends on the Series B Preferred Stock will accumulate whether or not we have earnings, whether or not there are funds legally available for the payment of those dividends and whether or not those dividends are declared. No interest, or sum in lieu of interest, will be payable in respect of any dividend payment or payments on the Series B Preferred Stock which may be in arrears, and holders of the Series B Preferred Stock will not be entitled to any dividends in excess of full cumulative dividends described above. Any dividend payment made on the Series B Preferred Stock will first be credited against the earliest accumulated but unpaid dividend due with respect to those shares.

Future distributions on our common stock and preferred stock, including the Series B Preferred Stock, will be at the discretion of our board of directors and will depend on, among other things, our results of operations, cash flow from operations, financial condition and capital requirements, the annual distribution requirements under the real estate investment trust, or "REIT," provisions of the Internal Revenue Code of 1986, as amended (the "Code"), any debt service requirements, financial covenants and any other factors our board of directors deems relevant. Accordingly, we cannot guarantee that we will be able to make cash distributions on the Series B Preferred Stock or what the actual distributions will be for any future period.

Except as noted below, unless full cumulative dividends on the Series B Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past Dividend Periods, no dividends or other distributions (other than in shares of common stock or other Junior Stock we may issue) may be declared or paid or set aside for payment upon shares of our common stock or other Junior Stock or Parity Stock. In addition, any shares of our common stock or other Junior Stock or Parity Stock may not be redeemed, purchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such shares) by us (except by conversion into or exchange for shares of, or options, warrants or rights to purchase or subscribe for, our common stock or other Junior Stock we may issue and except for transfers made pursuant to the provisions of our certificate of incorporation relating to restrictions on ownership and transfers of our capital stock). The foregoing will not, however, prevent the redemption, purchase or acquisition by us of shares of any class or series of stock for the purpose of enforcing restrictions on transfer and ownership of our stock contained in our certificate of incorporation, including in order to qualify and maintain our qualification as a REIT, or the redemption, purchase or acquisition by us of shares of our common stock for purposes of and in compliance with any incentive or benefit plan of ours.

When dividends are not paid in full (or a sum sufficient for such full payment is not so set apart) upon the Series B Preferred Stock and any Parity Stock, all dividends declared upon the Series B Preferred Stock and any Parity Stock shall be declared pro rata so that the amount of dividends declared per share of the Series B Preferred Stock and such Parity Stock shall in all cases bear to each other the same ratio that accumulated dividends per share on the Series B Preferred Stock and accumulated dividends per share on such Parity Stock (which shall not include any accumulation in respect of undeclared and unpaid dividends for past Dividend Periods if such stock does not have a cumulative dividend) bear to each other. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on the Series B Preferred Stock which may be in arrears.

#### **Liquidation Preference**

In the event of our voluntary or involuntary liquidation, dissolution or winding up, the holders of shares of the Series B Preferred Stock will be entitled to be paid out of the assets we have legally available for distribution to our stockholders, subject to the preferential rights of the holders of any Senior Stock, a liquidation preference of \$25.00 per share, plus an amount equal to any accumulated and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the date of payment, before any distribution of assets is made to holders of our common stock or any other Junior Stock we may issue.

In the event that, upon any such voluntary or involuntary liquidation, dissolution or winding up, our available assets are insufficient to pay the amount of the liquidating distributions on all outstanding shares of the Series B Preferred Stock and the corresponding amounts payable on all shares of Parity Stock, the holders of the Series B Preferred Stock and all such Parity Stock shall share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

Holders of the Series B Preferred Stock will be entitled to written notice of any such liquidation no fewer than 30 days and no more than 60 days prior to the payment date. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of the Series B Preferred Stock will have no right or claim to any of our remaining assets. The consolidation or merger of us with or into any other corporation, trust or entity or of any other entity with or into us, or the sale, lease, transfer or conveyance of all or substantially all of our property or business, individually or in a series of related transactions, shall not be deemed to constitute a liquidation, dissolution or winding up of us (although such events may give rise to the special optional redemption and contingent conversion rights described below).

## Redemption

The Series B Preferred Stock is not redeemable by us prior to January 30, 2027, except as described below under “—Special Optional Redemption” and except under circumstances where it is necessary to allow us to qualify and maintain our qualification as a REIT for U.S. federal income tax purposes. Please see the section entitled “Certain Provisions of Delaware Law and Our Certificate of Incorporation and Bylaws—Restrictions on Ownership and Transfer.”

*Optional Redemption.* On or after January 30, 2027, we may, at our option, upon not less than 30 nor more than 60 days’ written notice, redeem the Series B Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price equal to \$25.00 per share of the Series B Preferred Stock, plus any accumulated and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the redemption date, without interest. If we elect to redeem any shares of the Series B Preferred Stock as described in this paragraph, we may use any available cash to pay the redemption price, and we will not be required to pay the redemption price only out of the proceeds from the issuance of other stock or any other specific source.

*Special Optional Redemption.* Upon the occurrence of a Change of Control, we may, at our option, upon not less than 30 nor more than 60 days’ written notice, redeem the Series B Preferred Stock, in whole or in part, within 120 days after the first date on which such Change of Control occurred, for cash at a redemption price of \$25.00 per share of the Series B Preferred Stock, plus any accumulated and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the redemption date, without interest. If, prior to the Change of Control Conversion Date, we have provided notice of our election to redeem some or all of the shares of the Series B Preferred Stock (whether pursuant to our optional redemption right described above under “—Optional Redemption” or this special optional redemption right), the holders of the Series B Preferred Stock will not have the Change of Control Conversion Right described below under “—Conversion Rights” with respect to the shares of the Series B Preferred Stock called for redemption. If we elect to redeem any shares of the Series B Preferred Stock as described in this paragraph, we may use any available cash to pay the redemption price, and we will not be required to pay the redemption price only out of the proceeds from the issuance of other stock or any other specific source.

A “Change of Control” is deemed to occur when, after the original issuance of the Series B Preferred Stock, the following have occurred and are continuing:

- the acquisition by any person, including any syndicate or group deemed to be a “person” under Section 13(d)(3) of the Exchange Act, of beneficial ownership, directly or indirectly, through a purchase, merger or other acquisition transaction or series of purchases, mergers or other acquisition transactions of our capital stock entitling that person to exercise more than 50% of the total voting power of all our capital stock entitled to vote generally in the election of our directors (except that such person will be deemed to have beneficial ownership of all securities that such person has the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition); and
- following the closing of any transaction referred to in the bullet point above, neither we nor the acquiring or surviving entity has a class of common securities (or American Depositary Receipts representing such securities) listed on the NYSE, the NYSE American or the Nasdaq Stock Market, or listed or quoted on an exchange or quotation system that is a successor to the NYSE, the NYSE American or the Nasdaq Stock Market.

*Redemption Procedures.* In the event we elect to redeem any shares of the Series B Preferred Stock, the notice of redemption will be mailed to each holder of record of the Series B Preferred Stock called for redemption at such holder’s address as it appears on our stock transfer records and will state the following:

- the redemption date;
- the number of shares of the Series B Preferred Stock to be redeemed;
- the redemption price;

- the place or places where certificates (if any) for the Series B Preferred Stock are to be surrendered for payment of the redemption price;
- that dividends on the shares to be redeemed will cease to accumulate on the redemption date;
- whether such redemption is being made pursuant to the provisions described above under “—Optional Redemption” or “—Special Optional Redemption”;
- if applicable, that such redemption is being made in connection with a Change of Control and, in that case, a brief description of the transaction or transactions constituting such Change of Control; and
- if such redemption is being made in connection with a Change of Control, that the holders of the shares of the Series B Preferred Stock being so called for redemption will not be able to tender such shares of the Series B Preferred Stock for conversion in connection with the Change of Control and that each share of the Series B Preferred Stock tendered for conversion that is called, prior to the Change of Control Conversion Date (as defined herein), for redemption will be redeemed on the related date of redemption instead of converted on the Change of Control Conversion Date.

If less than all of the shares of the Series B Preferred Stock held by any holder are to be redeemed, the notice mailed to such holder shall also specify the number of shares of the Series B Preferred Stock held by such holder to be redeemed. No failure to give such notice or any defect thereto or in the mailing thereof shall affect the validity of the proceedings for the redemption of any shares of the Series B Preferred Stock except as to the holder to whom notice was defective or not given.

Holders of the Series B Preferred Stock to be redeemed shall surrender the Series B Preferred Stock at the place designated in the notice of redemption and shall be entitled to the redemption price and any accumulated and unpaid dividends payable upon the redemption following the surrender. If notice of redemption of any shares of the Series B Preferred Stock has been given and if we have irrevocably set aside the funds necessary for redemption for the benefit of the holders of the shares of the Series B Preferred Stock so called for redemption, then from and after the redemption date (unless default shall be made by us in providing for the payment of the redemption price plus accumulated and unpaid dividends, if any), dividends will cease to accumulate on those shares of the Series B Preferred Stock, those shares of the Series B Preferred Stock shall no longer be deemed outstanding and all rights of the holders of those shares will terminate, except the right to receive the redemption price plus accumulated and unpaid dividends, if any, payable upon redemption. If any redemption date is not a business day, then the redemption price and accumulated and unpaid dividends, if any, payable upon redemption may be paid on the next business day and no interest, additional dividends or other sums will accrue on the amount payable for the period from and after that redemption date to that next business day. If less than all of the outstanding Series B Preferred Stock is to be redeemed, the Series B Preferred Stock to be redeemed shall be selected pro rata or by lot (as nearly as may be practicable without creating fractional shares) that will not result in the automatic transfer of any shares of the Series B Preferred Stock to a trust as described below under “—Restrictions on Ownership and Transfer.”

As part of any redemption of the Series B Preferred Stock, we shall pay, in cash, any accumulated and unpaid dividends to, but excluding, the redemption date, unless a redemption date falls after a dividend record date and prior to the corresponding dividend payment date, in which case each holder of the Series B Preferred Stock at the close of business on such dividend record date shall be entitled to the dividend payable on such shares on the corresponding dividend payment date notwithstanding the redemption of such shares before such dividend payment date. Except as provided above, we will make no payment or allowance for unpaid dividends, whether or not in arrears, on shares of the Series B Preferred Stock to be redeemed.

Unless full cumulative dividends on all shares of the Series B Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof has been or contemporaneously is set apart for payment for all past Dividend Periods, no shares of the Series B Preferred Stock shall be redeemed unless all outstanding shares of the Series B Preferred Stock are simultaneously redeemed, and we may not purchase or otherwise acquire directly or indirectly any shares of the Series B Preferred Stock (except by conversion into or exchange for shares of, or options, warrants or rights to purchase or subscribe for, our common stock or other Junior Stock that we may issue); provided, however, that the foregoing shall not prevent the purchase or acquisition by us of shares of the Series B Preferred Stock where it is necessary to allow us to qualify and maintain our qualification as a REIT for U.S. federal income tax purposes or pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding shares of the Series B Preferred Stock.

Subject to applicable law, we may purchase shares of the Series B Preferred Stock in the open market, by tender or by private agreement. Any shares of the Series B Preferred Stock that we acquire may be retired and re-classified as authorized but unissued shares of preferred stock, without designation as to class or series, and may thereafter be reissued as any class or series of preferred stock.

## Conversion Rights

Upon the occurrence of a Change of Control, each holder of the Series B Preferred Stock will have the right (unless, prior to the Change of Control Conversion Date, we have provided notice of our election to redeem some or all of the shares of the Series B Preferred Stock held by such holder as described above under “—Redemption—Optional Redemption” or “—Redemption—Special Optional Redemption,” in which case such holder will have the right only with respect to shares of the Series B Preferred Stock that are not called for redemption) to convert some or all of the shares of the Series B Preferred Stock held by such holder (the “Change of Control Conversion Right”) on the Change of Control Conversion Date into a number of shares of our common stock per share of the Series B Preferred Stock (the “Common Stock Conversion Consideration”) equal to the lesser of:

- the quotient obtained by dividing (i) the sum of the \$25.00 per share liquidation preference of the Series B Preferred Stock plus any accumulated and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the Change of Control Conversion Date (unless the Change of Control Conversion Date is after a dividend record date and prior to the corresponding dividend payment date for the Series B Preferred Stock, in which case no additional amount for such accumulated and unpaid dividends to be paid on such dividend payment date will be included in this sum) by (ii) the Common Stock Price, as defined herein (such quotient, the “Conversion Rate”); and
- 2.85878 (the “Share Cap”), subject to certain adjustments as described below.

Notwithstanding anything to the contrary in the certificate of designations and except as otherwise required by law, the persons who are the holders of record of shares of the Series B Preferred Stock at the close of business on a dividend record date will be entitled to receive the dividend payable on the corresponding dividend payment date notwithstanding the conversion of those shares after such dividend record date and on or prior to such dividend payment date and, in such case, the full amount of such dividend shall be paid on such dividend payment date to the persons who were the holders of record at the close of business on such dividend record date. Except as provided above, we will make no allowance for unpaid dividends that are not in arrears on the shares of the Series B Preferred Stock to be converted.

The Share Cap is subject to pro rata adjustments for any share splits (including those effected pursuant to a distribution of our common stock to existing holders of our common stock), subdivisions or combinations (in each case, a “Share Split”) with respect to our common stock as follows: the adjusted Share Cap as the result of a Share Split will be the number of shares of our common stock that is equivalent to the product obtained by multiplying (i) the Share Cap in effect immediately prior to such Share Split by (ii) a fraction, the numerator of which is the number of shares of our common stock outstanding immediately after giving effect to such Share Split and the denominator of which is the number of shares of our common stock outstanding immediately prior to such Share Split.

For the avoidance of doubt, subject to the immediately succeeding sentence, the aggregate number of shares of our common stock (or equivalent Alternative Conversion Consideration, as applicable) issuable or deliverable, as applicable, in connection with the exercise of the Change of Control Conversion Right will not exceed the product of the Share Cap times the aggregate number of shares of the Series B Preferred Stock issued and outstanding at the Change of Control Conversion Date (or equivalent Alternative Conversion Consideration, as applicable) (the “Exchange Cap”). The Exchange Cap is subject to pro rata adjustments for any Share Splits on the same basis as the corresponding adjustment to the Share Cap.

In the case of a Change of Control pursuant to which our common stock is or will be converted into cash, securities or other property or assets (including any combination thereof) (the “Alternative Form Consideration”), a holder of the Series B Preferred Stock will receive upon conversion of such shares of the Series B Preferred Stock the kind and amount of Alternative Form Consideration which such holder would have owned or been entitled to receive upon the Change of Control had such holder held a number of shares of our common stock equal to the Common Stock Conversion Consideration immediately prior to the effective time of the Change of Control (the “Alternative Conversion Consideration”; the Common Stock Conversion Consideration or the Alternative Conversion Consideration, whichever shall be applicable to a Change of Control, is referred to as the “Conversion Consideration”).

If the holders of our common stock have the opportunity to elect the form of consideration to be received in the Change of Control, the Conversion Consideration in respect of such Change of Control will be deemed to be the kind and amount of consideration actually received by holders of a majority of the outstanding shares of our common stock that made or voted for such an election (if electing between two types of consideration) or holders of a plurality of the outstanding shares of our common stock that made or voted for such an election (if electing between more than two types of consideration), as the case may be, and will be subject to any limitations to which all holders of our common stock are subject, including, without limitation, pro rata reductions applicable to any portion of the consideration payable in such Change of Control.

We will not issue fractional shares of our common stock upon the conversion of the Series B Preferred Stock in connection with a Change of Control. Instead, we will make a cash payment equal to the value of such fractional shares based upon the Common Stock Price used in determining the Common Stock Conversion Consideration for such Change of Control.

Within 15 days following the occurrence of a Change of Control, provided that we have not then exercised our right to redeem all shares of the Series B Preferred Stock pursuant to the redemption provisions described above, we will provide to holders of the Series B Preferred Stock a notice of occurrence of the Change of Control that describes the resulting Change of Control Conversion Right. This notice will be delivered to the holders of record of the shares of the Series B Preferred Stock at their addresses as they appear on our stock transfer records. No failure to give such notice or any defect thereto or in the giving thereof will affect the validity of the proceedings for the conversion of any shares of the Series B Preferred Stock except as to the holder to whom notice was defective or not given. This notice will state the following:

- the events constituting the Change of Control;
- the date of the Change of Control;
- the last date on which the holders of the Series B Preferred Stock may exercise their Change of Control Conversion Right;
- the method and period for calculating the Common Stock Price;
- the Change of Control Conversion Date;
- that if, prior to the Change of Control Conversion Date, we have provided notice of our election to redeem all or any shares of the Series B Preferred Stock, holders will not be able to convert the shares of the Series B Preferred Stock called for redemption and such shares will be redeemed on the related redemption date, even if such shares have already been tendered for conversion pursuant to the Change of Control Conversion Right;
- if applicable, the type and amount of Alternative Conversion Consideration entitled to be received per share of the Series B Preferred Stock;
- the name and address of the paying agent and transfer agent for the Series B Preferred Stock;
- the procedures that the holders of the Series B Preferred Stock must follow to exercise the Change of Control Conversion Right (including procedures for surrendering shares for conversion through the facilities of a Share Depository (as defined herein)), including the form of conversion notice to be delivered by such holders as described below; and
- the last date on which holders of the Series B Preferred Stock may withdraw shares surrendered for conversion and the procedures that such holders must follow to effect such a withdrawal.

Under such circumstances, we will also issue a press release containing such notice for publication on Dow Jones & Company, Inc., the Wall Street Journal, Business Wire, PR Newswire or Bloomberg Business News (or, if these organizations are not in existence at the time of issuance of the press release, such other news or press organization as is reasonably calculated to broadly disseminate the relevant information to the public), and post a notice on our website, in any event prior to the opening of business on the first business day following any date on which we provide the notice described above to the holders of the Series B Preferred Stock.

To exercise the Change of Control Conversion Right, the holders of the Series B Preferred Stock will be required to deliver, on or before the close of business on the Change of Control Conversion Date, the certificates (if any) representing the shares of the Series B Preferred Stock to be converted, duly endorsed for transfer (or, in the case of any shares of the Series B Preferred Stock held in book-entry form through a Share Depository, to deliver, on or before the close of business on the Change of Control Conversion Date, the shares of the Series B Preferred Stock to be converted through the facilities of such Share Depository), together with a written conversion notice in the form provided by us, duly completed, to our transfer agent. The conversion notice must state:

- the relevant Change of Control Conversion Date;
- the number of shares of the Series B Preferred Stock to be converted; and



- that the Series B Preferred Stock is to be converted pursuant to the applicable provisions of the Series B Preferred Stock.

The “Change of Control Conversion Date” is the date the Series B Preferred Stock is to be converted, which will be a business day selected by us that is no fewer than 20 days nor more than 35 days after the date on which we provide the notice described above to the holders of the Series B Preferred Stock.

The “Common Stock Price” is (i) if the consideration to be received in the Change of Control by the holders of our common stock is solely cash, the amount of cash consideration per share of our common stock or (ii) if the consideration to be received in the Change of Control by holders of our common stock is other than solely cash (x) the average of the closing sale prices per share of our common stock (or, if no closing sale price is reported, the average of the closing bid and ask prices per share or, if more than one in either case, the average of the average closing bid and the average closing ask prices per share) for the ten consecutive trading days immediately preceding, but not including, the date on which such Change of Control occurred as reported on the principal U.S. securities exchange on which our common stock is then traded, or (y) the average of the last quoted bid prices for our common stock in the over-the-counter market as reported by OTC Markets Group Inc. or similar organization for the ten consecutive trading days immediately preceding, but not including, the date on which such Change of Control occurred, if our common stock is not then listed for trading on a U.S. securities exchange.

Holders of the Series B Preferred Stock may withdraw any notice of exercise of a Change of Control Conversion Right (in whole or in part) by a written notice of withdrawal delivered to our transfer agent prior to the close of business on the business day prior to the Change of Control Conversion Date. The notice of withdrawal delivered by any holder must state:

- the number of withdrawn shares of the Series B Preferred Stock
- if certificated Series B Preferred Stock has been surrendered for conversion, the certificate numbers of the withdrawn shares of the Series B Preferred Stock; and
- the number of shares of the Series B Preferred Stock, if any, which remain subject to the holder’s conversion notice.

Notwithstanding the foregoing, if any shares of the Series B Preferred Stock are held in book-entry form through The Depository Trust Company (“DTC”) or a similar depository (each, a “Share Depository”), the conversion notice and/or the notice of withdrawal, as applicable, must comply with applicable procedures, if any, of the applicable Share Depository.

Series B Preferred Stock as to which the Change of Control Conversion Right has been properly exercised and for which the conversion notice has not been properly withdrawn will be converted into the applicable Conversion Consideration in accordance with the Change of Control Conversion Right on the Change of Control Conversion Date, unless prior to the Change of Control Conversion Date we have provided notice of our election to redeem some or all of the shares of the Series B Preferred Stock, as described above under “—Redemption—Optional Redemption” or “—Redemption—Special Optional Redemption,” in which case only the shares of the Series B Preferred Stock properly surrendered for conversion and not properly withdrawn that are not called for redemption will be converted as aforesaid. If we elect to redeem shares of the Series B Preferred Stock that would otherwise be converted into the applicable Conversion Consideration on a Change of Control Conversion Date, such shares of the Series B Preferred Stock will not be so converted and the holders of such shares will be entitled to receive on the applicable redemption date the redemption price described above under “—Redemption—Optional Redemption” or “—Redemption—Special Optional Redemption,” as applicable.

We will deliver all securities, cash and any other property owing upon conversion no later than the third business day following the Change of Control Conversion Date. Notwithstanding the foregoing, the persons entitled to receive any shares of our common stock or other securities delivered on conversion will be deemed to have become the holders of record thereof as of the Change of Control Conversion Date.

In connection with the exercise of any Change of Control Conversion Right, we will comply with all applicable federal and state securities laws and stock exchange rules in connection with any conversion of the Series B Preferred Stock into shares of our common stock or other property. Notwithstanding any other provision of the Series B Preferred Stock, no holder of the Series B Preferred Stock will be entitled to convert such Series B Preferred Stock into shares of our common stock to the extent that receipt of such common stock would cause such holder (or any other person) to exceed the applicable share ownership limitations contained in our certificate of incorporation and the certificate of designations, unless we provide an exemption from this limitation to such holder. Please see the section entitled “—Restrictions on Ownership and Transfer” below and “Certain Provisions of Delaware Law and Our Certificate of Incorporation and Bylaws—Restrictions on Ownership and Transfer.”

The Change of Control conversion feature may make it more difficult for a third party to acquire us or discourage a party from acquiring us. If exercisable, the Change of Control Conversion Rights (as defined herein) may not adequately compensate a holder of the Series B Preferred Stock. These Change of Control Conversion Rights may also make it more difficult for a party to acquire us or discourage a party from acquiring us.

Except as provided above in connection with a Change of Control, the Series B Preferred Stock is not convertible into or exchangeable for any other securities or property.

#### **Voting Rights**

Holders of the Series B Preferred Stock will not have any voting rights, except as set forth below or as otherwise required by law or any applicable stock exchange rules.

Whenever dividends on any shares of the Series B Preferred Stock are in arrears for six or more quarterly Dividend Periods, whether or not consecutive, the number of directors constituting our board of directors will be automatically increased by two (if not already increased by two by reason of the election of directors by the holders of the Series A Preferred Stock or any other class or series of our preferred stock that we may issue and upon which like voting rights have been conferred and are exercisable and which are entitled to vote with the Series B Preferred Stock as a class with respect to the election of those two directors) and the holders of the Series B Preferred Stock (voting as a single class with the holders of the Series A Preferred Stock and the holders of all other classes or series of our preferred stock that we may issue upon which like voting rights have been conferred and are exercisable and which are entitled to vote as a class with the Series B Preferred Stock in the election of those two directors) will be entitled to vote for the election of those two additional directors at a special meeting called by us at the request of the holders of record of at least 25% of the outstanding shares of the Series B Preferred Stock or by the holders of the Series A Preferred Stock or any other class or series of preferred stock upon which like voting rights have been conferred and are exercisable and which are entitled to vote as a class with the Series B Preferred Stock in the election of those two directors (unless the request is received less than 90 days before the date fixed for the next annual or special meeting of stockholders, in which case such vote will be held at the earlier of the next annual or special meeting of stockholders), and at each subsequent annual meeting until all dividends accumulated on the Series B Preferred Stock for all past Dividend Periods and the then current Dividend Period shall have been fully paid. In that case, the right of holders of the Series B Preferred Stock to elect any directors will cease and, unless there are other classes or series of our preferred stock upon which like voting rights have been conferred and are exercisable (including our Series A Preferred Stock), any directors elected by holders of the Series B Preferred Stock shall immediately resign and the number of directors constituting the board of directors shall be reduced accordingly. In no event shall the holders of the Series B Preferred Stock be entitled pursuant to these voting rights to elect a director that would cause us to fail to satisfy a requirement relating to director independence of any national securities exchange or quotation system on which any class or series of our capital stock is listed or quoted. For the avoidance of doubt, in no event shall the total number of directors elected by holders of the Series B Preferred Stock (voting as a single class with the holders of the Series A Preferred Stock and the holders of all other classes or series of our preferred stock that we may issue upon which like voting rights have been conferred and are exercisable and which are entitled to vote as a class with the Series B Preferred Stock in the election of such directors) pursuant to these voting rights exceed two.

If at any time when the voting rights conferred upon the Series B Preferred Stock (as described above) are exercisable any vacancy in the office of a director elected pursuant to the procedures described above shall occur, then such vacancy may be filled only by the remaining director or by the vote of the holders of record of the outstanding Series B Preferred Stock and any other classes or series of our preferred stock upon which like voting rights have been conferred and are exercisable and which are entitled to vote as a class with the Series B Preferred Stock in the election of directors (as described above). Any director elected or appointed pursuant to the procedures described above may be removed at any time, with or without cause, only by the affirmative vote of holders of the outstanding Series B Preferred Stock and any other classes or series of our preferred stock upon which like voting rights have been conferred and are exercisable and which classes or series of preferred stock are entitled to vote as a class with the Series B Preferred Stock in the election of directors pursuant to the procedures described above, such removal to be effected by the affirmative vote of a majority of the votes entitled to be cast by the holders of the outstanding Series B Preferred Stock and any such other classes or series of preferred stock, and may not be removed by the holders of our common stock.

If a special meeting is not called by us within 30 days after request from the holders of the Series B Preferred Stock as described above, then the holders of record of at least 25% of the outstanding Series B Preferred Stock may designate a holder to call the meeting at our expense.

On each matter on which holders of the Series B Preferred Stock are entitled to vote, each share of the Series B Preferred Stock will be entitled to one vote, except that when shares of any other class or series of our preferred stock have the right to

vote with the Series B Preferred Stock as a single class on any matter, the Series B Preferred Stock and the shares of each such other class or series will have one vote for each \$25.00 of liquidation preference (excluding accumulated dividends).

So long as any shares of the Series B Preferred Stock remain outstanding, we will not, without the affirmative vote or consent of the holders of at least two-thirds of the shares of the outstanding Series B Preferred Stock and all Parity Stock having like voting rights that are exercisable at the time, voting as a single class, outstanding at the time, given in person or by proxy, either in writing or at a meeting (voting as a single class with all classes or series of Parity Stock that we may issue upon which like voting rights have been conferred and are exercisable (including our Series A Preferred Stock)), (a) authorize or create, or increase the authorized or issued amount of, any class or series of Senior Stock or reclassify any of our authorized capital stock into such shares, or create, authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares; or (b) amend, alter or repeal the provisions of our certificate of incorporation or the certificate of designations relating to the Series B Preferred Stock, whether by merger, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of holders of the Series B Preferred Stock (each, an "Event"); provided, however, with respect to the occurrence of any Event set forth in (b) above, so long as the Series B Preferred Stock remains outstanding with the terms thereof materially unchanged, taking into account that, upon an occurrence of an Event, we may not be the surviving entity, the occurrence of any such Event shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers of holders of the Series B Preferred Stock and, provided further, that any increase in the amount of the authorized preferred stock, including the Series B Preferred Stock, or the creation or issuance of any additional shares of the Series B Preferred Stock or other class or series of preferred stock that we may issue (including our Series A Preferred Stock), or any increase in the amounts authorized of any Parity Stock or Junior Stock, shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers.

Notwithstanding the foregoing, if any amendment, alteration or repeal of any provision of our certificate of incorporation or the certificate of designations relating to the Series B Preferred Stock would materially and adversely affect any right, preference, privilege or voting power of the Series B Preferred Stock disproportionately relative to any Parity Stock having like voting rights that are exercisable at the time, then the affirmative vote or consent of the holders of at least two-thirds of the outstanding shares of the Series B Preferred Stock (voting as a separate class) shall also be required.

The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of the Series B Preferred Stock shall have been redeemed or called for redemption upon proper notice and sufficient funds shall have been deposited in trust to effect such redemption.

Except as expressly stated in the certificate of designations or as may be required by applicable law, the Series B Preferred Stock will not have any relative, participating, optional and other special voting rights or powers and the consent of the holders thereof shall not be required for the taking of any corporate action.

#### **Information Rights**

During any period in which we are not subject to Section 13 or 15(d) of the Exchange Act and any shares of the Series B Preferred Stock are outstanding, we will use our best efforts to (i) transmit through our website at [www.ellingtonfinancial.com](http://www.ellingtonfinancial.com) (or other permissible means under the Exchange Act) to all holders of the Series B Preferred Stock, as their names and addresses appear on our record books and without cost to such holders, copies of the annual reports on Form 10-K and quarterly reports on Form 10-Q that we would have been required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act if we were subject thereto (other than any exhibits that would have been required) and (ii) promptly, upon request, supply copies of such reports to any holder or prospective holder of the Series B Preferred Stock. We will use our best efforts to mail (or otherwise provide) the information to the holders of the Series B Preferred Stock within 15 days after the respective dates by which a periodic report on Form 10-K or Form 10-Q, as the case may be, in respect of such information would have been required to be filed with the SEC, if we were subject to Section 13 or 15(d) of the Exchange Act, in each case, based on the dates on which we would be required to file such periodic reports if we were a "non-accelerated filer" within the meaning of the Exchange Act.

#### **Restrictions on Ownership and Transfer**

In order to maintain our qualification as a REIT under the Code, our shares of capital stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year. Also, no more than 50% of the value of our outstanding shares of capital stock may be owned, directly or constructively, by five or fewer individuals (as defined in the Code to include certain entities) during the second half of any calendar year.

Our certificate of incorporation and the certificate of designations establishing the terms of the Series B Preferred Stock contains restrictions on the ownership and transfer of the Series B Preferred Stock which are intended to assist us in complying

with these requirements and continuing to qualify as a REIT. The certificate of designations provides that all holders of the Series B Preferred Stock are subject to our certificate of incorporation, which provides that no person may beneficially or constructively own more than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our stock, subject to certain exceptions.

Moreover, the constructive ownership rules are complex, and may cause shares of the Series B Preferred Stock owned actually or constructively by a group of related individuals and/or entities to be constructively owned by one individual or entity. As a result, the acquisition of less than 9.8% of the shares of the Series B Preferred Stock (or the acquisition of an interest in an entity that owns, actually or constructively, Series B Preferred Stock) by an individual or entity could nevertheless cause that individual or entity, or another individual or entity, to own constructively in excess of 9.8% of the outstanding Series B Preferred Stock and thus violate the ownership limitations, or any other limitations in our certificate of incorporation.

Under our certificate of incorporation, and the certificate of designations for the Series B Preferred Stock, any attempted transfer of our stock, which, if effective, would result in a violation of the foregoing restrictions will cause the number of shares of stock causing the violation (rounded up to the nearest whole share) to be automatically transferred to a trust for the exclusive benefit of one or more charitable beneficiaries, and the proposed transferee will not acquire any rights in such shares. Our board of directors, in its sole discretion, may exempt a person from the foregoing restrictions; however, it is not obligated to do so.

Furthermore, under our certificate of incorporation and, consequently, if the board of directors or any duly authorized committee thereof (or other designees if permitted by Delaware law) shall at any time determine in good faith that a transfer or other event has taken place that results in a violation of the foregoing restrictions, or that a person intends to acquire or has attempted to acquire beneficial or constructive ownership of any shares of our stock in violation of the foregoing restrictions, we may take actions to refuse to give effect to or prevent such transfer or other event, including, without limitation, redeeming shares of stock, refusing to give effect to such transfer on our books or instituting proceedings to enjoin such transfer or other event.

Any person who acquires or attempts or intends to acquire beneficial or constructive ownership of shares of our stock that will or may violate the foregoing restrictions or any person who would have owned shares of stock that resulted in a transfer to the trust for the exclusive benefit of one or more charitable beneficiaries as described above shall immediately give written notice to us of such event, or in the case of such a proposed or attempted transaction, give at least 15 days prior written notice, and shall provide to us such other information as we may request in order to determine the effect, if any, of such transfer on our status as a REIT.

For further information regarding restrictions on ownership and transfer of the Series B Preferred Stock, please see the section entitled "Certain Provisions of Delaware Law and Our Certificate of Incorporation and Bylaws—Restrictions on Ownership and Transfer."

#### **Preemptive Rights**

No holders of the Series B Preferred Stock will have any preemptive rights to purchase or subscribe for our common stock or any other security.

#### **Book-Entry Procedures**

All interests in the global securities certificates representing the shares of the Series B Preferred Stock are subject to the operations and procedures of DTC and, therefore, you must allow for sufficient time in order to comply with these procedures if you wish to exercise any of your rights with respect to the Series B Preferred Stock. We provide the following summary of those operations and procedures solely for the convenience of investors. The operations and procedures of DTC are controlled by that settlement system and may be changed at any time. Neither we nor the underwriters are responsible for those operations or procedures or for the accuracy or completeness of the following disclosure.

DTC acts as securities depository for the Series B Preferred Stock. We issued one or more fully registered global securities certificates in the name of DTC's nominee, Cede & Co. These certificates will represent the total aggregate number of shares of the Series B Preferred Stock. We deposited these certificates with DTC or a custodian appointed by DTC. We will not issue certificates to you for the shares of the Series B Preferred Stock that you purchase, unless DTC's services are discontinued as described below.

Title to book-entry interests in the Series B Preferred Stock will pass by book-entry registration of the transfer within the records of DTC in accordance with its procedures. Book-entry interests in the securities may be transferred within DTC in accordance with procedures established for these purposes by DTC. So long as DTC's nominee is the registered owner of the

global securities certificates, that nominee will be considered the sole owner and holder of the shares of the Series B Preferred Stock represented by those certificates for all purposes. Except as provided below, owners of beneficial interests in the certificates will not be entitled to have shares of the Series B Preferred Stock registered in their names; will not receive or be entitled to receive physical, certificated shares of the Series B Preferred Stock; and will not be considered the owners or holders of the shares of the Series B Preferred Stock for any purpose. As a result, each person owning a beneficial interest in shares of the Series B Preferred Stock must rely on the procedures of DTC and the participant through which such person owns its interest to exercise its rights as a holder of the Series B Preferred Stock.

DTC has advised us that it is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York State banking law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered under the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, including the underwriters, banks, trust companies, clearing corporations, and certain other organizations. Access to the DTC system is also available to others such as securities brokers and dealers, including the underwriters, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Direct and Indirect Participants are on file with the SEC.

When you purchase shares of the Series B Preferred Stock within the DTC system, the purchase must be by or through a Direct Participant. The Direct Participant will receive a credit for the Series B Preferred Stock on DTC's records. You will be considered to be the "beneficial owner" of the Series B Preferred Stock. Your beneficial ownership interest will be recorded on the Direct and Indirect Participants' records, but DTC will have no knowledge of your individual ownership. DTC's records reflect only the identity of the Direct Participants to whose accounts shares of the Series B Preferred Stock are credited.

You will not receive written confirmation from DTC of your purchase. The Direct or Indirect Participants through whom you purchased the Series B Preferred Stock should send you written confirmations providing details of your transactions, as well as periodic statements of your holdings. The Direct and Indirect Participants are responsible for keeping an accurate account of the holdings of their customers like you.

Transfers of ownership interests held through Direct and Indirect Participants will be accomplished by entries on the books of Direct and Indirect Participants acting on behalf of the beneficial owners.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

We understand that, under DTC's existing practices, in the event that we request any action of the holders, or an owner of a beneficial interest in a global security, such as you, desires to take any action which a holder is entitled to take under our certificate of incorporation (including the certificate of designations designating the Series B Preferred Stock), DTC would authorize the Direct Participants holding the relevant shares to take such action, and those Direct Participants and any Indirect Participants would authorize beneficial owners owning through those Direct and Indirect Participants to take such action or would otherwise act upon the instructions of beneficial owners owning through them.

Any redemption notices with respect to the Series B Preferred Stock will be sent to Cede & Co. If less than all of the outstanding shares of the Series B Preferred Stock are being redeemed, DTC will reduce each Direct Participant's holdings of shares of the Series B Preferred Stock in accordance with its procedures.

In those instances where a vote is required, neither DTC nor Cede & Co. itself will consent or vote with respect to the shares of the Series B Preferred Stock. Under its usual procedures, DTC would mail an omnibus proxy to us as soon as possible after the dividend record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants whose accounts the shares of the Series B Preferred Stock are credited to on the dividend record date, which are identified in a listing attached to the omnibus proxy.

Dividends on the Series B Preferred Stock will be made directly to DTC's nominee (or its successor, if applicable). DTC's practice is to credit participants' accounts on the relevant dividend payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on that dividend payment date.

Payments by Direct and Indirect Participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name." These payments will be the responsibility of the Direct and Indirect Participants and not of DTC, us or any agent of ours.

DTC may discontinue providing its services as securities depository with respect to the Series B Preferred Stock at any time by giving reasonable notice to us. Additionally, we may decide to discontinue the book-entry only system of transfers with respect to the Series B Preferred Stock. In that event, we will print and deliver certificates in fully registered form for the Series B Preferred Stock. If DTC notifies us that it is unwilling to continue as securities depository, or it is unable to continue or ceases to be a clearing agency registered under the Exchange Act and a successor depository is not appointed by us within 90 days after receiving such notice or becoming aware that DTC is no longer so registered, we will issue the Series B Preferred Stock in definitive form, at our expense, upon registration of transfer of, or in exchange for, such global security.

According to DTC, the foregoing information with respect to DTC has been provided to the financial community for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.

#### **Global Clearance and Settlement Procedures**

Initial settlement for the Series B Preferred Stock will be made in immediately available funds. Secondary market trading among DTC's Participants will occur in the ordinary way in accordance with DTC's rules and will be settled in immediately available funds using DTC's Same-Day Funds Settlement System.

#### **Transfer Agent and Registrar**

The transfer agent and registrar for our Series B Preferred Stock is American Stock Transfer & Trust Company, LLC. The transfer agent and registrar's address is 6201 15th Avenue, Brooklyn, New York 11219, and its telephone number is (718) 921-8300.

#### **Listing**

Our Series A Preferred Stock is listed on the NYSE under the ticker symbol "EFC PR B."

## CERTAIN PROVISIONS OF DELAWARE LAW AND OUR CERTIFICATE OF INCORPORATION AND BYLAWS

### **Conversion and Incorporation**

Our predecessor, Ellington Financial LLC, was formed as a limited liability company in Delaware in 2007, and was converted to a corporation as a result of the Conversion effective as of 11:59 P.M. Eastern Time on March 1, 2019.

### **Purpose**

Under our certificate of incorporation, we are permitted to engage in any lawful act or activity (including, without limitation or obligation, engaging in business as a REIT under the Code) for which corporations may be organized under the DGCL as now or hereafter in force.

### **Election of Members of Our Board of Directors**

Members of our Board of Directors are elected by stockholders based on a plurality of the votes cast.

### **Removal of Members of Our Board of Directors**

Any director or the entire Board of Directors may be removed with or without cause by a vote of at least 66 2/3% of the votes entitled to be cast in the election of directors. The vacancy in the Board of Directors caused by any such removal will be filled by a vote of the majority of directors then in office even if the remaining directors do not constitute a quorum.

### **Stockholder Meetings**

Under our bylaws, we are required to hold an annual meeting of stockholders for the election of directors and other business on a date and time to be set by the Board of Directors. In addition, our bylaws provide that a special meeting of stockholders may be called by our Board of Directors and certain of our officers. Our bylaws further provide that, subject to the satisfaction of certain procedural and information requirements, a special meeting of stockholders shall be called by the Secretary of the company upon written request of stockholders entitled to cast not less than a majority of all of the votes entitled to be cast at such meeting.

### **Advance Notice of Nominations and Stockholder Business**

Our bylaws establish advance notice procedures with respect to stockholder proposals and the nomination of persons for election as directors at the annual meeting of our stockholders.

### **Stockholder Action by Written Consent**

Unless our certificate of incorporation provides otherwise or it conflicts with the rules of the NYSE, pursuant to Section 228 of the DGCL, any action required to be taken at any annual or special meeting of the stockholders may be taken without a meeting, without prior notice and without a vote if a consent or consents in writing, setting forth the action so taken, is signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares of our stock entitled to vote thereon were present and voted, unless the certificate of incorporation provides otherwise or it conflicts with the rules of the NYSE. Our certificate of incorporation permits stockholder action by unanimous written consent by stockholders.

### **Limitations on Liability and Indemnification of Our Directors and Officers**

Pursuant to our certificate of incorporation and the DGCL, our directors and officers will not be liable to us, or any subsidiary of ours, or any holder of shares, for monetary damages for any acts or omissions arising from the performance of any of such person's obligations or duties in connection with us, including breach of fiduciary duty, except as follows: (1) for any breach of the director's duty of loyalty to us or the holders of the shares; (2) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; or (3) for any transaction from which the director derived an improper personal benefit. The certificate of incorporation provides that, to the fullest extent permitted by law, we will indemnify our directors and officers or any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, or investigative (other than an action by or in the right of us) by reason of the fact that the person is or was our director, officer, employee, tax matters member or agent, or is or was serving at our request as a director, officer, employee or agent of another company, to the fullest extent permitted by law against expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding if the person acted in good faith and in a

manner the person reasonably believed to be in or not opposed to our best interests, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the person's conduct was unlawful.

Each of the persons entitled to be indemnified for expenses and liabilities as contemplated above may, in the performance of his, her or its duties, consult with legal counsel and accountants, and any act or omission by such person on our behalf in furtherance of our interests in good faith in reliance upon, and in accordance with, the advice of such legal counsel or accountants will be full justification for any such act or omission, and such person will be fully protected for such acts and omissions; provided that such legal counsel or accountants were selected with reasonable care by or on our behalf.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, we have been informed that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

#### **Amendment of Our Certificate of Incorporation and Bylaws**

Under the DGCL, amendments to our certificate of incorporation, with limited exceptions, must be approved by holders of a majority of the total voting power of our outstanding common stock and, to the extent that such amendment would have a material adverse effect on the holders of any class or series of shares, by the holders of a majority of the holders of such class or series. Our Board of Directors may amend, modify or repeal our bylaws without stockholder approval.

#### **Business Combinations**

Section 203 of the DGCL, provides that an "interested stockholder" (a person other than the corporation or any direct or indirect majority-owned subsidiary who, together with affiliates and associates, owns, or, if such person is an affiliate or associate of the corporation, within three years did own, 15% or more of the outstanding voting stock of a corporation) may not engage in "business combinations" (which is broadly defined to include a number of transactions, such as mergers, consolidations, asset sales and other transactions in which an interested stockholder receives or could receive a financial benefit on other than a pro rata basis with other stockholders) with the corporation for a period of three years after the date on which the person became an interested stockholder without certain statutorily mandated approvals.

#### **Provisions in our Certificate of Incorporation and Bylaws that may have an Anti-Takeover Effect**

Some of the provisions in our certificate of incorporation and bylaws described above could make it more difficult for a third party to acquire, or may discourage a third party from acquiring, control of us. These provisions include, among others:

- allowing only our Board of Directors to fill newly created directorships,
- requiring advance notice for our stockholders to nominate candidates for election to our Board of Directors or to propose business to be considered by our stockholders at a meeting of our stockholders;
- requiring that (subject to certain exceptions) no person may own, or be deemed to own by virtue of the attribution provisions of the Code, more than 9.8% of the aggregate value or number (whichever is more restrictive) of our outstanding shares (See "-Restrictions on Ownership and Transfer"); and
- limitations on the ability of our stockholders to call special meetings of our stockholders

Certain provisions of the management agreement between us and our Manager also could make it more difficult for third parties to acquire control of us by various means, including limitations on our right to terminate the management agreement and a requirement that, under certain circumstances, we make a substantial payment to our Manager in the event of a termination.

#### **Restrictions on Ownership and Transfer**

Our certificate of incorporation, subject to certain exceptions, contains restrictions on the amount of our shares that a person may own and may prohibit certain entities from owning our shares. Our certificate of incorporation provides that (subject to certain exceptions described below) no person may own, or be deemed to own by virtue of the attribution provisions of the Code, more than 9.8% of the aggregate value or number (whichever is more restrictive) of any class or series of our outstanding shares.

Any person who acquires or attempts or intends to acquire beneficial or constructive ownership of our shares that will or may violate any of the foregoing restrictions on transferability and ownership, or who is the intended transferee of our common stock which are transferred to the trust (as described below), will be required to give notice immediately to us, or in the case of proposed or attempted transactions will be required to give at least 15 days written notice to us, and provide us with such other



information as we may request in order to determine the effect of such transfer, including, without limitation, the effect on our status as a REIT.

Our Board of Directors, in its sole discretion, may exempt a person from the foregoing restrictions. The person seeking an exemption must provide to our Board of Directors such representations, covenants and undertakings as our Board of Directors may deem appropriate. Our Board of Directors may also condition any such exemption on the receipt of a ruling from the IRS or an opinion of counsel as it deems appropriate.

Any attempted transfer of our securities which, if effective, would result in a violation of the foregoing restrictions (other than those described in the preceding paragraph) will cause the number of securities causing the violation (rounded to the nearest whole share) to be automatically transferred to a trust for the exclusive benefit of one or more charitable beneficiaries, and the proposed transferee will not acquire any rights in such securities. The automatic transfer will be deemed to be effective as of the close of business on the business day (as defined in our certificate of incorporation) prior to the date of the transfer. If, for any reason, the transfer to the trust does not occur, our certificate of incorporation provides that the purported transfer in violation of the restrictions will be void ab initio. Shares held in the trust will be issued and outstanding shares. The proposed transferee will not benefit economically from ownership of any securities held in the trust, will have no rights to dividends or other distributions and no rights to vote or other rights attributable to the shares held in the trust. The trustee of the trust will have all voting rights and rights to distributions with respect to common stock held in the trust. These rights will be exercised for the exclusive benefit of the charitable beneficiary. Any distribution paid prior to our discovery that shares of stock have been transferred to the trust will be paid by the recipient to the trustee upon demand. Any distribution authorized but unpaid will be paid when due to the trustee. Any distribution paid to the trustee will be held in trust for the charitable beneficiary. Subject to Delaware law and pursuant to our certificate of incorporation, the trustee will have the authority (1) to rescind as void any vote cast by the proposed transferee prior to our discovery that the shares have been transferred to the trust and (2) to recast the vote in accordance with the desires of the trustee acting for the benefit of the charitable beneficiary. However, if we have already taken irreversible corporate action, then the trustee will not have the authority to rescind and recast the vote.

Within 20 days of receiving notice from us that the shares have been transferred to the trust, the trustee will sell the shares to a person designated by the trustee, whose ownership of the shares will not violate the above ownership limitations. Upon such sale, the interest of the charitable beneficiary in the shares sold will terminate and the trustee will distribute the net proceeds of the sale to the proposed transferee and to the charitable beneficiary as follows. The proposed transferee will receive the lesser of (1) the price paid by the proposed transferee for the shares or, if the proposed transferee did not give value for the shares in connection with the event causing the shares to be held in the trust (e.g., a gift, devise or other similar transaction), the market price (as defined in our certificate of incorporation) of the shares on the day of the event causing the shares to be held in the trust and (2) the price received by the trustee from the sale or other disposition of the shares. Any net sale proceeds in excess of the amount payable to the proposed transferee will be paid immediately to the charitable beneficiary. If, prior to our discovery that the shares have been transferred to the trust, the shares are sold by the proposed transferee, then (1) the securities shall be deemed to have been sold on behalf of the trust and (2) to the extent that the proposed transferee received an amount for the shares that exceeds the amount the proposed transferee was entitled to receive, the excess shall be paid to the trustee upon demand.

In addition, the securities held in the trust will be deemed to have been offered for sale to us, or our designee, at a price per share equal to the lesser of (1) the price per share in the transaction that resulted in the transfer to the trust (or, in the case of a devise or gift, the market price at the time of the devise or gift) and (2) the market price on the date we, or our designee, accept the offer. We will have the right to accept the offer until the trustee has sold the shares. Upon a sale to us, the interest of the charitable beneficiary in the shares sold will terminate and the trustee will distribute the net proceeds of the sale to the proposed transferee.

All certificates representing the shares bear a legend referring to the restrictions described above.

These ownership limitations could delay, defer or prevent a transaction or a change in control that might involve a premium price for the shares or might otherwise be in the best interests of our stockholders.

## List of Subsidiaries of Ellington Financial Inc.

Name	State of Incorporation or Organization
EF Mortgage LLC	Delaware
EF Securities LLC	Delaware
EF CMO LLC	Delaware
Ellington Financial Operating Partnership LLC	Delaware
EF Corporate Holdings LLC	Delaware
EF MBS/ABS Holdings LLC	Delaware
EFQ LLC	Delaware
EF SBC 2013-1 LLC	Delaware
EF Holdco Inc.	Delaware
EF Cayman Holdings Ltd.	Cayman Islands
EF SBC 2013-1 REO Holdings LLC	Delaware
EF CH LLC	Delaware
Ellington Financial REIT	Maryland
EF Residential Loans LLC	Delaware
EF SBC 2015-2 LLC	Delaware
Ellington Financial REIT TRS LLC	Delaware
EF SBC 2015-1 LLC	Delaware
EF CH2 LLC	Delaware
EF CH3 LLC	Delaware
EF CH4 LLC	Delaware
EF NM 2015-1 LLC	Delaware
EF SBC 2016-1 LLC	Delaware
EF Holdco WRE Assets LLC	Delaware
EF Holdco RER Assets LLC	Delaware
EF Holdco AL Assets LLC	Delaware
EF Titan SBC 2016-1 LLC	Delaware
EF SBC FM Holdings LLC	Delaware
EF Edgewood SBC 2016-1 LLC	Delaware
EF Edgewood SBC 2018-1 LLC	Delaware
EF Mortgage Depositor LLC	Delaware
EF Mortgage Depositor II LLC	Delaware
EF Mortgage Depositor III LLC	Delaware
EF Holdco WRE Assets REO LLC	Delaware
Ellington Financial REIT Cayman Ltd.	Cayman Islands
Ellington Financial REIT QLH LLC	Delaware
Armstrong Securities Holdings LLC	Delaware
Armstrong Securities LLC	Connecticut
EF WH LLC	Delaware
EF Cayman Non-MTM Ltd.	Cayman Islands
Longbridge Financial, LLC	Delaware
LendSure Mortgage Corp.	Delaware

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-254762) of Ellington Financial Inc. of our report dated March 1, 2022 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP  
New York, New York  
March 1, 2022

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-254762) of Ellington Financial Inc. of our report dated February 25, 2022 relating to the financial statements of Longbridge Financial, LLC, which appears in this Form 10-K.

/s/ Richey May & Co.  
Denver, Colorado  
March 1, 2022

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-254762) of Ellington Financial Inc. of our report dated February 25, 2022 relating to the financial statements of LendSure Mortgage Corp., which appears in this Form 10-K.

/s/ Richey May & Co.  
Denver, Colorado  
March 1, 2022

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

I, Laurence Penn, certify that:

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

Date: March 1, 2022

/s/ Laurence Penn  
\_\_\_\_\_  
Laurence Penn  
Chief Executive Officer  
(Principal Executive Officer)

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

I, JR Herlihy, certify that:

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

Date: March 1, 2022

/s/ JR Herlihy  
JR Herlihy  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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

In connection with the Annual Report of Ellington Financial Inc. (the "Company") on Form 10-K for the year ended December 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Laurence Penn, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: March 1, 2022

/s/ Laurence Penn  
\_\_\_\_\_  
Laurence Penn  
Chief Executive Officer  
(Principal Executive Officer)



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

In connection with the Annual Report of Ellington Financial Inc. (the "Company") on Form 10-K for the year ended December 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, JR Herlihy, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: March 1, 2022

/s/ JR Herlihy  
JR Herlihy  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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**INDEPENDENT AUDITORS' REPORT AND  
FINANCIAL STATEMENTS FOR  
LONGBRIDGE FINANCIAL, LLC  
AS OF DECEMBER 31, 2021 AND 2020  
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019**

**RICHEY  
MAY**

The logo for Richey May features the company name in a bold, dark blue, sans-serif font. The word "RICHEY" is positioned above "MAY". To the right of the text is a vertical green line. The entire logo is set against a light gray rectangular background.

**LONGBRIDGE FINANCIAL, LLC**  
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**INDEPENDENT AUDITORS' REPORT**

To the Members  
Longbridge Financial, LLC  
Mahwah, New Jersey

**Report on the Audit of the Financial Statements*****Opinion***

We have audited the accompanying financial statements of Longbridge Financial, LLC, which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations, changes in members' equity, and cash flows for the years ended December 31, 2021, 2020 and 2019 and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Longbridge Financial, LLC as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years ended December 31, 2021, 2020 and 2019 in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Longbridge Financial, LLC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Longbridge Financial, LLC's ability to continue as a going concern for one year after the date the financial statements are issued.

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## INDEPENDENT AUDITORS' REPORT

### *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Longbridge Financial, LLC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Longbridge Financial, LLC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*R. Chey, May 4, 20.*

Englewood, Colorado  
February 25, 2022

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**LONGBRIDGE FINANCIAL, LLC**  
**BALANCE SHEETS**

	December 31,	
	2021	2020
<b>ASSETS</b>		
Cash and cash equivalents	\$ 19,537,013	\$ 24,564,164
Certificate of deposit	211,370	210,876
Escrow cash	958,242	1,396,094
Restricted cash	2,250,000	1,250,000
Mortgage loans held for sale, at fair value	39,779,030	11,706,047
Accounts receivable and advances	14,333,163	2,406,046
Loan commitments	8,394,907	4,778,352
Prepaid expenses	1,208,377	695,765
Property and equipment, net	548,878	301,695
Mortgage servicing rights, at fair value	3,320,136	1,184,675
Reverse mortgage loans held for investment, subject to HMBS obligations, at fair value	6,636,434,301	5,133,980,349
Deposits	85,209	95,692
Intangible assets, net	747,224	188,437
<b>TOTAL ASSETS</b>	<b>\$ 6,727,807,850</b>	<b>\$ 5,182,758,192</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 13,420,706	\$ 11,243,842
Customer deposits and loan escrows	10,258,900	4,482,070
Derivative liabilities	16,563	-
Warehouse lines of credit	238,292,573	91,009,588
Other financing facilities	48,527,994	35,396,047
HMBS related obligations, at fair value	6,293,833,795	4,948,770,847
Total liabilities	6,604,350,531	5,090,902,394
<b>COMMITMENTS AND CONTINGENCIES (Note M)</b>		
<b>MEMBERS' EQUITY</b>	123,457,319	91,855,798
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$ 6,727,807,850</b>	<b>\$ 5,182,758,192</b>

The accompanying notes are an integral part of these financial statements.

**LONGBRIDGE FINANCIAL, LLC**  
**STATEMENTS OF OPERATIONS**

	Years Ended December 31,		
	2021	2020	2019
<b>REVENUE</b>			
Net change from reverse mortgage loans held for investment, at fair value	\$ 19,900,957	\$ 168,474,445	\$ 142,918,747
Interest income	2,018,201	587,064	255,675
Loan origination fees	2,401,533	1,449,952	1,522,473
Servicing and other fee income	140,221	383,824	1,884,355
Total revenue	<u>24,460,912</u>	<u>170,895,285</u>	<u>146,581,250</u>
<b>EXPENSES</b>			
Net change related to HMBS obligations, at fair value	(59,030,286)	100,505,461	118,683,614
Interest expense	4,218,900	2,784,593	1,332,324
Salaries, commissions and benefits	33,204,818	19,793,961	10,584,132
Loan servicing expenses	8,311,076	6,039,694	4,077,869
Occupancy, equipment and communication	2,197,314	1,387,990	1,047,640
General and administrative	9,633,946	9,415,924	6,761,419
Depreciation and amortization	290,419	284,420	240,799
Total expenses	<u>(1,173,813)</u>	<u>140,212,043</u>	<u>142,727,797</u>
<b>OTHER INCOME/(EXPENSE)</b>			
Gain on sale of mortgage loans held for sale, at fair value, net of direct costs	6,159,031	2,951,232	1,861,461
Valuation adjustment and deletions of mortgage servicing rights	(289,625)	(264,589)	-
Total other income	<u>5,869,406</u>	<u>2,686,643</u>	<u>1,861,461</u>
<b>NET INCOME</b>	<u>\$ 31,504,131</u>	<u>\$ 33,369,885</u>	<u>\$ 5,714,914</u>

The accompanying notes are an integral part of these financial statements.

LONGBRIDGE FINANCIAL, LLC  
STATEMENTS OF CHANGES IN MEMBERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020, and 2019

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<b>Balance, December 31, 2018</b>	\$ 52,710,092
Net income	<u>5,714,914</u>
<b>Balance, December 31, 2019</b>	58,425,006
Stock-based compensation	60,907
Net income	<u>33,369,885</u>
<b>Balance, December 31, 2020</b>	91,855,798
Stock-based compensation	97,390
Net income	<u>31,504,131</u>
<b>Balance, December 31, 2021</b>	<u>\$ 123,457,319</u>

The accompanying notes are an integral part of these financial statements.



**Longbridge Financial, LLC**  
**Statements of Cash Flows**

	Years Ended December 31,		
	2021	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 31,504,131	\$ 33,369,885	\$ 5,714,914
Adjustments to reconcile net income to net cash (used in) provided by operating activities			
Fair value change of reverse mortgage loans held for investment, net	112,632,929	(42,505,676)	(45,453,105)
Fair value change of HMBS related obligations	(176,586,196)	(16,429,682)	24,254,498
Valuation adjustment and deletions of mortgage servicing rights	289,625	264,589	-
Depreciation and amortization	290,419	284,420	240,799
Interest on mortgage loans held for investment, net of HMBS related obligation interest	(25,859,963)	(18,834,295)	(5,196,497)
Gain on sale of mortgage loans held for sale, at fair value	(6,159,031)	(2,951,232)	(1,861,461)
Stock-based compensation	97,390	60,907	-
(Increase) decrease in-			
Certificate of deposit	(494)	(2,776)	(4,147)
Escrow cash	437,852	(614,114)	(636,819)
Proceeds from sale of mortgage loans held for sale	258,806,577	98,472,879	57,333,762
Originations and purchases of mortgage loans held for sale	(283,145,615)	(101,407,512)	(59,954,440)
Accounts receivable and advances	(11,927,117)	1,008,977	(2,644,975)
Loan commitments	(3,616,555)	(2,635,954)	(915,863)
Prepaid expenses	(512,612)	(170,214)	(64,506)
Deposits	10,483	(9,648)	-
Increase (decrease) in-			
Accounts payable and accrued expenses	2,176,864	590,153	7,906,489
Customer deposits and loan escrows	5,776,830	528,517	3,758,427
Futures contract	16,563	-	(322,266)
Net cash used in operating activities	<u>(95,767,920)</u>	<u>(50,980,776)</u>	<u>(17,845,190)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Originations and purchases of mortgage loans held for investment	(2,440,650,600)	(1,965,147,594)	(2,023,311,019)
Principal payments on mortgage loans held for investment	954,838,481	425,181,890	149,997,835
Net purchases of property and equipment	(373,852)	(216,328)	(15,165)
Purchases of intangible assets	(722,537)	-	(236,150)
Net cash used in investing activities	<u>(1,486,908,508)</u>	<u>(1,540,182,032)</u>	<u>(1,873,564,499)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net borrowings under warehouse lines of credit	147,282,985	8,792,048	41,257,866
Net borrowings under other financing facilities	13,131,947	30,198,901	1,647,146
Net borrowings (repayments) under notes payable, member	-	(12,500,000)	12,500,000
Borrowings under HMBS related obligations, at fair value	2,363,800,780	1,997,561,817	1,991,785,023
Principal payments to HMBS related obligations, at fair value	(945,566,435)	(421,529,604)	(149,709,109)
Net cash provided by financing activities	<u>1,578,649,277</u>	<u>1,602,523,162</u>	<u>1,897,480,926</u>

The accompanying notes are an integral part of these financial statements.

LONGBRIDGE FINANCIAL, LLC  
STATEMENTS OF CASH FLOWS

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	Years Ended December 31,		
	2021	2020	2019
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	\$ (4,027,151)	\$ 11,360,354	\$ 6,071,237
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF YEAR	<u>25,814,164</u>	<u>14,453,805</u>	<u>8,382,568</u>
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR	<u>\$ 21,787,013</u>	<u>\$ 25,814,164</u>	<u>\$ 14,453,805</u>
<b>SUPPLEMENTAL INFORMATION</b>			
Cash paid for interest	<u>\$ 3,966,123</u>	<u>\$ 3,492,544</u>	<u>\$ 351,141</u>
<b>NON-CASH OPERATING AND INVESTING ACTIVITIES</b>			
The Company increased retained mortgage servicing rights in connection with loan sales.	<u>\$ 2,425,086</u>	<u>\$ 1,227,088</u>	<u>\$ 222,176</u>

The accompanying notes are an integral part of these financial statements.

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**A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Longbridge Financial, LLC (the Company) was organized in the State of Delaware and is primarily engaged in the business of originating, purchasing, selling and servicing home equity conversion mortgage (HECM) loans through various channels. The Company maintains its corporate office in Mahwah, New Jersey, with branch offices in multiple states. The Company is approved as a Title II, non-supervised direct endorsement mortgagee with the United States Department of Housing and Urban Development (HUD). In addition, the Company is an approved issuer of Government National Mortgage Association (GNMA) HECM mortgage backed securities (HMBS). HMBS are guaranteed by GNMA and collateralized by participation interests in HECMs, which are insured by the Federal Housing Administration (FHA). The Company also originates and services non-FHA guaranteed reverse jumbo proprietary products, for borrowers in high property value areas that exceed FHA limits.

**Basis of Accounting**

The financial statements of the Company are prepared on the accrual basis of accounting.

**Basis of Presentation**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as codified in the Financial Accounting Standards Board's (FASB) *Accounting Standards Codification (ASC)*.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Variable Interest Entities**

The Company issues GNMA HMBS securities by pooling eligible HECM loans through a custodian and assigning rights to the loans to GNMA. GNMA provides credit enhancements for the HECM loans through certain guarantee provisions. These securitizations involve variable interest entities (VIEs) as the trusts or similar vehicles, by design, that either (1) lack sufficient equity to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) have equity investors that do not have the ability to make significant decisions relating to the entity's operations through voting rights, or do not have the obligation to absorb the expected losses, or do not have the right to receive the residual returns of the entities.

**A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

**Variable Interest Entities (Continued)**

The primary beneficiary of a VIE (i.e., the party that has a controlling financial interest) is required to consolidate the assets and liabilities of the VIE. The primary beneficiary is the party that has both (1) the power to direct the activities of an entity that most significantly impact the VIE's economic performance; and (2) through its interests in the VIE, the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. The Company typically retains the right to service HECM loans sold or securitized by GNMA. Due to the significant influence of GNMA over the VIEs that hold the assets from HECM loan securitizations, principally through their rights and responsibilities as master servicer, the Company is not the primary beneficiary of the VIEs and therefore the VIEs are not consolidated.

The Company performs on-going reassessments of whether changes in the facts and circumstances regarding the Company's involvement with a VIE cause the Company's consolidation determination to change.

**Cash and Cash Equivalents**

For cash flow purposes, the Company considers cash and temporary investments with original maturities of three months or less, to be cash and cash equivalents. The Company has diversified its credit risk for cash by maintaining deposits in several financial institutions, which may at times exceed amounts covered by insurance from the Federal Deposit Insurance Corporation. The Company evaluates the creditworthiness of these financial institutions in determining the risk associated with these balances. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash and cash equivalents.

**Restricted Cash**

The Company maintains a cash balance that is restricted under a warehouse line of credit agreement.

**Mortgage Loans Held for Sale, at Fair Value**

Mortgage loans held for sale are carried at fair value under the fair value option with changes in fair value recorded in gain on sale of mortgage loans held for sale, at fair value, on the statements of operations. The fair value of mortgage loans held for sale committed to investors is calculated using observable market information such as the investor commitment, assignment of trade or other mandatory delivery commitment prices. The Company bases the fair value of loans committed to Agency investors based on the Agency's quoted mortgage backed security (MBS) prices. The fair value of mortgage loans held for sale not committed to investors is based on quoted best execution secondary market prices. If no such quoted price exists, the fair value is determined using quoted prices for a similar asset or assets, such as MBS prices, adjusted for the specific attributes of that loan, which would be used by other market participants.

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)

**Mortgage Loans Held for Sale, at Fair Value (Continued)**

Gains and losses from the sale of mortgage loans held for sale are recognized based upon the difference between the sales proceeds and carrying value of the related loans upon sale. Sales proceeds reflect the cash received from investors through the sale of the loan and servicing release premium. If the related mortgage servicing right (MSR) is sold servicing retained, the MSR addition is recorded in gain on sale of mortgage loans held for sale, at fair value, on the statements of operations. Gain on sale of mortgage loans held for sale also includes the unrealized gains and losses associated with the changes in the fair value of mortgage loans held for sale.

Mortgage loans held for sale are considered sold when the Company surrenders control over the financial assets. Control is considered to have been surrendered when the transferred assets have been isolated from the Company, beyond the reach of the Company and their creditors; the purchaser obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and the Company does not maintain effective control over the transferred assets through either an agreement that both entitles and obligates the Company to repurchase or redeem the transferred assets before their maturity or the ability to unilaterally cause the holder to return specific financial assets. The Company typically considers the above criteria to have been met upon acceptance and receipt of sales proceeds from the purchaser.

**Reverse Mortgage Loans Held for Investment, Subject to HMBS Obligations, at Fair Value**

HECM loans are either sold to investors or pooled and securitized into HMBS and sold into the secondary market with servicing rights retained. Reverse mortgage loans held for investment, subject to HMBS obligations, at fair value (LHFI) on the balance sheets includes reverse mortgage loans that have been transferred to GNMA securitization pools as well as, servicing advances and subsequent tail draws that have not yet been transferred to GNMA securitization pools (HMBS). The changes in fair value of these loans are recorded in net change from reverse mortgage loans held for investment, at fair value on the statements of operations.

**HMBS Related Obligations, at Fair Value**

Based on the structure of an HMBS, an approved HMBS issuer is required to repurchase HECM loans out of the GNMA securitization pools if the outstanding principal balance of the related HECM is equal to or greater than 98% of the maximum claim amount (MCA), which is defined as the lesser of a home's appraised value at the point in time that the conditional commitment is issued or the maximum loan limit that can be insured by the FHA.

**A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

**HMBS Related Obligations, at Fair Value (Continued)**

The MCA repurchase requirement of the HECM loans from the HMBS does not allow the Company to qualify for sale accounting. As a result of not qualifying for sale accounting, the Company accounts for transfers of HECM loans into HMBS as secured borrowings. The secured borrowings are recorded in HMBS related obligations, at fair value on the balance sheets, with no gain or loss on the transfer. The HMBS related obligations, at fair value are measured on a recurring basis. The changes in fair value and interest expense on the obligation are recorded in net change related to HMBS obligations, at fair value on the statements of operations.

During the year ended December 31, 2019, the Company entered into a Collaboration and Transfer Agreement with an unrelated entity. Pursuant to the agreement, the Company purchases HECM loans and their associated MSR, securitizing the reconstituted loans under the GNMA program into HMBS pools. The Company is the legal owner and the servicer of the HMBS portfolio and provides all servicing functions. The Company, sold to the same entity, the right to receive a specified allocation of the cash flows generated from the HMBS portfolio. The Company retains a base participation fee, along with the right to premiums on subsequent HECM tail securitizations. Under the agreement, the Company is provided a put option repurchase guarantee from the unrelated entity, whereby if the Company is required to repurchase and transfer a new loan or a replacement loan of similar economic characteristics into the respective portfolio, then the Company can reassign the rights and obligations regarding that repurchase or transferred loan to the entity. The new or replacement loan will be governed by the same terms set forth in the Collaboration and Transfer Agreement. The liability associated with this Agreement is also included in HMBS related obligations, at fair value on the balance sheets.

**Revenue Recognition of Reverse Mortgage Loans Held for Investment, at Fair Value**

The net change from reverse mortgage loans held for investment, at fair value on the statements of operations includes activity from the following (1) the interest the Company expects to collect on the HECM loans; (2) gains or losses on hedging activities; (3) changes in the fair value loan commitments related to future LHFI; (4) premiums on loans purchased via the correspondent channel; and (5) the change in fair value of servicing advances and tail draws eligible for HMBS securitizations and the change in fair value of the previously securitized HECM loans.

**Loan Origination Fees**

Loan origination fees represent revenue earned from originating mortgage loans. Loan origination fees generally represent a flat per-loan fee amount based on a percentage of the original principal loan balance and are recognized as revenue at the time the mortgage loans are funded. Loan origination expenses are charged to operations as incurred.

**A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

**Interest Income**

Interest income on mortgage loans held for sale, at fair value is recognized for the period from loan funding to sale based upon the principal balance outstanding and stated interest rate. Revenue recognition is discontinued when loans become 90 days delinquent, or when, in management's opinion, the recovery of principal and interest becomes doubtful and the mortgage loans held for sale are put on nonaccrual status.

**Servicing and Other Fee Income**

Servicing and other fee income represents certain fees pursuant to the Collaboration and Transfer Agreement and are recognized into revenue at the time the initial HMBS is securitized.

**Servicing Advances**

Servicing advances represent mortgage insurance premiums advanced on behalf of HECM borrowers. Servicing advances are made in accordance with the servicing agreements and are recoverable through the collection of proceeds from subsequent securitizations of HMBS tail pools. Servicing advances are initially recorded at the original advance balance. Upon eligibility for HMBS securitization, servicing advances are carried at fair value under the fair value option and included in reverse mortgage loans held for investment, subject to HMBS obligations, at fair value on the balance sheets, with changes in fair value recorded in net change from reverse mortgage loans held for investment, at fair value on the statements of operations. Servicing advances not eligible for HMBS securitizations are carried at the original advance balance and are included in LHFI on the balance sheets. The Company periodically reviews servicing advances for collectability and establishes a valuation allowance for estimated uncollectible amounts. No allowance has been recorded as of December 31, 2021 and 2020, as management has determined that all amounts are fully collectible.

**Capitalized Software Development Costs**

FASB ASC 350-40, *Goodwill and Other—Internal-Use Software (ASC 350-40)*, requires the Company to expense development costs as they are incurred in the preliminary project stage. Once the capitalization criteria of ASC 350-40 have been met, external direct costs of materials and services consumed in developing or obtaining internal-use computer software, payroll and payroll related costs for employees who are directly associated with and who devote time to the internal-use computer software; as well as related consulting fees are capitalized. The Company capitalized \$722,537 and \$236,150 of internally developed software during the years ended December 31, 2021 and 2019, respectively; no such costs were capitalized during the year ended December 31, 2020. Amortization expense of \$163,750, 196,702, and \$162,124 was recorded in depreciation and amortization expense on the statement of operations during the years ended December 31, 2021, 2020, and 2019, respectively.

**A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

**Capitalized Software Development Costs (Continued)**

The Company periodically assesses internally developed software for impairment whenever events or circumstances indicate the carrying amount of an asset may exceed its fair value. If internally developed software is considered impaired, the impairment losses will be recorded on the statements of operations. The Company did not recognize any impairment losses during the years ended December 31, 2021, 2020 and 2019.

**Property and Equipment, Net**

Property and equipment is recorded at cost and depreciated or amortized using the straight line method over the estimated useful lives of the assets. The following is a summary of property and equipment at December 31:

	Useful lives (years)	2021	2020
Property and equipment, at cost			
Furniture and equipment	5	\$ 273,838	\$ 210,838
Computer equipment	3-5	750,830	440,909
Leasehold improvements	(a)	23,427	23,427
Total property and equipment, at cost		1,048,095	675,174
Accumulated depreciation and amortization			
Furniture and equipment		(159,381)	(133,494)
Computer equipment		(316,409)	(217,157)
Leasehold improvements		(23,427)	(22,828)
Total accumulated depreciation and amortization		(499,217)	(373,479)
Total property and equipment, net		\$ 548,878	\$ 301,695

(a) Amortized over the shorter of the related lease term or the estimated useful life of the assets.

The Company periodically assesses property and equipment for impairment whenever events or circumstances indicate the carrying amount of an asset may exceed its fair value. If property and equipment is considered impaired, the impairment losses will be recorded on the statements of operations. The Company did not recognize any impairment losses during the years ended December 31, 2021, 2020 and 2019.



A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)

**Loan Commitments**

The Company holds and issues loan commitments (LCs) and futures contracts. LCs are subject to price risk primarily related to fluctuations in market interest rates. To hedge the interest rate risk on mandatory LCs, the Company enters into futures contracts. Management expects these futures contracts to experience changes in fair value opposite to the changes in fair value of the LCs thereby reducing earnings volatility. Futures contracts are also used to hedge the interest rate risk on mortgage loans held for sale and mortgage loans held for investment that are not committed to investors and still subject to price risk. The Company considers various factors and strategies in determining what portion of the LCs and uncommitted mortgage loans to economically hedge. LCs are recognized as assets or liabilities on the balance sheets at fair value. Changes in the fair value of the LCs and futures contracts are recognized in net change from reverse mortgage loans held for investment, at fair value on the statements of operations in the period in which they occur.

**Mortgage Servicing Rights and Revenue Recognition**

FASB ASC 860-50, *Transfers and Servicing*, requires that MSR be initially recorded at fair value at the time the underlying loans are sold. To determine the fair value of the MSR created, the Company uses a valuation model that calculates the net present value of future cash flows. The valuation model incorporates assumptions that market participants would use in estimating future cash flows, estimated discount rates, estimated prepayment speeds, estimated liquidation and foreclosure losses, estimated contractual participation fees, and estimated default rates. The credit quality and stated interest rates of the HECM loans underlying the MSR affects the inputs used in the cash flow models. MSR are not actively traded in open markets; accordingly, considerable judgment is required to estimate their fair value, and changes in these estimates could materially change the estimated fair value. The Company accretes a fixed servicing fee margin monthly based on the outstanding principal balances of the sold loans.

The Company has elected to report its MSR at fair value, during which time the Company is exposed to fair value risk related to changes in the fair value of the Company's MSR. Changes in fair value are recorded in valuation adjustment and deletions of mortgage servicing rights on the statements of operations in the period in which changes in fair value occur. Estimates of remaining loan lives, prepayment speeds, liquidation and foreclosure losses are incorporated into the model.

These inputs can, and generally do, change from period to period as market conditions change. Changes in these estimates could materially change the estimated fair value.

The key unobservable inputs used in determining the fair value of MSR when they are initially recorded are as follows for the years ended December 31:

	2021	2020	2019
Average discount rate	12.00%	12.00%	12.00%
Average prepayment speed	13.40%	16.80%	9.20%

**A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

**Mortgage Servicing Rights and Revenue Recognition (Continued)**

During the year ended December 31, 2020, the Company and an unrelated entity entered into a sale and servicing agreement. Under the agreement, the Company sells certain reverse mortgage loans to the entity based on a commitment price. The Company retains the benefits and obligations related to the MSR. The MSR related to the private proprietary reverse mortgages yield a servicing fee margin, which is agreed upon with the unrelated entity as stated in the sale and servicing agreement.

**Escrow and Fiduciary Funds**

The Company maintains segregated bank accounts for escrow balances in trust for borrowers' draws. The balance of the accounts totaled \$3,457,812 and \$2,500,331 at December 31, 2021 and 2020 respectively, which is excluded from the balance sheets.

**Advertising and Marketing**

Advertising and marketing is expensed as incurred and amounted to \$4,367,570, \$3,633,212 and \$3,451,891 for the years ended December 31, 2021, 2020 and 2019, respectively, and are included in general and administrative on the statements of operations.

**Income Taxes**

The Company has elected to be taxed as a partnership under the Internal Revenue Code. Accordingly, no federal income tax provision and state income taxes, to the extent possible, have been recorded in the financial statements, as all items of income and expense generated by the Company are reported on the members' income tax returns. The Company has no federal or state tax examinations in process as of December 31, 2021.

**Stock-Based Compensation**

Company management may grant executive common unit options to certain employees and non-employee directors under the executive common unit option plan.

Common unit option awards are generally granted with an exercise price equal to the market price of the Company's executive common units at the date of grant. Grant-date fair value is determined using the Black-Scholes pricing model adjusted for the unique characteristics of the specific awards.

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)

**Stock-Based Compensation (Continued)**

FASB ASC 718-10, *Compensation- Stock Compensation*, requires compensation expense related to the award to be recognized for unit options issued to employees over the required requisite service period, generally defined as the vesting period, which is five years. For service period awards with graded vesting, compensation expense is recognized based on the graded vesting basis (based on each respective agreement) over the requisite service period for the entire award. Recognized compensation expense related to the service period option awards is recognized and included in salaries, commissions, and employee benefits on the statements of operations. For performance-based awards, compensation expense is recognized over the requisite service period when the Company determines that it is probable the performance condition will be achieved. At December 31, 2021 and 2020, and 2019 management determined it is not estimable for the performance condition to be achieved and the Company did not recognize compensation expense related to the performance-based award. The Company periodically evaluates the probability of the performance condition being achieved and will recognize compensation expense when the performance condition is met.

**Risks and Uncertainties**

In the normal course of business, companies in the mortgage banking industry encounter certain economic and regulatory risks. Economic risks include interest rate risk and credit risk. The Company is subject to interest rate risk to the extent that in a rising interest rate environment, the Company may experience a decrease in loan production, as well as decreases in the value of LHFI and commitments to originate and purchase loans, which may negatively impact the Company's operations. Credit risk is the risk of default that may result from the borrowers' inability or unwillingness to make contractually required payments during the period in which loans are being held for investment prior to securitization or subsequent to securitization while serviced by the Company. Risks associated with HECMs and servicing HMBS are subject to the Company's ability to accurately estimate interest curtailment liabilities, fund HECM repurchase obligations and principal additions, and the ability to securitize the HECM loans and tails. Additional risks are present when default, bankruptcy, or death by borrower; or subsequent discovery that underwriting standards were not met which may result in a loan repurchase.

The Company's business requires substantial cash to support its operating activities. As a result, the Company is dependent on its warehouse lines of credit other financing facilities in order to finance its continued operations. If the Company's principal lenders decided to terminate or not to renew any of these financing facilities with the Company, the loss of borrowing capacity could have a material adverse impact on the Company's financial statements unless the Company found a suitable alternative source.

The global outbreak of COVID-19 has disrupted economic markets, and the prolonged economic impact is uncertain. The operational and financial performance of the Company depends on future developments, including the duration and spread of the outbreak, and such uncertainty may have an adverse impact on the Company's financial performance.

LONGBRIDGE FINANCIAL, LLC  
NOTES TO FINANCIAL STATEMENTS

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**A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

**Reclassifications**

Certain reclassifications have been made to prior year balances to conform to the current year financial statement presentation.

The Company has made an adjustment to correct prior periods net change from reverse mortgage loans held for investment, at fair value and net change related to HMBS obligations, at fair value for \$132,326,779 and \$49,589,773 at December 31, 2020 and 2019, respectively. The prior period adjustment decreased total income and total expense and had no effect on net income or members' equity in any period. The related footnotes have been updated to reflect the adjustment.

**B. MORTGAGE LOANS HELD FOR SALE, AT FAIR VALUE**

Mortgage loans held for sale are as follows at December 31:

	2021	2020
Mortgage loans held for sale at the unpaid principal balance	\$ 37,496,704	\$ 11,000,848
Fair value adjustment	2,282,326	705,199
	<u>\$ 39,779,030</u>	<u>\$ 11,706,047</u>

**C. ACCOUNTS RECEIVABLE AND ADVANCES**

The following summarizes accounts receivable and advances at December 31:

	2021	2020
Accounts receivable, trade	\$ 134,491	\$ 34,284
Prepaid scheduled draws	2,286,161	1,863,449
Receivables due under Collaboration and Transfer Agreement	9,611,672	388,349
Other receivables	2,300,839	119,964
	<u>\$ 14,333,163</u>	<u>\$ 2,406,046</u>

There were no servicing advances or accreted participation fees included in accounts receivable and advances on the balance sheets at December 31, 2021 and 2020, as management determined that servicing advances and accreted participation fees were eligible to be securitized.

Prepaid scheduled draws represent funds related to HECM mortgage loans remitted to the Company's servicer but not yet drawn by the borrowers.

LONGBRIDGE FINANCIAL, LLC  
NOTES TO FINANCIAL STATEMENTS

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C. ACCOUNTS RECEIVABLE AND ADVANCES (Continued)

The Company periodically evaluates the carrying value of accounts receivable and advance balances with delinquent balances written-off based on specific credit evaluations and circumstances of the debtor. No allowance for doubtful accounts has been established at December 31, 2021 and 2020, as management has determined that all amounts are fully collectible.

D. LOAN COMMITMENTS

The Company enters into LCs to originate and purchase HECM mortgage loans held for sale and LHFI, at stated interest rate margins and within a specified period of time (generally between 30 and 180 days), with borrowers who have applied for a loan and have met certain credit and underwriting criteria. The LCs are adjusted for estimated costs to originate or purchase the loan, as well as, the probability that the mortgage loan will fund within the terms of the LC (the pullthrough rate). Estimated costs to originate include the acquisition price of the mortgage loans purchased through its correspondent channel, account executive and loan officer commissions and related employer payroll taxes, and lender credits. The pullthrough rate is based on estimated changes in market conditions, loan stage, and actual borrower behavior using a historical analysis of actual funding rates. The Company analyzes the pullthrough on a quarterly basis to ensure the pullthrough estimate is reasonable.

The key unobservable inputs used in determining the fair value of LCs are as follows for the years ended December 31:

	2021	2020	2019
Average pullthrough rate	80.81%	86.35%	77.08%
Average costs to originate	3.99%	7.06%	5.86%

The following summarizes LCs at December 31:

	2021		2020	
	Fair Value	Notional Amount	Fair Value	Notional Amount
LCs	\$ 8,394,907	\$ 259,368,000	\$ 4,778,352	\$ 86,551,000
Futures contracts	(16,563)	\$ 1,309,000	-	\$ -
Total	<u>\$ 8,378,344</u>		<u>\$ 4,778,352</u>	

(b) Pullthrough rate adjusted

The notional amounts of mortgage loans held for sale and LHFI not committed to investors amounted to approximately \$196,635,000 and \$106,000,000 at December 31, 2021 and 2020 respectively.

LONGBRIDGE FINANCIAL, LLC  
NOTES TO FINANCIAL STATEMENTS

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**D. LOAN COMMITMENTS (Continued)**

The Company has exposure to credit loss in the event of contractual non-performance by its trading counterparties in financial instruments that the Company uses in its rate risk management activities. The Company manages this credit risk by selecting only counterparties that the Company believes to be financially strong, spreading the risk among multiple counterparties, by placing contractual limits on the amount of unsecured credit extended to any single counterparty and by entering into netting agreements with counterparties, as appropriate.

**E. MORTGAGE SERVICING RIGHTS, AT FAIR VALUE**

The following summarizes the activity of MSRs for the years ended December 31:

	2021	2020	2019
Balance, beginning of year	\$ 1,184,675	\$ 222,176	\$ -
Additions due to loans sold, servicing retained	2,425,086	1,227,088	222,176
Fair value adjustments	(289,625)	(264,589)	-
Balance, end of year	<u>\$ 3,320,136</u>	<u>\$ 1,184,675</u>	<u>\$ 222,176</u>
Unpaid principal balance (approximate)	<u>\$ 356,195,000</u>	<u>\$ 119,990,000</u>	<u>\$ 17,060,000</u>

The reverse mortgage loans serviced are private label securitizations and are not insured against losses by the FHA. The fair value of capitalized MSRs at December 31, 2021, 2020, and 2019 was approximately \$3,320,000, \$1,185,000, and \$222,000, respectively.

The unobservable inputs used in determining the fair value of the Company's MSRs are as follows at December 31:

	2021	2020
Average discount rate	12.00%	12.00%
Average prepayment speed	5.04% - 18.00%	12.40%



LONGBRIDGE FINANCIAL, LLC  
NOTES TO FINANCIAL STATEMENTS

F. REVERSE MORTGAGE LOANS HELD FOR INVESTMENT, SUBJECT TO HMBS OBLIGATIONS, AT FAIR VALUE (Continued)

Reverse mortgage loans held for investment, subject to HMBS obligations, at fair value are as follows at December 31, 2019:

	LHFI	HMBS Related Obligations
Beginning balance	\$ 1,407,845,243	\$ 1,321,971,254
Originations/purchases	2,023,311,019	-
Coupon income	99,625,611	94,429,114
Securitization of HECM loans accounted for as financing	-	1,991,785,023
Repayments (principal payments received)	(149,997,835)	(149,709,109)
Change in fair value	45,453,105	24,254,498
Ending balance	<u>\$ 3,426,237,143</u>	<u>\$ 3,282,730,780</u>
Securitized loans (pledged to HMBS related obligations)	\$ 3,333,876,869	<u>\$ 3,282,730,780</u>
Unsecuritized loans	92,360,274	
Total	<u>\$ 3,426,237,143</u>	

The below are the amounts recognized in net change from reverse mortgage loans held for investment, at fair value on the statements of operations, net of direct costs totaling \$109,373,804, \$58,389,741, and \$15,711,417, respectively, for the years ending December 31:

	2021	2020	2019
Coupon income of LHFI	\$ 129,274,762	\$ 125,271,831	\$ 99,625,606
Change in fair value of reverse LHFI	(112,632,929)	42,505,676	45,453,105
Change in fair value of loan commitments	3,392,515	2,664,938	886,879
Net hedge losses	(133,391)	(1,968,000)	(3,046,843)
Net change on reverse mortgage loans held for investment, at fair value	<u>\$ 19,900,957</u>	<u>\$ 168,474,445</u>	<u>\$ 142,918,747</u>

HECM loans securitized into HMBS are not actively traded in open markets with readily observable market prices.

The Company determines the fair value of HECM loans securitized into HMBS utilizing a present value methodology that discounts estimated projected cash flows over the life of the loan portfolio using prepayment, borrower mortality, borrower draw and discounts rate assumptions management believes a market participant would use in estimating fair value. The significant unobservable inputs used in the measurement include:



**F. REVERSE MORTGAGE LOANS HELD FOR INVESTMENT, SUBJECT TO HMBS OBLIGATIONS, AT FAIR VALUE (Continued)**

*Lifetime prepayment speeds* - the Company projects borrower prepayment rates which considers borrower age and gender and is based on historical termination rates. The outputs of borrower prepayment rates, which include both voluntary and involuntary prepayments, are utilized to anticipate future terminations.

*Loss Frequency/Severity* - termination proceeds are adjusted for expected loss frequencies and severities to arrive at net proceeds that will be provided upon final resolution. Historical experience is utilized to estimate the loss rates resulting from scenarios where FHA insurance proceeds are not expected to cover all principal and interest outstanding and, as servicer, the Company is exposed to losses upon resolution of the loan. Loss frequency and severities are based upon the historical experience with specific loan resolution waterfalls.

*Due and Payable Triggers* - the input for terminations not attributable to an FHA assignment is based on historical foreclosure and liquidation experience.

*Discount Rate* - derived based upon reference to yields required by market participants for recent transactions in the HECM loan bulk market adjusted based upon weighted average life of the loan portfolio. This rate reflects what the Company believes to be a market participant's required yield on HECM loans of similar weighted average lives. The yield spread is applied over interpolated benchmark curve or as a spread over collateral forward curve.

*Borrower Draw Rates* - the draw curve is estimated based upon the historical experience with the specific product type contemplating the borrower's age and loan age.

The valuation includes estimated liquidation and foreclosure losses totaling \$7,437,941 and \$4,178,025 at December 31, 2021 and 2020 respectively, is included in the value of the reverse mortgage loans held for investment, subject to HMBS obligations, at fair value on the balance sheets. Actual losses are charged to operations as incurred.

The following table presents the significant unobservable inputs used in the fair value measurement of reverse mortgage loans held for investment, subject to HMBS obligations. If items are not identified below they are not considered to be meaningful inputs for the years ended December 31:

	2021	2020	2019
Discount rates	0.31% - 3.51%	0.40% - 2.88%	1.94% - 3.20%
Lifetime prepayment speeds	13.97%	14.41%	15.29%
Average servicing fees	0.36	0.36	0.36
Average age of borrower	75	74	75
Weighted average life	4.77	4.51	4.44

**F. REVERSE MORTGAGE LOANS HELD FOR INVESTMENT, SUBJECT TO HMBS OBLIGATIONS, AT FAIR VALUE (Continued)**

Significant increases or decreases in any of these assumptions in isolation could result in a significantly lower or higher fair value. The effects of changes in the assumptions used to value the LHFI, excluding future draw commitments, are partially offset by the effects of changes in the assumptions used to value the HMBS related obligations, at fair value that are associated with these loans.

**G. HMBS RELATED OBLIGATIONS, AT FAIR VALUE**

The Company determines the valuation of the HMBS obligation using Level 3 unobservable market inputs. The estimated fair value is based on the net present value of projected cash flows over the estimated life of the liability. The estimated fair value of the HMBS obligations also includes the consideration required by a market participant to transfer the HECM and HMBS servicing obligations including exposure resulting from shortfalls in FHA insurance proceeds.

The Company's valuation considers assumptions that it believes a market participant would consider in valuing the liability, including, but not limited to, assumptions for repayment, costs to transfer servicing obligations, shortfalls in FHA insurance proceeds, and discount rates. The significant unobservable inputs used in the measurement include:

*Lifetime prepayment speeds* - the conditional repayment rate curve that considers borrower age and gender is based on historical termination rates.

*Discount Rates* - derived based on an assessment of current market yields and spreads that a market participant would consider for entering into an obligation to pass FHA insured cash flows through to holders of the HMBS beneficial interests. Yield spread applied over interpolated benchmark curve or as a spread over collateral forward curve.

Monthly cash flows generated from the HECM loans are used to service the outstanding HMBS.

HMBS related obligations, at fair value, consist of the following at December 31:

	2021	2020
GNMA loan pools - UPB	\$ 5,981,824,547	\$ 4,641,441,977
Fair value adjustment	312,009,248	307,328,870
Total HMBS related obligations, at fair value	<u>\$ 6,293,833,795</u>	<u>\$ 4,948,770,847</u>
Weighted average life	4.77	4.51
Weighted average interest rate	2.16%	2.53%
Lifetime prepayment speeds	13.97%	14.41%
Discount rates	0.11% - 3.37%	0.17% - 2.70%

**G. HMBS RELATED OBLIGATIONS, AT FAIR VALUE (Continued)**

The Company was servicing 655 and 489 GNMA loan pools at December 31, 2021 and 2020, respectively.

Amounts under the Collaboration and Transfer Agreement (the Agreement) are included in Reverse mortgage loans held for investment, subject to HMBS obligations, at fair value and HMBS related obligations, at fair value, respectively, on the balance sheets and referred to as reverse mortgage interests. Under the Agreement, the Company continues to be the named issuer and servicer of the reconstituted loans, and, for accounting purposes, ownership of the portfolio resides with the Company. The Company has determined these transactions classify as secured financings.

The reverse mortgage interests, net of related liability is as follows at December 31:

	2021	2020
Reverse mortgage interests, fair value	\$ 19,544,974	\$ 24,758,759
Less: retained portions	(3,803,030)	(4,305,190)
Reverse mortgage interests liabilities, at fair value	<u>\$ 15,741,944</u>	<u>\$ 20,453,569</u>

During the years ended December 31, 2021, 2020 and 2019, the Company recognized upfront and success fees of \$124,851, \$383,830 and \$1,884,374, respectively, related to the Collaboration and Transfer Agreement. Proceeds from the future securitizations are remitted to the entity, net of servicing and fee income. The unpaid principal balance securitized under the secured financing arrangement with the unrelated entity approximated \$1,754,977,000, \$1,732,349,000, and \$1,237,205,000 at December 31, 2021, 2020, and 2019, respectively.

Amounts due under the Agreement from the unrelated entity amounted to \$9,611,672 and \$388,349 at December 31, 2021 and 2020, respectively, which is included in accounts receivable and advances on the balance sheets. Future securitizations proceeds due to the unrelated entity amounted to \$2,592,236 and \$3,535,396 at December 31, 2021 and 2020, respectively, and is included in accounts payable and accrued expenses on the balance sheets.

LONGBRIDGE FINANCIAL, LLC  
NOTES TO FINANCIAL STATEMENTS

H. WAREHOUSE LINE OF CREDIT AGREEMENTS

The Company has the following warehouse line of credit agreements at December 31:

Facility Type	Maturity	Line Amount	Interest Rate	Restricted Cash	Outstanding Balance	
					2021	2020
WHLOC	April 2022	\$225,000,000	LIBOR plus 2.50%, with a floor rate of 2.90%	\$ 2,250,000	\$ 139,735,545	\$ 71,465,077
WHLOC	April 2022	\$120,000,000	LIBOR plus 2.75% to 3.75%, with a floor rate of 3.50%	-	98,557,028	19,544,511
				<u>\$ 2,250,000</u>	<u>\$ 238,292,573</u>	<u>\$ 91,009,588</u>

As of December 31, 2021 and 2020, the Company had mortgage loans held for sale and held for investment pledged as collateral under the above warehouse line of credit agreements. The above agreements also contain covenants which include certain financial requirements, including maintenance of minimum tangible net worth, minimum liquid assets, maximum funding capacity ratio and positive net income, as defined in the agreements. The Company intends to renew the warehouse line of credit agreements when they mature.

I. OTHER FINANCING FACILITIES

The Company has the following additional financing facilities at December 31:

Facility Type	Maturity	Line Amount	Interest Rate	Collateral	Outstanding Balance	
					2021	2020
Tail Facility	April 2022	\$ 25,000,000	Prime rate plus 0.50%, with a floor rate of 5.00%	HECM Tails	\$ 20,548,553	\$ 7,896,047
MSR Line of Credit	January 2025	\$ 45,000,000	LIBOR plus 5.00%, with a floor rate of 7.20%	HECM MSRs	27,500,000	27,500,000
Buyout Facility	May 2022	\$ 10,000,000	Prime plus 0.50%, with a floor rate of 5.00%	HECM Assignable Buyout Loans	479,441	-
					<u>\$ 48,527,994</u>	<u>\$ 35,396,047</u>

The above agreements contain covenants which include certain financial requirements, including maintenance of minimum tangible net worth, minimum liquid assets, minimum current ratios, and maximum debt to net worth ratio, and positive net income as defined in the agreement. The Company intends to renew the facilities when they mature.

LONGBRIDGE FINANCIAL, LLC  
NOTES TO FINANCIAL STATEMENTS

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**J. STOCK-BASED COMPENSATION**

A summary of the activity in the stock option plan is as follows for the year ended December 31, 2021:

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Term (Years)
Outstanding, beginning of year	4,045	\$ 179.44	6.63
Granted	305	48.87	-
Forfeited or expired	-	-	(0.79)
Outstanding, end of year	<u>4,350</u>	<u>\$ 228.31</u>	<u>5.84</u>

There were no stock options exercised during the years ended December 31, 2021, 2020 and 2019, respectively.

The Company recognized total stock-based compensation expense related to stock options of \$97,390, \$60,907 and \$0 for the years ended December 31, 2021, 2020 and 2019, respectively. Total unrecognized stock-based compensation costs related to non-vested service stock options totaled \$243,434, \$234,295 and \$330,124 at December 31, 2021, 2020 and 2019, respectively. Total unrecognized stock-based compensation costs related to non-vested performance stock options totaled \$749,722, \$434,462 and \$434,462 at December 31, 2021, 2020 and 2019, respectively. There are 1,394, 942 and 835 vested options that are exercisable at December 31, 2021, 2020 and 2019, respectively.

**K. MEMBERS' EQUITY**

**Executive Common Units**

The Company has authorized 10,000 executive common units, of which 361 units were issued and outstanding at both December 31, 2021 and 2020.

**Sponsored Preferred Units**

The Company has authorized 50,000 sponsored preferred units, of which 45,000 units were issued and outstanding at December 31, 2021 and 2020, respectively.

**L. EMPLOYEE BENEFIT PLAN**

The Company has a 401(k) plan covering substantially all employees. Employees may contribute amounts subject to certain Internal Revenue Service and plan limitations. The Company may make discretionary matching and non-elective contributions. The Company made \$924,641, \$411,157, and \$267,444 in contributions to the plan for the years ended December 31, 2021 and 2020, and 2019, respectively.

**M. COMMITMENTS AND CONTINGENCIES**

**Commitments to Extend Credit**

The Company enters into LCs with borrowers who have applied for residential mortgage loans and commitments to purchase loans with third party originators who have met certain credit and underwriting criteria. These commitments expose the Company to market risk if interest rates change and the underlying loan is not economically hedged or committed to an investor. The Company is also exposed to credit loss if the loan is originated and not sold to an investor and the mortgagor does not perform. The collateral upon extension of credit typically consists of a first deed of trust in the mortgagor's residential property. Commitments to originate or purchase loans do not necessarily reflect future cash requirements as some commitments are expected to expire without being drawn upon. Total commitments to originate or purchase loans approximated \$320,977,000 and \$100,230,000 at December 31, 2021 and 2020, respectively.

The Company is required to fund further borrower advances (where the borrower has not fully drawn down the HECM loan proceeds available to them), and fund payments of the borrower's monthly insurance premium to FHA. The outstanding unfunded commitments available to borrowers related to HECM loans was approximately \$1,282,000,000 and \$1,076,000,000 as of December 31, 2021 and 2020, respectively. This additional borrowing capacity is primarily in the form of undrawn lines of credit.

**HMBS Issuer Obligations**

As an HMBS issuer, the Company assumes certain obligations related to each security issued. The most significant obligation is the requirement to purchase loans out of the HMBS securities if the outstanding principal balance of the related HECM is equal to or greater than 98% of the maximum claim amount (MCA repurchases). Active repurchased loans are assigned to HUD and payment is received from HUD, typically within 60 days of repurchase. HUD reimburses the Company for the outstanding principal balance on the loan up to the maximum claim amount. The Company bears the risk of exposure if the amount of the outstanding principal balance on a loan exceeds the maximum claim amount. Inactive repurchased loans (the borrower is deceased, no longer occupies the property or is delinquent on tax and insurance payments) are generally liquidated through foreclosure and subsequent sale of REO, with a claim filed with HUD for recoverable remaining principal and advance balances. The recovery timeline for inactive repurchased loans depends on various factors, including foreclosure status at the time of repurchase, state-level foreclosure timelines, and the post-foreclosure REO liquidation timeline. The timing and amount of the Company obligation with respect to MCA repurchases is uncertain as repurchase is dependent largely on circumstances outside of the Company's control including the amount and timing of future draws and the status of the loan. MCA repurchases are expected to continue to increase due to the increased flow of HECMs and REO that are reaching 98% of their maximum claim amount. In addition to having to fund these repurchases, the Company also typically earns a lower interest rate and incurs certain non-reimbursable costs during the process of liquidating nonperforming loans.

**M. COMMITMENTS AND CONTINGENCIES (Continued)**

**HMBS Issuer Obligations (Continued)**

During the years ended December 31, 2021, 2020 and 2019, the Company repurchased \$81,321,195, \$38,641,146 and \$37,963,892, respectively, of GNMA HECM loans including loans subject to the MCA requirement from GNMA HMBS pools of which \$80,226,543, \$38,536,036 and \$37,963,892, respectively, was subsequently transferred to a third party in accordance with a put option guaranty under the Collaboration and Transfer Agreement.

**Regulatory Contingencies**

The Company is subject to periodic audits and examinations, both formal and informal in nature, from various federal and state agencies, including those made as part of regulatory oversight of mortgage origination, servicing and financing activities. Such audits and examinations could result in additional actions, penalties or fines by state or federal governmental bodies, regulators or the courts.

**Regulatory Net Worth Requirements**

In accordance with the regulatory requirements of HUD, governing non-supervised, direct endorsement mortgagees, the Company is required to maintain a minimum net worth. At December 31, 2021, the Company exceeded the regulatory net worth requirement.

In accordance with the regulatory requirements of GNMA, governing issuers of GNMA securities, the Company is required to maintain a minimum net worth. At December 31, 2021, the Company exceeded the regulatory net worth requirement.

**Operating Leases**

The Company leases office space under various operating lease arrangements, which expire through May 2024. Total rent expense under all operating leases amounted to \$339,928, \$310,847 and \$390,243 for the years ended December 31, 2021, 2020 and 2019, respectively, and are included in occupancy, equipment and communication on the statements of operations.

Future minimum rental payments under long-term operating leases are as follows at December 31, 2021:

Year Ending December 31,	Amounts
2022	\$ 229,651
2023	165,447
2024	27,694
	<u>\$ 422,792</u>

**M. COMMITMENTS AND CONTINGENCIES (Continued)**

**Legal**

The Company operates in a highly regulated industry and may be involved in various legal and regulatory proceedings, lawsuits and other claims arising in the ordinary course of its business. The amount, if any, of ultimate liability with respect to such matters cannot be determined, but despite the inherent uncertainties of litigation, management currently believes that the ultimate disposition of any such proceedings and exposure will not have, individually or taken together, a material adverse effect on the financial condition, results of operations, or cash flows of the Company. However, actual outcomes may differ from those expected and could have a material effect on the Company's financial position, results of its operations or cash flows in a future period. The Company accrues for losses when they are probable to occur, and such losses are reasonably estimable. Legal costs are expensed as incurred and are included in general and administrative on the statements of operations.

**N. FAIR VALUE MEASUREMENTS**

FASB ASC 820, *Fair Value Measurements and Disclosures*, (ASC 820) defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not assumptions specific to the entity.

ASC 820 specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon the market data obtained from independent sources (observable inputs). In accordance with ASC 820, the following summarizes the fair value hierarchy:

Level 1 Inputs – Unadjusted quoted market prices for identical assets and liabilities in an active market that the Company has the ability to access.

Level 2 Inputs – Inputs other than the quoted market prices in active markets that are observable either directly or indirectly.

Level 3 Inputs – Inputs based on prices or valuation techniques that are both unobservable and significant to the overall fair value measurements.

ASC 820 requires the use of observable market data, when available, in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurements. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.



**N. FAIR VALUE MEASUREMENTS (Continued)**

While the Company believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methods or assumptions to estimate the fair value of certain financial statement items could result in a different estimate of fair value at the reporting date. The significant unobservable inputs used in the fair value measurement may result in significantly different fair value measurements if any of those inputs were to change in isolation. Generally, a change in the assumptions used in the fair value measurement would be accompanied by a directionally opposite change in other assumptions. Those estimated values may differ significantly from the values that would have been used had a readily available market for such items existed, or had such items been liquidated, and those differences could be material to the financial statements.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2021, 2020 and 2019.

*Mortgage loans held for sale (MLHFS)* – The fair value of mortgage loans held for sale is based on, when possible, quoted HMBS prices and estimates of the fair value of the related MSRs. If no such quoted price exists, the fair value of a loan is determined using quoted prices for a similar asset or assets, adjusted for the specific attributes of that loan, which would be used by other market participants.

*Loan Commitments* – The fair value of LCs is based on valuation models incorporating market pricing for instruments with similar characteristics, commonly referred to as best execution pricing. The valuation models used to value the LCs have unobservable inputs, such as an estimate of the fair value of the servicing rights expected to be recorded upon sale of the loans, estimated costs to originate the loans, and the pullthrough rate, and are therefore classified as Level 3 within the fair value hierarchy.

The fair value of treasury futures contracts is based on the quoted sales price on the exchange where they are principally traded and are therefore classified as Level 2 within the fair value hierarchy.

*Mortgage servicing rights* – The fair value of MSRs is difficult to determine because MSRs are not actively traded in observable stand-alone markets. The Company uses a discounted cash flow approach to estimate the fair value of MSRs. This approach consists of projecting net servicing cash flows discounted at a rate that management believes market participants would use in their determinations of fair value. The key unobservable inputs used in the estimation of the fair value of MSRs include prepayment speeds, discount rates, default rates, cost to service, contractual servicing fees, escrow earnings and ancillary income.

**N. FAIR VALUE MEASUREMENTS (Continued)**

*Mortgage Loans held for investment (LHFI)* – The fair value of LHFI is based on the expected future cash flows discounted over the expected life of the loans at a rate commensurate with the risk of the estimated cash flows, including future draw commitments for HECM loans. Inputs of the discounted cash flows of these assets may include future draws and tail spread gains, voluntary prepayments, defaults, and discount rate. LHFI is classified as Level 3 within the fair value hierarchy.

*HMBS related obligations, at fair value* – The fair value of HMBS related obligations, at fair value is based on a discounted cash flow approach, by discounting the projected recovery of principal and interest over the estimated life of the borrowing at a market rate commensurate with the risk of the estimated cash flows. HMBS related obligations, at fair value are classified as Level 3 within the fair value hierarchy.

The Company engages valuation experts to support the valuation and provide observations and assumptions related to market activities. The Company evaluates the reasonableness of the fair value estimate and assumptions using historical experience, or cash flow back-testing, adjusted for prevailing market conditions and benchmarks with valuations. Significant unobservable assumptions include voluntary prepayment speeds, defaults and discount rate.

**Assets and Liabilities Measured at Fair Value**

The following are the major categories of assets and liabilities measured at fair value on a recurring basis as of December 31, 2021:

Description	Level 1	Level 2	Level 3	Total
MLHFS	\$ -	\$ 39,779,030	\$ -	\$ 39,779,030
Loan commitments	-	-	8,394,907	8,394,907
Futures contract	-	(16,563)	-	(16,563)
LHFI	-	-	6,636,434,301	6,636,434,301
MSRs	-	-	3,320,136	3,320,136
HMBS related obligations	-	-	(6,293,833,795)	(6,293,833,795)
Total	\$ -	\$ 39,762,467	\$ 354,315,549	\$ 394,078,016

LONGBRIDGE FINANCIAL, LLC  
NOTES TO FINANCIAL STATEMENTS

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**N. FAIR VALUE MEASUREMENTS (Continued)**

The following are the major categories of assets and liabilities measured at fair value on a recurring basis as of December 31, 2020:

Description	Level 1	Level 2	Level 3	Total
MLHFS	\$ -	\$ 11,706,047	\$ -	\$ 11,706,047
Loan commitments	-	-	4,778,352	4,778,352
LHFI	-	-	5,133,980,349	5,133,980,349
MSRs	-	-	1,184,675	1,184,675
HMBS related obligations	-	-	(4,948,770,847)	(4,948,770,847)
Total	\$ -	\$ 11,706,047	\$ 191,172,529	\$ 202,878,576

The following are the changes in fair value of Level 2 assets and liabilities measured at fair value on a recurring basis, as restated, for the years ended December 31:

Description	2021	2020	2019
MLHFS	\$ 1,577,127	\$ 321,572	\$ 270,031
Futures contract	(16,563)	28,984	351,250
Total	\$ 1,560,564	\$ 350,556	\$ 621,281

The Company does not have any impaired assets or liabilities that are recorded at fair value on a non-recurring basis as of December 31, 2021 and 2020.

**Level 3 Purchases, Issuances and Transfers**

The following is a summary of the Company's purchases, issuances, and transfers of assets which are measured at fair value on a recurring and non-recurring basis using Level 3 inputs during the year ended December 31, 2021:

	MSRs	LHFI	HMBS related obligations, at fair value	LCs
Purchases	\$ -	\$ -	\$ -	\$ -
Issuances (c)	\$ 2,425,086	\$ 2,440,650,600	\$ 2,363,800,780	\$ 100,742,695
Transfers into Level 3	\$ -	\$ -	\$ -	\$ -
Transfers out of Level 3 (d)	\$ -	\$ -	\$ -	\$ 16,822,128

LONGBRIDGE FINANCIAL, LLC  
NOTES TO FINANCIAL STATEMENTS

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**N. FAIR VALUE MEASUREMENTS (Continued)**

The following is a summary of the Company's purchases, issuances, and transfers of assets which are measured at fair value on a recurring and non-recurring basis using Level 3 inputs during the year ended December 31, 2020:

	MSRs	LHFI	HMBS related obligations, at fair value	LCs
Purchases	\$ -	\$ -	\$ -	\$ -
Issuances (c)	\$ 1,227,088	\$ 1,965,147,594	\$ 1,997,561,817	\$ 40,784,490
Transfers into Level 3	\$ -	\$ -	\$ -	\$ -
Transfers out of Level 3 (d)	\$ -	\$ -	\$ -	\$ 6,244,029

The following is a summary of the Company's purchases, issuances, and transfers of assets which are measured at fair value on a recurring and non-recurring basis using Level 3 inputs during the year ended December 31, 2019:

	MSRs	LHFI	HMBS related obligations, at fair value	LCs
Purchases	\$ -	\$ -	\$ -	\$ -
Issuances (c)	\$ 222,176	\$ 2,023,311,019	\$ 1,991,785,023	\$ 9,880,259
Transfers into Level 3	\$ -	\$ -	\$ -	\$ -
Transfers out of Level 3 (d)	\$ -	\$ -	\$ -	\$ 3,297,495

(c) Issuances of Level 3 MSRs represent additions due to loans sold, servicing retained. Issuance of Level 3 LHFI and HMBS related obligations, at fair value represent HECM loans pooled into GNMA guaranteed securities, that do not qualify for sale accounting. Issuances of Level 3 LCs represent the lock-date market value of LCs issued to borrowers during the year, net of estimated pullthrough and costs to originate.

(d) LCs transferred out of Level 3 represent LCs that were funded and moved to mortgage loans held for sale, at fair value.

**Fair Value of Other Financial Instruments**

Due to their short-term nature, the carrying value of cash and cash equivalents, escrow cash, restricted cash, certificate of deposit, short-term receivables, short-term payables, warehouse line of credit agreements, financing facility agreements, and operating line of credit agreement approximate their fair value at December 31, 2021.

LONGBRIDGE FINANCIAL, LLC  
NOTES TO FINANCIAL STATEMENTS

O. LOAN DETAILS

As of December 31, 2021, reverse mortgage loans held for investment, subject to HMBS obligations, at fair value of \$6.7 billion, do not have a cost basis for federal income tax purposes since these loans have been deemed to be sold for tax purposes but do not meet the requirements for true sale under U.S. GAAP. Fair value of mortgage loans held for sale approximates the cost basis for federal income tax purposes. As of December 31, 2021, the aggregate cost basis for federal income tax purposes was \$40 million, respectively.

The below table provides details on the range of interest rates and number of loans for all mortgage loans held as of December 31, 2021:

Asset Type	Description	Number of Loans	Interest Rate	Fair Value of Mortgages
Reverse mortgage loans held for investment, subject to HMBS obligations	\$0 - \$100,000	6,710	0.74% - 5.39%	\$ 496,105,840
Reverse mortgage loans held for investment, subject to HMBS obligations	\$100,001 - \$200,000	12,182	0.74% - 5.56%	1,961,275,243
Reverse mortgage loans held for investment, subject to HMBS obligations	\$200,001 - \$300,000	7,963	0.74% - 5.18%	2,078,717,602
Reverse mortgage loans held for investment, subject to HMBS obligations	\$300,001 - \$400,000	3,804	0.74% - 5.06%	1,373,832,766
Reverse mortgage loans held for investment, subject to HMBS obligations	\$400,001 - \$500,000	1,318	1.03% - 5.06%	622,755,486
Reverse mortgage loans held for investment, subject to HMBS obligations	\$500,000+	185	1.14% - 5.06%	103,747,363
Total Reverse mortgage loans held for investment, subject to HMBS obligations				<u>6,636,434,301</u>
Mortgage loans held for sale	\$0 - \$100,000	-	- 0.00%	-
Mortgage loans held for sale	\$100,001 - \$200,000	3	4.90% - 5.50%	582,343.55
Mortgage loans held for sale	\$200,001 - \$300,000	2	5.50% - 5.50%	524,389
Mortgage loans held for sale	\$300,001 - \$400,000	7	4.88% - 6.99%	2,592,291
Mortgage loans held for sale	\$400,001 - \$500,000	11	5.50% - 7.25%	5,480,393
Mortgage loans held for sale	\$500,000+	39	4.88% - 7.25%	30,599,614
Total Mortgage loans held for sale				<u>39,779,030</u>
<b>Total Mortgage Loans</b>				<b><u>\$ 6,676,213,331</u></b>

P. SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 25, 2022, the date on which the financial statement were available to be issued.



**INDEPENDENT AUDITORS' REPORT AND  
FINANCIAL STATEMENTS FOR  
LENSURE MORTGAGE CORP.  
FOR THE YEAR ENDED DECEMBER 31, 2021**

**RICHEY  
MAY**

The logo for Richey May consists of the company name in a bold, dark blue, sans-serif font. The word "RICHEY" is on the top line and "MAY" is on the bottom line. To the right of the text is a vertical green line. Below the logo, there is a horizontal grey line that spans the width of the page.

LENSURE MORTGAGE CORP.  
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**INDEPENDENT AUDITORS' REPORT**

To the Stockholders  
LendSure Mortgage Corp.  
San Diego, California

**Report on the Audit of the Financial Statements*****Opinion***

We have audited the accompanying financial statements of LendSure Mortgage Corp., which comprise the balance sheet as of December 31, 2021 and the related statements of operations, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of LendSure Mortgage Corp. as of December 31, 2021 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of LendSure Mortgage Corp. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about LendSure Mortgage Corp.'s ability to continue as a going concern for one year after the report date.

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## INDEPENDENT AUDITORS' REPORT

### *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LendSure Mortgage Corp.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about LendSure Mortgage Corp.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*R. Chey, May 4, 20.*

Englewood, Colorado  
February 25, 2022

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**LENSURE MORTGAGE CORP.**  
**BALANCE SHEET**  
**DECEMBER 31, 2021**

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<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 32,033,908
Restricted cash	3,873,224
Escrow cash	448,314
Accounts receivable	15,726
Mortgage loans held for sale, net	167,604,674
Prepaid expenses	366,972
Federal and state income taxes receivable	1,362,649
Total current assets	<u>205,705,467</u>
<b>OTHER ASSETS</b>	
Property and equipment, net	414,783
Intangible assets, net	665,330
Deposits	125,268
Total other assets	<u>1,205,381</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 206,910,848</u></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	\$ 6,097,521
Loan escrows	483,595
Loan indemnification and premium recapture reserves	400,000
Warehouse lines of credit	162,499,304
Deferred taxes payable	113,883
Total current liabilities	<u>169,594,303</u>
<b>COMMITMENTS AND CONTINGENCIES (Note E)</b>	
<b>STOCKHOLDERS' EQUITY</b>	
Common stock, \$0.001 par value, 40,000,000 shares authorized; 21,818,182 shares issued and outstanding	21,818
Zero coupon convertible preferred stock, \$0.001 par value, 2,000,000 shares authorized; no shares issued and outstanding	-
Additional paid-in capital	5,579,374
Retained earnings	31,715,353
Total stockholders' equity	<u>37,316,545</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u><u>\$ 206,910,848</u></u>

The accompanying notes are an integral part of these financial statements.

**LENSURE MORTGAGE CORP.**  
**STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

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**REVENUE**

Gain on sale of mortgage loans held for sale, net of direct costs of \$3,267,280	\$ 67,559,134
Loan origination fees, net of direct costs of \$1,128,709	3,102,199
Interest income	3,690,051
Interest expense and warehouse fees	(2,798,101)
Other income	192,264
Total revenue	<u>71,745,547</u>

**EXPENSES**

Salaries, commissions and benefits	34,410,710
Occupancy, equipment and communication	1,730,397
General and administrative	2,172,692
Provision for premium recapture	422,547
Depreciation and amortization	183,545
Total expenses	<u>38,919,891</u>

**NET INCOME BEFORE TAXES** 32,825,656

Provision for income taxes, current	9,004,682
Deferred taxes	113,883
Total taxes	<u>9,118,565</u>

**NET INCOME** \$ 23,707,091

The accompanying notes are an integral part of these financial statements.

LENSURE MORTGAGE CORP.  
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2021

	Common Stock		Additional Paid-in Capital	Retained Earnings	Totals
	Shares	Par Value			
<b>Balance, January 1, 2021</b>	21,818,182	\$ 21,818	\$ 5,565,766	\$ 8,008,262	\$ 13,595,846
Compensation expense for stock options	-	-	13,608	-	13,608
Net income	-	-	-	23,707,091	23,707,091
<b>Balance, December 31, 2021</b>	<u>21,818,182</u>	<u>\$ 21,818</u>	<u>\$ 5,579,374</u>	<u>\$ 31,715,353</u>	<u>\$ 37,316,545</u>

The accompanying notes are an integral part of these financial statements.

**LENSURE MORTGAGE CORP.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Net income	\$ 23,707,091
Non-cash items-	
Gain on sale of mortgage loans held for sale, net of direct costs	(67,559,134)
Provision for premium recapture	422,547
Depreciation and amortization	183,545
Deferred taxes payable	113,883
Compensation expense for stock options	13,608
(Increase) decrease in-	
Escrow cash	(448,314)
Accounts receivable	31,154
Proceeds from sale and principal payments on mortgage loans held for sale	1,418,145,888
Originations and purchases of mortgage loans held for sale	(1,512,722,566)
Prepaid expenses	(20,060)
Federal and state income taxes receivable	(2,056,931)
Deposits	(109,851)
Increase (decrease) in-	
Accounts payable and accrued expenses	3,350,521
Loan escrows	483,595
Premium recapture reserve	(372,547)
Net cash used in operating activities	<u>(136,837,571)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchases of property and equipment	(330,776)
Purchase of intangible assets	(745,303)
Net cash used in investing activities	<u>(1,076,079)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Net borrowings under warehouse lines of credit	157,191,083
Net cash provided by financing activities	<u>157,191,083</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH</b>	19,277,433
<b>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF YEAR</b>	<u>16,629,699</u>
<b>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR</b>	<u>\$ 35,907,132</u>
<b>SUPPLEMENTAL INFORMATION</b>	
Cash paid for interest and warehouse fees	<u>\$ 2,404,775</u>
Cash paid for taxes	<u>\$ 11,068,575</u>

The accompanying notes are an integral part of these financial statements.

**A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

LendSure Mortgage Corp. (the Company) was incorporated on March 30, 2015. The Company is engaged in the business of originating, purchasing, financing, and selling residential mortgage loans secured by real estate throughout the United States. The Company derives income from fees charged for the origination of mortgage loans and from the subsequent sale of the loans to investors. The Company is authorized to issue 40,000,000 shares of common stock with par value of \$0.001 and 2,000,000 shares of zero coupon convertible preferred stock with par value of \$0.001. As of December 31, 2021, there were 21,818,182 shares of common stock issued and outstanding.

**Basis of Accounting**

The financial statements of the Company are prepared on the accrual basis of accounting.

**Basis of Presentation**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as codified in the Financial Accounting Standards Board's (FASB) *Accounting Standards Codification (ASC)*.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

For cash flow purposes, the Company considers cash and temporary investments with original maturities of three months or less, to be cash and cash equivalents. The Company has diversified its credit risk for cash by maintaining deposits in several financial institutions, which may at times exceed amounts covered by insurance from the Federal Deposit Insurance Corporation. The Company evaluates the creditworthiness of these financial institutions in determining the risk associated with these balances. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash and cash equivalents.

**Restricted Cash**

The Company maintains certain cash balances that are restricted under the Company's warehouse line of credit agreements.

**Escrow Cash**

The Company maintains an escrow account for funds held on behalf of borrowers for taxes and property insurance premiums, which are included in escrow cash on the balance sheet.

**A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

**Mortgage Loans Held for Sale and Revenue Recognition**

The Company does not issue rate locks and therefore has elected not to use the fair value option on mortgage loans held for sale. Mortgage loans held for sale are recorded at the lower of cost or fair value as determined on an aggregate loan basis. Fair value for mortgage loans is generally based on current delivery prices. Loan origination fees, net of direct origination costs, are deferred and recognized at the time the loan is sold. Gains or losses from the sale of mortgages are recognized based on the difference between the selling price and carrying value of the related loans upon sale.

Gains and losses from the sale of mortgage loans held for sale are recognized based upon the difference between the sales proceeds and carrying value of the related loans upon sale and are recorded in gain on sale of mortgage loans held for sale on the statement of operations. Sales proceeds reflect the cash received from investors through the sale of the loan and servicing release premium.

Mortgage loans held for sale are considered sold when the Company surrenders control over the financial assets. Control is considered to have been surrendered when the transferred assets have been isolated from the Company, beyond the reach of the Company and its creditors; the investor obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and the Company does not maintain effective control over the transferred assets through either an agreement that both entitles and obligates the Company to repurchase or redeem the transferred assets before their maturity or the ability to unilaterally cause the holder to return specific financial assets. The Company typically considers the above criteria to have been met upon acceptance and receipt of sales proceeds from the investor.

**Loan Origination Fees**

Loan origination fees, premiums or discounts from producing loans and certain direct loan origination costs are deferred as an adjustment to the carrying value of mortgage loans. These fees and costs are recognized when the loan is sold to the investors.

**Interest Income**

Interest income on mortgage loans is recorded as earned and reported as interest income in the statement of operations. Mortgage loans held for sale are placed on nonaccrual status when any portion of the principal or interest is 90 days past due or earlier if factors indicate that the ultimate collectability of the principal or interest is not probable. Interest received from loans on nonaccrual status is recorded as income when collected. Loans return to accrual status when the principal and interest become current and it is probable that the amounts are fully collectible. No loans originated in 2021 were placed on nonaccrual status.



LENSURE MORTGAGE CORP.  
NOTES TO FINANCIAL STATEMENTS

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A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)

**Property and Equipment, Net**

Property and equipment is recorded at cost and depreciated or amortized using the straight line method over the estimated useful lives of the assets. The following is a summary of property and equipment at December 31, 2021.

	Useful lives (years)	Amounts
Property and equipment, at cost		
Furniture and equipment	5	\$ 795,606
Leasehold improvements	(a)	18,446
Total property and equipment, at cost		<u>814,052</u>
Accumulated depreciation and amortization		
Furniture and equipment		(383,829)
Leasehold improvements		(15,440)
Total accumulated depreciation and amortization		<u>(399,269)</u>
Total property and equipment, net		<u>\$ 414,783</u>

(a) Amortized over the shorter of the related lease term or the estimated useful life of the assets.

The Company periodically assesses property and equipment for impairment whenever events or circumstances indicate the carrying amount of an asset may exceed its fair value. If property and equipment is considered impaired, the impairment losses will be recorded on the statement of operations. The Company did not recognize any impairment losses during the year ended December 31, 2021.

**Intangible Assets – Capitalized Software Development Costs**

FASB ASC 350-40, Goodwill and Other—Internal-Use Software (ASC 350-40), requires the Company to expense development costs as they are incurred in the preliminary project stage of internally developed software. Once the capitalization criteria of ASC 350-40 have been met, external direct costs of materials and services consumed in developing or obtaining internal-use computer software, payroll and payroll related costs for employees who are directly associated with, and who devote time to, the internal-use computer software related consulting fees are capitalized. During the year ended December 31, 2021, the Company capitalized internally developed software of \$745,303 and amortized \$79,973 of the capitalized balance, respectively. The Company will amortize \$149,060 each year of the 5-year useful life of the software as of December 31, 2021.

**A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

**Loan Indemnification Reserve**

The Company sells mortgage loans to various investors under purchase contracts. When the Company sells its loans, it makes customary representations and warranties to the investors about various characteristics of each loan such as the origination and underwriting guidelines the validity of the lien securing the loan, property eligibility, borrower credit, income and asset requirements, and compliance with applicable federal, state and local law. In the event of a breach of its representations and warranties, the Company may be required to either repurchase the mortgage loans with the identified defects or indemnify the investor for any loss. The Company's loss may be reduced by proceeds from the sale or liquidation of the repurchased loan.

The Company records a provision for losses relating to such representations and warranties as part of its loan sale transactions. The method used to estimate the liability for representations and warranties is a function of the representations and warranties given and considers a combination of factors, including, but not limited to, estimate of future defaults and loan repurchase rates and potential severity of loss in the event of defaults, including any loss on sale or liquidation of the repurchased loan. The Company establishes a liability at the time loans are sold. The level of the repurchase liability is difficult to estimate and requires considerable management judgment and is noted based on a probable loss. Given that the level of mortgage loan repurchase losses is dependent on economic factors, investor demands for loan repurchases and other external conditions that may change over the lives of the underlying loans, market expectations around losses related to the Company's obligations could vary significantly from the obligation recorded as of the balance sheet date.

There was no activity in the loan indemnification reserve during the year ended December 31, 2021. The balance at December 31, 2021 was \$250,000.

**A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

**Premium Recapture Reserves**

In the case of loans sold to investors that pay off within a specified timeframe provided for in the purchase agreement, the Company may be required to return all or a portion of the premium initially received from the investor. The Company records a provision for premiums to be recaptured as part of its loan sale transactions. The method used to estimate the premium recapture reserves is a function of a combination of factors, including, but not limited to, an estimate of the likelihood each loan will be repaid within the timeframe provided for in the purchase agreement. The Company establishes a liability at the time loans are sold. The level of premiums that may be eventually recaptured is difficult to estimate and requires considerable management judgment. Given that the level of mortgage loan premium recapture is dependent on economic factors and other external conditions that may change over the lives of the underlying loans, the Company's obligations could vary significantly from the obligation recorded as of the balance sheet date and is not based on a probable loss.

The activity in the premium repurchase reserve is as follows for the year ended December 31, 2021:

	<u>Amounts</u>
Balance, beginning of year	\$ 100,000
Provision for premium recapture	422,547
Premiums returned	<u>(372,547)</u>
Balance, end of year	<u>\$ 150,000</u>

**Income Taxes**

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of certain assets and liabilities for financial and tax reporting. The deferred taxes represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets are limited to amounts considered to be realizable in future periods. The Company accounts for any interest and penalties related to unrecognized tax benefits as part of the income tax provision. The Company has no federal or state tax examinations in process as of December 31, 2021 that would have a material impact on the financial statements.

The assumptions about future taxable income require significant judgment and are consistent with the plans and estimates the Company is using to manage the underlying business. In evaluating the objective evidence that historical results provide, the Company considers the past three years of operating history and cumulative operating income.

**A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

**Stock-Based Compensation**

In July 2015, the Company adopted an Equity Incentive Plan pursuant to which the Company's Board of Directors may grant stock options and other awards to employees. The Company accounts for stock-based compensation in accordance with ASC 718 *Compensation-Stock Compensation*. Accordingly, the Company measures the cost of stock-based awards using the grant-date fair value of the award and recognizes that cost over the requisite service period. The fair value of each stock option granted under the Company's stock-based compensation plan is estimated on the date of grant using the Black-Scholes option-pricing model and assumptions outlined in Note H.

ASC-718 requires forfeitures to be estimated at the time of grant and prospectively revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. Stock-based compensation recorded for those stock-based awards that were expected to vest was \$13,608 and included in salaries, commissions and benefits on the statement of operations for the year ended December 31, 2021.

**Advertising and Marketing**

Advertising and marketing is expensed as incurred and amounted to \$403,448 for the year ended December 31, 2021, and is included in general and administrative expenses on the statement of operations.

**Risks and Uncertainties**

In the normal course of business, companies in the mortgage banking industry encounter certain economic and regulatory risks. Economic risks include interest rate risk and credit risk. The Company is subject to interest rate risk to the extent that in a rising interest rate environment, the Company may experience a decrease in loan production, as well as decreases in the value of mortgage loans held for sale not committed to investors and commitments to originate loans, which may negatively impact the Company's operations. Credit risk is the risk of default that may result from the borrowers' inability or unwillingness to make contractually required payments during the period in which loans are being held for sale by the Company.

The Company sells loans to investors without recourse. As such, the investors have assumed the risk of loss or default by the borrower. However, the Company is usually required by these investors to make certain standard representations and warranties relating to credit information, loan documentation and collateral. To the extent that the Company does not comply with such representations, or there are early payment defaults, the Company may be required to repurchase the loans or indemnify these investors for any losses from borrower defaults. In addition, if loans payoff within a specified time frame, the Company may be required to refund a portion of the sales proceeds to the investors.

LENDSURE MORTGAGE CORP.  
NOTES TO FINANCIAL STATEMENTS

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**A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
(Continued)

**Risks and Uncertainties (Continued)**

A large portion of all properties securing the Company's mortgage loans sold and held for sale for the year ended December 31, 2021 are located in California, and the downturn in economic conditions in that region's real estate market could have a material adverse impact on the Company's financial condition and results of operations.

The Company's business requires substantial cash to support its operating activities. As a result, the Company is dependent on its warehouse lines of credit, and other financing facilities to finance its continued operations. If the Company's principal lenders decided to terminate or not to renew any of these financing facilities with the Company, the loss of borrowing capacity could have a material adverse impact on the Company's financial statements unless the Company found a suitable alternative source.

The global outbreak of COVID-19 has disrupted economic markets, and the prolonged economic impact is uncertain. The operational and financial performance of the Company depends on future developments, including the duration and spread of the outbreak, and such uncertainty may have an adverse impact on the Company's financial performance.

**B. MORTGAGE LOANS HELD FOR SALE, NET**

Mortgage loans held for sale, net are as follows at December 31, 2021:

	<u>Amounts</u>
Mortgage loans held for sale	\$ 168,418,429
Deferred costs, net	<u>(813,755)</u>
	<u>\$ 167,604,674</u>

The deferred costs, net include such costs as borrower discount points, administrative fees, underwriting and processing fees, estimated commissions, and loan origination fees.

**LENSURE MORTGAGE CORP.**  
**NOTES TO FINANCIAL STATEMENTS**

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**C. WAREHOUSE LINES OF CREDIT**

The Company has the following warehouse lines of credit agreements with various financial institutions at December 31, 2021:

<u>Maturity</u>	<u>Line Amount</u>	<u>Interest Rate</u>	<u>Restricted Cash</u>	<u>Amounts</u>
July 2022	\$200,000,000	Prime plus a margin, with a floor rate of 3.50%	\$ 3,723,224	\$156,153,796
June 2022	\$ 15,000,000	LIBOR plus a margin, with a floor rate of 4%	150,000	8,378,920
120 days written notice	\$ 5,000,000	10.00%	-	-
(b) Loan funding receivable				(2,033,412)
			<u>\$ 3,873,224</u>	<u>\$ 162,499,304</u>

- (b) The Company may draw upon the warehouse line of credit agreements for purposes of funding a mortgage loan held for sale, prior to the loan's scheduled disbursement date. During the period from draw date to disbursement date, the funds are recorded by the Company as a loan funding receivable.

As of December 31, 2021, the Company had mortgage loans held for sale pledged as collateral under the above \$15,000,000 warehouse line of credit which is guaranteed by a stockholder. The above agreements also contain covenants which include certain financial requirements, including maintenance of minimum tangible net worth, minimum liquid assets, maximum debt to net worth ratio, minimum current ratio, minimum fidelity bond requirements, distribution restrictions and positive net income requirements, as defined in the agreements. The Company was in compliance with all significant debt covenants at December 31, 2021. The Company intends to renew the warehouse lines of credit agreements when they mature.

**D. EMPLOYEE BENEFIT PLAN**

The Company has a 401(k) plan for the benefit of eligible employees and their beneficiaries. The 401(k) plan is a defined contribution 401(k) plan that allows eligible employees to save for retirement through pretax and post-tax contributions up to the specified limits. The Company must match employee contributions up to 4% of the employee's eligible base salary. The Company contribution towards the 401(k) plan was \$509,484 for the year ended December 31, 2021.

LENSURE MORTGAGE CORP.  
NOTES TO FINANCIAL STATEMENTS

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E. COMMITMENTS AND CONTINGENCIES

**Regulatory Contingencies**

The Company is subject to periodic audits and examinations, both formal and informal in nature, from various federal and state agencies, including those made as part of regulatory oversight of mortgage origination and financing activities. Such audits and examinations could result in additional actions, penalties or fines by state or federal governmental bodies, regulators or the courts.

**Operating Leases**

The Company leases office space and equipment under various operating lease arrangements, which expire through September 2027. Total rent expense under all operating leases amounted to \$523,774 for the year ended December 31, 2021, and are included in occupancy, equipment and communication on the statement of operations.

Future minimum rental payments under long-term operating leases are as follows at December 31, 2021:

Year Ending December 31,	Amounts
2022	\$ 1,965,261
2023	1,856,887
2024	998,543
2025	860,229
2026	855,193
Thereafter	571,711
	<u>\$ 7,107,824</u>

F. RELATED PARTY TRANSACTIONS

The Company has purchase and sale agreements with investors to sell the mortgage loans it produces, and one of these agreements is with multiple affiliates of a significant stockholder of the Company. The Company sold mortgage loans of approximately \$988 million to these stockholder affiliates during the year ended December 31, 2021. The Company has gain on sale of mortgage loans held for sale, net, of approximately \$41 million from the stockholder affiliates during the year ended December 31, 2021.

LENSURE MORTGAGE CORP.  
NOTES TO FINANCIAL STATEMENTS

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G. INCOME TAXES

The components of the income tax provision are as follows for the year ended December 31, 2021:

	<u>Amounts</u>
Current income taxes	\$ 9,004,682
Deferred income taxes	113,883
Provision for income taxes	<u>\$ 9,118,565</u>

The tax effects of significant temporary differences which give rise to the Company's deferred tax assets and liabilities are as follows at December 31, 2021:

	<u>Amounts</u>
Deferred tax assets-	
Loan indemnification reserve	\$ 66,515
Premium repurchase reserve	39,909
Total deferred tax assets	<u>106,424</u>
Deferred tax liabilities-	
Mortgage loans held for sale, net	66,073
Property and equipment, net	<u>154,234</u>
Total deferred tax liabilities	<u>220,307</u>
Net deferred tax liability	<u>\$ 113,883</u>

H. STOCK-BASED COMPENSATIONS

In July 2015, the Company adopted an Equity Incentive Plan (the Plan), pursuant to which the Company's Board of Directors may grant stock options and other awards to employees. The Plan authorizes grants of options to purchase up to 654,545 shares of authorized but unissued common stock. Stock options granted under the Plan have terms of ten years and vest over four years. In 2021, the Board of Directors granted 63,500 stock options to employees with an exercise price of 84 cents per common share. The per share weighted average fair value of stock options granted during 2021 was 30 cents on the date of grant, using the Black-Scholes option-pricing model. At December 31, 2021, there were 286,045 shares of common stock available for future grants under the Plan.

	<u>Shares</u>	<u>Price</u>
Outstanding beginning of the year	305,000	\$0.36
Exercised	-	-
Granted	63,500	\$0.84
Forfeited or expired	-	-
Outstanding end of the year	<u>368,500</u>	<u>\$0.52</u>



**LENSURE MORTGAGE CORP.**  
**NOTES TO FINANCIAL STATEMENTS**

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**I. FAIR VALUE MEASUREMENTS**

Due to their short-term nature, the carrying value of cash and cash equivalents, short-term receivables, mortgage loans held for sale, fixed assets, short-term payables, and warehouse lines of credit approximate their fair value at December 31, 2021.

**J. SUBSEQUENT EVENTS**

During January 2022, the Company's warrant holder extinguished 1,049,000 shares of Class B Common Stock in the Company. The warrant holder after the extinguishment holds the right to purchase 8,280,000 shares of Class B Common Stock in the Company.

Management has evaluated subsequent events through February 25, 2022, the date on which the consolidated financial statements were available to be issued.

LENSURE MORTGAGE CORP.  
FINANCIAL STATEMENTS  
DECEMBER 31, 2020  
**(UNAUDITED)**

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LENSURE MORTGAGE CORP.

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**LENSURE MORTGAGE CORP.**  
**BALANCE SHEET**  
**December 31, 2020**

(UNAUDITED)

**ASSETS**

**CURRENT ASSETS**

Cash in bank	\$ 16,629,696
Accounts receivable	42,813
Interest receivable	4,067
Mortgage loans held for sale	5,468,862
Prepaid expenses	<u>346,912</u>

**Total Current Assets** \$ 22,492,350

**PROPERTY AND EQUIPMENT**

Computer equipment and software	\$ 16,500
Furniture & fixtures	62,035
Office equipment	405,905
Leasehold improvements	15,336
Less: Accumulated depreciation	<u>(312,196)</u>

**Net Property and Equipment** \$ 187,580

**OTHER ASSETS**

Security deposits	<u>\$ 15,417</u>
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**Total Other Assets** \$ 15,417

**TOTAL ASSETS** \$ 22,695,347

See accompanying notes to financial  
statements

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**LENSURE MORTGAGE CORP.**  
**BALANCE SHEET**  
**December 31, 2020**

(UNAUDITED)

**LIABILITIES AND STOCKHOLDERS' EQUITY**

<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 182,442
Loan loss reserves	250,000
Premium recapture payable	100,000
Accrued payroll liabilities	1,637,428
Accrued expenses	923,725
Interest and fees payable	3,405
Warehouse line of credit	5,308,220
Federal & State income tax payable	<u>694,281</u>
<b>Total Current Liabilities</b>	<u>\$ 9,099,501</u>
<b>Total Liabilities</b>	<u>\$ 9,099,501</u>
<b>STOCKHOLDERS' EQUITY</b>	
Common stock	\$ 21,818
Additional paid-in capital	5,565,766
Retained earnings	<u>8,008,262</u>
<b>Total Stockholders' Equity</b>	<u>\$ 13,595,846</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u><u>\$ 22,695,347</u></u>

See accompanying notes to financial  
statements

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**LENSURE MORTGAGE CORP.**  
**STATEMENT OF INCOME & RETAINED EARNINGS**  
**For The Year Ended December 31, 2020**

(UNAUDITED)

<b>Income</b>	
Gains from mortgage banking activities	\$ 22,164,263
Loan interest income	<u>1,731,537</u>
<b>Total Income</b>	\$ 23,895,800
<b>Gen &amp; admin expenses</b>	<u>20,873,401</u>
<b>Operating Income</b>	<u>\$ 3,022,399</u>
<b>Other Income and Expense</b>	
Interest earned	\$ 74,412
Other income	2,943
PPP loan forgiveness	<u>2,185,600</u>
<b>Total Other Income</b>	<u>\$ 2,262,955</u>
<b>Income before taxes</b>	\$ 5,285,354
Federal income tax	452,781
State income tax	<u>267,228</u>
<b>Net Income</b>	\$ 4,565,345
Retained earnings - beginning	<u>3,442,917</u>
Retained earnings - ending	<u><u>\$ 8,008,262</u></u>

See accompanying notes to financial  
statements

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LENSURE MORTGAGE CORP.  
STATEMENT OF CHANGES IN  
STOCKHOLDERS' EQUITY  
For The Year Ended December 31, 2020  
(UNAUDITED)

	Common Stock		Paid-in- capital	Retained Earnings	Total
	Shares	Par Value			
Beginning Balance at January 1, 2020	21,818,182	\$ 21,818	4,098,261	\$ 3,442,917	\$ 7,562,996
Additional paid-in capital			1,467,505		1,467,505
Net income/(loss)				4,565,345	4,565,345
Ending Balance at December 31, 2020	<u>21,818,182</u>	<u>\$ 21,818</u>	<u>\$ 5,565,766</u>	<u>\$ 8,008,262</u>	<u>\$ 13,595,846</u>

See accompanying notes to financial  
statements

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LENSURE MORTGAGE CORP.  
STATEMENT OF CASH FLOWS  
For The Year Ended December 31, 2020  
Increase (Decrease) in Cash and Cash Equivalents  
(UNAUDITED)

Cash Flows from Operating Activities	
Net income (loss)	\$ 4,565,345
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	91,339
Prepaid expenses	(97,683)
Amortization of stock options	10,103
Accounts receivable	71,210
Mortgage loans held for sale	11,753,197
Cash at closing agent	198,943
Accounts payable	(1,873)
Accrued liabilities	378,047
Federal & State taxes payable	22,973
Premium recapture / Loss reserves	(747,390)
PPP loan forgiveness	(2,185,600)
Net Cash Provided by (Used by) Operating Activities	<u>\$ 14,058,611</u>
Cash Flows from Investing Activities	
Capital expenditures	\$ (320,135)
Security deposits-leases	4,975
Net Cash Provided by (Used by) Investing Activities	<u>\$ (315,160)</u>
Cash Flows from Financing Activities	
Warehouse line of credit	\$ (11,950,033)
Proceeds from PPP loan	2,185,600
Additional paid-in capital	1,457,402
Net Cash Provided by (Used by) Financing Activities	<u>\$ (8,307,031)</u>
Net Increase in Cash	\$ 5,436,420
Cash at the Beginning of the Period	<u>11,193,276</u>
Cash at the End of the Period	<u><u>\$ 16,629,696</u></u>
Income taxes paid	<u>\$ 695,853</u>
Interest paid	<u>\$ 1,152,909</u>

See accompanying notes to financial statements



LENSURE MORTGAGE CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

LENSURE MORTGAGE CORP. (the Company) was incorporated on March 30, 2015. The Company is engaged in the business of originating, purchasing, financing, and selling residential mortgage loans secured by real estate throughout the United States. The Company derives income from fees charged for the origination of mortgage loans and from the subsequent sale of the loans to investors. The Company is authorized to issue 40,000,000 shares of common stock with par value of \$0.001 and 2,000,000 shares of zero coupon convertible preferred stock with par value of \$0.001. As of December 31, 2020, there were 21,818,182 shares of common stock issued and outstanding.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2020.

Credit Risk

Financial instruments, which potentially subject the Company to credit risk, consist of cash and mortgage loans held for sale. The Company maintains its cash in bank accounts which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts. At various times during the period ending December 31, 2020, the Company had uninsured balances.

Gains From Mortgage Banking Activities

Loan Origination Fees and Costs: Loan origination fees, premiums or discounts from producing loans and certain direct loan origination costs are deferred as an adjustment to the carrying value of mortgage loans. These fees and costs are recognized when the loan is sold to a third-party investor.

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LENSURE MORTGAGE CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONT.)

Mortgage Loans Held for Investment

Mortgage loans originated with the ability and the intent to hold for the foreseeable future or until maturity are classified as held for investment. Mortgage loans held for investment are carried at aggregate cost. There were no mortgage loans held for investment at December 31, 2020.

Mortgage Loans Held for Sale

The Company does not issue rate locks and therefore has elected not to use the fair value option on mortgage loans held for sale. Mortgage loans held for sale are carried at the lower of aggregate cost or market value. The lower of aggregate cost or market value is determined by reference to outstanding commitments from investors or current yield requirements, calculated on an aggregate loan basis.

Interest Income

Interest income on mortgage loans is recorded as earned and reported as loan portfolio interest income in the statement of income. Mortgage loans held for sale and mortgage loans held for investment are placed on nonaccrual status when any portion of the principal or interest is 90 days past due or earlier if factors indicate that the ultimate collectability of the principal or interest is not probable. Interest received from loans on nonaccrual status is recorded as income when collected. Loans return to accrual status when the principal and interest become current and it is probable that the amounts are fully collectible. No loans originated in 2020 were placed on nonaccrual status.

Revenue Recognition

FASB ASC 606, Revenue from Contracts with Customers (ASC 606), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods and services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration it expects to be entitled to receive in exchange for those goods or services, recognized as performance obligations are satisfied. The majority of the Company's revenue generating transactions are not subject to ASC 606.

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LENSURE MORTGAGE CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONT.)

Loan Reserves

The Company sells mortgage loans to various investors under purchase contracts. When the Company sells its loans, it makes customary representations and warranties to the purchasers about various characteristics of each loan such as the origination and underwriting guidelines, including but not limited to the validity of the lien securing the loan, property eligibility, borrower credit, income and asset requirements, and compliance with applicable federal, state and local law.

In the event of a breach of its representations and warranties, the Company may be required to either repurchase the mortgage loans with the identified defects or indemnify the investor for any loss. The Company's loss may be reduced by proceeds from the sale or liquidation of the repurchased loan.

The Company records a provision for losses relating to such representations and warranties as part of its loan sale transactions. The method used to estimate the liability for representations and warranties is a function of the representations and warranties given and considers a combination of factors, including, but not limited to, estimate of future defaults and loan repurchase rates and the potential severity of loss in the event of defaults, including any loss on sale or liquidation of the repurchased loan. The Company establishes a liability at the time loans are sold. The level of the repurchase liability is difficult to estimate and requires considerable management judgment. Given that the level of mortgage loan repurchase losses is dependent on economic factors, investor demands for loan repurchases and other external conditions that may change over the lives of the underlying loans, market expectations around losses related to the Company's obligations could vary significantly from the obligation recorded as of the balance sheet date. The estimated obligation associated with early loan payoffs is estimated based on management experience and judgement.

The following presents changes in the Company's loan loss reserves account for the year ended December 31, 2020:

	<u>Loan loss reserves</u>
Beginning balance	\$ 550,747
Current year provisions / reductions	<u>(300,747)</u>
Ending balance	<u>\$ 250,000</u>

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LENSURE MORTGAGE CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONT.)

Premium Recapture Reserves

In the case of loans sold to investors that pay off within a specified timeframe provided for in the purchase agreement, the Company may be required to return all or a portion of the premium initially received from the investor. The Company records a provision for premiums to be recaptured as part of its loan sale transactions. The method used to estimate the premium recapture reserves is a function of a combination of factors, including, but not limited to, an estimate of the likelihood each loan will be repaid within the timeframe provided for in the purchase agreement. The Company establishes a liability at the time loans are sold. The level of premiums that may be eventually recaptured is difficult to estimate and requires considerable management judgment. Given that the level of mortgage loan premium recapture is dependent on economic factors and other external conditions that may change over the lives of the underlying loans, the Company's obligations could vary significantly from the obligation recorded as of the balance sheet date. The estimated obligation associated with early loan payoffs is estimated based on management experience and judgement. During 2020, premium recapture reserves was reduced by \$446,643 including \$20,449 for an early payoff. Premium recapture reserves balance at December 31, 2020 was \$ 100,000.

Stock-Based Compensation

In July 2015, the Company adopted an Equity Incentive Plan pursuant to which the Company's Board of Directors may grant stock options and other awards to employees. The Company accounts for stock-based compensation in accordance with FASB ASC-718 Compensation-Stock Compensation. Accordingly, the Company measures the cost of stock-based awards using the grant-date fair value of the award and recognizes that cost over the requisite service period. The fair value of each stock option granted under the Company's stock-based compensation plan is estimated on the date of grant using the Black-Scholes option-pricing model and assumptions outlined in Note 8.

FASB ASC-718 requires forfeitures to be estimated at the time of grant and prospectively revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates.

Stock-based compensation recorded for those stock-based awards that were expected to vest was \$10,103 and included in the statement of income for the year ended December 31, 2020.

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LENSURE MORTGAGE CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONT.)

Compensated Absences

The Company has not accrued compensated absences because the amount cannot be reasonably estimated.

Advertising

The Company utilizes the non-direct method of advertising whereby costs are expensed as incurred. Advertising expense for the year ended December 31, 2020 was approximately \$6,600.

Income Taxes

The Company was formed as a C corporation. As a result, the Company will generally be subject to federal and state income tax at the corporate level. Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. The temporary differences relate primarily to loan loss and premium recapture reserves recorded for financial statement purposes, not yet reflected for tax purposes.

As described in Note 6, the Company received loan proceeds in the amount of \$2,185,600 under the Paycheck Protection Program (“PPP”). The Company believes its use of the proceeds will meet the conditions for forgiveness under the Payroll Protection Program criteria. If the loan proceeds are forgiven, the Company, pursuant to guidance from the Internal Revenue Service and the Consolidated Appropriations Act, 2021 will not be taxed upon the proceeds, and eligible expenses paid with the loan proceeds will be allowed as business deductions.

In evaluating our ability to recover our deferred tax assets related to future tax deductions of loan losses and premium recapture, we consider all available positive and negative evidence, projected future taxable income, and results of recent operations, including operating history.

The assumptions about future taxable income require significant judgment and are consistent with the plans and estimates we are using to manage the underlying business. In evaluating the objective evidence that historical results provide, we consider our past three years of operating history and cumulative operating income over the past three years.

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LENSURE MORTGAGE CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONT.)

Based upon our short operating history, we believe that it is more likely than not that the benefit from deferred tax assets may not be realized. In recognition of this risk, we have provided for a full valuation allowance on the deferred tax assets of \$43,585.

If our assumptions change and we determine we will be able to realize these tax benefits relating to any reversal of the valuation allowance on deferred tax assets, such will be reflected in future periods.

Subsequent Events Date

The subsequent events were evaluated by management of the Company through March 30, 2021. This is the date financial statements were available to be issued.

2. MORTGAGE LOANS HELD FOR INVESTMENT

At December 31, 2020, the Company had no mortgage loans held for investment.

3. MORTGAGE LOANS HELD FOR SALE

At December 31, 2020, the Company had 13 mortgage loans aggregating \$5,468,862 held for sale. Substantially all the loans held for sale at December 31, 2020 were sold subsequent to year end. The Company does not have any delinquent loans held for sale and has not been requested by any investor to repurchase any loan previously sold. Accordingly, the Company does not have any non-accrual loans held for sale as of December 31, 2020.

4. PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, less accumulated depreciation or amortization. Depreciation on furniture and equipment is recorded using the straight-line method over the estimated useful lives of individual assets, typically three to five years. Amortization of leasehold improvements is recorded using the straight-line method over the estimated useful lives of improvements or remaining lease term, whichever is less. At December 31, 2020, property and equipment aggregated \$499,776, less accumulated depreciation and amortization of \$312,196. Depreciation expense for the year ended December 31, 2020 was \$91,339.

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LENSURE MORTGAGE CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

5. WAREHOUSE LINES OF CREDIT

The Company has two warehouse line of credit agreements. The purpose of the credit lines is to fund real estate loans to be sold to investors. The Company also has a credit agreement with EF Holdco Inc, an affiliate of a significant stockholder. The credit line may be used to fund loans, as well as fund margin requirements on warehouse credit agreements. This credit line with a maximum line limit of \$5,000,000 was not utilized in 2020.

Interest is charged at a variable and fixed rate on the loans outstanding from the date disbursed. The warehouse credit line limit and principal amount outstanding at December 31, 2020 is as follows:

	<u>Maximum line limit</u>	<u>Principal amount</u>
Silvergate Bank	\$ 65,000,000	\$ 4,811,002
Banc of California	15,000,000	497,218
	<u>\$ 80,000,000</u>	<u>\$ 5,308,220</u>

6. NOTE PAYABLE – PPP LOAN FORGIVENESS

On April 16, 2021, the Company received loan proceeds in the amount of \$2,185,600 under the Paycheck Protection Program (the “PPP”). The PPP was established as part of the Coronavirus Aid, Relief and Economic Security Act. Under the PPP, if the loan proceeds are used for payroll, benefits, rent and utilities, subject to certain limitations, the loan and accrued interest are forgivable.

The Company believes its use of the proceeds has met the conditions for forgiveness under the PPP criteria. Accordingly, the Company has taken the position under IAS 120 that a forgivable loan from the government is treated as a government grant when there is a reasonable assurance that the entity will meet the terms for forgiveness of the loan. The Company has reflected forgiveness of the loan in the financial statements for the year ended December 31, 2020.

7. LEASE COMMITMENTS

At December 31, 2020, the Company leased five offices in San Diego, one in Rhode Island, one in Georgia, and utilized shared office space in New York. The leases require security deposits which aggregate \$15,417. Current monthly rent under the leases is \$28,304 with annual rent increases. Rent expense for the year ended December 31, 2020 was \$330,345. Future minimum required rent is \$304,918 and \$264,915 for the years ended 2021 and 2022, respectively.

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LENSURE MORTGAGE CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

8. STOCK-BASED COMPENSATION

In July 2015, the Company adopted an Equity Incentive Plan (the Plan), pursuant to which the Company's Board of Directors may grant stock options and other awards to employees. The Plan authorizes grants of options to purchase up to 654,545 shares of authorized but unissued common stock. Stock options granted under the Plan have terms of ten years and vest over four years. In 2020, the Board of Directors granted 25,000 stock options to employees with an exercise price of 84 cents per common share. The per share weighted average fair value of stock options granted during 2020 was 32 cents on the date of grant, using the Black-Scholes option-pricing model. At December 31, 2020, there were 326,045 shares of common stock available for future grants under the Plan.

9. EMPLOYEE BENEFIT PLANS

The Company has a 401(k) plan for the benefit of eligible employees and their beneficiaries. The 401(k) plan is a defined contribution 401(k) plan that allows eligible employees to save for retirement through pretax and post-tax contributions up to the specified limits. The Company must match employee contributions up to 4% of the employee's eligible base salary. The Company contribution towards the 401(k) plan was \$234,057 for the year ended December 31, 2020.

10. RELATED PARTY TRANSACTIONS

For the year ended December 31, 2020, the Company sold mortgage loans of \$470.8 million to companies affiliated with a significant stockholder of the Company.

Shortly after the World Health Organization declared the COVID-19 outbreak a global pandemic on March 19, 2020, investors ceased purchasing the Company's loan production. To deal with this crisis, the Company entered into a \$150 million forward purchase agreement with an affiliate of a significant stockholder of the Company. To entice the affiliate to enter into the forward purchase agreement, the Company agreed to issue warrants to the stockholder representing 15% of the Company's issued and outstanding common stock, on a fully diluted basis. The warrants have a strike price of \$0.01 per share. The warrants were earned over the period the \$150 million forward was filled, all of which occurred by the end of October 2020.

The estimated value for the warrants was based upon the relative fair values of the warrants and loan production sold. The fair value allocated to warrants was \$1,457,402, which is included in paid in capital. No warrants had been exercised as of December 31, 2020.

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LENSURE MORTGAGE CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

11. CONCENTRATIONS

The Company maintains all of its cash with major financial institutions. At times, cash balances may be in excess of the amounts insured by the Federal Deposit Insurance Corporation.

Substantially all of the Company's revenue is derived from gains and fees from mortgage banking activities. Real estate activity is cyclical and is affected greatly by the cost and availability of long-term mortgage funds. Real estate activity and the Company's revenue can be adversely affected during periods of high interest rates and/or limited money supply. The reduction of real estate activity and fees generated from such activity could have a material adverse effect on the financial condition and results of operations of the Company.

The Company originates residential mortgage loans and generates revenues from the origination and sale of these loans. Although management closely monitors market conditions, such activity is sensitive to fluctuations in prevailing interest rates and the real estate markets.

A large portion of all properties securing the Company's mortgage loans sold and held for sale for the year ended December 31, 2020 were or are located in California, and the downturn in economic conditions in that region's real estate market could have a material adverse impact on the Company's financial condition and results of operations.

Additionally, the Company has purchase and sale agreements with only a few companies to sell the mortgage loans it produces, and one of these agreements is with multiple affiliates of a significant stockholder of the Company. For the year ended December 31, 2020, the Company sold mortgage loans of \$470.8 million to this investor, which represented the majority of loans it sold in the year ended December 31, 2020.

12. CONTINGENCIES

The Company may be contractually obligated to repurchase a loan sold to an investor in the event of a breach of representations and warranties by the Company under the purchase and sale agreement with the investor. The terms of the purchase agreements, including repurchase obligations, vary by investor depending on each investor's policies and procedures.

The Company is subject to various capital and liquidity requirements in connection with credit agreements (see note 5). Failure to maintain minimum capital and liquidity requirements could result in default under the credit agreements, adversely impacting the Company's ability to originate loans, and could have a material adverse effect on the Company's financial statements.

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LENSURE MORTGAGE CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020

12. CONTINGENCIES (CONT.)

In the third quarter of 2020, the Company hired employees from a competitor in the mortgage industry. Shortly thereafter, the Company was named as a co-defendant with three of the employees in a suit brought by the competitor. A fourth employee was subsequently added as a co-defendant. The suit alleges the former employees improperly took trade secrets and other confidential information and seeks injunctive relief against use of the information and damages according to proof. A preliminary investigation indicates that neither the employees hired by the Company, nor the Company, has used any information from the competitor. All parties are working on settlement of the lawsuit.

In the fourth quarter of 2020, the Company was served with a summons and complaint in a matter entitled Anderson-Daik v. Frontier Title Company-WH LLC, 234th Judicial District Court of Harris County, Texas, Cause No. 202017166. The suit is based on the plaintiff, a loan recipient of the Company, having wired her closing funds in the approximate amount of \$86,000 to someone who spoofed the closing agent's email. The plaintiff does not know how the closing agent's email was spoofed, and has sued multiple parties to the transaction, including the Company, the mortgage broker, the real estate broker, and the Company's Texas documents attorneys. The Company is defending the action but may contribute to an expedient settlement.

In the opinion of Company's management and counsel, none of the litigation is anticipated to have any material adverse effect on the company.

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**LENSURE MORTGAGE CORP.**  
**SCHEDULE - GEN & ADMIN EXPENSES**  
**For The Year Ended**  
**December 31, 2020**  
**(UNAUDITED)**

<b>Gen &amp; admin expenses</b>	
Bank charges	\$ 2,019
Computer and software expense	533,243
Contributions & donations	2,185
Depreciation	91,339
G&A, Postage, Off Supp, Fax, Phone	151,573
Interest expense	582
Interest and fee expense - warehouse	1,141,819
Insurance-medical	494,894
Loan costs & fees	2,468,669
Loan loss reserves	(300,747)
Payroll - salaries	14,699,788
Premium recapture	(426,194)
Pension plan contributions	234,057
Payroll service	40,765
Professional fees	94,814
Rent expense	330,345
Taxes & licenses	154,206
Taxes-payroll	973,567
Travel, Entertainment, Auto exp	<u>186,477</u>
<b>Total gen &amp; admin expenses</b>	<b><u>\$ 20,873,401</u></b>

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LENSURE MORTGAGE CORP.  
FINANCIAL STATEMENTS  
DECEMBER 31, 2019  
**(UNAUDITED)**

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LENSURE MORTGAGE CORP.

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**LENSURE MORTGAGE CORP.**  
**BALANCE SHEET**  
**December 31, 2019**

(UNAUDITED)

**ASSETS**

<b>CURRENT ASSETS</b>	
Cash in bank	\$ 11,193,276
Accounts receivable	42,121
Interest receivable	75,969
Cash at closing agent	198,943
Mortgage loans held for sale	17,222,059
Prepaid expenses	<u>12,413</u>
<b>Total Current Assets</b>	<b>\$ 28,744,781</b>
<b>PROPERTY AND EQUIPMENT</b>	
Computer equipment and software	\$ 16,500
Furniture & fixtures	62,035
Office equipment	322,588
Leasehold improvements	15,336
Less: Accumulated depreciation	<u>(220,858)</u>
<b>Net Property and Equipment</b>	<b>\$ 195,601</b>
<b>OTHER ASSETS</b>	
Security deposit	<u>\$ 20,392</u>
<b>Total Other Assets</b>	<b>\$ 20,392</b>
<b>TOTAL ASSETS</b>	<b><u>\$ 28,960,774</u></b>

See accompanying notes to financial  
statements

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**LENSURE MORTGAGE CORP.**  
**BALANCE SHEET**  
**December 31, 2019**

(UNAUDITED)

**LIABILITIES AND STOCKHOLDERS' EQUITY**

<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 184,314
Loan loss reserves	550,747
Premium recapture reserves	546,643
Accrued payroll liabilities	1,662,599
Accrued expenses	509,418
Interest and fees payable	14,495
Warehouse line of credit	17,258,254
Federal & State income tax payable	<u>671,309</u>
<b>Total Current Liabilities</b>	<b>\$ <u>21,397,779</u></b>
<b>Total Liabilities</b>	<b>\$ <u>21,397,779</u></b>
<b>STOCKHOLDERS' EQUITY</b>	
Common stock	\$ 21,818
Additional paid-in capital	4,098,261
Retained earnings	<u>3,442,916</u>
<b>Total Stockholders' Equity</b>	<b>\$ <u>7,562,995</u></b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ <u>28,960,774</u></b>

See accompanying notes to financial  
statements

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**LENSURE MORTGAGE CORP.**  
**STATEMENT OF INCOME & RETAINED EARNINGS**  
**For The Year Ended December 31, 2019**

(UNAUDITED)

<b>Income</b>	
Gains from mortgage banking activities	\$ 23,757,725
Loan interest income	<u>1,760,996</u>
<b>Total Income</b>	\$ 25,518,721
<b>Gen &amp; admin expenses</b>	<u>21,801,877</u>
<b>Operating Income</b>	<u>\$ 3,716,844</u>
<b>Other Income and Expense</b>	
Interest earned	\$ 6,561
Other income	<u>3,000</u>
<b>Total Other Income</b>	<u>\$ 9,561</u>
<b>Income before taxes</b>	\$ 3,726,405
Federal income tax	736,688
State income tax	<u>246,678</u>
<b>Net Income</b>	\$ 2,743,039
Retained earnings - beginning	<u>699,877</u>
Retained earnings - ending	<u><u>\$ 3,442,916</u></u>

See accompanying notes to financial statements

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LENSURE MORTGAGE CORP.  
STATEMENT OF CHANGES IN  
STOCKHOLDERS' EQUITY  
For The Year Ended December 31, 2019  
(UNAUDITED)

	Common Stock		Paid-in- capital	Retained Earnings	Total
	Shares	Par Value			
Beginning Balance at January 1, 2019	21,818,183	\$ 21,818	4,088,121	\$ 699,877	\$ 4,809,816
Additional paid-in capital			10,140		10,140
Net income/(loss)				2,743,039	2,743,039
Ending Balance at December 31, 2019	<u>21,818,183</u>	<u>\$ 21,818</u>	<u>\$ 4,098,261</u>	<u>\$ 3,442,916</u>	<u>\$ 7,562,995</u>

See accompanying notes to financial  
statements

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LENSURE MORTGAGE CORP.  
STATEMENT OF CASH FLOWS  
For The Year Ended December 31, 2019  
Increase (Decrease) in Cash and Cash Equivalents  
(UNAUDITED)

Cash Flows from Operating Activities	
Net income (loss)	\$ 2,743,039
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	81,109
Prepaid expenses	(2,413)
Amortization of stock options	10,140
Accounts receivable	(94,867)
Mortgage loans held for sale	1,370,656
Cash at closing agent	(198,943)
Accounts payable	129,682
Accrued liabilities	1,144,290
Federal & State taxes payable	845,392
Premium recapture reserves	(83,065)
Net Cash Provided by (Used by) Operating Activities	<u>\$ 5,945,020</u>
Cash Flows from Investing Activities	
Capital expenditures	\$ (117,353)
Security deposits-leases	(16,139)
Net Cash Provided by (Used by) Investing Activities	<u>\$ (133,492)</u>
Cash Flows from Financing Activities	
Advances to employees	\$ 5,415
Warehouse line of credit	(910,276)
Net Cash Provided by (Used by) Financing Activities	<u>\$ (904,861)</u>
Net Increase in Cash	\$ 4,906,667
Cash at the Beginning of the Period	<u>6,286,609</u>
Cash at the End of the Period	<u><u>\$ 11,193,276</u></u>
Income taxes paid	\$ 138,800
Interest paid	<u>\$ 1,533,311</u>

See accompanying notes to financial statements

LENSURE MORTGAGE CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

LENSURE MORTGAGE CORP. (the Company) was incorporated on March 30, 2015. The Company is engaged in the business of originating, purchasing, financing, and selling residential mortgage loans secured by real estate throughout the United States. The Company derives income from fees charged for the origination of mortgage loans and from the subsequent sale of the loans to investors. The Company is authorized to issue 25,000,000 shares of common stock with par value of \$0.001 and 2,000,000 shares of zero coupon convertible preferred stock with par value of \$0.001. As of December 31, 2019, there were 21,818,183 shares of common stock issued and outstanding.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2019.

Credit Risk

Financial instruments, which potentially subject the Company to credit risk, consist of cash and mortgage loans held for sale. The Company maintains its cash in bank accounts which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts. At various times during the period ending December 31, 2019, the Company had uninsured balances.

Gains From Mortgage Banking Activities

Loan Origination Fees and Costs: Loan origination fees, premiums or discounts from producing loans and certain direct loan origination costs are deferred as an adjustment to the carrying value of mortgage loans. These fees and costs are recognized when the loan is sold to a third-party investor.

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LENSURE MORTGAGE CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONT.)

Mortgage Loans Held for Investment

Mortgage loans originated with the ability and the intent to hold for the foreseeable future or until maturity are classified as held for investment. Mortgage loans held for investment are carried at aggregate cost. There were no mortgage loans held for investment at December 31, 2019.

Mortgage Loans Held for Sale

The Company does not issue rate locks and therefore has elected not to use the fair value option on mortgage loans held for sale. Mortgage loans held for sale are carried at the lower of aggregate cost or market value. The lower of aggregate cost or market value is determined by reference to outstanding commitments from investors or current yield requirements, calculated on an aggregate loan basis.

Interest Income

Interest income on these loans is recorded as earned and reported as loan portfolio interest income in the statement of income. Mortgage loans held for sale and mortgage loans held for investment are placed on nonaccrual status when any portion of the principal or interest is 90 days past due or earlier if factors indicate that the ultimate collectability of the principal or interest is not probable. Interest received from loans on nonaccrual status is recorded as income when collected. Loans return to accrual status when the principal and interest become current and it is probable that the amounts are fully collectible. No loans originated in 2019 were placed on nonaccrual status.

Loan Reserves

The Company sells mortgage loans to various investors under purchase contracts. When the Company sells its loans, it makes customary representations and warranties to the purchasers about various characteristics of each loan such as the origination and underwriting guidelines, including but not limited to the validity of the lien securing the loan, property eligibility, borrower credit, income and asset requirements, and compliance with applicable federal, state and local law.

In the event of a breach of its representations and warranties, the Company may be required to either repurchase the mortgage loans with the identified defects or indemnify the investor for any loss. The Company's loss may be reduced by proceeds from the sale or liquidation of the repurchased loan.

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LENSURE MORTGAGE CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONT.)

The Company records a provision for losses relating to such representations and warranties as part of its loan sale transactions. The method used to estimate the liability for representations and warranties is a function of the representations and warranties given and considers a combination of factors, including, but not limited to, estimate of future defaults and loan repurchase rates and the potential severity of loss in the event of defaults, including any loss on sale or liquidation of the repurchased loan. The Company establishes a liability at the time loans are sold. The level of the repurchase liability is difficult to estimate and requires considerable management judgment. Given that the level of mortgage loan repurchase losses is dependent on economic factors, investor demands for loan repurchases and other external conditions that may change over the lives of the underlying loans, market expectations around losses related to the Company's obligations could vary significantly from the obligation recorded as of the balance sheet date. The estimated obligation associated with early loan payoffs is estimated based on management experience and judgement. The following presents changes in the Company's loan loss reserves account for the year ended December 31, 2019:

	<u>Loan loss reserves</u>
Beginning balance	\$ 550,747
Current year provisions	-
Ending balance	<u>\$ 550,747</u>

Premium Recapture Reserves

In the case of loans sold to investors that pay off within a specified timeframe provided for in the purchase agreement, the Company may be required to return all or a portion of the premium initially received from the investor. The Company records a provision for premiums to be recaptured as part of its loan sale transactions. The method used to estimate the premium recapture reserves is a function of a combination of factors, including, but not limited to, an estimate of the likelihood each loan will be repaid within the timeframe provided for in the purchase agreement. The Company establishes a liability at the time loans are sold. The level of premiums that may be eventually recaptured is difficult to estimate and requires considerable management judgment. Given that the level of mortgage loan premium recapture is dependent on economic factors and other external conditions that may change over the lives of the underlying loans, the Company's obligations could vary significantly from the obligation recorded as of the balance sheet date. The estimated obligation associated with early loan payoffs is estimated based on management experience and judgement. During 2019, Premium recapture reserves was reduced by \$ 72,937 for premiums returned to investors. Premium recapture reserves balance at December 31, 2019 was \$ 546,643.

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LENSURE MORTGAGE CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONT.)

Stock-Based Compensation

The Company Board of Directors in July 2015 approved an Equity Incentive Plan for the Company. The Company accounts for stock-based compensation in accordance with FASB ASC-718 Compensation-Stock Compensation. Accordingly, the Company measures the cost of stock-based awards using the grant-date fair value of the award and recognizes that cost over the requisite service period. The fair value of each stock option granted under the Company's stock-based compensation plan is estimated on the date of grant using the Black-Scholes option-pricing model and assumptions outlined in Note 7.

FASB ASC-718 requires forfeitures to be estimated at the time of grant and prospectively revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates.

Stock-based compensation recorded for those stock-based awards that were expected to vest was \$10,140 and included in the statement of income for the year ended December 31, 2019.

Compensated Absences

The Company has not accrued compensated absences because the amount cannot be reasonably estimated.

Advertising

The Company utilizes the non-direct method of advertising whereby costs are expensed as incurred. Advertising expense for the year ended December 31, 2019 was approximately \$42,000.

Income Taxes

The Company was formed as a C corporation. As a result, the Company will generally be subject to federal and state income tax at the corporate level. Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. The temporary differences relate primarily to loan loss and premium recapture reserves recorded for financial statement purposes, not yet reflected for tax purposes.

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LENSURE MORTGAGE CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONT.)

In evaluating our ability to recover our deferred tax assets related to future tax deductions of loan losses and premium recapture, we consider all available positive and negative evidence, projected future taxable income, and results of recent operations, including operating history.

The assumptions about future taxable income require significant judgment and are consistent with the plans and estimates we are using to manage the underlying business. In evaluating the objective evidence that historical results provide, we consider our past three years of operating history and cumulative operating income over the past three years.

Based upon our short operating history, we believe that it is more likely than not that the benefit from deferred tax assets may not be realized. In recognition of this risk, we have provided for a full valuation allowance on the deferred tax assets of \$228,079.

If our assumptions change and we determine we will be able to realize these tax benefits relating to any reversal of the valuation allowance on deferred tax assets, such will be reflected in future periods.

Subsequent Events Date

The subsequent events were evaluated by management of the Company through March 27, 2020. This is the date financial statements were available to be issued.

2. MORTGAGE LOANS HELD FOR INVESTMENT

At December 31, 2019 the company had no mortgage loans held for investment.

3. MORTGAGE LOANS HELD FOR SALE

At December 31, 2019, the Company had 39 mortgage loans aggregating \$17,222,059 held for sale. Substantially all the loans held for sale at December 31, 2019 were sold subsequent to year end. The Company does not have any delinquent loans held for sale and has not been requested by any investor to repurchase any loan previously sold. Accordingly, the Company does not have any non-accrual loans held for sale as of December 31, 2019.

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LENSURE MORTGAGE CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019

4. PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, less accumulated depreciation or amortization. Depreciation on furniture and equipment is recorded using the straight-line method over the estimated useful lives of individual assets, typically three to five years. Amortization of leasehold improvements is recorded using the straight-line method over the estimated useful lives of improvements or remaining lease term, whichever is less. At December 31, 2019 property and equipment aggregated \$416,459, less accumulated depreciation and amortization of \$220,858. Depreciation expense for the year ended December 31, 2019 was \$81,109.

5. WAREHOUSE LINES OF CREDIT

The Company has entered into three warehouse line of credit agreements. The purpose of the credit lines is to fund real estate loans to be sold to investors. The company also entered into a credit agreement with EF Holdco Inc. an affiliate of a significant stockholder. The credit line may be used to fund loans, as well as fund margin requirements on warehouse credit agreements. This credit line with a maximum line limit of \$5,000,000 was not utilized in 2019.

Interest is charged at a variable and fixed rate on the loans outstanding from the date disbursed. The warehouse credit line limit and principal amount outstanding at December 31, 2019 is as follows:

	<u>Maximum line limit</u>	<u>Principal amount</u>
Silvergate Bank	\$ 65,000,000	\$ 16,836,892
Banc of California	15,000,000	421,362
First Tennessee Bank	10,000,000	-
	<u>\$ 90,000,000</u>	<u>\$ 17,258,254</u>

6. LEASE COMMITMENTS

The Company leases 6 offices in San Diego, 1 in Colorado, 1 in Rhode Island, 1 in Ohio, and 1 in Georgia, and utilizes shared office space in New York. The leases require security deposits which aggregate \$20,392. Current monthly rent under the leases is \$31,704 with annual rent increases. Rent expense for the period ended December 31, 2019 was \$283,008. Future minimum required rent is \$344,646 and \$173,947 for the years ended 2020 and 2021, respectfully.

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LENSURE MORTGAGE CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019

7. STOCK-BASED COMPENSATION

In July 2015, the Company adopted an Equity Incentive Plan (the Plan), pursuant to which the Company's Board of Directors may grant stock options and other awards to employees. The Plan authorizes grants of options to purchase up to 654,545 shares of authorized but unissued common stock. Stock options granted under the Plan have terms of ten years and vest over four years. In 2019, the Board of Directors granted 71,000 stock options to employees with an exercise price of 38 cents per common share. The per share weighted average fair value of stock options granted during 2019 was 25 cents on the date of grant, using the Black-Scholes option-pricing model. At December 31, 2019, there were 351,045 shares of common stock available for future grants under the Plan.

8. EMPLOYEE BENEFIT PLANS

The Company has a 401(k) plan (The Plan) for the benefit of eligible employees and their beneficiaries. The Plan is a defined contribution 401(k) plan that allows eligible employees to save for retirement through pretax and post-tax contributions up to the specified limits. The Company must contribute amounts up to 4% of the employee's eligible base salary, dependent on the employee's level of participation. The Company contribution towards the plan was \$185,616 for the year ended December 31, 2019.

9. RELATED PARTY TRANSACTIONS

For the year ended December 31, 2019, the Company sold mortgage loans of \$504.75 million to companies affiliated with a significant stockholder of the Company.

10. CONCENTRATIONS

The Company maintains all of its cash with major financial institutions. At times, cash balances may be in excess of the amounts insured by the Federal Deposit Insurance Corporation.

Substantially all of the Company's revenue is derived from gains and fees from mortgage banking activities. Real estate activity is cyclical and is affected greatly by the cost and availability of long-term mortgage funds. Real estate activity and the Company's revenue can be adversely affected during periods of high interest rates and/or limited money supply. The reduction of real estate activity and fees generated from such activity could have a material adverse effect on the financial condition and results of operations of the Company.

The Company originates residential mortgage loans and generates revenues from the origination and sale of these loans. Although management closely monitors market conditions, such activity is sensitive to fluctuations in prevailing interest rates and the real estate markets.

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LENDSURE MORTGAGE CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019

10. CONCENTRATIONS (CONT.)

A large portion of all properties securing the mortgage loans sold and held for sale for the year ended December 31, 2019 were or are located in California, and the downturn in economic conditions in this region's real estate market could have a material adverse impact on the Company's financial condition and results of operations.

Additionally, the Company has purchase and sale agreements with only a few companies to sell the mortgage loans it produces, and one of these agreements is with multiple affiliates of a significant stockholder of the Company. For the year ended December 31, 2019, the Company sold mortgage loans of \$504.75 million to this investor, which represented the majority of loans it sold in the year ended December 31, 2019.

11. CONTINGENCIES

The Company may be contractually obligated to repurchase a loan sold to an investor in the event of a breach of representations and warranties by the Company under the purchase and sale agreement with the investor. The terms of the purchase agreements, including repurchase obligations, vary by investor and loan depending on each investor's policies and procedures.

The Company is subject to various capital and liquidity requirements in connection with credit agreements (see note 5) and the purchase and sale agreements that the Company has entered into with secondary market investors. Failure to maintain minimum capital and liquidity requirements could result in the Company's inability to originate and sell loans for the respective investors and, therefore, could have a direct material effect on the Company's financial statements.

On September 4, 2019, the Company received a notice of threatened litigation and a preservation of records demand regarding a borrower who wired closing funds to someone impersonating the closing agent. On December 27, 2019, the Company received a copy of a demand letter from the borrower's attorney directed to the closing agent seeking reimbursement of the \$86,000 lost by the borrower. The letter made no allegations of wrongdoing on the part of the Company and did not seek recovery from the Company. The Company has had no further communications regarding the matter.

12. SUBSEQUENT EVENTS

In December 2019, a novel strain of coronavirus ("COVID-19") was reported in Wuhan, China. On January 30, 2020, the World Health Organization declared COVID-19 to constitute a "Public Health Emergency of International Concern." On March 13, 2020, The President of The United States Of America declared COVID-19 a national emergency.

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LENSURE MORTGAGE CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019

12. SUBSEQUENT EVENTS (CONT.)

Since that time, COVID-19 has spread throughout the U.S. with the death toll rising daily. In an effort to slow the spread, measures have been implemented at both the federal and state levels, including travel restrictions, closure of non-essential businesses, and stay-at-home and lockdown orders. The U.S. economy has been negatively impacted in all financial markets, including mortgage lending and liquidity for loans originated by the Company.

On March 23, 2020, due to the continued disruption in all financial markets, the Company paused further lending operations, except to fund loans for which loan documents had been signed by the borrowers and for which continued borrower employment was verified. While this pause in lending activities is hoped to be temporary, the Company's revenue will be significantly impacted during the pause.

In response to unprecedented disruptions in the financial markets, on March 27, 2020, The United States Congress approved a \$2 trillion emergency stimulus package intended to stave off total economic collapse in the wake of the coronavirus (The CARES Act). Included in the approved package are provisions for "Small Business Loans" for employers with less than 500 employees, for which the company would qualify. The Small Business Loans are available for up to \$10 million dollars and will be guaranteed by the federal government. The Small Business Loan allows for the proceeds to be used for a variety of expenditures, including to support payroll related costs. Additionally, the portion of the proceeds used to support payroll related costs may be eligible for forgiveness (with the forgiven amount non-taxable) if employees are maintained for a defined period of time.

The details of the Small Business Loan program are not yet fully known. The Company currently intends to apply for a Small Business Loan under this program when they become available. There is no assurance that the Company will qualify for a Small Business Loan, and if the Company does qualify, there is no assurance the loan will be approved.

At this time, the Company is not planning any downsizing of the employee group, although the Company has suspended all bonus programs, and commission-based compensation, which represented approximately 35% of the Company's general expenses for 2019, will be substantially eliminated during the pause. Given the dynamic nature of these circumstances, the duration of business disruption and reduced loan activity, the related financial impact cannot be reasonably estimated at this time, but are expected to materially affect our results in calendar year 2020, which has not been reflected in these 2019 financial statements. If the Small Business Loan is not available to the Company and the market disruption continues for an extended period, the Company will take other actions as necessary, such as compensation and/or workforce reductions.

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**LENSURE MORTGAGE CORP.**  
**SCHEDULE - GEN & ADMIN EXPENSES**  
**For The Year Ended**  
**December 31, 2019**  
**(UNAUDITED)**

<b>Gen &amp; admin expenses</b>	
Bank charges	\$ 783
Computer and software expense	417,156
Depreciation	81,109
G&A, Postage, Off Supp, Fax, Phone	171,863
Interest expense	1,458
Interest and fee expense - warehouse	1,534,564
Insurance-medical	492,246
Loan costs & fees	4,516,196
Payroll - salaries	12,515,498
Pension plan contributions	185,616
Payroll service	22,616
Pension plan admin fees	1,500
Professional fees	176,399
Rent expense	283,008
Taxes & licenses	171,577
Taxes-payroll	878,625
Travel, Entertainment, Auto exp	<u>351,663</u>
<b>Total gen &amp; admin expenses</b>	<b><u>\$ 21,801,877</u></b>

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