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

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2022

or

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

For the transition period from to

Commission File Number: 1-13991

MFA FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

Maryland	**13-3974868**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
One Vanderbilt Ave., 48th Floor New York New York	**10017**
(Address of principal executive offices)	*(Zip Code)*

(212) 207-6400
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last period)

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	MFA	New York Stock Exchange
7.50% Series B Cumulative Redeemable Preferred Stock, par value $0.01 per share	MFA/PB	New York Stock Exchange
6.50% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, par value $0.01 per share	MFA/PC	New York Stock Exchange

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

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No o

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

Large accelerated filer	x	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. o

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

102,455,065 shares of the registrant's common stock, $0.01 par value, were outstanding as of April 28, 2022.

MFA FINANCIAL, INC.

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MFA FINANCIAL, INC.
CONSOLIDATED BALANCE SHEETS

(In Thousands Except Per Share Amounts)		March 31, 2022		December 31, 2021
		(Unaudited)		
Assets:				
Residential whole loans, net ($5,977,315 and $5,305,349 held at fair value, respectively) *(1)(2)*	$	8,261,905	$	7,913,000
Securities, at fair value *(2)*		250,171		256,685
Cash and cash equivalents		410,939		304,696
Restricted cash		144,600		99,751
Other assets *(2)*		857,343		565,556
Total Assets	$	9,924,958	$	9,139,688
Liabilities:				
Financing agreements ($3,804,906 and $3,266,773 held at fair value, respectively)	$	7,028,211	$	6,378,782
Other liabilities		547,792		218,058
Total Liabilities	$	7,576,003	$	6,596,840
Commitments and contingencies (See Note 9)				
Stockholders' Equity:				
Preferred stock, $0.01 par value; 7.5% Series B cumulative redeemable; 8,050 shares authorized; 8,000 shares issued and outstanding ($200,000 aggregate liquidation preference)	$	80	$	80
Preferred stock, $0.01 par value; 6.5% Series C fixed-to-floating rate cumulative redeemable; 12,650 shares authorized; 11,000 shares issued and outstanding ($275,000 aggregate liquidation preference)		110		110
Common stock, $0.01 par value; 874,300 and 874,300 shares authorized; 105,036 and 108,138 shares issued and outstanding, respectively		1,050		1,082
Additional paid-in capital, in excess of par		3,722,974		3,775,482
Accumulated deficit		(1,417,115)		(1,279,484)
Accumulated other comprehensive income		41,856		45,578
Total Stockholders' Equity	$	2,348,955	$	2,542,848
Total Liabilities and Stockholders' Equity	$	9,924,958	$	9,139,688

(1) Includes approximately $3.2 billion and $3.0 billion of Residential whole loans transferred to consolidated variable interest entities ("VIEs") at March 31, 2022 and December 31, 2021, respectively. Such assets can be used only to settle the obligations of each respective VIE.

(2) See Note 6 for information regarding the Company's pledged assets.

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

MFA FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(In Thousands, Except Per Share Amounts)	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Interest Income:		
Residential whole loans	$ 99,466	$ 64,538
Securities, at fair value	5,275	16,459
Other interest-earning assets	1,506	—
Cash and cash equivalent investments	102	54
Interest Income	$ 106,349	$ 81,051
Interest Expense:		
Asset-backed and other collateralized financing arrangements	$ 39,365	$ 26,050
Other interest expense	3,931	4,020
Interest Expense	$ 43,296	$ 30,070
Net Interest Income	$ 63,053	$ 50,981
Reversal of Provision for Credit Losses on Residential Whole Loans	$ 3,511	$ 22,750
Net Interest Income after Reversal of Provision for Credit Losses	$ 66,564	$ 73,731
Other Income, net:		
Net mark-to-market and other net (loss)/gain on residential whole loans measured at fair value	$ (288,375)	$ 31,490
Net gains on derivatives used for risk management purposes	94,101	—
Net mark-to-market on Securitized debt measured at fair value	64,117	(1,011)
Net gain on real estate owned	8,732	2,440
Lima One - origination, servicing and other fee income	14,494	—
Other, net	(585)	1,400
Other (Loss)/Income, net	$ (107,516)	$ 34,319
Operating and Other Expense:		
Compensation and benefits	$ 19,556	$ 8,437
Other general and administrative expense	8,697	6,792
Loan servicing, financing and other related costs	10,401	7,299
Amortization of intangible assets	3,300	—
Operating and Other Expense	$ 41,954	$ 22,528
Net (Loss)/Income	$ (82,906)	$ 85,522
Less Preferred Stock Dividend Requirement	$ 8,219	$ 8,219
Net (Loss)/Income Available to Common Stock and Participating Securities	$ (91,125)	$ 77,303
Basic (Loss)/Earnings per Common Share	$ (0.86)	$ 0.68
Diluted (Loss)/Earnings per Common Share	$ (0.86)	$ 0.67

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

MFA FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
(UNAUDITED)

(In Thousands)	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Net (loss)/income	$ (82,906)	$ 85,522
Other Comprehensive (Loss):		
Unrealized (losses) on securities available-for-sale	(4,977)	(3,855)
Changes in fair value of financing agreements at fair value due to changes in instrument-specific credit risk	1,255	235
Other Comprehensive (Loss)	(3,722)	(3,620)
Comprehensive (loss)/income before preferred stock dividends	$ (86,628)	$ 81,902
Dividends required on preferred stock	(8,219)	(8,219)
Comprehensive (Loss)/Income Available to Common Stock and Participating Securities	$ (94,847)	$ 73,683

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

MFA FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)

	Three Months Ended March 31, 2022									
	Preferred Stock 6.50% Series C Fixed-to-Floating Rate Cumulative Redeemable - Liquidation Preference $25.00 per Share		Preferred Stock 7.50% Series B Cumulative Redeemable - Liquidation Preference $25.00 per Share		Common Stock					
(In Thousands, Except Per Share Amounts)	Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2021	11,000	$ 110	8,000	$ 80	108,138	$ 1,082	$ 3,775,482	$ (1,279,484)	$ 45,578	$ 2,542,848
Net Income	—	—	—	—	—	—	—	(82,906)	—	(82,906)
Issuance of common stock, net of expenses	—	—	—	—	150	1	485	—	—	486
Repurchase of shares of common stock *(1)*	—	—	—	—	(3,252)	(33)	(55,709)	—	—	(55,742)
Equity based compensation expense	—	—	—	—	—	—	2,642	—	—	2,642
Change in accrued dividends attributable to stock-based awards	—	—	—	—	—	—	74	(150)	—	(76)
Dividends declared on common stock ($0.110 per share) *(2)*	—	—	—	—	—	—	—	(46,215)	—	(46,215)
Dividends declared on Series B Preferred Stock ($0.46875 per share)	—	—	—	—	—	—	—	(3,750)	—	(3,750)
Dividends declared on Series C Preferred Stock ($0.40625 per share)	—		—	—	—	—	—	(4,469)	—	(4,469)
Dividends attributable to dividend equivalents	—	—	—	—	—	—	—	(141)	—	(141)
Change in unrealized gains on securities, net	—	—	—	—	—	—	—	—	(4,977)	(4,977)
Changes in fair value of financing agreements at fair value due to changes in instrument-specific credit risk	—	—	—	—	—	—	—	—	1,255	1,255
Balance at March 31, 2022	11,000	$ 110	8,000	$ 80	105,036	$ 1,050	$ 3,722,974	$ (1,417,115)	$ 41,856	$ 2,348,955

(1) For the three months ended March 31, 2022 includes approximately $1.0 million (56,690 shares) surrendered for tax purposes related to equity-based compensation awards.

(2) Based on the number of shares held by stockholders at the record date and before giving effect to the Company's 1 for 4 reverse stock split effected on April 4, 2022.

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

MFA FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)

	Three Months Ended March 31, 2021										
	Preferred Stock 6.50% Series C Fixed-to-Floating Rate Cumulative Redeemable - Liquidation Preference $25.00 per Share		Preferred Stock 7.50% Series B Cumulative Redeemable - Liquidation Preference $25.00 per Share		Common Stock						
(In Thousands, Except Per Share Amounts)	Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2020	11,000	$ 110	8,000	$ 80	112,929	$ 1,129	$ 3,851,517	$ (1,405,327)	$ 77,293	$ 2,524,802
Net Income	—	—	—	—	—	—	—	85,522	—	85,522
Issuance of common stock, net of expenses	—	—	—	—	139	1	381	—	—	382
Repurchase of shares of common stock *(1)*	—	—	—	—	(1,540)	(15)	(25,121)	—	—	(25,136)
Equity based compensation expense	—	—	—	—	—	—	1,686	—	—	1,686
Change in accrued dividends attributable to stock-based awards	—	—	—	—	—	—	489	—	—	489
Dividends declared on common stock ($0.075 per share) *(2)*	—	—	—	—	—	—	—	(33,521)	—	(33,521)
Dividends declared on Series B Preferred Stock ($0.46875 per share)	—	—	—	—	—	—	—	(3,750)	—	(3,750)
Dividends declared on Series C Preferred Stock ($0.40625 per share)	—	—	—	—	—	—	—	(4,468)	—	(4,468)
Dividends attributable to dividend equivalents	—	—	—	—	—	—	—	(120)	—	(120)
Change in unrealized losses on securities, net	—	—	—	—	—	—	—	—	(3,855)	(3,855)
Changes in fair value of financing agreements at fair value due to changes in instrument-specific credit risk	—	—	—	—	—	—	—	—	235	235
Balance at March 31, 2021	11,000	$ 110	8,000	$ 80	111,528	$ 1,115	$ 3,828,952	$ (1,361,664)	$ 73,673	$ 2,542,266

(1) For the three months ended March 31, 2021, includes approximately $799,000 (53,281 shares) surrendered for tax purposes related to equity-based compensation awards

(2) Based on the number of shares held by stockholders at the record date and before giving effect to the Company's 1 for 4 reverse stock split effected on April 4, 2022.

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

MFA FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(In Thousands)	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Cash Flows From Operating Activities:		
Net (loss)/income	$ (82,906)	$ 85,522
Adjustments to reconcile net income to net cash provided by operating activities:		
(Gains)/losses on residential whole loans and real estate owned, net	277,273	(35,893)
(Gains)/losses on securities, net	2,921	(100)
Accretion of purchase discounts and amortization of purchase premiums on residential whole loans and securities, and amortization of terminated hedging instruments	(4,135)	(9,645)
(Reversal of provision)/provision for credit and valuation losses on residential whole loans and other financial instruments	(4,038)	(23,967)
Net other non-cash (gains)/losses included in net income	(134,618)	5,212
(Increase)/Decrease in other assets	78,454	(1,939)
Increase/(Decrease) in other liabilities	609	4,975
Net cash provided by operating activities	$ 133,560	$ 24,165
Cash Flows From Investing Activities:		
Purchases of residential whole loans, loan related investments and capitalized advances	$ (1,192,437)	$ (184,707)
Proceeds from sales of residential whole loans, and residential whole loan repurchases	—	—
Principal payments on residential whole loans and loan related investments	567,114	425,300
Proceeds from sales of securities and other assets	369	—
Principal payments on securities	1,470	58,896
Purchases of real estate owned and capital improvements	(353)	(217)
Proceeds from sales of real estate owned	41,336	50,619
Additions to leasehold improvements, furniture and fixtures	(953)	(4,415)
Net cash (used in)/provided by investing activities	$ (583,454)	$ 345,476
Cash Flows From Financing Activities:		
Principal payments on financing agreements with mark-to-market collateral provisions	$ (586,883)	$ (821,716)
Proceeds from borrowings under financing agreements with mark-to-market collateral provisions	965,270	663,926
Principal payments on other collateralized financing agreements	(761,122)	(521,259)
Proceeds from borrowings under other collateralized financing agreements	1,096,258	437,915
Payment made for other collateralized financing agreement related costs	(2,870)	(1,371)
Principal payment on redemption of Senior notes	—	(100,000)
Proceeds from issuances of common stock	581	376
Payments made for the repurchase of common stock through the stock repurchase program	(54,799)	(20,933)
Dividends paid on preferred stock	(8,219)	(8,219)
Dividends paid on common stock and dividend equivalents	(47,230)	(34,015)
Net cash provided by/(used in) financing activities	$ 600,986	$ (405,296)
Net (decrease)/increase in cash, cash equivalents and restricted cash	$ 151,092	$ (35,655)
Cash, cash equivalents and restricted cash at beginning of period	$ 404,447	$ 821,519
Cash, cash equivalents and restricted cash at end of period	$ 555,539	$ 785,864
Supplemental Disclosure of Cash Flow Information		
Interest Paid	$ 34,727	$ 29,554
Non-cash Investing and Financing Activities:		
Transfer from residential whole loans to real estate owned	$ 22,079	$ 20,068
Dividends and dividend equivalents declared and unpaid	$ 46,357	$ 33,640
Payable for unsettled residential whole loan and Treasury Bill purchases	$ 329,706	$ 112,202

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

1. Organization

MFA Financial, Inc. (the "Company") was incorporated in Maryland on July 24, 1997 and began operations on April 10, 1998. The Company has elected to be treated as a real estate investment trust ("REIT") for U.S. federal income tax purposes. In order to maintain its qualification as a REIT, the Company must comply with a number of requirements under federal tax law, including that it must distribute at least 90% of its annual REIT taxable income to its stockholders. The Company has elected to treat certain of its subsidiaries as taxable REIT subsidiaries ("TRS"). In general, a TRS may hold assets and engage in activities that the Company cannot hold or engage in directly and generally may engage in any real estate or non-real estate related business (see Note 8).

2. Summary of Significant Accounting Policies

(a) Basis of Presentation and Consolidation

For all periods presented, all per share amounts and common shares outstanding have been adjusted on a retroactive basis to reflect the Company's one-for-four reverse stock split which was effected following the close of business on April 4, 2022.

The interim unaudited consolidated financial statements of the Company have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted in accordance with these SEC rules and regulations. Management believes that the disclosures included in these interim unaudited consolidated financial statements are adequate to make the information presented not misleading. The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021. In the opinion of management, all normal and recurring adjustments necessary to present fairly the financial condition of the Company at March 31, 2022 and results of operations for all periods presented have been made. The results of operations for the three months ended March 31, 2022 should not be construed as indicative of the results to be expected for the full year.

The accompanying consolidated financial statements of the Company have been prepared on the accrual basis of accounting in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although the Company's estimates contemplate current conditions and how it expects them to change in the future, it is reasonably possible that actual conditions could differ from those estimates, which could materially impact the Company's results of operations and its financial condition. Management has made significant estimates in several areas: impairment, valuation allowances and loss allowances on residential whole loans (see Note 3), mortgage-backed securities ('MBS"), credit risk transfer ("CRT") securities and mortgage servicing rights ("MSR")-related assets (collectively, "Securities, at fair value") (see Note 4) and Other assets (see Note 5), valuation of Securities, at fair value (see Notes 4 and 13), income recognition and valuation of residential whole loans (see Notes 3 and 13), and valuation of derivative instruments (see Notes 5(d) and 13). In addition, estimates are used in the determination of taxable income used in the assessment of REIT compliance and contingent liabilities for related taxes, penalties and interest (see Note 8). Actual results could differ from those estimates.

The Company has one reportable segment as it manages its business and analyzes and reports its results of operations on the basis of one operating segment: investing, on a leveraged basis, in residential mortgage assets.

The consolidated financial statements of the Company include the accounts of all subsidiaries. All intercompany accounts and transactions have been eliminated. In addition, the Company consolidates entities established to facilitate transactions related to the acquisition and securitization of residential whole loans completed in prior years. Certain prior period amounts have been reclassified to conform to the current period presentation. In particular, prior period disclosures have been conformed to the current period presentation of interest income from residential whole loans at fair value. Starting in the second quarter of 2021, interest income for these loans is presented in interest income in the Company's consolidated statements of operations. Previously, interest income received on residential whole loans at fair value was presented in other income in the Company's consolidated statements of operations. On July 1, 2021, the Company completed the acquisition of Lima One Holdings, LLC, the parent company of Lima One Capital, LLC (collectively referred to as "Lima One"), a leading nationwide originator and servicer of business purpose loans ("BPLs"). Lima One's financial results are consolidated with MFA's results from that date.

(b) Residential Whole Loans (including Residential Whole Loans transferred to consolidated VIEs)

Residential whole loans included in the Company's consolidated balance sheets are primarily comprised of pools of fixed- and adjustable-rate residential mortgage loans acquired through consolidated trusts in secondary market transactions or originated by Lima One. The accounting model utilized by the Company is determined at the time each loan package is initially acquired. Prior to the second quarter of 2021, the fair value option was typically elected on loans that were 60 or more days delinquent at purchase ("Purchased Non-performing Loans"). Purchased Credit Deteriorated Loans acquired prior to the second quarter of 2021, and where the underlying borrower had a delinquency status of less than 60 days at the acquisition date, are typically held at carrying value. Purchased Performing Loans acquired prior to the second quarter of 2021 are also typically held at carrying value, but the accounting methods for income recognition and determination and measurement of any required credit loss reserves (as discussed below) differ from those used for Purchased Credit Deteriorated Loans held at carrying value. Starting in the second quarter of 2021, the Company elected the fair value option for all loans acquired, irrespective of borrower delinquency status at acquisition. Over time, the Company expects that election of the fair value option should serve to simplify reporting of the results of its loan investment activities as fair value accounting will be used for the majority of loans in the Company's portfolio. The accounting model initially applied to loan acquisitions is not permitted to be subsequently changed. Consequently, the Company is not permitted to retroactively apply fair value accounting to loans held at carrying value acquired in periods prior to the second quarter of 2021.

The Company's residential whole loans pledged as collateral against financing agreements are included in the consolidated balance sheets with amounts pledged disclosed in Note 6. Purchases and sales of residential whole loans that are subject to an extended period of due diligence that crosses a reporting date are recorded in the Company's balance sheet at amounts reflecting management's current estimate of assets that will be acquired or disposed at the closing of the transaction. This estimate is subject to revision at the closing of the transaction, pending the outcome of due diligence performed prior to closing. Residential whole loans purchased under flow arrangements with loan origination partners are generally recorded at the transaction settlement date. Recorded amounts of residential whole loans for which the closing of the purchase transaction is yet to occur are not eligible to be pledged as collateral against any financing agreement until the closing of the purchase transaction. Interest income, credit related losses and changes in the fair value of loans held at fair value are recorded post settlement for acquired loans and until transaction settlement for sold loans (see Notes 3, 6, 13 and 14).

Purchased Performing Loans

Acquisitions of Purchased Performing Loans to date (which include loans purchased from third parties or loans originated by Lima One) have been primarily comprised of: (i) loans to finance (or refinance) one-to-four family residential properties that are not considered to meet the definition of a "Qualified Mortgage" in accordance with guidelines adopted by the Consumer Financial Protection Bureau ("Non-QM loans"), (ii) short-term business purpose loans collateralized by non-owner occupied residential properties made to borrowers who intend to rehabilitate and sell the property for a profit ("Rehabilitation loans" or "Fix and Flip loans"), (iii) loans to finance (or refinance) non-owner occupied one-to four-family residential properties that are rented to one or more tenants ("Single-family rental loans"), (iv) loans on investor properties that conform to the standards for purchase by a federally chartered corporation, such as the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac") ("Agency eligible investor loans"), and (v) previously originated loans secured by residential real estate that is generally owner occupied ("Seasoned performing loans"). Purchased Performing Loans are initially recorded at their purchase price (or amount funded for originated loans). Interest income on Purchased Performing Loans acquired at par is accrued based on each loan's current interest bearing balance and current interest rate. Interest income on such loans acquired at a premium/discount to par is recorded each period based on the contractual coupon net of any amortization of premium or accretion of discount, adjusted for actual prepayment activity. For loans acquired with related servicing rights retained by the seller, interest income is reported net of related serving costs.

For Purchased Performing Loans acquired prior to the second quarter of 2021 and where the fair value option was not elected, an allowance for credit losses is recorded at acquisition, and maintained on an ongoing basis, for all losses expected over the life of the respective loan. Any required credit loss allowance would reduce the net carrying value of the loan with a corresponding charge to earnings, and may increase or decrease over time. Significant judgments are required in determining any allowance for credit loss, including assumptions regarding the loan cash flows expected to be collected, the value of the underlying collateral and the ability of the Company to collect on any other forms of security, such as a personal guaranty provided either by the borrower or an affiliate of the borrower. Income recognition is suspended, and interest accruals are reversed against income, for loans at the earlier of the date at which payments become 90 days past due or when, in the opinion of management, a full recovery of income and principal becomes doubtful (i.e., such loans are placed on nonaccrual status). For nonaccrual loans, interest income is recorded under the cash basis method as interest payments are received. Interest accruals are resumed when the loan becomes contractually current. A loan is written off when it is no longer realizable and/or it is legally discharged. Modified loans are considered "troubled debt restructurings" if the Company grants a concession to a borrower who is experiencing financial difficulty (including the interpretation of this definition set forth in OCC Bulletin 2020-35).

Charge-offs to the allowance for loan losses occur when losses are confirmed through the receipt of cash or other consideration from the completion of a sale; when a modification or restructuring takes place in which we grant a concession to a borrower or agree to a discount in full or partial satisfaction of the loan; when we take ownership and control of the underlying collateral in full satisfaction of the loan; when loans are reclassified as other investments; or when significant collection efforts have ceased and it is highly likely that a loss has been realized.

The aggregate allowance for credit losses is equal to the sum of the losses expected over the life of each respective loan. Expected losses are generally calculated based on the estimated probability of default and loss severity of loans in the portfolio, which involves projecting each loan's expected cash flows based on their contractual terms, expected prepayments, and estimated default and loss severity rates. The results were not discounted. The default and severity rates were estimated based on the following steps: (i) obtained the Company's historical experience through an entire economic cycle for each loan type or, to the extent the Company did not have sufficient historical loss experience for a given loan type, publicly available data derived from the historical loss experience of certain banks, which data the Company believes is generally representative of its portfolio, (ii) obtained historical economic data (U.S. unemployment rates and home price appreciation) over the same period, and (iii) estimated default and severity rates during three distinct future periods based on historical default and severity rates during periods when economic conditions similar to those forecasted were experienced. The default and severity rates were applied to the estimated amount of loans outstanding during each future period, based on contractual terms and expected prepayments. Expected prepayments are estimated based on historical experience and current and expected future economic conditions, including market interest rates. The three periods were as follows: (i) a one-year forecast of economic conditions based on U.S. unemployment rates and home price appreciation, followed by (ii) a two-year "reversion" period during which economic conditions (U.S. unemployment rates and home price appreciation) are projected to revert to historical averages on a straight line basis, followed by (iii) the remaining life of each loan, during which period economic conditions (U.S. unemployment rates and home price appreciation) are projected to equal historical averages. In addition, a liability is established (and recorded in Other Liabilities) each period using a similar methodology for committed but undrawn loan amounts. The Company forecasts future economic conditions based on forecasts provided by an external preparer of economic forecasts, as well as its own knowledge of the market and its portfolio. The Company may consider multiple scenarios and select the one that it believes results in the most reasonable estimate of expected losses. The Company may apply qualitative adjustments to these results as further described in Note 3. For certain loans where foreclosure has been deemed to be probable, loss estimates are based on whether the value of the underlying collateral is sufficient to recover the carrying value of the loan. This methodology has not changed significantly from the calculation of the allowance for credit losses on January 1, 2021.

Purchased Credit Deteriorated Loans

The Company has elected to account for these loans as credit deteriorated as they have experienced a more-than-insignificant deterioration in credit quality since origination and were acquired at discounted prices that reflect, in part, the impaired credit history of the borrower. Substantially all of these loans have previously experienced payment delinquencies and the amount owed may exceed the value of the property pledged as collateral. Consequently, these loans generally have a higher likelihood of default than newly originated mortgage loans with loan-to-value ratios ("LTVs") of 80% or less to creditworthy borrowers. The Company believes that amounts paid to acquire these loans represent fair market value at the date of acquisition. Loans considered credit deteriorated are initially recorded at the purchase price on a net basis, after establishing an initial allowance for credit losses (their initial cost basis is equal to their purchase price plus the initial allowance for credit losses). Subsequent to acquisition, the gross recorded amount for these loans reflects the initial cost basis, plus accretion of interest income, less principal and interest cash flows received. Purchased Credit Deteriorated Loans acquired prior to the second quarter of 2021, or where the fair value option was not otherwise elected, are presented on the Company's consolidated balance sheets at carrying value, which reflects the recorded cost basis reduced by any allowance for credit losses. Interest income on such loans purchased is recorded each period based on the contractual coupon net of amortization of the difference between their cost basis and unpaid principal balance ("UPB"), subject to the Company's nonaccrual policy.

Residential Whole Loans at Fair Value

Certain of the Company's residential whole loans are presented at fair value on its consolidated balance sheets as a result of a fair value election made at the time of acquisition. Prior to the second quarter of 2021, this accounting election was made primarily on Purchased Non-performing Loans. Starting in the second quarter of 2021, the Company made the fair value election on all loan acquisitions, which, to date, have been comprised exclusively of Purchased Performing Loans including loans originated by Lima One since its consolidation. The Company generally considers accounting for these loans at fair value to be more reflective of the expected pattern of returns from these loans under current economic conditions. The Company determines the fair value of its residential whole loans held at fair value after considering portfolio valuations obtained from a third-party that specializes in providing valuations of residential mortgage loans and trading activity observed in the marketplace. Subsequent changes in fair value are reported in current period earnings and presented in Net (loss)/gain on residential whole loans measured at fair value through earnings on the Company's consolidated statements of operations.

Interest income is recorded on these loans based on their yield and is presented as part of interest income in the Company's consolidated statements of operations. Cash outflows associated with loan-related advances made by the Company on behalf of the borrower are included in the basis of the loan and are reflected in unrealized gains or losses reported each period. Income and costs associated with originating loans on which the fair value option was elected are recorded in other income and expense respectively in the period in which they are earned or incurred.

(c) Securities, at Fair Value

MSR-Related Assets

The Company has investments in financial instruments whose cash flows are considered to be largely dependent on underlying MSRs that either directly or indirectly act as collateral for the investment. These financial instruments, which are referred to as MSR-related assets, are discussed in more detail below. The Company's MSR-related assets pledged as collateral against repurchase agreements are included in the consolidated balance sheets with the amounts pledged disclosed in Note 6. Purchases and sales of MSR-related assets are recorded on the trade date (see Notes 4, 6, and 13).

Term Notes Backed by MSR-Related Collateral

The Company has invested in term notes that are issued by special purpose vehicles ("SPV") that have acquired rights to receive cash flows representing the servicing fees and/or excess servicing spread associated with certain MSRs. The Company considers payment of principal and interest on these term notes to be largely dependent on the cash flows generated by the underlying MSRs as this impacts the cash flows available to the SPV that issued the term notes. Credit risk borne by the holders of the term notes is also mitigated by structural credit support in the form of over-collateralization. Credit support is also provided by a corporate guarantee from the ultimate parent or sponsor of the SPV that is intended to provide for payment of interest and principal to the holders of the term notes should cash flows generated by the underlying MSRs be insufficient.

The Company's term notes backed by MSR-related collateral are treated as "available-for-sale" ("AFS") securities and reported at fair value on the Company's consolidated balance sheets with unrealized gains and losses excluded from earnings and reported in Accumulated other comprehensive income/(loss) ("AOCI"), a component of Stockholders' Equity, subject to impairment and loss allowances. Interest income is recognized on an accrual basis on the Company's consolidated statements of operations. The Company's valuation process for such notes is similar to that used for residential mortgage securities and considers a number of observable market data points, including prices obtained from pricing services, brokers and repurchase agreement counterparties, dialogue with market participants, as well as management's observations of market activity. Other factors taken into consideration include estimated changes in fair value of the related underlying MSR collateral, as applicable, and the financial performance of the ultimate parent or sponsoring entity of the issuer, which has provided a guarantee that is intended to provide for payment of interest and principal to the holders of the term notes should cash flows generated by the related underlying MSR collateral be insufficient.

Residential Mortgage Securities

Prior to the quarter ended June 30, 2020, the Company had invested in residential MBS that are issued or guaranteed as to principal and/or interest by a federally chartered corporation, such as Fannie Mae or Freddie Mac, or an agency of the U.S. Government, such as the Government National Mortgage Association ("Ginnie Mae") (collectively, "Agency MBS"), and residential MBS that are not guaranteed by any agency of the U.S. Government or any federally chartered corporation ("Non-Agency MBS"). The Company disposed of its investments in Agency MBS during 2020 and disposed of its remaining investments in Non-Agency MBS during the second quarter of 2021. In addition, the Company has investments in CRT securities that are issued by or sponsored by Fannie Mae and Freddie Mac. The coupon payments on CRT securities are paid by the issuer and the principal payments received are dependent on the performance of loans in either a reference pool or an actual pool of loans. As the loans in the underlying pool are paid, the principal balance of the CRT securities is paid. As an investor in a CRT security, the Company may incur a principal loss if the performance of the actual or reference pool loans results in either an actual or calculated loss that exceeds the credit enhancement of the security owned by the Company.

Designation

Securities that the Company generally intends to hold until maturity, but that it may sell from time to time as part of the overall management of its business, are designated as AFS. Such securities are carried at their fair value with unrealized gains and losses excluded from earnings (except when an allowance for loan losses is recognized, as discussed below) and reported in AOCI, a component of Stockholders' Equity.

Upon the sale of an AFS security, any unrealized gain or loss is reclassified out of AOCI to earnings as a realized gain or loss using the specific identification method.

In addition, the Company has elected the fair value option for certain of its CRT securities as it considers this method of accounting to more appropriately reflect the risk-sharing structure of these securities. Such securities are carried at their fair value with changes in fair value included in earnings for the period and reported in Other Income, net on the Company's consolidated statements of operations.

Revenue Recognition, Premium Amortization and Discount Accretion

Interest income on securities is accrued based on their outstanding principal balance and their contractual terms. Premiums and discounts associated with Agency MBS and Non-Agency MBS assessed as high credit quality at the time of purchase are amortized into interest income over the life of such securities using the effective yield method. Adjustments to premium amortization are made for actual prepayment activity.

Determination of Fair Value for Residential Mortgage Securities

In determining the fair value of the Company's residential mortgage securities, management considers a number of observable market data points, including prices obtained from pricing services, brokers and repurchase agreement counterparties, dialogue with market participants, as well as management's observations of market activity (see Note 13).

Allowance for credit losses

When the fair value of an AFS security is less than its amortized cost at the balance sheet date, the security is considered impaired. The Company assesses its impaired securities, as well as securities for which a credit loss allowance had been previously recorded, on at least a quarterly basis and determines whether any changes to the allowance for credit losses are required. If the Company intends to sell an impaired security, or it is more likely than not that it will be required to sell the impaired security before its anticipated recovery, then the Company must recognize a write-down through charges to earnings equal to the entire difference between the investment's amortized cost and its fair value at the balance sheet date. If the Company does not expect to sell an impaired security, only the portion of the impairment related to credit losses is recognized through a loss allowance charged to earnings with the remainder recognized through AOCI on the Company's consolidated balance sheets. Impairments recognized through other comprehensive income/(loss) ("OCI") do not impact earnings. Credit loss allowances are subject to reversal through earnings resulting from improvements in expected cash flows. The determination as to whether to record (or reverse) a credit loss allowance is subjective, as such determinations are based on factual information available at the time of assessment as well as the Company's estimates of future performance and cash flow projections. As a result, the timing and amount of losses constitute material estimates that are susceptible to significant change (see Note 4).

Balance Sheet Presentation

The Company's residential mortgage securities pledged as collateral against financing agreements and interest rate swap agreements ("Swaps") are included on the consolidated balance sheets with the fair value of the securities pledged disclosed in Note 6. Purchases and sales of securities are recorded on the trade date.

(d) Cash and Cash Equivalents

Cash and cash equivalents include cash on deposit with financial institutions and investments in money market funds, all of which have original maturities of three months or less. Cash and cash equivalents may also include cash pledged as collateral to the Company by its financing counterparties as a result of reverse margin calls (i.e., margin calls made by the Company). The Company did not hold any cash pledged by its counterparties at March 31, 2022 and December 31, 2021. At March 31, 2022 and December 31, 2021, the Company had cash and cash equivalents of $410.9 million and $304.7 million, respectively. At March 31, 2022, the Company had $320.7 million of investments in overnight money market funds, which are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation ("FDIC") or any other government agency. As of December 31, 2021, the Company had $215.8 million worth of investments in overnight money market funds. In addition, deposits in FDIC insured accounts generally exceed insured limits (see Notes 6 and 13).

(e) Restricted Cash

Restricted cash primarily represents the Company's cash collections held in connection with certain of the Company's financing agreements, Swaps and/or loan servicing activities that are not available to the Company for general corporate purposes. Restricted cash may be applied against amounts due to financing agreements and/or Swaps counterparties, or may be returned to the Company when the related collateral requirements are exceeded or at the maturity of financing agreements and/or Swaps. The Company had aggregate restricted cash of $144.6 million and $99.8 million at March 31, 2022 and December 31, 2021, respectively (see Notes 5(d), 6 and 13).

(f) Goodwill & Intangible Assets

At March 31, 2022 and December 31, 2021, the Company had goodwill of $61.1 million, which represents the excess of the fair value of consideration paid over the fair value of net assets acquired in connection with the acquisition of Lima One, and other intangible assets of $18.1 million and $21.4 million, respectively (net of amortization), primarily comprised of customer relationships, non-competition agreements, trademarks and trade names, and internally developed software recognized as part of the acquisition of Lima One (see Note 5(b). The intangible assets are amortized over their expected useful lives, which range from one to ten years. Goodwill, which is not subject to amortization, and intangible assets are tested for impairment at least annually, or more frequently under certain circumstances. Through March 31, 2022, the Company had not recognized any impairment against its goodwill or intangible assets. Goodwill and intangible assets are included in Other assets on the Company's consolidated balance sheets.

(g) Real Estate Owned ("REO")

REO represents real estate acquired by the Company, including through foreclosure, deed in lieu of foreclosure, or purchased in connection with the acquisition of residential whole loans. REO acquired through foreclosure or deed in lieu of foreclosure is initially recorded at fair value less estimated selling costs. REO acquired in connection with the acquisition of residential whole loans is initially recorded at its purchase price. Subsequent to acquisition, REO is reported, at each reporting date, at the lower of the current carrying amount or fair value less estimated selling costs and for presentation purposes is included in Other assets on the Company's consolidated balance sheets. Changes in fair value that result in an adjustment to the reported amount of an REO property that has a fair value at or below its carrying amount are reported in Other Income, net on the Company's consolidated statements of operations. The Company has acquired certain properties that it holds for investment purposes, including rentals to third parties. These properties are held at their historical basis less depreciation, and are subject to impairment. Related rental income and expenses are recorded in Other Income, net (see Note 5).

(h) Leases and Depreciation

Leases

The Company records its operating lease liabilities and operating lease right-of-use assets on its consolidated balance sheets. The operating lease liabilities are equal to the present value of the remaining fixed lease payments (excluding real estate tax and operating expense escalations) discounted at the Company's estimated incremental borrowing rate at the date of lease commencement, and the operating lease right-of-use assets are equal to the operating lease liabilities adjusted for lease incentives and initial direct costs. As lease payments are made, the operating lease liabilities are reduced to the present value of the remaining lease payments and the operating lease right-of-use assets are reduced by the difference between the lease expense (straight-lined over the lease term) and the theoretical interest expense amount (calculated using the incremental borrowing rate at the date of lease commencement). See Notes 5 and 9 for further discussion on leases.

Leasehold Improvements, Real estate and Other Depreciable Assets

Depreciation is computed on the straight-line method over the estimated useful life of the related assets or, in the case of leasehold improvements, over the shorter of the useful life or the lease term. Furniture, fixtures, computers and related hardware have estimated useful lives ranging from five to fifteen years at the time of purchase. The building component of real estate held-for-investment is depreciated over 27.5 years.

(i) Loan Securitization and Other Debt Issuance Costs

Loan securitization related costs are costs associated with the issuance of beneficial interests by consolidated VIEs and incurred by the Company in connection with various financing transactions completed by the Company. These costs may include underwriting, rating agency, legal, accounting and other fees. Such costs, which reflect deferred charges (unless the debt is recorded at fair value, as discussed below), are included on the Company's consolidated balance sheets as a direct deduction from the corresponding debt liability. These deferred charges are amortized as an adjustment to interest expense using the effective interest method. For certain financing agreements, such costs are amortized over the shorter of the period to the expected or stated legal maturity of the debt instruments. The Company periodically reviews the recoverability of these deferred costs and, in the event an impairment charge is required, such amount will be included in Operating and Other Expense on the Company's consolidated statements of operations. To the extent that the Company has elected the fair value option for the related debt liability, these costs are expensed at the closing of the transaction.

(j) Financing Agreements

The Company finances the majority of its residential mortgage assets with financing agreements that include repurchase agreements and other forms of collateralized financing. Under repurchase agreements, the Company sells assets to a lender and agrees to repurchase the same assets in the future for a price that is higher than the original sale price. The difference between the sale price that the Company receives and the repurchase price that the Company pays represents interest paid to the lender. Although legally structured as sale and repurchase transactions, the Company accounts for repurchase agreements as secured borrowings. Under its repurchase agreements and other forms of collateralized financing, the Company pledges its assets as collateral to secure the borrowing, in an amount which is equal to a specified percentage of the fair value of the pledged collateral, while the Company retains beneficial ownership of the pledged collateral. At the maturity of a repurchase financing, unless the repurchase financing is renewed with the same counterparty, the Company is required to repay the loan including any accrued interest and concurrently receives back its pledged collateral from the lender. With the consent of the lender, the Company may renew a repurchase financing at the then prevailing financing terms. Margin calls, whereby a lender requires that the Company pledge additional assets or cash as collateral to secure borrowings under its repurchase financing with such lender, are routinely experienced by the Company when the value of the assets pledged as collateral declines as a result of principal amortization and prepayments or due to changes in market interest rates, spreads or other market conditions. The Company also may make margin calls on counterparties when collateral values increase.

Should a counterparty decide not to renew a financing arrangement at maturity, the Company must either refinance elsewhere or be in a position to satisfy the obligation. If, during the term of a financing, a lender should default on its obligation, the Company might experience difficulty recovering its pledged assets which could result in an unsecured claim against the lender for the difference between the amount loaned to the Company plus interest due to the counterparty and the fair value of the collateral pledged by the Company to such lender, including accrued interest receivable on such collateral (see Notes 6 and 13).

The Company has elected the fair value option on certain of its financing agreements. These agreements are reported at their fair value, with changes in fair value being recorded in earnings each period (or other comprehensive income, to the extent the change results from a change in instrument specific credit risk), as further detailed in Note 6. Financing costs, including “up front” fees paid at inception related to financing agreements at fair value are expensed as incurred. Interest expense is recorded based on the current interest rate in effect for the related agreement.

(k) Equity-Based Compensation

Compensation expense for equity-based awards that are subject to vesting conditions, is recognized ratably over the vesting period of such awards, based upon the fair value of such awards at the grant date.

The Company has made annual grants of restricted stock units (“RSUs”), certain of which cliff vest after a three-year period, subject only to continued employment, and others of which cliff vest after a three-year period, subject to both continued employment and the achievement of certain performance criteria based on a formula tied to the Company’s achievement of average total shareholder return (“TSR”) during that three-year period, as well as the TSR of the Company relative to the TSR of a group of peer companies (over the three-year period) selected by the Compensation Committee of the Company’s Board of Directors (the “Compensation Committee”) at the date of grant. The features in these awards related to the attainment of TSR over a specified period constitute a “market condition,” which impacts the amount of compensation expense recognized for these awards. Specifically, the uncertainty regarding the achievement of the market condition was reflected in the grant date fair valuation of the RSUs, which is recognized as compensation expense over the relevant vesting period. The amount of compensation expense recognized is not dependent on whether the market condition was or will be achieved.

The Company makes dividend equivalent payments in connection with certain of its equity-based awards. A dividend equivalent is a right to receive a distribution equal to the dividend distributions that would be paid on a share of the Company’s common stock. Dividend equivalents may be granted as a separate instrument or may be a right associated with the grant of another award (e.g., an RSU) under the Company’s Equity Compensation Plan (the “Equity Plan”), and they are paid in cash or other consideration at such times and in accordance with such rules, terms and conditions, as the Compensation Committee may determine in its discretion. Payments pursuant to dividend equivalents are generally charged to Stockholders’ Equity to the extent that the attached equity awards are expected to vest. Compensation expense is recognized for payments made for dividend equivalents to the extent that the attached equity awards (i) do not or are not expected to vest and (ii) grantees are not required to return payments of dividends or dividend equivalents to the Company (see Notes 2(l) and 12).

(l) Earnings per Common Share (“EPS”)

Basic EPS is computed using the two-class method, which includes the weighted-average number of shares of common stock outstanding during the period and an estimate of other securities that participate in dividends, such as the Company’s dividend equivalents attached to/associated with RSUs, to arrive at total common equivalent shares. In applying the two-class method, earnings are allocated to both shares of common stock and estimated securities that participate in dividends based on their respective weighted-average shares outstanding for the period. For the diluted EPS calculation, common equivalent shares are further adjusted for the effect of RSUs outstanding that are unvested and have dividends that are subject to forfeiture, and for the effect of outstanding warrants, using the treasury stock method. Under the treasury stock method, common equivalent shares are calculated assuming that all dilutive common stock equivalents are exercised and the proceeds, along with future compensation expenses associated with such instruments (if any), are used to repurchase shares of the Company's outstanding common stock at the average market price during the reported period. In addition, the Company's 6.25% Convertible Senior Notes due 2024 (the "Convertible Senior Notes") are included in the calculation of diluted EPS if the assumed conversion into common shares is dilutive, using the "if-converted" method. This calculation involves adding back the periodic interest expense associated with the Convertible Senior Notes to the numerator and by adding the shares that would be issued in an assumed conversion (regardless of whether the conversion option is in or out of the money) to the denominator for the purposes of calculating diluted EPS (see Note 11).

(m) Comprehensive Income/(Loss)

The Company's comprehensive income/(loss) available to common stock and participating securities includes net income, the change in net unrealized gains/(losses) on its AFS securities and derivative hedging instruments (to the extent that such changes are not recorded in earnings), adjusted by realized net gains/(losses) reclassified out of AOCI for sold AFS securities and terminated hedging relationships, as well as the portion of unrealized gains/(losses) on its financing agreements held at fair value related to instrument-specific credit risk, and is reduced by dividends declared on the Company's preferred stock and issuance costs of redeemed preferred stock.

(n) Derivative Financial Instruments

The Company may use a variety of derivative instruments to economically hedge a portion of its exposure to market risks, including interest rate risk and prepayment risk. The objective of the Company's risk management strategy is to reduce fluctuations in net book value over a range of interest rate scenarios.

Swaps

The Company has entered into Swaps that were not designated as hedges for accounting purposes. Changes in the fair value of the Company's Swaps not designated in hedging transactions are recorded in Other income, net on the Company's consolidated statements of operations.

To Be Announced ("TBA") Securities

The Company has entered into transactions to take short positions in TBA securities in connection with the management of interest rate and other market risks associated with purchases of Agency eligible investor loans. As the Company does not intend to physically settle its transactions in TBA securities, they are required to be accounted for as derivative financial instruments. The Company does not apply hedge accounting to its TBA securities. Accordingly, TBA securities are recorded on the Company's balance sheets at fair value, with realized and unrealized changes in fair value each period recorded in Other income, net in the Company's consolidated statements of operations.

(o) Fair Value Measurements and the Fair Value Option for Financial Assets and Financial Liabilities

The Company's presentation of fair value for its financial assets and liabilities is determined within a framework that stipulates that the fair value of a financial asset or liability is an exchange price in an orderly transaction between market participants to sell the asset or transfer the liability in the market in which the reporting entity would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability. The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the asset or owes the liability. This definition of fair value focuses on exit price and prioritizes the use of market-based inputs over entity-specific inputs when determining fair value. In addition, the framework for measuring fair value establishes a three-level hierarchy for fair value measurements based upon the observability of inputs to the valuation of an asset or liability as of the measurement date.

In addition to the financial instruments that it is required to report at fair value, the Company has elected the fair value option for certain of its financial assets and liabilities at the time of acquisition or issuance. Subsequent changes in the fair value of these financial instruments are generally reported in Other income, net, in the Company's consolidated statements of operations. A decision to elect the fair value option for an eligible financial instrument, which may be made on an instrument by instrument basis, is irrevocable (see Notes 2(b), 2(c), 3, 4, and 13).

(p) Variable Interest Entities

An entity is referred to as a VIE if it meets at least one of the following criteria: (i) the entity has equity that is insufficient to permit the entity to finance its activities without the additional subordinated financial support of other parties; or (ii) as a group, the holders of the equity investment at risk lack (a) the power to direct the activities of an entity that most significantly impact the entity's economic performance; (b) the obligation to absorb the expected losses; or (c) the right to receive the expected residual returns; or (iii) the holders of the equity investment at risk have disproportional voting rights and the entity's activities are conducted on behalf of the investor that has disproportionately few voting rights.

The Company consolidates a VIE when it has both the power to direct the activities that most significantly impact the economic performance of the VIE and a right to receive benefits or absorb losses of the entity that could be potentially significant to the VIE. The Company is required to reconsider its evaluation of whether to consolidate a VIE each reporting period, based upon changes in the facts and circumstances pertaining to the VIE.

The Company has entered into several financing transactions which resulted in the Company forming entities to facilitate these transactions. In determining the accounting treatment to be applied to these transactions, the Company concluded that the entities used to facilitate these transactions are VIEs and that they should be consolidated. If the Company had determined that consolidation was not required, it would have then assessed whether the transfers of the underlying assets would qualify as sales or should be accounted for as secured financings under GAAP (see Note 14).

The Company also includes on its consolidated balance sheets certain financial assets and liabilities that are acquired/issued by trusts and/or other special purpose entities that have been evaluated as being required to be consolidated by the Company under the applicable accounting guidance.

(q) Offering Costs Related to Issuance and Redemption of Preferred Stock

Offering costs related to the issuance of preferred stock are recorded as a reduction in Additional paid-in capital, a component of Stockholders' Equity, at the time such preferred stock is issued. On redemption of preferred stock, any excess of the fair value of the consideration transferred to the holders of the preferred stock over the carrying amount of the preferred stock in the Company's consolidated balance sheets is included in the determination of Net Income Available to Common Stock and Participating Securities in the calculation of EPS.

(r) New Accounting Standards and Interpretations

As of the date of this filing, there have been no new accounting standards and interpretations adopted by the Company in 2022.

3. Residential Whole Loans

Included on the Company's consolidated balance sheets at March 31, 2022 and December 31, 2021 are approximately $8.3 billion and $7.9 billion, respectively, of residential whole loans arising from the Company's interests in certain trusts established to acquire the loans and certain entities established in connection with its loan securitization transactions. The Company has assessed that these entities are required to be consolidated for financial reporting purposes. Starting in the second quarter of 2021, the Company elected the fair value option for all loan acquisitions, including loans originated by Lima One subsequent to its acquisition by the Company. Prior to the second quarter of 2021, the fair value option was typically elected only for Purchased Non-performing Loans.

The following table presents the components of the Company's Residential whole loans, and the accounting model designated at March 31, 2022 and December 31, 2021:

	Held at Carrying Value		Held at Fair Value		Total	
(Dollars in Thousands)	March 31, 2022	December 31, 2021	March 31, 2022	December 31, 2021	March 31, 2022	December 31, 2021
Purchased Performing Loans:						
Non-QM loans	$ 1,265,731	$ 1,448,162	$ 2,391,632	$ 2,013,369	$ 3,657,363	$ 3,461,531
Rehabilitation loans	154,508	217,315	735,849	517,530	890,357	734,845
Single-family rental loans	283,090	331,808	870,407	619,415	1,153,497	951,223
Seasoned performing loans	98,269	102,041	—	—	98,269	102,041
Agency eligible investor loans	—	—	991,633	1,082,765	991,633	1,082,765
Total Purchased Performing Loans	$ 1,801,598	$ 2,099,326	$ 4,989,521	$ 4,233,079	$ 6,791,119	$ 6,332,405
Purchased Credit Deteriorated Loans	$ 518,450	$ 547,772	$ —	$ —	$ 518,450	$ 547,772
Allowance for Credit Losses	$ (35,457)	$ (39,447)	$ —	$ —	$ (35,457)	$ (39,447)
Purchased Non-Performing Loans	$ —	$ —	$ 987,794	$ 1,072,270	$ 987,794	$ 1,072,270
Total Residential Whole Loans	$ 2,284,591	$ 2,607,651	$ 5,977,315	$ 5,305,349	$ 8,261,906	$ 7,913,000
Number of loans	8,506	9,361	16,706	14,734	25,212	24,095

The following table presents additional information regarding the Company's Residential whole loans at March 31, 2022 and December 31, 2021:

March 31, 2022

							Aging by UPB			
								Past Due Days		
(Dollars In Thousands)	**Fair Value / Carrying Value**	**Unpaid Principal Balance ("UPB")**	**Weighted Average Coupon *(1)***	**Weighted Average Term to Maturity (Months)**	**Weighted Average LTV Ratio *(2)***	**Weighted Average Original FICO *(3)***	**Current**	**30-59**	**60-89**	**90+**
Purchased Performing Loans:										
Non-QM loans *(4)*	$ 3,621,124	$ 3,670,937	4.92 %	356	65 %	733	$ 3,431,011	$ 119,445	$ 30,355	$ 90,126
Rehabilitation loans	885,155	886,942	7.11	12	67	740	783,366	14,118	3,178	86,280
Single-family rental loans	1,152,195	1,168,778	5.26	324	70	735	1,133,996	13,436	547	20,799
Seasoned performing loans	98,224	107,624	2.71	159	36	722	98,569	634	97	8,324
Agency eligible investor loans	991,633	1,034,815	3.40	351	62	767	1,026,214	7,595	814	192
Total Purchased Performing Loans	6,748,331	$ 6,869,096	5.00 %	302						
Purchased Credit Deteriorated Loans	$ 496,871	$ 610,651	4.57 %	280	69 %	N/A	428,302	51,517	18,942	111,890
Purchased Non-Performing Loans	$ 987,794	$ 1,017,658	4.89 %	280	73 %	N/A	$ 464,770	$ 85,856	$ 40,454	$ 426,578
Residential whole loans, total or weighted average	$ 8,232,996	$ 8,497,405	4.96 %	298						

December 31, 2021

							Aging by UPB			
								Past Due Days		
(Dollars In Thousands)	**Fair Value / Carrying Value**	**Unpaid Principal Balance ("UPB")**	**Weighted Average Coupon *(1)***	**Weighted Average Term to Maturity (Months)**	**Weighted Average LTV Ratio *(2)***	**Weighted Average Original FICO *(3)***	**Current**	**30-59**	**60-89**	**90+**
Purchased Performing Loans:										
Non-QM loans	$ 3,453,242	$ 3,361,164	5.07 %	355	66 %	731	$ 3,165,964	$ 77,581	$ 22,864	$ 94,755
Rehabilitation loans	727,964	731,154	7.18	11	67	735	616,733	5,834	5,553	103,034
Single-family rental loans	949,772	924,498	5.46	329	70	732	898,166	2,150	695	23,487
Seasoned performing loans	101,995	111,710	2.76	162	37	722	102,047	938	481	8,244
Agency eligible investor loans	1,082,765	1,060,486	3.40	354	62	767	1,039,257	21,229	—	—
Total Purchased Performing Loans	6,315,738	$ 6,189,012	5.05 %	307						
Purchased Credit Deteriorated Loans	524,992	$ 643,187	4.55 %	283	69	N/A	456,924	50,048	18,736	117,479
Purchased Non-Performing Loans	1,072,270	$ 1,073,544	4.87 %	283	73	N/A	492,481	87,041	40,876	453,146
Residential whole loans, total or weighted average	$ 7,913,000	$ 7,905,743	4.99 %	301						

(1) Weighted average is calculated based on the interest bearing principal balance of each loan within the related category. For loans acquired with servicing rights released by the seller, interest rates included in the calculation do not reflect loan servicing fees. For loans acquired with servicing rights retained by the seller, interest rates included in the calculation are net of servicing fees.

(2) LTV represents the ratio of the total unpaid principal balance of the loan to the estimated value of the collateral securing the related loan as of the most recent date available, which may be the origination date. For Rehabilitation loans, the LTV presented is the ratio of the maximum unpaid principal balance of the loan, including unfunded commitments, to the estimated "after repaired" value of the collateral securing the related loan, where available. For certain Rehabilitation loans, totaling $160.5 million and $137.3 million at March 31, 2022 and December 31, 2021, respectively, an after repaired valuation was not obtained and the loan was underwritten based on an "as is" valuation. The weighted average LTV of these loans based on the current unpaid principal balance and the valuation obtained during underwriting, is 74% and 71% at March 31, 2022 and December 31, 2021, respectively. Excluded from the calculation of weighted average LTV are certain low value loans secured by vacant lots, for which the LTV ratio is not meaningful.

(3) Excludes loans for which no Fair Isaac Corporation ("FICO") score is available.

(4) Excluded from the table above are approximately $28.9 million of Residential whole loans, at fair value for which the closing of the purchase transaction had not occurred as of March 31, 2022.

No Residential whole loans were sold during the three months ended March 31, 2022 and 2021.

Allowance for Credit Losses

The following table presents a roll-forward of the allowance for credit losses on the Company's Residential Whole Loans, at Carrying Value:

	Three Months Ended March 31, 2022					
(Dollars In Thousands)	Non-QM Loans	Rehabilitation Loans *(1) (2)*	Single-family Rental Loans	Seasoned Performing Loans	Purchased Credit Deteriorated Loans *(3)*	Totals
Allowance for credit losses at December 31, 2021	$ 8,289	$ 6,881	$ 1,451	$ 46	$ 22,780	$ 39,447
Current provision	(909)	(1,460)	(122)	(1)	(975)	(3,467)
Write-offs	(51)	(219)	(27)	—	(226)	(523)
Allowance for credit losses at March 31, 2022	$ 7,329	$ 5,202	$ 1,302	$ 45	$ 21,579	$ 35,457

	Three Months Ended March 31, 2021					
(Dollars In Thousands)	Non-QM Loans	Rehabilitation Loans *(1) (2)*	Single-family Rental Loans	Seasoned Performing Loans	Purchased Credit Deteriorated Loans *(3)*	Totals
Allowance for credit losses at December 31, 2020	$ 21,068	$ 18,371	$ 3,918	$ 107	$ 43,369	$ 86,833
Current provision	(6,523)	(3,700)	(1,172)	(41)	(10,936)	(22,372)
Write-offs	—	(1,003)	—	—	(214)	(1,217)
Allowance for credit losses at March 31, 2021	$ 14,545	$ 13,668	$ 2,746	$ 66	$ 32,219	$ 63,244

(1) In connection with purchased Rehabilitation loans at carrying value, the Company had unfunded commitments of $12.9 million and $54.4 million as of March 31, 2022 and 2021, respectively, with an allowance for credit losses of $156,000 and $795,905 at March 31, 2022 and 2021, respectively. Such allowance is included in "Other liabilities" in the Company's consolidated balance sheets (see Note 7).

(2) Includes $80.2 million and $149.2 million of loans that were assessed for credit losses based on a collateral dependent methodology as of March 31, 2022 and 2021, respectively.

(3) Includes $69.1 million and $87.7 million of loans that were assessed for credit losses based on a collateral dependent methodology as of March 31, 2022 and 2021, respectively.

The Company's estimates of expected losses that form the basis of the Allowance for Credit Losses include certain qualitative adjustments which have the effect of increasing expected loss estimates. These qualitative adjustments were determined based on a variety of factors, including differences between the Company's loan portfolio and the loan portfolios represented by data available in regulatory filings of certain banks that are considered to have similar loan portfolios (available proxy data), and differences between current (and expected future) market conditions in comparison to market conditions that occurred in historical periods. Such differences include uncertainty with respect to the ongoing impact of the COVID-19 pandemic, the extent and timing of government stimulus efforts, anticipated inflation and increasing market interest rates, and heightened political uncertainty. The Company's estimates of credit losses reflect the Company's expectation that full recovery to pre-pandemic economic conditions will take an extended period, resulting in increased delinquencies and defaults during this period compared to historical periods. Estimates of credit losses under credit losses on financial instruments ("CECL") are highly sensitive to changes in assumptions and current economic conditions have increased the difficulty of accurately forecasting future conditions.

The amortized cost basis of Purchased Performing Loans on nonaccrual status as of March 31, 2022 and December 31, 2021 was $221.1 million and $240.2 million, respectively. The amortized cost basis of Purchased Credit Deteriorated Loans on nonaccrual status as of March 31, 2022 and December 31, 2021 was $101.2 million and $108.9 million, respectively. The fair value of Purchased Non-performing Loans on nonaccrual status as of March 31, 2022 and December 31, 2021 was $550.8 million and $588.1 million, respectively. During the three months ended March 31, 2022, the Company recognized $4.3 million of interest income on loans on nonaccrual status, including $3.0 million on its portfolio of loans which were non-performing at acquisition. At March 31, 2022 and December 31, 2021, there were approximately $107.2 million and $107.4 million, respectively, of loans held at carrying value on nonaccrual status that did not have an associated allowance for credit losses because they were determined to be collateral dependent and the estimated fair value of the related collateral exceeded the carrying value of each loan, respectively.

The following table presents certain additional credit-related information regarding our Residential whole loans, at Carrying Value:

	Amortized Cost Basis by Origination Year and LTV Bands						
(Dollars In Thousands)	**2022**	**2021**	**2020**	**2019**	**2018**	**Prior**	**Total**
Non-QM loans							
LTV <= 80% *(1)*	$ —	$ 55,222	$ 246,102	$ 584,293	$ 302,545	$ 34,265	$ 1,222,427
LTV > 80% *(1)*	—	2,762	18,918	9,580	10,416	1,628	43,304
Total Non-QM loans	$ —	$ 57,984	$ 265,020	$ 593,873	$ 312,961	$ 35,893	$ 1,265,731
Three Months Ended March 31, 2022 Gross write-offs	$ —	$ —	$ —	$ —	$ 51	$ —	$ 51
Rehabilitation loans							
LTV <= 80% *(1)*	$ —	$ 4,046	$ 19,342	$ 92,938	$ 14,673	$ 3,057	$ 134,056
LTV > 80% *(1)*	—	—	2,280	11,739	4,734	1,699	20,452
Total Rehabilitation loans	$ —	$ 4,046	$ 21,622	$ 104,677	$ 19,407	$ 4,756	$ 154,508
Three Months Ended March 31, 2022 Gross write-offs	$ —	$ —	$ —	$ 199	$ 20	$ —	$ 219
Single family rental loans							
LTV <= 80% *(1)*	$ —	$ 14,747	$ 30,245	$ 165,098	$ 57,566	$ 9,602	$ 277,258
LTV > 80% *(1)*	—	—	512	5,234	86	—	5,832
Total Single family rental loans	$ —	$ 14,747	$ 30,757	$ 170,332	$ 57,652	$ 9,602	$ 283,090
Three Months Ended March 31, 2022 Gross write-offs	$ —	$ —	$ —	$ 27	$ —	$ —	$ 27
Seasoned performing loans							
LTV <= 80% *(1)*	$ —	$ —	$ —	$ —	$ —	$ 95,307	$ 95,307
LTV > 80% *(1)*	—	—	—	—	—	2,962	2,962
Total Seasoned performing loans	$ —	$ —	$ —	$ —	$ —	$ 98,269	$ 98,269
Three Months Ended March 31, 2022 Gross write-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Purchased credit deteriorated loans							
LTV <= 80% *(1)*	$ —	$ —	$ —	$ —	$ —	$ 387,985	$ 387,985
LTV > 80% *(1)*	—	—	—	—	—	130,465	130,465
Total Purchased credit deteriorated loans	$ —	$ —	$ —	$ —	$ —	$ 518,450	$ 518,450
Three Months Ended March 31, 2022 Gross write-offs	$ —	$ —	$ —	$ —	$ —	$ 226	$ 226
Total LTV <= 80% *(1)*	$ —	$ 74,015	$ 295,689	$ 842,329	$ 374,784	$ 530,216	$ 2,117,033
Total LTV > 80% *(1)*	—	2,762	21,710	26,553	15,236	136,754	203,015
Total residential whole loans, at carrying value	$ —	$ 76,777	$ 317,399	$ 868,882	$ 390,020	$ 666,970	$ 2,320,048
Total Gross write-offs	$ —	$ —	$ —	$ 226	$ 71	$ 226	$ 523

(1) LTV represents the ratio of the total unpaid principal balance of the loan to the estimated value of the collateral securing the related loan as of the most recent date available, which may be the origination date. For Rehabilitation loans, the LTV presented is the ratio of the maximum unpaid principal balance of the loan, including unfunded commitments, to the estimated "after repaired" value of the collateral securing the related loan, where available. For certain Rehabilitation loans, totaling $160.5 million at March 31, 2022, an after repaired valuation was not obtained and the loan was underwritten based on an "as is" valuation. The weighted average LTV of these loans based on the current unpaid principal balance and the valuation obtained during underwriting is 74% at March 31, 2022. Certain low value loans secured by vacant lots are categorized as LTV > 80%.

The following tables present certain information regarding the LTVs of the Company's Residential whole loans that are 90 days or more delinquent:

	March 31, 2022		
(Dollars In Thousands)	Carrying Value / Fair Value	UPB	LTV *(1)*
Purchased Performing Loans			
Non-QM loans	$ 91,200	$ 90,126	65.6 %
Rehabilitation loans	$ 86,272	$ 86,280	73.3 %
Single-family rental loans	$ 20,845	$ 20,799	73.5 %
Seasoned performing loans	$ 7,780	$ 8,324	43.7 %
Agency eligible investor loans	$ 180	$ 192	73.7 %
Total Purchased Performing Loans	$ 206,277	$ 205,721	
Purchased Credit Deteriorated Loans	$ 90,190	$ 111,890	78.2 %
Purchased Non-Performing Loans	$ 424,871	$ 426,578	79.4 %
Total Residential whole loans	$ 721,338	$ 744,189	

	December 31, 2021		
(Dollars In Thousands)	Carrying Value / Fair Value	UPB	LTV *(1)*
Purchased Performing Loans			
Non-QM loans	$ 96,473	$ 94,755	64.6 %
Rehabilitation loans	$ 103,166	$ 103,034	67.6 %
Single-family rental loans	$ 23,524	$ 23,487	73.4 %
Seasoned performing loans	$ 7,740	$ 8,244	45.6 %
Agency eligible investor loans	$ —	$ —	— %
Total Purchased Performing Loans	$ 230,903	$ 229,520	
Purchased Credit Deteriorated Loans	$ 95,899	$ 117,479	79.1 %
Purchased Non-Performing Loans	$ 454,443	$ 453,146	80.2 %
Total Residential whole loans	$ 781,245	$ 800,145	

(1) LTV represents the ratio of the total unpaid principal balance of the loan to the estimated value of the collateral securing the related loan as of the most recent date available, which may be the origination date. For Rehabilitation loans, the LTV presented is the ratio of the maximum unpaid principal balance of the loan, including unfunded commitments, to the estimated "after repaired" value of the collateral securing the related loan, where available. For certain Rehabilitation loans, an after repaired valuation was not obtained and the loan was underwritten based on an "as is" valuation. Excluded from the calculation of weighted average LTV are certain low value loans secured by vacant lots, for which the LTV ratio is not meaningful.

The following tables present the components of interest income on the Company's Residential whole loans for the three months ended March 31, 2022 and 2021:

	Held at Carrying Value		Held at Fair Value		Total	
	Three Months Ended March 31,		Three Months Ended March 31,		Three Months Ended March 31,	
(In Thousands)	2022	2021	2022	2021	2022	2021
Purchased Performing Loans:						
Non-QM loans	$ 13,141	$ 22,189	$ 19,811	$ —	$ 32,952	$ 22,189
Rehabilitation loans	3,567	6,668	11,294	—	14,861	6,668
Single-family rental loans	4,693	7,081	8,632	—	13,325	7,081
Seasoned performing loans	1,010	1,991	—	—	1,010	1,991
Agency eligible investor loans	—	—	7,583	—	7,583	—
Total Purchased Performing Loans	$ 22,411	$ 37,929	$ 47,320	$ —	$ 69,731	$ 37,929
Purchased Credit Deteriorated Loans	$ 9,009	$ 8,290	$ —	$ —	$ 9,009	$ 8,290
Purchased Non-Performing Loans	$ —	$ —	$ 20,726	$ 18,319	$ 20,726	$ 18,319
Total Residential Whole Loans	$ 31,420	$ 46,219	$ 68,046	$ 18,319	$ 99,466	$ 64,538

The following table presents the components of Net gain/(loss) on residential whole loans measured at fair value through earnings for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31,	
(In Thousands)	2022	2021
Net unrealized (losses)/gains	$ (287,935)	$ 32,088
Other Income *(1)*	(440)	(598)
Total	$ (288,375)	$ 31,490

(1) Primarily includes cash payments received from private mortgage insurance on liquidated loans and losses on liquidations of non-performing loans.

4. Securities, at Fair Value

MSR-Related Assets

Term Notes Backed by MSR-Related Collateral

At both March 31, 2022 and December 31, 2021, the Company had $153.8 million of term notes issued by SPVs that have acquired rights to receive cash flows representing the servicing fees and/or excess servicing spread associated with certain MSRs. Payment of principal and interest on these term notes is considered to be largely dependent on cash flows generated by the underlying MSRs, as this impacts the cash flows available to the SPV that issued the term notes.

At March 31, 2022, these term notes had an amortized cost of $123.3 million, gross unrealized gains of approximately $30.4 million, a weighted average yield of 10.22% and a weighted average term to maturity of 1.4 years. At December 31, 2021, the term notes had an amortized cost of $121.4 million, gross unrealized gains of approximately $32.4 million, a weighted average yield of 10.3% and a weighted average term to maturity of 1.7 years.

CRT Securities

CRT securities are debt obligations issued by or sponsored by Fannie Mae and Freddie Mac. The coupon payments on CRT securities are paid by the issuer and the principal payments received are dependent on the performance of loans in either a reference pool or an actual pool of loans. As an investor in a CRT security, the Company may incur a principal loss if the performance of the actual or reference pool loans results in either an actual or calculated loss that exceeds the credit enhancement of the security owned by the Company. The Company assesses the credit risk associated with its investments in CRT securities by assessing the current and expected future performance of the associated loan pool. The Company pledges a portion of its CRT securities as collateral against its borrowings under repurchase agreements (see Note 6).

The following tables present certain information about the Company's residential mortgage securities at March 31, 2022 and December 31, 2021:

March 31, 2022

(In Thousands)	Principal/ Current Face	Purchase Premiums	Accretable Purchase Discounts	Discount Designated as Credit Reserve *(1)*	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gain/(Loss)	Fair Value
Total residential mortgage securities *(2)(3)*	$ 98,172	$ 8,722	$ (44)	$ (20,768)	$ 86,082	$ 11,699	$ (1,381)	$ 10,318	$ 96,400

December 31, 2021

(In Thousands)	Principal/ Current Face	Purchase Premiums	Accretable Purchase Discounts	Discount Designated as Credit Reserve *(1)*	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gain/(Loss)	Fair Value
Total residential mortgage securities *(2)(3)*	$ 99,999	$ 7,466	$ (55)	$ (20,768)	$ 86,642	$ 16,282	$ (10)	$ 16,272	$ 102,914

(1) Discount designated as Credit Reserve is generally not expected to be accreted into interest income.
(2) Based on management's current estimates of future principal cash flows expected to be received.
(3) Amounts disclosed at March 31, 2022 includes CRT securities with a fair value of $64.2 million for which the fair value option has been elected. Such securities had $281.0 thousand gross unrealized gains and gross unrealized losses of approximately $1.38 million at March 31, 2022. Amounts disclosed at December 31, 2021 includes CRT securities with a fair value of $67.5 million for which the fair value option has been elected. Such securities had gross unrealized gains of approximately $1.8 million and gross unrealized losses of approximately $10,000 at December 31, 2021.

Sales of Residential Mortgage Securities

During the three months ended March 31, 2022, the Company sold a CRT security for approximately $369,000, realizing a gain of $13,000. The Company did not sell any of its residential mortgage securities during the three months ended March 31, 2021.

Unrealized Losses on Residential Mortgage Securities

There were no gross unrealized losses on the Company's AFS securities at March 31, 2022.

There were no allowances for credit losses recorded with respect to the Company's AFS securities for any of the periods presented. The Company did not recognize an allowance for credit losses through earnings related to its AFS securities for the three months ended March 31, 2022 and 2021.

Impact of AFS Securities on AOCI

The following table presents the impact of the Company’s AFS securities on its AOCI for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31,	
(In Thousands)	**2022**	**2021**
AOCI from AFS securities:		
Unrealized gain on AFS securities at beginning of period	$ 46,833	$ 79,607
Unrealized (losses) on securities available-for-sale	(4,977)	(3,855)
Change in AOCI from AFS securities	(4,977)	(3,855)
Balance at end of period	$ 41,856	$ 75,752

Interest Income on Securities, at Fair Value

The following table presents the components of interest income on the Company’s Securities, at fair value for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31,	
(In Thousands)	**2022**	**2021**
Residential Mortgage Securities		
Coupon interest	$ 895	$ 1,287
Effective yield adjustment *(1)(2)(3)*	1,265	9,549
Interest income	$ 2,160	$ 10,836
MSR-related assets		
Coupon interest	$ 1,157	$ 2,405
Effective yield adjustment *(2)*	1,958	3,218
Interest income	$ 3,115	$ 5,623

(1) Includes amortization of premium paid net of accretion of purchase discount. For RPL/NPL MBS, interest income is recorded at an effective yield, which reflects net premium amortization/accretion based on actual prepayment activity.
(2) The effective yield adjustment is the difference between the net income calculated using the net yield less the current coupon yield. The net yield may be based on management’s estimates of the amount and timing of future cash flows or in the instrument’s contractual cash flows, depending on the relevant accounting standards.
(3) Includes accretion income recognized due to the impact of redemptions of certain Non-Agency securities that had been previously purchased at a discount of approximately $8.8 million during the three months ended March 31, 2021.

5. Other Assets

The following table presents the components of the Company's Other assets at March 31, 2022 and December 31, 2021:

(In Thousands)	March 31, 2022	December 31, 2021
Treasury Bills *(1)*	$ 299,998	$ —
REO *(2)*	145,568	156,223
Goodwill	61,076	61,076
Intangibles, net *(3)*	18,100	21,400
Capital contributions made to loan origination partners	70,783	71,673
Other interest-earning assets	53,636	57,522
Interest receivable	57,090	50,191
Other loan related receivables	49,612	34,191
Lease right-of-use asset *(4)*	39,243	39,370
Other	62,237	73,910
Total Other Assets	$ 857,343	$ 565,556

(1) Held on a short-term basis in connection with managing the Company's REIT compliance. Classified as Level 1 in the fair value hierarchy.
(2) Includes $6.5 million and $11.3 million of REO that is held-for-investment at March 31, 2022 and December 31, 2021, respectively.
(3) Net of aggregate accumulated amortization of $9.9 million and $6.6 million as of March 31, 2022 and December 31, 2021, respectively.
(4) An estimated incremental borrowing rate of 7.5% was used in connection with the Company's primary operating lease (see Notes 2 and 9).

(a) Real Estate Owned

At March 31, 2022, the Company had 492 REO properties with an aggregate carrying value of $145.6 million. At December 31, 2021, the Company had 553 REO properties with an aggregate carrying value of $156.2 million.

At March 31, 2022, $144.5 million of residential real estate property was held by the Company that was acquired either through a completed foreclosure proceeding or from completion of a deed-in-lieu of foreclosure or similar legal agreement. In addition, formal foreclosure proceedings were in process with respect to $76.3 million of residential whole loans held at carrying value and $330.6 million of residential whole loans held at fair value at March 31, 2022.

The following table presents the activity in the Company's REO for the three months ended March 31, 2022 and 2021:

(Dollars In Thousands)	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Balance at beginning of period	$ 156,223	$ 249,699
Adjustments to record at lower of cost or fair value	(448)	(874)
Transfer from residential whole loans *(1)*	22,079	20,068
Purchases and capital improvements, net	353	217
Disposals and other *(2)*	(32,639)	(48,717)
Balance at end of period	$ 145,568	$ 220,393
Number of properties	492	835

(1) Includes a net loss recorded on transfer of approximately $100,000 and a net gain recorded on transfer of approximately $1.1 million for the three months ended March 31, 2022 and 2021, respectively.

(2) During the three months ended March 31, 2022 and 2021, the Company sold 135 and 177 REO properties for consideration of $41.5 million and $50.6 million, realizing net gains of approximately $8.7 million and $2.2 million, respectively. These amounts are included in Other Income, net on the Company's consolidated statements of operations.

(b) Goodwill and Intangible Assets

On July 1, 2021, the Company completed the acquisition from affiliates of Magnetar Capital of their ownership interests in Lima One Holdings, LLC, the parent company of Lima One Capital, LLC (collectively, "Lima One"), a leading originator and servicer of business purpose loans. In connection with the acquisition of Lima One, the Company identified and recorded goodwill of $61.1 million and finite-lived intangible assets totaling $28.0 million.

The amortization period for each of the finite lived intangible assets and the activity for the three months ended March 31, 2022 is summarized in the table below:

(Dollars in Thousands)	Carrying Value at December 31, 2021	Amortization Three Months Ended March 31, 2022	Carrying Value at March 31, 2022	Amortization Period (Years) *(1)*
Trademarks / Trade Names	$ 3,800	$ (100)	$ 3,700	10
Customer Relationships	12,000	(2,000)	10,000	4
Internally Developed Software	3,600	(200)	3,400	5
Non-Compete Agreements	2,000	(1,000)	1,000	1
Total Identified Intangibles	$ 21,400	$ (3,300)	$ 18,100	

(1) Amortization is calculated on a straight-line basis over the amortization period, except for Customer Relationships, where amortization is calculated based on expected levels of customer attrition.

(c) Capital Contributions Made to Loan Origination Partners

The Company has made investments in several loan originators as part of its strategy to be a reliable source of capital to select partners from whom it sources residential mortgage loans through both flow arrangements and bulk purchases. To date, such contributions of capital include the following investments (based on their carrying value prior to any impairments or mark-to-market): $23.2 million of common equity (including partnership interests) and $78.8 million of preferred equity. In addition, for certain partners, options or warrants may have also been acquired that provide the Company the ability to increase the level of its investment if certain conditions are met. At the end of each reporting period, or earlier if circumstances warrant, the Company evaluates whether the nature of its interests and other involvement with the investee entity requires the Company to apply equity method accounting or consolidate the results of the investee entity with the Company's financial results. On July 1, 2021, the Company completed the acquisition of certain ownership interests in Lima One, which resulted in the Company owning all of Lima One's outstanding ownership interests. Accordingly, the Company consolidated Lima One's financial results beginning on that date. For certain of the Company’s investments, the interests acquired to date by the Company generally do not have a readily determinable fair value. Consequently, the Company accounts for these interests (including any acquired options and warrants) in loan originators initially at cost. The carrying value of these investments will be adjusted if it is determined that an impairment has occurred or if there has been a subsequent observable transaction in either the investee company’s equity securities or a similar security that provides evidence to support an adjustment to the carrying value. The Company did not record any impairment charges to earnings on investments in loan origination partners during the three months ended March 31, 2022 and 2021.

(d) Derivative Instruments

Swaps

The Company's derivative instruments include Swaps, which are used to economically hedge the interest rate risk associated with certain borrowings. Pursuant to these arrangements, the Company agreed to pay a fixed rate of interest and receive a variable interest rate, generally based on Secured Overnight Financing Rate ("SOFR"), on the notional amount of the Swap. At March 31, 2022, none of the Company's Swaps are designated as hedges for accounting purposes.

The following table presents the assets pledged as collateral against the Company's Swap contracts at March 31, 2022 and December 31, 2021:

(In Thousands)	March 31, 2022	December 31, 2021
Restricted Cash	$ 54,804	$ 14,446

At March 31, 2022, the Company had Swaps with an aggregate notional amount of $2.4 billion and an average maturity of approximately 46 months with a maximum term of approximately 59 months.

The following table presents information about the Company's Swaps at March 31, 2022 and December 31, 2021:

	March 31, 2022			December 31, 2021		
Maturity *(1)*	Notional Amount	Weighted Average Fixed-Pay Interest Rate	Weighted Average Variable Interest Rate *(2)*	Notional Amount	Weighted Average Fixed-Pay Interest Rate	Weighted Average Variable Interest Rate *(2)*
(Dollars in Thousands)						
Within 30 days to 12 months	$ —	— %	— %	$ —	— %	— %
Over 12 months to 24 months	100,000	1.49	0.29	—	—	—
Over 24 months to 36 months	1,000,010	1.09	0.29	450,010	0.90	0.05
Over 36 months to 48 months	—	—	—	—	—	—
Over 48 months to 60 months	1,300,000	1.42	0.29	450,000	1.12	0.05
Total Swaps	$ 2,400,010	1.29 %	0.29 %	$ 900,010	1.01 %	0.05 %

(1) Each maturity category reflects contractual amortization and/or maturity of notional amounts.
(2) Reflects the benchmark variable rate due from the counterparty at the date presented, which rate adjusts annually based on SOFR.

During the three months ended March 31, 2022, the Company recorded net gains on Swaps not designated in hedging relationships of approximately $75.2 million, which includes net swap expense of $5.5 million. These amounts are included in Other income, net on the Company's consolidated statements of operations. The Company did not have any Swaps during the three months ended March 31, 2021.

TBA Securities

In order to economically hedge the risks arising from the investments in Agency eligible investor loans, the Company has entered into short positions in certain TBA securities. The table below summarizes open short positions in TBA securities as of March 31, 2022 and December 31, 2021, which had an aggregate value of $5.8 million and $(1.3) million, respectively, and were included in Other assets/liabilities on the Company's consolidated balance sheets.

	March 31, 2022		December 31, 2021	
(Dollars in Thousands)	Notional Amount	Settlement Date	Notional Amount	Settlement Date
TBA Security				
FNCL 2.5	$ 180,000	April 13, 2022	$ 180,000	January 13, 2022
FNCL 2	$ 130,000	April 13, 2022	$ 130,000	January 13, 2022

TBA short positions are subject to margining requirements which serve to mitigate counterparty credit risk associated with these transactions. Open TBA positions are measured at fair value each reporting date, with realized and unrealized changes in the fair value of these positions recorded in Other income, net in the Company's consolidated statements of operations. For the three months ended March 31, 2022, the Company recorded realized and unrealized changes in fair value on TBA short positions of $18.9 million. No TBA short positions had been entered into in the prior periods presented.

6. Financing Agreements

The following tables present the components of the Company's Financing agreements at March 31, 2022 and December 31, 2021:

	March 31, 2022		
(In Thousands)	Unpaid Principal Balance	Amortized Cost Balance	Fair Value/Carrying Value *(1)*
Financing agreements, at fair value			
Agreements with mark-to-market collateral provisions	$ 1,555,250	$ 1,555,250	$ 1,555,250
Agreements with non-mark-to-market collateral provisions	563,860	563,860	563,860
Securitized debt	1,741,305	1,751,112	1,685,796
Total Financing agreements, at fair value	$ 3,860,415	$ 3,870,222	$ 3,804,906
Financing agreements, at carrying value			
Securitized debt	$ 1,178,650		$ 1,173,265
Agreements with mark-to-market collateral provisions	1,386,009		1,385,685
Agreements with non-mark-to-market collateral provisions	438,374		437,548
Convertible senior notes	230,000		226,807
Total Financing agreements, at carrying value	$ 3,233,033		$ 3,223,305
Total Financing agreements	$ 7,093,448		$ 7,028,211

	December 31, 2021		
(In Thousands)	Unpaid Principal Balance	Amortized Cost Balance	Fair Value/Carrying Value (1)
Financing agreements, at fair value			
Agreements with mark-to-market collateral provisions	$ 1,322,362	$ 1,322,362	$ 1,322,362
Agreements with non-mark-to-market collateral provisions	627,026	627,026	628,280
Securitized debt	1,304,912	1,318,593	1,316,131
Total Financing agreements, at fair value	$ 3,254,300	$ 3,267,981	$ 3,266,773
Financing agreements, at carrying value			
Securitized debt	$ 1,340,583		$ 1,334,342
Agreements with mark-to-market collateral provisions	1,240,510		1,239,937
Agreements with non-mark-to-market collateral provisions	311,977		311,260
Convertible senior notes	230,000		226,470
Total Financing agreements, at carrying value	$ 3,123,070		$ 3,112,009
Total Financing agreements	$ 6,377,370		$ 6,378,782

(1) Financing agreements at fair value are reported at estimated fair value each period as a result of the Company's fair value option election. Other financing arrangements are reported at their carrying value (amortized cost basis) as the fair value option was not elected on these liabilities. Consequently, Total Financing agreements as presented reflects a summation of balances reported at fair and carrying value.

The following table presents information with respect to the Company’s financing agreements with mark-to-market collateral provisions and associated assets pledged as collateral at March 31, 2022 and December 31, 2021:

(Dollars in Thousands)	March 31, 2022	December 31, 2021
Mark-to-market financing agreements secured by residential whole loans	$ 2,769,019	$ 2,391,602
Fair value of residential whole loans pledged as collateral under financing agreements	$ 3,559,415	$ 3,301,288
Weighted average haircut on residential whole loans *(1)*	21.15 %	25.27 %
Mark-to-market financing agreements secured by securities at fair value	$ 159,019	$ 159,148
Securities at fair value pledged as collateral under financing agreements	$ 250,171	$ 256,685
Weighted average haircut on securities at fair value *(1)*	37.01 %	37.00 %
Mark-to-market financing agreements secured by real estate owned	$ 12,897	$ 11,549
Fair value of real estate owned pledged as collateral under financing agreements	$ 35,753	$ 34,606
Weighted average haircut on real estate owned *(1)*	51.51 %	58.46 %

(1) Haircut represents the percentage amount by which the collateral value is contractually required to exceed the loan amount.

The following table presents information with respect to the Company’s financing agreements with non-mark-to-market collateral provisions and associated assets pledged as collateral at March 31, 2022 and December 31, 2021:

(Dollars in Thousands)	March 31, 2022	December 31, 2021
Non-mark-to-market financing secured by residential whole loans	$ 989,612	$ 928,055
Fair value of residential whole loans pledged as collateral under financing agreements	$ 1,422,837	$ 1,420,283
Weighted average haircut on residential whole loans	26.88 %	29.98 %
Non-mark-to-market financing secured by real estate owned	$ 11,796	$ 11,485
Fair value of real estate owned pledged as collateral under financing agreements	$ 31,921	$ 29,894
Weighted average haircut on real estate owned	62.36 %	61.28 %

In addition, the Company had aggregate restricted cash held in connection with its financing agreements of $13.2 million and $10.2 million at March 31, 2022 and December 31, 2021, respectively.

The following table presents repricing information (excluding the impact of associated derivative hedging instruments, if any) about the Company’s financing agreements that have non-mark-to-market collateral provisions as well as those that have mark-to-market collateral provisions, at March 31, 2022 and December 31, 2021:

	March 31, 2022		December 31, 2021	
Time Until Interest Rate Reset	Amortized Cost Basis	Weighted Average Interest Rate	Amortized Cost Basis	Weighted Average Interest Rate
(Dollars in Thousands)				
Within 30 days	$ 3,629,100	2.57 %	$ 3,222,268	2.36 %
Over 30 days to 3 months	268,202	2.46	257,444	2.49
Over 3 months to 12 months	46,191	4.36	22,164	4.50
Over 12 months	—	—	—	—
Total financing agreements	$ 3,943,493	2.59 %	$ 3,501,876	2.38 %

(a) Financing Agreements

The Company elected the fair value option on certain of its financing arrangements, primarily to simplify the accounting associated with costs incurred to establish the new facilities or renegotiate existing facilities.

The Company considers the most relevant feature that distinguishes between the various asset backed financing arrangements is how the financing arrangement is collateralized, including the ability of the lender to make margin calls on the Company based on changes in value of the underlying collateral securing the financing. Accordingly, further details are provided below regarding assets that are financed with agreements that have non-mark-to-market collateral provisions and assets that are financed with agreements that have mark-to-market collateral provisions.

Agreements with mark-to-market collateral provisions

The Company has entered into financing arrangements which contain mark-to-market provisions that permit the lending counterparties to make margin calls on the Company should the value of the pledged collateral decline. The Company is also permitted to recover previously posted margin payments, should values of the pledged collateral subsequently increase. These facilities generally reset on a monthly or quarterly basis and can be renewed at the discretion of the lending counterparty at financing costs reflecting prevailing market pricing.

Agreements with non-mark-to-market collateral provisions

The Company has also entered into financing arrangements which do not contain mark-to-market provisions. The Company has generally pledged, as collateral security for these facilities, certain of its residential whole loans, as well as the equity in subsidiaries that own the loans. These facilities have maturities ranging from 3 to 42 months and $511.6 million of the facilities contain extension options, with maximum extensions ranging from 13 to 39 months, subject to certain conditions, in some cases including the payment of an extension fee and provided that no events of default have occurred. The financing cost for these facilities is generally calculated at a spread over prevailing short term market interest rates, which generally reset monthly.

Securitized Debt

Securitized debt represents third-party liabilities of consolidated VIEs and excludes liabilities of the VIEs acquired by the Company that are eliminated in consolidation. The third-party beneficial interest holders in the VIEs have no recourse to the general credit of the Company. The weighted average fixed rate on the securitized debt was 2.41% at March 31, 2022 (see Notes 9 and 14 for further discussion).

Convertible Senior Notes

On June 3, 2019, the Company issued $230.0 million in aggregate principal amount of its Convertible Senior Notes in an underwritten public offering, including an additional $30.0 million issued pursuant to the exercise of the underwriters' option to purchase additional Convertible Senior Notes. The total net proceeds the Company received from the offering were approximately $223.3 million, after deducting offering expenses and the underwriting discount. The Convertible Senior Notes bear interest at a fixed rate of 6.25% per year, paid semiannually on June 15 and December 15 of each year commencing December 15, 2019 and will mature on June 15, 2024, unless earlier converted, redeemed or repurchased in accordance with their terms. The Convertible Senior Notes are convertible at the option of the holders at any time until the close of business on the business day immediately preceding the maturity date into shares of the Company's common stock based on a conversion rate of 31.4346 shares (which reflects an adjustment resulting from the Company's 1-for-4 reverse stock split effected on April 4, 2022) of the Company's common stock for each $1,000 principal amount of the Convertible Senior Notes, which is equivalent to a conversion price of approximately $31.81 per share of common stock. The Convertible Senior Notes have an effective interest rate, including the impact of amortization to interest expense of debt issuance costs, of 6.94%. The Company does not have the right to redeem the Convertible Senior Notes prior to maturity, except to the extent necessary to preserve its status as a REIT, in which case the Company may redeem the Convertible Senior Notes, in whole or in part, at a redemption price equal to the principal amount redeemed plus accrued and unpaid interest.

The Convertible Senior Notes are the Company's senior unsecured obligations and are effectively junior to all of the Company's secured indebtedness, which includes the Company's repurchase agreements and other financing arrangements, to the extent of the value of the collateral securing such indebtedness and equal in right of payment to the Company's existing and future senior unsecured obligations, including the Senior Notes.

Senior Notes

On April 11, 2012, the Company issued $100.0 million in aggregate principal amount of its Senior Notes in an underwritten public offering. On January 6, 2021, the Company redeemed all of its outstanding Senior Notes. The Senior Notes bore interest at a fixed rate of 8.00% per year, paid quarterly in arrears on January 15, April 15, July 15 and October 15. The Senior Notes had an effective interest rate, including the impact of amortization to interest expense of debt issuance costs, of 8.31%.

(b) Counterparties

The Company had financing agreements, including repurchase agreements and other forms of secured financing, with 14 counterparties at both March 31, 2022 and December 31, 2021. The following table presents information with respect to each counterparty under financing agreements for which the Company had greater than 5% of stockholders' equity at risk in the aggregate at March 31, 2022:

	March 31, 2022			
Counterparty	**Counterparty Rating *(1)***	**Amount at Risk *(2)***	**Weighted Average Months to Repricing for Repurchase Agreements**	**Percent of Stockholders' Equity**
(Dollars in Thousands)				
Barclays Bank *(3)*	BBB/Aa3/A	$ 562,272	1	23.9 %
Credit Suisse	BBB+/Baa1/A-	301,857	1	12.9
Wells Fargo	A+/Aa2/AA-	256,657	1	10.9

(1) As rated at March 31, 2022 by S&P, Moody's and Fitch, Inc., respectively. The counterparty rating presented is the lowest published rating for these entities.
(2) The amount at risk reflects the difference between (a) the amount loaned to the Company through financing agreements, including interest payable, and (b) the cash and the fair value of the assets pledged by the Company as collateral, including accrued interest receivable on such assets.
(3) Includes amounts at risk with various affiliates of Athene Holding, Ltd., held via participation in a loan syndication administered by Barclays Bank.

(c) Pledged Collateral

The following tables present the Company's assets (based on carrying value) pledged as collateral for its various financing arrangements as of March 31, 2022 and December 31, 2021:

	March 31, 2022			
	Financing Agreements			
(In Thousands)	Non-Mark-to-Market *(1)*	Mark-to-Market *(1)*	Securitized	Total
Assets:				
Residential whole loans, at carrying value	$ 580,181	$ 380,393	$ 1,344,110	$ 2,304,684
Residential whole loans, at fair value	838,789	3,164,378	1,898,120	5,901,287
Securities, at fair value	—	250,171	—	250,171
Other assets: REO	27,391	30,681	36,321	94,393
Total	$ 1,446,361	$ 3,825,623	$ 3,278,551	$ 8,550,535

	December 31, 2021			
	Financing Agreements			
(In Thousands)	Non-Mark-to-Market *(1)*	Mark-to-Market *(1)*	Securitized	Total
Assets:				
Residential whole loans, at carrying value	$ 693,982	$ 459,349	$ 1,476,588	$ 2,629,919
Residential whole loans, at fair value	706,377	2,810,865	1,525,114	5,042,356
Securities, at fair value	—	256,685	—	256,685
Other assets: REO	25,692	29,374	35,379	90,445
Total	$ 1,426,051	$ 3,556,273	$ 3,037,081	$ 8,019,405

(1) An aggregate of $31.2 million and $25.7 million of accrued interest on those assets pledged against non-mark-to-market and mark-to-market financings agreements had also been pledged as of March 31, 2022 and December 31, 2021, respectively.

The Company pledges securities or cash as collateral to its counterparties in relation to certain of its financing arrangements. The Company exchanges collateral with its counterparties based on changes in the fair value, notional amount and term of the associated financing arrangements and Swap contracts, as applicable. In connection with these margining practices, either the Company or its counterparty may be required to pledge cash or securities as collateral. When the Company's pledged collateral exceeds the required margin, the Company may initiate a reverse margin call, at which time the counterparty may either return the excess collateral or provide collateral to the Company in the form of cash or equivalent securities. The Company's assets pledged as collateral are also described in Notes 2(e) - Restricted Cash and 5(d) - Derivative Instruments.

Certain of the Company's financing arrangements and derivative transactions are governed by underlying agreements that generally provide for a right of setoff in the event of default or in the event of a bankruptcy of either party to the transaction. In the Company's consolidated balance sheets, all balances associated with repurchase agreements are presented on a gross basis.

7. Other Liabilities

The following table presents the components of the Company's Other liabilities at March 31, 2022 and December 31, 2021:

(In Thousands)	March 31, 2022	December 31, 2021
Payable for unsettled residential whole loans and Treasury Bills	$ 329,706	$ —
Dividends and dividend equivalents payable	46,357	47,751
Lease liability	44,825	44,977
Accrued interest payable	16,040	9,621
Accrued expenses and other	110,864	115,709
Total Other Liabilities	$ 547,792	$ 218,058

8. Income Taxes

The Company has elected to be taxed as a REIT under the provisions of the Internal Revenue Code of 1986, as amended, (the "Code"), and the corresponding provisions of state law. The Company expects to operate in a manner that will enable it to satisfy the various requirements to maintain its status as a REIT for federal income tax purposes. In order to maintain its status as a REIT, the Company must, among other things, distribute at least 90% of its REIT taxable income (excluding net long-term capital gains) to stockholders in the timeframe permitted by the Code. As long as the Company maintains its status as a REIT, the Company will not be subject to regular federal income tax at the REIT level to the extent that it distributes 100% of its REIT taxable income (including net long-term capital gains) to its stockholders within the permitted timeframe. Should this not occur, the Company would be subject to federal taxes at prevailing corporate tax rates on the difference between its REIT taxable income and the amounts deemed to be distributed for that tax year. The Company's objective is to distribute 100% of its REIT taxable income to its stockholders within the permitted timeframe. If the Company fails to distribute during each calendar year, or by the end of January following the calendar year in the case of distributions with declaration and record dates falling in the last three months of the calendar year, at least the sum of (i) 85% of its REIT ordinary income for such year, (ii) 95% of its REIT capital gain income for such year, and (iii) any undistributed taxable income from prior periods, the Company would be subject to a 4% nondeductible excise tax on the excess of the required distribution over the amounts actually distributed. To the extent that the Company incurs interest, penalties or related excise taxes in connection with its tax obligations, including as a result of its assessment of uncertain tax positions, such amounts will be included in Operating and Other Expense on the Company's consolidated statements of operations.

In addition, the Company has elected to treat certain of its subsidiaries as taxable REIT subsidiaries ("TRS"). In general, a TRS may hold assets and engage in activities that the Company cannot hold or engage in directly and generally may engage in any real estate or non-real estate-related business. Generally, a domestic TRS is subject to U.S. federal, state and local corporate income taxes. Given that a portion of the Company's business is conducted through one or more TRS, the net taxable income earned by its domestic TRS, if any, is subject to corporate income taxation. To maintain the Company's REIT election, no more than 20% of the value of the Company's assets at the end of each calendar quarter may consist of stock or securities in TRS. For purposes of the determination of U.S. federal and state income taxes, the Company's subsidiaries that elected to be treated as TRS record current or deferred income taxes based on differences (both permanent and timing) between the determination of their taxable income and net income under GAAP.

Based on its analysis of any potentially uncertain tax positions, the Company concluded that it does not have any material uncertain tax positions that meet the relevant recognition or measurement criteria as of March 31, 2022, December 31, 2021 or March 31, 2021. As of the date of this filing, the Company's tax returns for tax years 2018 through 2021 are open to examination.

The tax effects of temporary differences that give rise to significant portions of net deferred tax assets ("DTAs") recorded at the Company's domestic TRS entities at March 31, 2022 and December 31, 2021 are presented in the following table:

(In Thousands)	March 31, 2022	December 31, 2021
Deferred tax assets (DTAs):		
Net operating loss and tax credit carryforwards	$ 37,872	$ 35,796
Unrealized mark-to-market, impairments and loss provisions	465	3,753
Other realized / unrealized treatment differences	12,893	12,131
Total deferred tax assets	51,230	51,680
Less: valuation allowance	(51,230)	(51,680)
Net deferred tax assets	$ —	$ —

Realization of the Company's DTAs at March 31, 2022 is dependent on several factors, including generating sufficient taxable income prior to the expiration of net operating loss ("NOL") carryforwards and generating sufficient capital gains in future periods prior to the expiration of capital loss carryforwards. The Company determines the extent to which realization of the deferred assets is not expected to be more likely than not and establishes a valuation allowance accordingly.

No net deferred tax benefit was recorded by the Company for the three months ended March 31, 2022 and 2021, related to the net taxable losses in TRS entities, since a valuation allowance for the full amount of the associated deferred tax asset at the ends of those periods was recognized as its recovery was not considered more likely than not. The related NOL carryforwards generated prior to 2018 will begin to expire in 2037; those generated in 2018 and later can be carried forward indefinitely, until fully utilized. The Company's estimate of net DTAs could change in future periods to the extent that actual or revised estimates of future taxable income change from current expectations.

At March 31, 2022, the Company's federal NOL carryforward was $150.4 million, which may be carried forward indefinitely. If certain substantial changes in the Company's ownership occur, there could be an annual limitation on the amount of the carryforwards that can be utilized.

The income tax provision (benefit) is included in Other general and administrative expense in the Company's consolidated statements of operations. The following table summarizes the Company's income tax provision (benefit) primarily recorded at the Company's domestic TRS entities for the three months ended March 31, 2022 and 2021:

	Three Months Ended	
(In Thousands)	**March 31, 2022**	**March 31, 2021**
Current provision (benefit)		
Federal	$ 106	$ —
State	25	—
Total current provision (benefit)	131	—
Deferred provision (benefit)		
Federal	150	—
State	50	—
Total deferred provision (benefit)	200	—
Total provision (benefit)	$ 331	$ —

The following is a reconciliation of the statutory federal tax rate to the Company's effective tax rate at March 31, 2022 and 2021:

	Three Months Ended	
	March 31, 2022	**March 31, 2021**
Federal statutory rate	21.0 %	21.0 %
Non-taxable REIT income (dividends paid deduction)	3.2 %	2.3 %
Other differences in taxable income (loss) from GAAP	(24.6)%	(23.5)%
State and local taxes	— %	(0.1)%
Change in valuation allowance on DTAs	0.1 %	2.0 %
Effective tax rate	(0.3)%	1.7 %

9. Commitments and Contingencies

(a) Lease Commitments

The Company's primary lease commitment relates to its corporate headquarters. In April 2021, the Company relocated its corporate headquarters, terminating its prior lease on April 30, 2021. For the three months ended March 31, 2022, the Company recorded aggregate lease expense of approximately $1.1 million in connection with its current lease. The term specified in the current lease is approximately fifteen years with an option to renew for an additional five years.

At March 31, 2022, the contractual minimum rental payments (exclusive of possible rent escalation charges and normal recurring charges for maintenance, insurance and taxes) were as follows:

Year Ending December 31, (In Thousands)	Minimum Rental Payments
2022 *(1)*	$ 4,085
2023	5,498
2024	5,500
2025	4,659
2026	4,552
Thereafter	49,604
Total	$ 73,898

(1) Reflects contractual minimum rental payments due for the period from April 1, 2022 through December 31, 2022.

(b) Representations and Warranties in Connection with Loan Securitization and Other Loan Sale Transactions

In connection with the loan securitization and sale transactions entered into by the Company, the Company has the obligation under certain circumstances to repurchase assets previously transferred to securitization vehicles, or otherwise sold, upon breach of certain representations and warranties. As of March 31, 2022, the Company was not aware of any material unsettled repurchase claims that would require a reserve (see Note 14).

(c) Rehabilitation Loan Commitments

At March 31, 2022, the Company had unfunded commitments of $355.0 million in connection with its purchased Rehabilitation loans.

(d) Residential Whole Loan Purchase Commitments

At March 31, 2022, the Company has agreed, subject to the completion of due diligence and customary closing conditions, to purchase residential whole loans held at fair value with an aggregate estimated purchase price of $29.7 million, with a corresponding liability recorded in Other Liabilities and included in Payable for unsettled residential whole loan purchases. As the loans we have agreed to purchase had an estimated fair value of $28.9 million at March 31, 2022, the difference between the purchase price and the estimated fair value was included in Other income for the three month period ended March 31, 2022.

10. Stockholders' Equity

(a) Preferred Stock

7.50% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock")

On April 15, 2013, the Company completed the issuance of 8.0 million shares of its Series B Preferred Stock with a par value of $0.01 per share, and a liquidation preference of $25.00 per share plus accrued and unpaid dividends, in an underwritten public offering. The Company's Series B Preferred Stock is entitled to receive a dividend at a rate of 7.50% per year on the

$25.00 liquidation preference before the Company's common stock is paid any dividends and is senior to the Company's common stock with respect to distributions upon liquidation, dissolution or winding up. Dividends on the Series B Preferred Stock are payable quarterly in arrears on or about March 31, June 30, September 30 and December 31 of each year. The Series B Preferred Stock is redeemable at $25.00 per share plus accrued and unpaid dividends (whether or not authorized or declared), exclusively at the Company's option.

The Series B Preferred Stock generally does not have any voting rights, subject to an exception in the event the Company fails to pay dividends on such stock for six or more quarterly periods (whether or not consecutive). Under such circumstances, the Series B Preferred Stock will be entitled to vote to elect two additional directors to the Company's Board of Directors (the "Board"), until all unpaid dividends have been paid or declared and set apart for payment. In addition, certain material and adverse changes to the terms of the Series B Preferred Stock cannot be made without the affirmative vote of holders of at least 66 2/3% of the outstanding shares of Series B Preferred Stock.

The following table presents cash dividends declared by the Company on its Series B Preferred Stock from January 1, 2022 through March 31, 2022:

Declaration Date	Record Date	Payment Date	Dividend Per Share
February 17, 2022	March 1, 2022	March 31, 2022	$0.46875

6.50% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock ("Series C Preferred Stock")

On February 28, 2020, the Company amended its charter through the filing of articles supplementary to reclassify 12,650,000 shares of the Company's authorized but unissued common stock as shares of the Company's Series C Preferred Stock. On March 2, 2020, the Company completed the issuance of 11.0 million shares of its Series C Preferred Stock with a par value of $0.01 per share, and a liquidation preference of $25.00 per share plus accrued and unpaid dividends, in an underwritten public offering. The total net proceeds the Company received from the offering were approximately $266.0 million, after deducting offering expenses and the underwriting discount.

The Company's Series C Preferred Stock is entitled to receive dividends (i) from and including the original issue date to, but excluding, March 31, 2025, at a fixed rate of 6.50% per year on the $25.00 liquidation preference and (ii) from and including March 31, 2025, at a floating rate equal to three-month LIBOR plus a spread of 5.345% per year of the $25.00 per share liquidation preference before the Company's common stock is paid any dividends, and is senior to the Company's common stock with respect to distributions upon liquidation, dissolution or winding up. Dividends on the Series C Preferred Stock are payable quarterly in arrears on or about March 31, June 30, September 30 and December 31 of each year. The Series C Preferred Stock is not redeemable by the Company prior to March 31, 2025, except under circumstances where it is necessary to preserve the Company's qualification as a REIT for U.S. federal income tax purposes and upon the occurrence of certain specified change in control transactions. On or after March 31, 2025, the Company may, at its option, subject to certain procedural requirements, redeem any or all of the shares of the Series C Preferred Stock for cash at a redemption price of $25.00 per share, plus any accrued and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the redemption date.

The Series C Preferred Stock generally does not have any voting rights, subject to an exception in the event the Company fails to pay dividends on such stock for six or more quarterly periods (whether or not consecutive). Under such circumstances, the Series C Preferred Stock will be entitled to vote to elect two additional directors to the Company's Board, until all unpaid dividends have been paid or declared and set apart for payment. In addition, certain material and adverse changes to the terms of the Series C Preferred Stock cannot be made without the affirmative vote of holders of at least 66 2/3% of the outstanding shares of Series C Preferred Stock.

The following table presents cash dividends declared by the Company on its Series C Preferred Stock from January 1, 2022 through March 31, 2022:

Declaration Date	Record Date	Payment Date	Dividend Per Share
February 17, 2022	March 1, 2022	March 31, 2022	$0.40625

(b) Dividends on Common Stock

The following table presents cash dividends declared by the Company on its common stock from January 1, 2022 through March 31, 2022:

Declaration Date	Record Date	Payment Date	Dividend Per Share	
March 11, 2022	March 22, 2022	April 29, 2022	$0.110	*(1)*

(1) At March 31, 2022, the Company had accrued dividends and dividend equivalents payable of $46.4 million related to the common stock dividend declared on March 11, 2022 The $0.11 per share dividend paid was based on the number of shares held by stockholders at the record date (March 22, 2022) and before giving effect to the Company's 1-for-4 reverse stock split effected on April 4, 2022).

(c) Discount Waiver, Direct Stock Purchase and Dividend Reinvestment Plan ("DRSPP")

On October 15, 2019, the Company filed a shelf registration statement on Form S-3 with the SEC under the Securities Act of 1933, as amended (the "Securities Act"), for the purpose of registering additional common stock for sale through its DRSPP. Pursuant to Rule 462(e) under the Securities Act, this shelf registration statement became effective automatically upon filing with the SEC and, when combined with the unused portion of the Company's previous DRSPP shelf registration statements, registered an aggregate of 2.25 million shares of common stock. The Company's DRSPP is designed to provide existing stockholders and new investors with a convenient and economical way to purchase shares of common stock through the automatic reinvestment of dividends and/or optional cash investments. At March 31, 2022, approximately 2.0 million shares of common stock remained available for issuance pursuant to the DRSPP shelf registration statement.

During the three months ended March 31, 2022, the Company issued 32,460 shares of common stock through the DRSPP, raising net proceeds of approximately $594,000. From the inception of the DRSPP in September 2003 through March 31, 2022, the Company issued 8,793,986 shares pursuant to the DRSPP, raising net proceeds of $290.1 million.

(d) At-the-Market Offering Program

On August 16, 2019 the Company entered into a three-year distribution agreement under the terms of which the Company may offer and sell shares of its common stock having an aggregate gross sales price of up to $400.0 million (the "ATM Shares"), from time to time, through various sales agents, pursuant to an at-the-market equity offering program (the "ATM Program"). Sales of the ATM Shares, if any, may be made in negotiated transactions or by transactions that are deemed to be "at-the-market" offerings, as defined in Rule 415 under the Securities Act, including sales made directly on the New York Stock Exchange ("NYSE") or sales made to or through a market maker other than an exchange. The sales agents are entitled to compensation of up to two percent of the gross sales price per share for any shares of common stock sold under the distribution agreement.

During the three months ended March 31, 2022, the Company did not sell any shares of common stock through the ATM Program. At March 31, 2022, approximately $390.0 million remained outstanding for future offerings under this program.

(e) Stock Repurchase Program

On March 11, 2022, the Company's Board authorized a stock repurchase program (the "March 2022 Repurchase Authorization") under which the Company may repurchase up to $250 million of its common stock through the end of 2023. The Board's authorization replaces the authorization under a prior stock repurchase program that was adopted in November 2020 (the "November 2020 Repurchase Authorization"), which had also authorized the Company to repurchase up to $250 million.

The stock repurchase program does not require the purchase of any minimum number of shares. The timing and extent to which the Company repurchases its shares will depend upon, among other things, market conditions, share price, liquidity, regulatory requirements and other factors, and repurchases may be commenced or suspended at any time without prior notice. Acquisitions under the stock repurchase program may be made in the open market, through privately negotiated transactions or block trades or other means, in accordance with applicable securities laws (including, in the Company's discretion, through the use of one or more plans adopted under Rule 10b5-1 promulgated under the Exchange Act of 1934, as amended (the "Exchange Act")).

During the three months ended March 31, 2022 and 2021, the Company repurchased 3,195,769 and 1,486,670 shares of its common stock through the stock repurchase program at an average cost of $17.15 and $16.37 per share and a total cost of approximately $54.7 million and $24.3 million, net of fees and commissions paid to the sales agent of approximately $128,000 and $59,000, respectively. All stock repurchases for the three months ended March 31, 2022 were executed under the November 2020 Repurchase Authorization and prior to the Board's adoption of the March 2022 Repurchase Authorization. As of March 31, 2022, the Company was permitted to purchase an additional $250.0 million of its common stock.

(f) Accumulated Other Comprehensive Income/(Loss)

The following table presents changes in the balances of each component of the Company's AOCI for the three months ended March 31, 2022:

	Three Months Ended March 31, 2022		
(In Thousands)	**Net Unrealized Gain/(Loss) on AFS Securities**	**Net Unrealized Gain/(Loss) on Financing Agreements *(1)***	**Total AOCI**
Balance at beginning of period	$ 46,833	$ (1,255)	$ 45,578
OCI before reclassifications	(4,977)	1,255	(3,722)
Amounts reclassified from AOCI	—	—	—
Net OCI during the period *(2)*	(4,977)	1,255	(3,722)
Balance at end of period	$ 41,856	$ —	$ 41,856

(1) Net Unrealized Gain/(Loss) on Financing Agreements at Fair Value due to changes in instrument-specific credit risk.
(2) For further information regarding changes in OCI, see the Company's consolidated statements of comprehensive income/(loss).

The following table presents changes in the balances of each component of the Company's AOCI for the three months ended March 31, 2021:

	Three Months Ended March 31, 2021		
(In Thousands)	**Net Unrealized Gain/(Loss) on AFS Securities**	**Net Unrealized Gain/(Loss) on Financing Agreements *(1)***	**Total AOCI**
Balance at beginning of period	$ 79,607	$ (2,314)	$ 77,293
OCI before reclassifications	(3,855)	235	(3,620)
Amounts reclassified from AOCI	—	—	—
Net OCI during the period *(2)*	(3,855)	235	(3,620)
Balance at end of period	$ 75,752	$ (2,079)	$ 73,673

(1) Net Unrealized Gain/(Loss) on Financing Agreements at Fair Value due to changes in instrument-specific credit risk.
(2) For further information regarding changes in OCI, see the Company's consolidated statements of comprehensive income/(loss).

11. EPS Calculation

The following table presents a reconciliation of the (loss)/earnings and shares used in calculating basic and diluted (loss)/earnings per share for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31,	
(In Thousands, Except Per Share Amounts)	**2022**	**2021**
Basic (Loss)/Earnings per Share:		
Net (loss)/income	$ (82,906)	$ 85,522
Dividends declared on preferred stock	(8,219)	(8,219)
Dividends, dividend equivalents and undistributed earnings allocated to participating securities	(141)	(274)
Net (loss)/income to available common stockholders - basic	$ (91,266)	$ 77,029
Basic weighted average common shares outstanding	106,568	112,784
Basic (Loss)/Earnings per Share	$ (0.86)	$ 0.68
Diluted (Loss)/Earnings per Share:		
Net (loss)/income to available common stockholders - basic	$ (91,266)	$ 77,029
Interest expense on Convertible Senior Notes	—	3,909
Net (loss)/income available to common stockholders - diluted	$ (91,266)	$ 80,938
Basic weighted average common shares outstanding	106,568	112,784
Effect of assumed conversion of Convertible Senior Notes to common shares	—	7,230
Diluted weighted average common shares outstanding *(1)*	106,568	120,014
Diluted (Loss)/Earnings per Share	$ (0.86)	$ 0.67

(1) The Company had approximately 2.1 million equity instruments outstanding that were determined to be anti-dilutive and were excluded from the calculation of diluted EPS for the three months ended March 31, 2022. These equity instruments reflect RSUs (based on current estimate of expected share settlement amount) with a weighted average grant date fair value of $16.00. These equity instruments may continue to have a dilutive impact on future EPS.

During the three months ended March 31, 2022, the Convertible Senior Notes were determined to be anti-dilutive and were excluded from the calculation of diluted EPS under the "if-converted" method. Under this method, the periodic interest expense for dilutive notes is added back to the numerator and the weighted average number of shares that the notes are entitled to (if converted, regardless of whether the conversion option is in or out of the money) is included in the denominator for the purpose of calculating diluted EPS. The Convertible Senior Notes may have a dilutive impact on future EPS.

12. Equity Compensation and Other Benefit Plans

(a) Equity Compensation Plan

In accordance with the terms of the Company's Equity Plan, which was adopted by the Company's stockholders on June 10, 2020 (and which amended and restated the Company's 2010 Equity Compensation Plan), directors, officers and employees of the Company and any of its subsidiaries and other persons expected to provide significant services for the Company and any of its subsidiaries are eligible to receive grants of stock options ("Options"), restricted stock, RSUs, dividend equivalent rights and other stock-based awards under the Equity Plan.

Subject to certain exceptions, stock-based awards relating to a maximum of 4.5 million shares of common stock may be granted under the Equity Plan; forfeitures and/or awards that expire unexercised do not count toward this limit. At March 31, 2022, approximately 2.1 million shares of common stock remained available for grant in connection with stock-based awards under the Equity Plan. A participant may generally not receive stock-based awards in excess of 500,000 shares of common stock in any one year and no award may be granted to any person who, assuming exercise of all Options and payment of all awards held by such person, would own or be deemed to own more than 9.8% of the outstanding shares of the Company's common stock. Unless previously terminated by the Board, awards may be granted under the Equity Plan until June 10, 2030.

Restricted Stock Units

Under the terms of the Equity Plan, RSUs are instruments that provide the holder with the right to receive, subject to the satisfaction of conditions set by the Compensation Committee at the time of grant, a payment of a specified value, which may be a share of the Company's common stock, the fair market value of a share of the Company's common stock, or such fair market value to the extent in excess of an established base value, on the applicable settlement date. Although the Equity Plan permits the Company to issue RSUs that can settle in cash, all of the Company's outstanding RSUs as of March 31, 2022 are designated to be settled in shares of the Company's common stock. The Company granted 603,485 and 621,281 RSUs during the three months ended March 31, 2022 and 2021, respectively. There were no RSUs forfeited during the three months ended March 31, 2022 and 2021. All RSUs outstanding at March 31, 2022 may be entitled to receive dividend equivalent payments depending on the terms and conditions of the award either in cash at the time dividends are paid by the Company, or for certain time-based and performance-based RSU awards, as a grant of stock at the time such awards are settled. At March 31, 2022 and December 31, 2021, the Company had unrecognized compensation expense of $19.8 million and $12.3 million, respectively, related to RSUs. The unrecognized compensation expense at March 31, 2022 is expected to be recognized over a weighted average period of 2.1 years.

Restricted Stock

The Company did not grant any shares of restricted common stock during the three months ended March 31, 2022 and 2021. At March 31, 2022, the Company did not have any unvested shares of restricted common stock outstanding.

Dividend Equivalents

A dividend equivalent is a right to receive a distribution equal to the dividend distributions that would be paid on a share of the Company's common stock. Dividend equivalents may be granted as a separate instrument or may be a right associated with the grant of another award (e.g., an RSU) under the Equity Plan, and they are paid in cash or other consideration at such times and in accordance with such rules as the Compensation Committee of the Board shall determine in its discretion. Payments made on the Company's outstanding dividend equivalent rights are generally charged to Stockholders' Equity when common stock dividends are declared to the extent that such equivalents are expected to vest. The Company made dividend equivalent payments associated with RSU awards of approximately $170,000 and $137,000 during the three months ended March 31, 2022 and 2021. In addition, no dividend equivalents rights awarded as separate instruments were granted during the three months ended March 31, 2022 and 2021.

Expense Recognized for Equity-Based Compensation Instruments

The following table presents the Company's expenses related to its equity-based compensation instruments for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31,	
(In Thousands)	**2022**	**2021**
RSUs	$ 2,645	$ 1,688
Total	$ 2,645	$ 1,688

(b) Deferred Compensation Plans

The Company administers deferred compensation plans for its senior officers and non-employee directors (collectively, the "Deferred Plans"), pursuant to which participants may elect to defer up to 100% of certain cash compensation. The Deferred Plans are designed to align participants' interests with those of the Company's stockholders.

Amounts deferred under the Deferred Plans are considered to be converted into "stock units" of the Company. Stock units do not represent stock of the Company, but rather are a liability of the Company that changes in value as would equivalent shares of the Company's common stock. Deferred compensation liabilities are settled in cash at the termination of the deferral period, based on the value of the stock units at that time. The Deferred Plans are non-qualified plans under the Employee Retirement Income Security Act of 1974 and, as such, are not funded. Prior to the time that the deferred accounts are settled, participants are unsecured creditors of the Company.

The Company's liability for stock units in the Deferred Plans is based on the market price of the Company's common stock at the measurement date. The following table presents the Company's expenses related to its Deferred Plans for the three months ended March 31, 2022 and 2021:

(In Thousands)	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Non-employee directors	$ (278)	$ 131
Total	$ (278)	$ 131

The following table presents the aggregate amount of income deferred by participants of the Deferred Plans through March 31, 2022 and December 31, 2021 that had not been distributed and the Company's associated liability for such deferrals at March 31, 2022 and December 31, 2021:

	March 31, 2022		December 31, 2021	
(In Thousands)	Undistributed Income Deferred *(1)*	Liability Under Deferred Plans	Undistributed Income Deferred *(1)*	Liability Under Deferred Plans
Non-employee directors	$ 2,743	$ 2,628	$ 2,687	$ 2,836
Total	$ 2,743	$ 2,628	$ 2,687	$ 2,836

(1) Represents the cumulative amounts that were deferred by participants through March 31, 2022 and December 31, 2021, which had not been distributed through such respective date.

(c) Savings Plan

The Company sponsors a tax-qualified employee savings plan (the "Savings Plan") in accordance with Section 401(k) of the Code. Subject to certain restrictions, all of the Company's employees are eligible to make tax-deferred contributions to the Savings Plan subject to limitations under applicable law. Participant's accounts are self-directed and the Company bears the costs of administering the Savings Plan. The Company matches 100% of the first 3% of eligible compensation deferred by employees and 50% of the next 2%, subject to a maximum as provided by the Code. The Company has elected to operate the Savings Plan under the applicable safe harbor provisions of the Code, whereby among other things, the Company must make contributions for all participating employees and all matches contributed by the Company immediately vest 100%. For the three months ended March 31, 2022 and 2021, the Company recognized expenses for matching contributions of $316,000 and $125,000, respectively.

13. Fair Value of Financial Instruments

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

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

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

Level 3 — Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Residential Whole Loans, at Fair Value

The Company determines the fair value of its residential whole loans held at fair value after considering valuations obtained from a third-party that specializes in providing valuations of residential mortgage loans. The valuation approach applied generally depends on whether the loan is considered performing or non-performing at the date the valuation is performed. For performing loans, estimates of fair value are derived using a discounted cash flow approach, where estimates of cash flows are determined from the scheduled payments, adjusted using forecasted prepayment, default and loss given default rates. For non-performing loans, asset liquidation cash flows are derived based on the estimated time to liquidate the loan, the estimated value of the collateral, expected costs and estimated home price levels. Estimated cash flows for both performing and non-performing loans are discounted at yields considered appropriate to arrive at a reasonable exit price for the asset. Indications of loan value such as actual trades, bids, offers and generic market color may be used in determining the appropriate discount yield. The Company's residential whole loans held at fair value are generally classified as Level 3 in the fair value hierarchy; however, the Company determined that the market inputs used in valuing its Agency eligible investor loans were sufficiently observable to be classified as Level 2. $598.7 million of these loans were valued based on the observable prices of the related securitized debt as of March 31, 2022.

Securities, at Fair Value

Term Notes Backed by MSR-Related Collateral

The Company's valuation process for term notes backed by MSR-related collateral is similar to that used for other residential mortgage securities and considers a number of observable market data points, including prices obtained from pricing services, brokers and repurchase agreement counterparties, dialogue with market participants, as well as management's observations of market activity. Other factors taken into consideration include estimated changes in fair value of the related underlying MSR collateral and, as applicable, the financial performance of the ultimate parent or sponsoring entity of the issuer, which has provided a guarantee that is intended to provide for payment of interest and principal to the holders of the term notes should cash flows generated by the related underlying MSR collateral be insufficient. Based on its evaluation of the observability of the data used in its fair value estimation process, these assets are classified as Level 2 in the fair value hierarchy.

Other Residential Mortgage Securities (including short positions in TBA securities)

In determining the fair value of the Company's other residential mortgage securities, management considers a number of observable market data points, including prices obtained from pricing services and brokers as well as dialogue with market participants. Valuations of TBA securities positions are based on executed levels for positions entered into and subsequently rolled forward, as well as prices obtained from pricing services for outstanding positions at each reporting date. These valuations are assessed for reasonableness by considering market TBA levels observed via Bloomberg for the same coupon and term to maturity. In valuing Non-Agency MBS, the Company understands that pricing services use observable inputs that include, in addition to trading activity observed in the marketplace, loan delinquency data, credit enhancement levels and vintage, which are taken into account to assign pricing factors such as spread and prepayment assumptions. The Company collects and considers current market intelligence on all major markets, including benchmark security evaluations and bid-lists from various sources, when available.

The Company's residential mortgage securities are valued using various market data points as described above, which management considers directly or indirectly observable parameters. Accordingly, these securities are classified as Level 2 in the fair value hierarchy.

Financing Agreements, at Fair Value

Agreements with mark-to-market collateral provisions

These agreements are secured and subject to margin calls and their base interest rates reset frequently to market based rates. As a result, no credit valuation adjustment is required, and the primary factor in determining their fair value is the credit spread paid over the base rate, which is a non-observable input as it is determined based on negotiations with the counterparty. The Company's financing agreements with mark-to-market collateral provisions held at fair value are classified as Level 2 in the fair value hierarchy if the credit spreads used to price the instrument reset frequently, which is typically the case with shorter term repurchase agreement contracts collateralized by securities. Financing agreements with mark-to-market collateral provisions that are typically longer term and are collateralized by residential whole loans where the credit spread paid over the base rate on the instrument is not reset frequently are classified as Level 3 in the fair value hierarchy.

Agreements with non-mark-to-market collateral provisions

These agreements are secured, but not subject to margin calls, and their base interest rates reset frequently to market based rates. As a result, a credit valuation adjustment would only be required if there were a significant decrease in collateral value, and the primary factor in determining their fair value is the credit spread paid over the base rate, which is a non-observable input as it is determined based on negotiations with the counterparty. The Company's financing agreements with non-mark-to-market collateral provisions held at fair value are classified as Level 3 in the fair value hierarchy.

Securitized Debt

In determining the fair value of securitized debt, management considers a number of observable market data points, including prices obtained from pricing services and brokers as well as dialogue with market participants. Accordingly, the Company's securitized debt is classified as Level 2 in the fair value hierarchy.

Swaps

Variation margin payments on the Company's Swaps are treated as a legal settlement of the exposure under the related Swap contract, the effect of which reduces what would have otherwise been reported as the fair value of the Swap, generally to zero.

Changes to the valuation methodologies used with respect to the Company's financial instruments are reviewed by management to ensure any such changes result in appropriate exit price valuations. The Company will refine its valuation methodologies as markets and products develop and pricing methodologies evolve. The methods described above may produce fair value estimates that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with those used by market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. The Company uses inputs that are current as of the measurement date, which may include periods of market dislocation, during which price transparency may be reduced. The Company reviews the classification of its financial instruments within the fair value hierarchy on a quarterly basis, and management may conclude that its financial instruments should be reclassified to a different level in the future.

The following tables present the Company's financial instruments carried at fair value on a recurring basis as of March 31, 2022 and December 31, 2021, on the consolidated balance sheets by the valuation hierarchy, as previously described:

Fair Value at March 31, 2022

(In Thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Residential whole loans, at fair value	$ —	$ 991,633	$ 4,985,682	$ 5,977,315
Securities, at fair value	—	250,171	—	250,171
Total assets carried at fair value	$ —	$ 1,241,804	$ 4,985,682	$ 6,227,486
Liabilities:				
Agreements with non-mark-to-market collateral provisions	$ —	$ —	$ 563,860	$ 563,860
Agreements with mark-to-market collateral provisions	—	—	1,555,250	1,555,250
Securitized debt	—	1,685,796	—	1,685,796
Total liabilities carried at fair value	$ —	$ 1,685,796	$ 2,119,110	$ 3,804,906

Fair Value at December 31, 2021

(In Thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Residential whole loans, at fair value	$ —	$ 1,082,765	$ 4,222,584	$ 5,305,349
Securities, at fair value	—	256,685	—	256,685
Total assets carried at fair value	$ —	$ 1,339,450	$ 4,222,584	$ 5,562,034
Liabilities:				
Agreements with non-mark-to-market collateral provisions	—	—	628,280	628,280
Agreements with mark-to-market collateral provisions	$ —	$ —	$ 1,322,362	$ 1,322,362
Securitized debt	—	1,316,131	—	1,316,131
Total liabilities carried at fair value	$ —	$ 1,316,131	$ 1,950,642	$ 3,266,773

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents additional information for the three months ended March 31, 2022 and 2021 about the Company's Residential whole loans, at fair value, which are classified as Level 3 and measured at fair value on a recurring basis:

	Residential Whole Loans, at Fair Value	
	Three Months Ended March 31,	
(In Thousands)	2022	2021
Balance at beginning of period	$ 4,222,583	$ 1,216,902
Purchases and originations *(1)*	1,114,043	—
Draws	61,340	—
Changes in fair value recorded in Net gain on residential whole loans measured at fair value through earnings	(223,412)	32,088
Repayments	(202,084)	(25,571)
Sales and repurchases	(1,547)	—
Transfer to REO	(14,151)	(15,422)
Balance at end of period	$ 4,956,772	$ 1,207,997

(1) Excluded from the table above are approximately $28.9 million of Residential whole loans, at fair value for which the closing of the purchase transaction had not occurred as of March 31, 2022.

The following table presents additional information for the three months ended March 31, 2022 and 2021 about the Company's financing agreements with non-mark-to-market collateral provisions, which are classified as Level 3 and measured at fair value on a recurring basis:

	Agreements with Non-mark-to-market Collateral Provisions	
	Three Months Ended March 31,	
(In Thousands)	2022	2021
Balance at beginning of period	$ 628,280	$ 1,159,213
Issuances	—	—
Payment of principal	(63,165)	(117,695)
Changes in unrealized losses	(1,255)	(235)
Balance at end of period	$ 563,860	$ 1,041,283

The following table presents additional information for the three months ended March 31, 2022 and 2021 about the Company's financing agreements with mark-to-market collateral provisions, which are classified as Level 3 and measured at fair value on a recurring basis:

	Agreements with Mark-to-market Collateral Provisions	
	Three Months Ended March 31,	
(In Thousands)	2022	2021
Balance at beginning of period	$ 1,322,362	$ 1,124,162
Issuances	469,484	91,997
Payment of principal	(236,596)	(236,618)
Changes in unrealized losses	—	—
Balance at end of period	$ 1,555,250	$ 979,541

Fair Value Methodology for Level 3 Financial Instruments

Residential Whole Loans, at Fair Value

The following tables present a summary of quantitative information about the significant unobservable inputs used in the fair value measurement of the Company's residential whole loans held at fair value for which it has utilized Level 3 inputs to determine fair value as of March 31, 2022 and December 31, 2021:

	March 31, 2022				
(Dollars in Thousands)	**Fair Value *(1)***	**Valuation Technique**	**Unobservable Input**	**Weighted Average *(2)***	**Range**
Purchased Non-Performing Loans	$ 653,523	Discounted cash flow	Discount rate	5.0 %	2.4-9.7%
			Prepayment rate	11.8 %	0.0-40.3%
			Default rate	3.7 %	0.0-52.4%
			Loss severity	11.8 %	0.0-100.0%
	$ 333,970	Liquidation model	Discount rate	7.9 %	6.7-50.0%
			Annual change in home prices	9.6 %	4.8-20.6%
			Liquidation timeline (in years)	1.8	0.1-4.5
			Current value of underlying properties *(3)*	$ 763	$28-$4,000
Total	$ 987,493				

	December 31, 2021				
(Dollars in Thousands)	**Fair Value *(1)***	**Valuation Technique**	**Unobservable Input**	**Weighted Average *(2)***	**Range**
Purchased Non-Performing Loans	$ 720,766	Discounted cash flow	Discount rate	3.6 %	1.5-9.8%
			Prepayment rate	14.4 %	0.0-44.0%
			Default rate	3.9 %	0.0-50.8%
			Loss severity	11.7 %	0.0-100.0%
	$ 351,008	Liquidation model	Discount rate	8.0 %	6.7-50.0%
			Annual change in home prices	9.7 %	4.5-21.9%
			Liquidation timeline (in years)	1.7	0.1-4.5
			Current value of underlying properties *(3)*	$ 770	$10-$3,995
Total	$ 1,071,774				

(1) Excludes approximately $301,000 and $496,000 of loans for which management considers the purchase price continues to reflect the fair value of such loans at March 31, 2022 and December 31, 2021, respectively.

(2) Amounts are weighted based on the fair value of the underlying loan.

(3) The simple average value of the properties underlying residential whole loans held at fair value valued via a liquidation model was approximately $434,000 and $421,000 as of March 31, 2022 and December 31, 2021, respectively.

(Dollars in Thousands)	March 31, 2022 Fair Value *(1)*	Valuation Technique	Unobservable Input	Weighted Average *(2)*	Range
Purchased Performing Loans	$ 3,956,992	Discounted cash flow	Discount rate	5.4 %	3.1-31.6%
			Prepayment rate	13.3 %	0.0-41.0%
			Default rate	0.5 %	0.0-14.8%
			Loss severity	8.1 %	0.0-42.0%
	$ 12,952	Liquidation model	Discount rate	7.0 %	7.0-7.0%
			Annual change in home prices	10.7 %	0.0-15.5%
			Liquidation timeline (in years)	1.9	0.8-4.2
			Current value of underlying properties	$ 1,590	$60-$3,470
Total	$ 3,969,944				

(1) Amounts are weighted based on the fair value of the underlying loan.

Changes in market conditions, as well as changes in the assumptions or methodology used to determine fair value, could result in a significant increase or decrease in the fair value of residential whole loans. Loans valued using a discounted cash flow model are most sensitive to changes in the discount rate assumption, while loans valued using the liquidation model technique are most sensitive to changes in the current value of the underlying properties and the liquidation timeline. Increases in discount rates, default rates, loss severities, or liquidation timelines, either in isolation or collectively, would generally result in a lower fair value measurement, whereas increases in the current or expected value of the underlying properties, in isolation, would result in a higher fair value measurement. In practice, changes in valuation assumptions may not occur in isolation and the changes in any particular assumption may result in changes in other assumptions, which could offset or amplify the impact on the overall valuation.

The following table presents the carrying values and estimated fair values of the Company's financial instruments at March 31, 2022 and December 31, 2021:

(In Thousands)	March 31, 2022 Level in Fair Value Hierarchy	March 31, 2022 Carrying Value	March 31, 2022 Estimated Fair Value	December 31, 2021 Carrying Value	December 31, 2021 Estimated Fair Value
Financial Assets:					
Residential whole loans	3	$ 7,270,272	$ 7,324,320	$ 6,830,235	$ 6,983,686
Residential whole loans	2	991,633	991,633	1,082,765	1,082,765
Securities, at fair value	2	250,171	250,171	256,685	256,685
Cash and cash equivalents	1	410,939	410,939	304,696	304,696
Restricted cash	1	144,600	144,600	99,751	99,751
Financial Liabilities *(1)*:					
Financing agreements with non-mark-to-market collateral provisions	3	1,001,408	1,002,234	939,540	940,257
Financing agreements with mark-to-market collateral provisions	3	2,781,916	2,782,240	2,403,151	2,403,724
Financing agreements with mark-to-market collateral provisions	2	159,019	159,019	159,148	159,148
Securitized debt *(2)*	2	2,859,061	2,811,392	2,650,473	2,646,203
Convertible senior notes	2	226,807	231,758	226,470	239,292

(1) Carrying value of securitized debt, Convertible Senior Notes, Senior Notes and certain repurchase agreements is net of associated debt issuance costs.
(2) Includes Securitized debt that is carried at amortized cost basis and fair value.

Other Assets Measured at Fair Value on a Nonrecurring Basis

The Company holds REO at the lower of the current carrying amount or fair value less estimated selling costs. During the three months ended March 31, 2022 and 2021, the Company recorded REO with an aggregate estimated fair value, less estimated cost to sell, of $22.1 million and $20.1 million, respectively, at the time of foreclosure. The Company classifies fair value measurements of REO as Level 3 in the fair value hierarchy.

14. Use of Special Purpose Entities and Variable Interest Entities

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

The Company has entered into several financing transactions that resulted in the Company consolidating as VIEs the SPEs that were created to facilitate these transactions. See Note 2(p) for a discussion of the accounting policies applied to the consolidation of VIEs and transfers of financial assets in connection with financing transactions.

The Company has engaged in loan securitizations primarily for the purpose of obtaining improved overall financing terms as well as non-recourse financing on a portion of its residential whole loan portfolio. Notwithstanding the Company's participation in these transactions, the risks facing the Company are largely unchanged as the Company remains economically exposed to the first loss position on the underlying assets transferred to the VIEs.

Loan Securitization Transactions

The following table summarizes the key details of the Company's loan securitization transactions currently outstanding as of March 31, 2022 and December 31, 2021:

(Dollars in Thousands)	March 31, 2022		December 31, 2021	
Aggregate unpaid principal balance of residential whole loans sold	$ 4,554,495		$ 3,984,355	
Face amount of Senior Bonds issued by the VIE and purchased by third-party investors	$ 4,181,681		$ 3,667,790	
Outstanding amount of Senior Bonds, at carrying value	$ 1,173,265	*(1)*	$ 1,334,342	*(1)*
Outstanding amount of Senior Bonds, at fair value	$ 1,685,796		$ 1,316,131	
Outstanding amount of Senior Bonds, total	$ 2,859,061		$ 2,650,473	
Weighted average fixed rate for Senior Bonds issued	2.41 %	*(2)*	2.01 %	*(2)*
Weighted average contractual maturity of Senior Bonds	38 years	*(2)*	36 years	*(2)*
Face amount of Senior Support Certificates received by the Company *(3)*	$ 339,975		$ 283,930	
Cash received	$ 4,193,362		$ 3,682,082	

(1) Net of $5.6 million and $6.8 million of deferred financing costs at March 31, 2022 and December 31, 2021, respectively.
(2) At March 31, 2022 and December 31, 2021, $707.6 million and $329.0 million, respectively, of Senior Bonds sold in securitization transactions contained a contractual coupon step-up feature whereby the coupon increases by either 100 or 300 basis points or more at 36 months from issuance if the bond is not redeemed before such date.
(3) Provides credit support to the Senior Bonds sold to third-party investors in the securitization transactions.

During the three months ended March 31, 2022, the Company issued Senior Bonds with a current face of $513.9 million to third-party investors for proceeds of $511.3 million, before offering costs and accrued interest. The Senior Bonds issued by the Company during the three months ended March 31, 2022 are included in "Financing agreements, at carrying value" (at carrying value) on the Company's consolidated balance sheets (see Note 6).

As of March 31, 2022 and December 31, 2021, as a result of the transactions described above, securitized loans of approximately $3.2 billion and $3.0 billion are included in "Residential whole loans" and REO with a carrying value of approximately $36.3 million and $35.4 million are included in "Other assets" on the Company's consolidated balance sheets, respectively. As of March 31, 2022 and December 31, 2021, the aggregate carrying value of Senior Bonds issued by consolidated VIEs was $2.9 billion and $2.7 billion, respectively. These Senior Bonds are disclosed as "Securitized debt" and are included in Financing agreements on the Company's consolidated balance sheets. The holders of the securitized debt have no recourse to the general credit of the Company, but the Company does have the obligation, under certain circumstances, to repurchase assets from the VIE upon the breach of certain representations and warranties with respect to the residential whole loans sold to the VIE. In the absence of such a breach, the Company has no obligation to provide any other explicit or implicit support to any VIE.

The Company concluded that the entities created to facilitate the loan securitization transactions are VIEs. The Company completed an analysis of whether each VIE created to facilitate the securitization transactions should be consolidated by the Company, based on consideration of its involvement in each VIE, including the design and purpose of the SPE, and whether its involvement reflected a controlling financial interest that resulted in the Company being deemed the primary beneficiary of each VIE. In determining whether the Company would be considered the primary beneficiary, the following factors were assessed:

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

Based on its evaluation of the factors discussed above, including its involvement in the purpose and design of the entity, the Company determined that it was required to consolidate each VIE created to facilitate the loan securitization transactions.

Residential Whole Loans and REO (including Residential Whole Loans and REO transferred to consolidated VIEs)

Included on the Company's consolidated balance sheets as of March 31, 2022 and December 31, 2021 are a total of $8.3 billion and $7.9 billion, respectively, of residential whole loans. These assets, excluding certain loans originated and held by Lima One, and certain of the Company's REO assets, are directly owned by certain trusts established by the Company to acquire the loans and entities established in connection with the Company's loan securitization transactions. The Company has assessed that these entities are required to be consolidated (see Notes 3 and 5(a)).

15. Subsequent Events

Securitizations of Business Purpose Loans

Subsequent to quarter end, the Company completed two securitizations of business purpose loans, totaling $509.5 million, including its first securitization of approximately $250.0 million of Rehabilitation loans.

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

In this Quarterly Report on Form 10-Q, we refer to MFA Financial, Inc. and its subsidiaries as "the Company," "MFA," "we," "us," or "our," unless we specifically state otherwise or the context otherwise indicates.

The following discussion should be read in conjunction with our financial statements and accompanying notes included in Item 1 of this Quarterly Report on Form 10-Q as well as our Annual Report on Form 10-K for the year ended December 31, 2021.

Forward Looking Statements

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

These forward-looking statements include information about possible or assumed future results with respect to our business, financial condition, liquidity, results of operations, plans and objectives. Statements regarding the following subjects, among others, may be forward-looking: changes in interest rates and the market (i.e., fair) value of our residential whole loans, MBS and other assets; changes in the prepayment rates on residential mortgage assets, an increase of which could result in a reduction of the yield on certain investments in our portfolio and could require us to reinvest the proceeds received by us as a result of such prepayments in investments with lower coupons, while a decrease in which could result in an increase in the interest rate duration of certain investments in our portfolio making their valuation more sensitive to changes in interest rates and could result in lower forecasted cash flows; credit risks underlying our assets, including changes in the default rates and management's assumptions regarding default rates on the mortgage loans in our residential whole loan portfolio; our ability to borrow to finance our assets and the terms, including the cost, maturity and other terms, of any such borrowings; implementation of or changes in government regulations or programs affecting our business; our estimates regarding taxable income the actual amount of which is dependent on a number of factors, including, but not limited to, changes in the amount of interest income and financing costs, the method elected by us to accrete the market discount on residential whole loans and the extent of prepayments, realized losses and changes in the composition of our residential whole loan portfolios that may occur during the applicable tax period, including gain or loss on any MBS disposals and whole loan modifications, foreclosures and liquidations; the timing and amount of distributions to stockholders, which are declared and paid at the discretion of our Board and will depend on, among other things, our taxable income, our financial results and overall financial condition and liquidity, maintenance of our REIT qualification and such other factors as the Board deems relevant; our ability to maintain our qualification as a REIT for federal income tax purposes; our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended (or the Investment Company Act), including statements regarding the concept release issued by the SEC relating to interpretive issues under the Investment Company Act with respect to the status under the Investment Company Act of certain companies that are engaged in the business of acquiring mortgages and mortgage-related interests; our ability to continue growing our residential whole loan portfolio, which is dependent on, among other things, the supply of loans offered for sale in the market; expected returns on our investments in nonperforming residential whole loans (or NPLs), which are affected by, among other things, the length of time required to foreclose upon, sell, liquidate or otherwise reach a resolution of the property underlying the NPL, home price values, amounts advanced to carry the asset (e.g., taxes, insurance, maintenance expenses, etc. on the underlying property) and the amount ultimately realized upon resolution of the asset; targeted or expected returns on our investments in recently-originated loans, the performance of which is, similar to our other mortgage loan investments, subject to, among other things, differences in prepayment risk, credit risk and financing cost associated with such investments; risks associated with our investments in MSR-related assets, including servicing, regulatory and economic risks, risks associated with our investments in loan originators, risks associated with investing in real estate assets, including changes in business conditions and the general economy and risks associated with the integration and ongoing operation of Lima One Holdings, LLC (including, without limitation, unanticipated expenditures relating to or liabilities arising from the transaction and/or the inability to obtain, or delays in obtaining, expected benefits (including expected growth in loan origination volumes) from the transaction). These and other risks, uncertainties and factors, including those described in the annual, quarterly and current reports that we file with the SEC, could cause our actual results to differ materially from those projected in any forward-looking statements we make. All forward-looking statements are based on beliefs, assumptions and expectations of our future performance, taking into account all information currently available. Readers are cautioned not to place undue reliance on these forward-looking statements, which 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.

Business/General

We are a specialty finance company that invests in and finances residential mortgage assets. We invest, on a leveraged basis, in residential whole loans, residential MBS, MSR-related assets and other real estate assets. Through certain of our subsidiaries, we also originate and service business purpose loans for real estate investors. Our principal business objective is to deliver shareholder value through the generation of distributable income and through asset performance linked to residential mortgage credit fundamentals. We selectively invest in residential mortgage assets with a focus on credit analysis, projected prepayment rates, interest rate sensitivity and expected return. We are an internally-managed real estate investment trust.

At March 31, 2022, we had total assets of approximately $9.9 billion, of which $8.3 billion, or 83%, represented residential whole loans acquired through interests in certain trusts established to acquire the loans or originated by Lima One. Our Purchased Performing Loans, which as of March 31, 2022 comprised approximately 82% of our residential whole loans, include: (i) loans to finance (or refinance) one-to-four family residential properties that are not considered to meet the definition of a “Qualified Mortgage” in accordance with guidelines adopted by the Consumer Financial Protection Bureau (or Non-QM loans), (ii) short-term business purpose loans collateralized by residential properties made to non-occupant borrowers who intend to rehabilitate and sell the property for a profit (or Rehabilitation loans or Fix and Flip loans), (iii) loans to finance (or refinance) non-owner occupied one-to-four family residential properties that are rented to one or more tenants (or Single-family rental loans), (iv) loans on investor properties that conform to the standards for purchase by a federally chartered corporation, such as the Federal National Mortgage Association (“Fannie Mae”) or the Federal Home Loan Mortgage Corporation (“Freddie Mac”) (or Agency eligible investor loans), and (v) previously originated loans secured by residential real estate that is generally owner occupied (or Seasoned performing loans). In addition, at March 31, 2022, we had approximately $250.2 million in investments in Securities, at fair value, which represented approximately 3% of our total assets. At such date, our Securities, at fair value included MSR-related assets and CRT securities. Our MSR-related assets include term notes whose cash flows are considered to be largely dependent on MSR collateral and loan participations to provide financing to mortgage originators that own MSRs. Our remaining investment-related assets, which represent approximately 4% of our total assets at March 31, 2022, were primarily comprised of REO, capital contributions made to loan origination partners, other interest-earning assets, and loan-related receivables.

The results of our business operations are affected by a number of factors, many of which are beyond our control, and primarily depend on, among other things, the level of our net interest income and the market value of our assets, which is driven by numerous factors, including the supply and demand for residential mortgage assets in the marketplace, the terms and availability of adequate financing, general economic and real estate conditions (both on a national and local level), the impact of government actions in the real estate and mortgage sector, and the credit performance of our credit sensitive residential mortgage assets. Changes in these factors, or uncertainty in the market regarding the potential for changes in these factors, can result in significant changes in the value and/or performance of our investment portfolio. Further, our GAAP results may be impacted by market volatility, resulting in changes in market values of certain financial instruments for which changes in fair value are recorded in net income each period, such as certain residential whole loans and CRT securities. Our net interest income varies primarily as a result of changes in interest rates, the slope of the yield curve (i.e., the differential between long-term and short-term interest rates), borrowing costs (i.e., our interest expense) and prepayment speeds, the behavior of which involves various risks and uncertainties. Interest rates and conditional prepayment rates (or CPRs) (which is an annualized measure of the amount of unscheduled principal prepayments on an asset as a percentage of the asset balance), vary according to the type of investment, conditions in the financial markets, competition and other factors, none of which can be predicted with any certainty. Our financial results are impacted by estimates of credit losses that are required to be recorded when loans that are not accounted for at fair value through net income are acquired or originated, as well as changes in these credit loss estimates that will be required to be made periodically.

With respect to our business operations, increases in interest rates, in general, may over time cause: (i) the interest expense associated with our borrowings to increase; (ii) the value of certain of our residential mortgage assets and, correspondingly, our stockholders’ equity to decline; (iii) coupons on our adjustable-rate assets to reset, on a delayed basis, to higher interest rates; (iv) prepayments on our assets to decline, thereby slowing the amortization of purchase premiums and the accretion of our purchase discounts, and slowing our ability to redeploy capital to generally higher yielding investments; and (v) the value of our derivative hedging instruments, if any, and, correspondingly, our stockholders’ equity to increase. Conversely, decreases in interest rates, in general, may over time cause: (i) the interest expense associated with our borrowings to decrease; (ii) the value of certain of our residential mortgage assets and, correspondingly, our stockholders’ equity to increase; (iii) coupons on our adjustable-rate assets, on a delayed basis, to lower interest rates; (iv) prepayments on our assets to increase, thereby accelerating the amortization of purchase premiums and the accretion of our purchase discounts, and accelerating the redeployment of our capital to generally lower yielding investments; and (v) the value of our derivative hedging instruments, if any, and, correspondingly, our stockholders' equity to decrease. In addition, our borrowing costs and credit lines are further affected by the type of collateral we pledge and general conditions in the credit market.

Our investments in residential mortgage assets expose us to credit risk, meaning that we are generally subject to credit losses due to the risk of delinquency, default and foreclosure on the underlying real estate collateral. Our investment process for credit sensitive assets focuses primarily on quantifying and pricing credit risk. With respect to investments in Purchased Performing Loans, we believe that sound underwriting standards, including low LTVs at origination, significantly mitigate our risk of loss. Further, we believe the discounted purchase prices paid on Purchased Non-performing and Purchased Credit Deteriorated Loans mitigate our risk of loss in the event that, as we expect on most such investments, we receive less than 100% of the par value of these investments.

Premiums arise when we acquire an MBS at a price in excess of the aggregate principal balance of the mortgages securing the MBS (i.e., par value) or when we acquire residential whole loans at a price in excess of their aggregate principal balance. Conversely, discounts arise when we acquire an MBS at a price below the aggregate principal balance of the mortgages securing the MBS or when we acquire residential whole loans at a price below their aggregate principal balance. Accretable purchase discounts on these investments are accreted to interest income. Premiums paid to purchase loans, primarily on certain of our Non-QM loans, business purpose loans and Agency eligible investor loans, are amortized against interest income over the life of the investment using the effective yield method, adjusted for actual prepayment activity. An increase in the prepayment rate, as measured by the CPR, will typically accelerate the amortization of purchase premiums, thereby reducing the interest income earned on these assets.

CPR levels are impacted by, among other things, conditions in the housing market, new regulations, government and private sector initiatives, interest rates, availability of credit to home borrowers, underwriting standards and the economy in general. In particular, CPR reflects the conditional prepayment rate, which measures voluntary prepayments of a loan, and the conditional default rate (or CDR) measures involuntary prepayments resulting from defaults. CPRs on our residential mortgage securities and whole loans may differ significantly. For the three months ended March 31, 2022, the average CPRs on certain of our loan portfolios were: 25.4% for Non-QM loans, 22.5% for Single-family rental loans, 18.0% for Purchased Credit Deteriorated loans, and 16.9% for Purchased Non-Performing loans.

It is generally our business strategy to hold our residential mortgage assets as long-term investments. On at least a quarterly basis, excluding investments for which the fair value option has been elected or for which specialized loan accounting is otherwise applied, we assess our ability and intent to continue to hold each asset and, as part of this process, we monitor our investments in securities that are designated as AFS for impairment. A change in our ability and/or intent to continue to hold any of these securities that are in an unrealized loss position, or a deterioration in the underlying characteristics of these securities, could result in our recognizing future impairment charges or a loss upon the sale of any such security.

Our residential mortgage investments have longer-term contractual maturities than our non-securitization related financing liabilities. Even though the majority of our investments have interest rates that adjust over time based on short-term changes in corresponding interest rate indices (typically following an initial fixed-rate period for our Hybrids), the interest rates we pay on our borrowings will typically change at a faster pace than the interest rates we earn on our investments. In order to reduce this interest rate risk exposure, we may enter into derivative instruments, which currently include Swaps and short positions in to be announced (or TBA) securities.

Recent Market Conditions and Our Strategy

For all periods presented, all per share amounts and common shares outstanding have been adjusted on a retroactive basis to reflect the Company’s one-for-four reverse stock split which was effected following the close of business on April 4, 2022.

The first quarter of 2022 was an extremely challenging period for fixed income investors, and exceptionally so for mortgage investors, including us. The magnitude of rate sell-off, particularly in the short end of the yield curve, was the most dramatic witnessed in over 30 years, eclipsing even the rate increases in early 1994. We proactively addressed this challenge by taking steps to further hedge our exposure to interest rate risk, as well as bolster our cash position. Specifically, we added $1.5 billion in interest rate swaps and completed additional securitizations. While higher absolute rates and materially wider spreads on securitized mortgage assets pressured mortgage loan pricing, the additional risk management measures taken did mitigate the impact of the rate environment and resulted in a moderate book value decline for MFA.

First quarter 2022 Portfolio Activity and impact on financial results:

At March 31, 2022, our residential mortgage asset portfolio, which includes residential whole loans and REO, and Securities, at fair value was approximately $8.7 billion compared to $8.3 billion at December 31, 2021.

The following table presents the activity for our residential mortgage asset portfolio for the three months ended March 31, 2022:

(In Millions)	December 31, 2021	Runoff *(1)*	Acquisitions *(2)*	Other *(3)*	March 31, 2022	Change
Residential whole loans and REO	$ 8,069	$ (582)	$ 1,207	$ (287)	$ 8,407	$ 338
Securities, at fair value	257	(1)	—	(6)	250	(7)
Totals	$ 8,326	$ (583)	$ 1,207	$ (293)	$ 8,657	$ 331

(1) Primarily includes principal repayments and sales of REO.
(2) Includes draws on previously originated Rehabilitation loans.
(3) Primarily includes changes in fair value and changes in the allowance for credit losses.

At March 31, 2022, our total recorded investment in residential whole loans and REO was $8.4 billion, or 97.1% of our residential mortgage asset portfolio. Of this amount, $6.8 billion are Purchased Performing Loans, $496.9 million are Purchased Credit Deteriorated Loans and $987.8 million are Purchased Non-performing Loans. Loan acquisition activity of $1.2 billion for the three months ended March 31, 2022 included $617.4 million of Non-QM loans and $589.4 million of business purpose loans (including draws on Rehabilitation loans). For the three months ended March 31, 2022, we recognized approximately $99.5 million of residential whole loan interest income on our consolidated statements of operations, representing an effective yield of 4.94%, with Purchased Performing Loans generating an effective yield of 4.18%, Purchased Credit Deteriorated Loans generating an effective yield of 6.79% and Purchased Non-performing Loans generating an effective yield of 9.82%. All of our Purchased Non-performing Loans and certain of our Purchased Performing Loans are measured at fair value as a result of the election of the fair value option at acquisition. Included in earnings in Other income, net are net losses on these loans of $288.4 million for the three months ended March 31, 2022. At March 31, 2022 and December 31, 2021, we had REO with an aggregate carrying value of $145.6 million and $156.2 million, respectively, which is included in Other assets on our consolidated balance sheets.

At March 31, 2022, our Securities, at fair value totaled $250.2 million and included $153.8 million of MSR-related assets and $96.4 million of CRT securities. The net yield on our Securities, at fair value was 10.13% for the three months ended March 31, 2022, compared to 22.25% for the three months ended March 31, 2021. The decrease in the net yield on our Securities, at fair value portfolio primarily reflects accretion income of approximately $8.1 million recognized during the three months ended March 31, 2021 due to the redemption of a Non-Agency MBS that had been previously purchased at a discount.

For the three months ended March 31, 2021, we recorded a reversal of provision for credit losses on residential whole loans held at carrying value of $3.5 million. The reversal for the period primarily reflects run-off of loans held at carrying value and adjustments to certain macroeconomic and loan prepayment speed assumptions used in our credit loss forecasts. The total allowance for credit losses recorded on residential whole loans held at carrying value at March 31, 2022 was $35.5 million. In addition, as of March 31, 2022, CECL reserves for credit losses totaling approximately $156,000 were recorded related to undrawn commitments on loans held at carrying value.

During the first quarter of 2022, we continued to execute on our strategy of entering into more durable forms of financing by completing two securitizations consisting of $570.1 million of residential whole loans. Subsequent to the end of the first quarter, we have completed two securitizations of business purpose loans, totaling $509.5 million, including our first securitization of approximately $250.0 million of Rehabilitation loans. During the first quarter of 2022, interest rates rose rapidly and credit spreads widened, impacting the values of the majority of our residential whole loan portfolios and associated financing liabilities and hedges, which resulted in significant mark to market losses in our GAAP financial results. Market observers are increasingly scrutinizing the pace at which the Federal Reserve will increase interest rates during the remainder of 2022 and the impact such rate increases will have on levels of inflation and the overall economic environment.

Our GAAP book value per common share was $17.84 as of March 31, 2022. Book value per common share decreased from $19.12 as of December 31, 2021. Economic book value per common share, a non-GAAP financial measure of our financial position that adjusts GAAP book value by the amount of unrealized mark-to-market gains on our residential whole loans and securitized debt held at carrying value, was $18.81 as of March 31, 2022, a decrease from $20.58 as of December 31, 2021. Decreases in GAAP and Economic book value during the first quarter of 2022 primarily reflect declines in the fair value of our Residential whole loan portfolios due to increased interest rates and widening spreads. For additional information regarding the calculation of Economic book value per share, including a reconciliation to GAAP book value per share, refer to page 72 under the heading "Economic Book Value."

Information About Our Assets

The table below presents certain information about our asset allocation at March 31, 2022:

ASSET ALLOCATION

(Dollars in Millions)	Purchased Performing Loans *(1)*	Purchased Credit Deteriorated Loans *(2)*	Purchased Non-Performing Loans	Securities, at fair value	Real Estate Owned	Other, net *(3)*	Total
Fair Value/Carrying Value	$ 6,777	$ 497	$ 988	$ 250	$ 146	$ 1,049	$ 9,707
Payable for Unsettled Purchases	(29)	—	—	—	—	(300)	(329)
Financing Agreements with Non-mark-to-market Collateral Provisions	(668)	(118)	(203)	—	(12)	—	(1,001)
Financing Agreements with Mark-to-market Collateral Provisions	(2,528)	(105)	(136)	(159)	(13)	—	(2,941)
Securitized Debt	(2,353)	(184)	(301)	—	(21)	—	(2,859)
Convertible Senior Notes	—	—	—	—	—	(228)	(228)
Net Equity Allocated	$ 1,199	$ 90	$ 348	$ 91	$ 100	$ 521	$ 2,349
Debt/Net Equity Ratio *(4)*	4.7 x	4.5 x	1.8 x	1.7 x	0.5 x		3.1 x

(1) Includes $3.6 billion of Non-QM loans, $885.2 million of Rehabilitation loans, $1.2 billion of Single-family rental loans, $98.2 million of Seasoned performing loans, and $1.0 billion of Agency eligible investor loans. At March 31, 2022, the total fair value of these loans is estimated to be approximately $6.7 billion.

(2) At March 31, 2022, the total fair value of these loans is estimated to be approximately $566.3 million.

(3) Includes $410.9 million of cash and cash equivalents, $144.6 million of restricted cash, and $70.8 million of capital contributions made to loan origination partners, as well as other assets and other liabilities.

(4) Total Debt/Net Equity ratio represents the sum of borrowings under our financing agreements noted above as a multiple of net equity allocated.

Residential Whole Loans

The following table presents the contractual maturities of our residential whole loan portfolios at March 31, 2022. Amounts presented do not reflect estimates of prepayments or scheduled amortization.

(In Thousands)	Purchased Performing Loans *(1)(2)*	Purchased Credit Deteriorated Loans *(3)*	Purchased Non-Performing Loans
Amount due:			
Within one year	$ 477,566	$ 1,225	$ 3,425
After one year:			
Over one to five years	461,675	2,859	4,406
Over five years	5,822,968	514,366	979,963
Total due after one year	$ 6,284,643	$ 517,225	$ 984,369
Total residential whole loans	$ 6,762,209	$ 518,450	$ 987,794

(1) Excludes an allowance for credit losses of $13.9 million at March 31, 2022.
(2) Excluded from the table above are approximately $28.9 million of Purchased Performing Loans for which the closing of the purchase transaction had not occurred as of March 31, 2022.
(3) Excludes an allowance for credit losses of $21.6 million at March 31, 2022.

The following table presents, at March 31, 2022, the dollar amount of certain of our residential whole loans, contractually maturing after one year, and indicates whether the loans have fixed interest rates or adjustable interest rates:

(In Thousands)	Purchased Performing Loans *(1)(2)(3)*	Purchased Credit Deteriorated Loans *(1)(4)*	Purchased Non-Performing Loans *(1)*
Interest rates:			
Fixed	$ 4,795,094	$ 433,000	$ 777,478
Adjustable	1,489,549	84,225	206,891
Total	$ 6,284,643	$ 517,225	$ 984,369

(1) Includes loans on which borrowers have defaulted and are not making payments of principal and/or interest as of March 31, 2022.
(2) Excludes an allowance for credit losses of $13.9 million at March 31, 2022.
(3) Excluded from the table above are approximately $28.9 million of Purchased Performing Loans for which the closing of the purchase transaction had not occurred as of March 31, 2022.
(4) Excludes an allowance for credit losses of $21.6 million at March 31, 2022.

Securities, at Fair Value

The following table presents information with respect to our Securities, at fair value at March 31, 2022 and December 31, 2021:

(Dollars in Thousands)	March 31, 2022	December 31, 2021
MSR-Related Assets		
Face/Par	$ 154,350	$ 154,350
Fair Value	153,771	153,771
Amortized Cost	123,333	121,376
Weighted average yield *(1)*	10.22 %	10.30 %
Weighted average time to maturity	1.4 years	1.7 years
CRT Securities		
Face/Par	$ 98,172	$ 99,999
Fair Value	96,400	102,914
Amortized Cost	86,082	86,643
Weighted average yield *(1)*	9.23 %	10.52 %
Weighted average time to maturity	18.1 Years	18.5 years

(1) Weighted average yield is annualized interest income divided by average amortized cost for Securities, at fair value held at March 31, 2022 and December 31, 2021.

Tax Considerations

Current period estimated taxable income

We estimate that for the three months ended March 31, 2022, our REIT taxable income was approximately $12.8 million.

Key differences between GAAP net income and REIT Taxable Income

Residential Whole Loans and Securities

The determination of taxable income attributable to residential whole loans and securities is dependent on a number of factors, including principal payments, defaults, loss mitigation efforts and loss severities. In estimating taxable income for such investments during the year, management considers estimates of the amount of discount expected to be accreted. Such estimates require significant judgment and actual results may differ from these estimates.

Potential timing differences can arise with respect to the accretion of discount and amortization of premium into income as well as the recognition of gain or loss for tax purposes as compared to GAAP. For example: a) while our REIT uses fair value accounting for GAAP in some instances, it generally is not used for purposes of determining taxable income; b) impairments generally are not recognized by us for income tax purposes until the asset is written-off or sold; c) capital losses may only be recognized by us to the extent of its capital gains; capital losses in excess of capital gains generally are carried over by us for potential offset against future capital gains; and d) tax hedge gains and losses resulting from the termination of interest rate swaps by us generally are amortized over the remaining term of the swap.

Securitization

Generally, securitization transactions for GAAP and tax can be characterized as either sales or financings, depending on transaction type, structure and available elections. For GAAP purposes, our securitizations have been treated as on-balance sheet financing transactions. For tax purposes, they have been characterized as both financing and sale transactions.

Where a securitization has been characterized as a sale, gain or loss is recognized for tax purposes. In addition, we own or may in the future acquire interests in securitization and/or re-securitization trusts, in which several of the classes of securities are or will be issued with original issue discount (or OID). As the holder of the retained interests in the trust, for tax purposes we generally will be required to include OID in our current gross interest income over the term of the applicable securities as the OID accrues. The rate at which the OID is recognized into taxable income is calculated using a constant rate of yield to maturity, with realized losses impacting the amount of OID recognized in REIT taxable income once they are actually incurred. REIT taxable income may be recognized in excess of economic income (i.e., OID) or in advance of the corresponding cash flow from these assets, thereby affecting our dividend distribution requirement to stockholders.

For securitization and/or re-securitization transactions that were treated as a sale of the underlying collateral for tax purposes, the unwinding of any such transaction will likely result in taxable income or loss. Given that securitization and re-securitization transactions are typically accounted for as financing transactions for GAAP purposes, such income or loss is not likely to be recognized for GAAP. As a result, the income recognized from securitization and re-securitization transactions may differ for tax and GAAP purposes.

Whether our investments are held by our REIT or one of its Taxable REIT Subsidiaries (TRS)

We estimate that for the three months ended March 31, 2022, our gross TRS taxable loss will be $7.9 million and that we will not utilize any of our net operating loss; resulting in a net TRS taxable loss of $7.9 million. Net income generated by our TRS subsidiaries is included in consolidated GAAP net income, but may not be included in REIT taxable income in the same period. REIT taxable income generally does not include taxable income of the TRS unless and until it is distributed to the REIT. For example, because our securitization transactions that are treated as a sale for tax purposes are undertaken by a domestic TRS, any gain or loss recognized on the sale is not included in our REIT taxable income until it is distributed by the TRS. Similarly, the income earned from loans, securities, REO and other investments held by our domestic TRS is excluded from REIT taxable income until it is distributed by the TRS. Net income of our foreign domiciled TRS subsidiaries is included in REIT taxable income as if distributed to the REIT in the taxable year it is earned by the foreign domiciled TRS.

Consequently, our REIT taxable income calculated in a given period may differ significantly from our GAAP net income.

Regulatory Developments

The U.S. Congress, Federal Reserve, U.S. Treasury, Federal Deposit Insurance Corporation (or FDIC), the Securities and Exchange Commission (or SEC) and other governmental and regulatory bodies have taken actions in response to the 2007-2008 financial crisis. In particular, the Dodd-Frank Wall Street Reform and Consumer Protection Act (or the Dodd-Frank Act) created a new regulator, an independent bureau housed within the Federal Reserve System known as the Consumer Financial Protection Bureau (or the CFPB). The CFPB has broad authority over a wide range of consumer financial products and services, including mortgage lending and servicing. One portion of the Dodd-Frank Act, the Mortgage Reform and Anti-Predatory Lending Act (or Mortgage Reform Act), contains underwriting and servicing standards for the mortgage industry, restrictions on compensation for mortgage loan originators, and various other requirements related to mortgage origination and servicing. In addition, the Dodd-Frank Act grants enforcement authority and broad discretionary regulatory authority to the CFPB to prohibit or condition terms, acts or practices relating to residential mortgage loans that the CFPB finds abusive, unfair, deceptive or predatory, as well as to take other actions that the CFPB finds are necessary or proper to ensure responsible affordable mortgage credit remains available to consumers. The Dodd-Frank Act also affects the securitization of mortgages (and other assets) with requirements for risk retention by securitizers and requirements for regulating rating agencies.

Numerous regulations have been issued pursuant to the Dodd-Frank Act, including regulations regarding mortgage loan servicing, underwriting and loan originator compensation, and others could be issued in the future. As a result, we are unable to fully predict at this time how the Dodd-Frank Act, as well as other laws or regulations that may be adopted in the future, will affect our business, results of operations and financial condition, or the environment for repurchase financing and other forms of borrowing, the investing environment for Agency MBS, Non-Agency MBS and/or residential mortgage loans, the securitization industry, interest rate swap agreements (or Swaps) and other derivatives. We believe that the Dodd-Frank Act and the regulations promulgated thereunder are likely to continue to increase the economic and compliance costs for participants in the mortgage and securitization industries, including us.

In addition to the regulatory actions being implemented under the Dodd-Frank Act, on August 31, 2011, the SEC issued a concept release under which it is reviewing interpretive issues related to Section 3(c)(5)(C) of the Investment Company Act. Section 3(c)(5)(C) excludes from the definition of "investment company" entities that are primarily engaged in, among other things, "purchasing or otherwise acquiring mortgages and other liens on and interests in real estate." Many companies that engage in the business of acquiring mortgages and mortgage-related instruments seek to rely on existing interpretations of the SEC Staff with respect to Section 3(c)(5)(C) so as not to be deemed an investment company for the purpose of regulation under the Investment Company Act. In connection with the concept release, the SEC requested comments on, among other things, whether it should reconsider its existing interpretation of Section 3(c)(5)(C). We currently rely on the exemption from registration provided by Section 3(c)(5)(C) of the Investment Company Act, and we seek to continue to meet the requirements for this exemption from registration. To date the SEC has not taken or otherwise announced any further action in connection with the concept release. In conjunction with our legal department, we closely monitor our compliance with Section 3(c)(5)(C) within our risk management program.

The Federal Housing Finance Agency (or FHFA) and both houses of Congress have discussed and considered various measures intended to restructure the U.S. housing finance system and the operations of Fannie Mae and Freddie Mac. Congress may continue to consider legislation that would significantly reform the country's mortgage finance system, including, among other things, eliminating Freddie Mac and Fannie Mae and replacing them with a single new MBS insurance agency. Many details remain unsettled, including the scope and costs of the agencies' guarantee and their affordable housing mission, some of which could be addressed even in the absence of large-scale reform. On March 27, 2019, then President Trump issued a memorandum on federal housing finance reform that directed the Secretary of the Treasury to develop a plan for administrative and legislative reforms as soon as practicable to achieve the following housing reform goals: 1) ending the conservatorships of the Government-sponsored enterprises (or GSEs) upon the completion of specified reforms; 2) facilitating competition in the housing finance market; 3) establishing regulation of the GSEs that safeguards their safety and soundness and minimizes the risks they pose to the financial stability of the United States; and 4) providing that the federal government is properly compensated for any explicit or implicit support it provides to the GSEs or the secondary housing finance market. On September 5, 2019, in response to then President Trump's memorandum, the U.S. Department of the Treasury released a plan, developed in conjunction with the FHFA, the Department of Housing and Urban Development, and other government agencies, which includes legislative and administrative reforms to achieve each of these reform goals. At this point, it remains unclear whether any of these legislative or regulatory reforms will be enacted or implemented. On June 23, 2021, the United States Supreme Court concluded that the structure of the FHFA (which insulated its director from removal by the President) was unconstitutional and remanded the case for further proceedings. Subsequent to the Supreme Court's ruling, President Biden dismissed the FHFA director and appointed an acting replacement, raising further questions as to whether any of these legislative or regulatory reforms discussed above will be enacted or implemented. The prospects for passage of any of these plans are uncertain, and the change in FHFA leadership underscores the potential for change to Fannie Mae and Freddie Mac.

While the likelihood of enactment of major mortgage finance system reform in the short term remains uncertain, it is possible that the adoption of any such reforms could adversely affect the types of assets we can buy, the costs of these assets and our business operations. A reduction in the ability of mortgage loan originators to access Fannie Mae and Freddie Mac to sell their mortgage loans may adversely affect the mortgage markets generally and adversely affect the ability of mortgagors to refinance their mortgage loans. In addition, any decline in the value of securities issued by Fannie Mae and Freddie Mac may affect the value of MBS in general. The recent change of FHFA Leadership and the fact that a permanent Director has yet to be confirmed raise further uncertainties about whether, and if so on what timeline, the Biden administration will address the conservatorships of the GSEs and any such comprehensive housing reform.

On October 27, 2021, FHFA announced that it is seeking comment on a proposed rulemaking that would introduce additional public disclosure requirements for the Enterprise Regulatory Capital Framework (or ERCF) for Fannie Mae and Freddie Mac. As proposed, the rule would implement quarterly quantitative and qualitative disclosure requirements for Fannie Mae and Freddie Mac related to regulatory capital instruments, risk-weighted assets calculated under the ERCF's standardized approach, and risk management policies and procedures. This notice of proposed rulemaking suggests the potential for enhanced regulation and reporting obligations in the mortgage and securitization industries, which in turn may further increase the economic and compliance costs for participants in the mortgage and securitization industries, including us. On February 25, 2022, FHFA announced its final rule amending the ERCF by refining the prescribed leverage buffer amount (leverage buffer) and risk-based capital treatment of retained CRT exposures for Fannie Mae and Freddie Mac (or the enterprises). The final rule largely tracks the proposed rule. Among other things, the final rule will replace the fixed leverage buffer equal to 1.5% of an enterprise's adjusted total assets with a dynamic leverage buffer equal to 50% of the enterprise's stability capital buffer; replace the prudential floor of 10% on the risk weight assigned to any retained CRT exposure with a prudential floor of 5% on the risk weight assigned to any retained CRT exposure; and remove the requirement that an enterprise must apply an overall effectiveness adjustment to its retained CRT exposures. The final rule will go into effect on May 16, 2022.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (or CARES Act) was signed into law. Among the provisions in this wide-ranging law are protections for homeowners experiencing financial difficulties due to COVID-19, including forbearance provisions and procedures. Borrowers with federally backed mortgage loans, regardless of delinquency status, may request loan forbearance for a six-month period, with the option to extend forbearance for another six-month period if necessary. Although the initial deadline to request forbearance on federally backed loans was set to expire under the CARES Act on December 31, 2020, the FHFA and CFPB have announced extensions for several measures to align COVID-19 mortgage relief policies across the federal government, including additional three-month extensions of COVID-19 forbearance or payment deferral options for certain borrowers. Federally backed mortgage loans are loans secured by first- or subordinate-liens on 1-4 family residential real property, including individual units of condominiums and cooperatives, which are insured or guaranteed pursuant to certain government housing programs, such as by the Federal Housing Administration (or FHA), or U.S. Department of Agriculture, or are purchased or securitized by Fannie Mae or Freddie Mac. The CARES Act also included a temporary 60-day foreclosure moratorium that applies to federally backed mortgage loans, which lasted until July 24, 2020. However, the foreclosure moratorium was extended several times to July 31, 2021 and the forbearance enrollment window was extended through September 30, 2021 by Department of Housing and Urban Development, Department of Veterans Affairs, the Department of Agriculture and FHFA, which includes mortgages backed by Fannie Mae and Freddie Mac. Although the federal foreclosure moratorium expired on July 31, 2021, various states and local jurisdictions also imposed foreclosure moratoriums, some of which may continue to be in effect after the federal moratorium expires. In February 2022, FHA issued a mortgagee letter clarifying the extension of deadlines for the first legal action and reasonable diligence time frame for FHA-insured single family mortgages and home equity conversion mortgages (or HECM) as the later of (i) 180 days from expiration of the foreclosure moratorium for FHA-insured Single Family Mortgages and (ii) the expiration of the borrower's COVID-19 forbearance of the HECM COVID-19 extension period. Some of those extended deadlines may adversely affect cash flow on mortgage loans.

In December 2020, the Consolidated Appropriations Act, 2021 was signed into law, which is an omnibus spending bill that included a second COVID-19 stimulus bill (or Second Stimulus). In addition to providing stimulus checks for individuals and families, the Second Stimulus provides for, among other things, (i) an extension of federal unemployment insurance benefits, (ii) funding to help individuals connect remotely during the pandemic, (iii) tax credits for companies offering paid sick leave and (iv) funding for vaccine distribution and development. As further described below, the Second Stimulus provided an additional $25 billion in tax-free rental assistance and an executive order by President Biden extended the temporary eviction moratorium promulgated by the CDC (described below) through March 31, 2021.

On September 1, 2020, the Centers for Disease Control and Prevention (or CDC) issued an order effective September 4, 2020 through December 31, 2020 temporarily halting residential evictions to prevent the further spread of COVID-19. The Second Stimulus extended the order to January 31, 2021 and on January 20, 2021, President Biden signed an executive order that, among other things, further extended the temporary eviction moratorium promulgated by the CDC through March 31, 2021. The CDC order was further extended through July 31, 2021, and on August 3, 2021, it was further extended through October 3, 2021, to those U.S. counties experiencing substantial and high spread of the COVID-19 as of such date (which includes a significant majority of the counties in the United States). However, on August 26, 2021, the U.S. Supreme Court declared the order unconstitutional, and so it is no longer in effect. The Court's ruling does not affect or preclude state and local jurisdictions from issuing orders stopping or limiting evictions and foreclosures in an effort to lessen the financial burden created by COVID-19 in their jurisdictions. Any such limitations could adversely impact the cash flow on mortgage loans.

On July 30, 2021, FHFA announced that Fannie Mae and Freddie Mac are extending the moratorium on single-family real estate owned (REO) evictions until September 30, 2021. The Biden Administration may pass additional stimulus bills, foreclosure relief measures and may reinstate foreclosure and eviction moratoriums that may continue to adversely impact the cash flow on mortgage loans.

On June 28, 2021, the CFPB Issued a Final Rule amending Regulation X under the Real Estate Settlement Procedures Act to provide additional foreclosure protections to borrowers. The Final Rule became effective August 31, 2021 and applies to mortgage loans secured by real property that is a borrower's principal residence. Among other things, the servicing rule bars new foreclosure filings until after December 31, 2021, unless certain criteria are met or an exception applies; requires servicers to engage in early intervention efforts for certain borrowers; permits certain streamlined loan modification options for borrowers with COVID-19-related hardships; and imposes specific requirements for servicers of borrowers currently in short-term payment forbearance programs that were offered based on incomplete loss mitigation applications. These mortgage servicing rules and any similar regulations passed by CFPB in the future could adversely impact the cash flow on mortgage loans.

Results of Operations

Quarter Ended March 31, 2022 Compared to the Quarter Ended March 31, 2021

General

For the first quarter of 2022, we had a net loss available to our common stock and participating securities of $91.1 million, or $(0.86) per basic and diluted common share, compared to net income available to common stock and participating securities of $77.3 million, or $0.68 per basic common share and $0.67 per diluted common share, for the first quarter of 2021. This decrease in net income available to common stock and participating securities reflects lower Other income, primarily due to mark to market losses on residential whole loans that are measured at fair value through earnings. For the first quarter of 2022, the net loss on these loans totaled $288.4 million, compared to net gains of $31.5 million in the prior year period. The current quarter losses on the loan portfolio, were partially offset by gains on derivatives used for risk management purposes as well as unrealized gains on securitized debt measured at fair value through earnings totaling $158.2 million. In addition, these net losses on portfolio investments were also partially offset by higher net REO related gains and Origination, Servicing and Other Fee income at Lima One. While Other income was significantly lower in the first quarter of 2022 than in the period year period and resulted in the overall net loss, net interest income was higher in the first quarter of 2022, primarily reflecting growth in our residential whole loan investments. The net reversal of the Provision for Credit Losses on Residential Whole Loans held at carrying value was lower in the first quarter than in the prior year period. The larger prior year reversal reflects a greater impact of adjustments to macro-economic assumptions consistent with revised economic forecasts as the U.S. economy continued to recover from the impact of the COVID-19 pandemic. Finally, Operating and other expenses were higher in the first quarter of 2022, compared to the prior year period, as they primarily reflect operating expenses of Lima One as well as amortization of Intangible Assets associated with the Lima One acquisition. The prior year period did not include any expenses related to Lima One.

Net Interest Income

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends primarily upon the volume of interest-earning assets and interest-bearing liabilities and the corresponding interest rates earned or paid. Our net interest income varies primarily as a result of changes in interest rates, the slope of the yield curve (i.e., the differential between long-term and short-term interest rates), borrowing costs (i.e., our interest expense) and prepayment speeds on our investments. Interest rates and CPRs (which measure the amount of unscheduled principal prepayment on a bond or loan as a percentage of its unpaid balance) vary according to the type of investment, conditions in the financial markets and other factors, none of which can be predicted with any certainty.

The changes in average interest-earning assets and average interest-bearing liabilities and their related yields and costs are discussed in greater detail below under “Interest Income” and “Interest Expense.”

For the first quarter of 2022, our net interest spread and margin were 1.96% and 2.63%, respectively, compared to a net interest spread and margin of 2.31% and 3.29%, respectively, for the first quarter of 2021. Our net interest income increased by $12.1 million, or 23.7%, to $63.1 million for the first quarter of 2022 compared to net interest income of $51.0 million for the first quarter of 2021. For the first quarter of 2022, net interest income includes higher net interest income from our residential whole loan portfolio of approximately $21.1 million compared to the first quarter of 2021, primarily due to higher average amounts invested in these assets. Net interest income also includes lower net interest income from our Securities, at fair value portfolio for the first quarter of 2022 of approximately $10.8 million compared to the first quarter of 2021, primarily due to higher accretion income recognized in the prior year quarter due to the impact of the redemption of a Non-Agency MBS that was purchased at a discount.

Analysis of Net Interest Income

The following table sets forth certain information about the average balances of our assets and liabilities and their related yields and costs for the three months ended March 31, 2022 and 2021. Average yields are derived by dividing annualized interest income by the average amortized cost of the related assets, and average costs are derived by dividing annualized interest expense by the daily average balance of the related liabilities, for the periods shown. The yields and costs include premium amortization and purchase discount accretion, which are considered adjustments to interest rates.

	Three Months Ended March 31, 2022					
	2022			2021		
(Dollars in Thousands)	**Average Balance**	**Interest**	**Average Yield/Cost**	**Average Balance**	**Interest**	**Average Yield/Cost**
Assets:						
Interest-earning assets *(1)*:						
Residential whole loans	$ 8,047,777	$ 99,466	4.94 %	$ 5,127,336	$ 64,538	5.03 %
Securities, at fair value *(2)*	208,312	5,275	10.13	295,830	16,459	22.25
Cash and cash equivalents *(3)*	443,339	102	0.09	775,172	54	0.03
Other interest-earning assets	61,447	1,506	9.80	—	—	—
Total interest-earning assets	8,760,875	106,349	4.86	6,198,338	81,051	5.23
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Collateralized financing agreements *(4)*	$ 3,919,686	$ 24,416	2.49 %	$ 2,360,566	$ 17,868	3.03 %
Securitized debt *(5)*	2,582,548	14,949	2.32	1,524,275	8,182	2.15
Convertible Senior Notes	226,586	3,931	6.94	225,285	3,909	6.94
Senior Notes	—	—	—	4,444	111	8.31
Total interest-bearing liabilities	6,728,820	43,296	2.57	4,114,570	30,070	2.92
Net interest income/net interest rate spread *(6)*		63,053	2.29		50,981	2.31
Less net Swap expense		5,528	0.33		—	—
Net interest rate spread (including the impact of Swaps)		$ 57,525	1.96 %		$ 50,981	2.31 %
Net interest-earning assets/net interest margin *(7)*	$ 2,032,055		2.63 %	$ 2,083,768		3.29 %

(1) Yields presented throughout this Quarterly Report on Form 10-Q are calculated using average amortized cost data for residential whole loans and securities, which excludes unrealized gains and losses. For GAAP reporting purposes, purchases and sales are reported on the trade date. Average amortized cost data used to determine yields is calculated based on the settlement date of the associated purchase or sale as interest income is not earned on purchased assets and continues to be earned on sold assets until settlement date.

(2) The net yield of 22.25% for the quarter ended March 31, 2021 includes \$8.1 million of accretion recognized on the redemption of a Non-Agency MBS that was purchased at a discount. Excluding this accretion, the yield reported would have been 11.26%.

(3) Includes average interest-earning cash, cash equivalents and restricted cash.

(4) Collateralized financing agreements include the following: Secured term notes, Non-mark-to-market term-asset based financing, and repurchase agreements. For additional information, see Note 6, included under Item 1 of this Quarterly Report on Form 10-Q.

(5) Includes both Securitized debt, at carrying value, and Securitized debt, at fair value.

(6) Net interest rate spread reflects the difference between the yield on average interest-earning assets and average cost of funds.

(7) Net interest margin reflects annualized net interest income (including net swap expense) divided by average interest-earning assets.

Rate/Volume Analysis

The following table presents the extent to which changes in interest rates (yield/cost) and changes in the volume (average balance) of interest-earning assets and interest-bearing liabilities have affected our interest income and interest expense during the periods indicated. Information is provided in each category with respect to: (i) the changes attributable to changes in volume (changes in average balance multiplied by prior rate); (ii) the changes attributable to changes in rate (changes in rate multiplied by prior average balance); and (iii) the net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately, based on absolute values, to the changes due to rate and volume.

	Three Months Ended March 31, 2022 Compared to Three Months Ended March 31, 2021		
	Increase/(Decrease) due to		Total Net Change in Interest Income/Expense
(In Thousands)	**Volume**	**Rate**	
Interest-earning assets:			
Residential whole loans	$ 36,101	$ (1,173)	$ 34,928
Securities, at fair value	(3,936)	(7,248)	(11,184)
Cash and cash equivalents	(33)	81	48
Other interest-earning assets	1,506	—	1,506
Total net change in income of interest-earning assets	$ 33,638	$ (8,340)	$ 25,298
Interest-bearing liabilities:			
Residential whole loan financing agreements	$ 10,627	$ (3,752)	$ 6,875
Securities, at fair value repurchase agreements	(233)	(143)	(376)
REO financing agreements	63	(14)	49
Securitized debt	6,075	692	6,767
Convertible Senior Notes and Senior Notes	(70)	(19)	(89)
Total net change in expense of interest-bearing liabilities	$ 16,462	$ (3,236)	$ 13,226
Net change in net interest income	$ 17,176	$ (5,104)	$ 12,072

The following table presents certain quarterly information regarding our net interest spread and net interest margin for the quarterly periods presented:

Quarter Ended	Total Interest-Earning Assets and Interest-Bearing Liabilities: Net Interest Spread *(1)*	Total Interest-Earning Assets and Interest-Bearing Liabilities: Net Interest Margin *(2)*
March 31, 2022	1.96 %	2.63 %
December 31, 2021	2.93	3.56
September 30, 2021	2.98	3.70
June 30, 2021	3.02	3.86
March 31, 2021	2.31	3.29

(1) Reflects the difference between the yield on average interest-earning assets and average cost of funds(including net swap expense).
(2) Reflects annualized net interest income (including net swap expense) divided by average interest-earning assets.

The following table presents the components of the net interest spread earned on our Residential whole loans, for the quarterly periods presented:

	Quarter Ended				
	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021
Purchased Performing Loans					
Net Yield *(1)*	4.18 %	4.12 %	4.56 %	4.45 %	4.41 %
Cost of Funding *(2)*	2.74 %	2.24 %	2.14 %	2.09 %	2.46 %
Net Interest Spread	1.44 %	1.88 %	2.42 %	2.36 %	1.95 %
Purchased Credit Deteriorated Loans					
Net Yield *(1)*	6.79 %	7.15 %	7.08 %	7.17 %	5.00 %
Cost of Funding *(2)*	2.88 %	2.32 %	2.18 %	2.39 %	2.86 %
Net Interest Spread	3.91 %	4.83 %	4.90 %	4.78 %	2.14 %
Purchased Non-Performing Loans					
Net Yield *(1)*	9.82 %	9.83 %	8.81 %	7.98 %	7.13 %
Cost of Funding *(2)*	3.09 %	2.53 %	2.43 %	2.71 %	3.41 %
Net Interest Spread	6.73 %	7.30 %	6.38 %	5.27 %	3.72 %
Total Residential Whole Loans					
Net Yield *(1)*	4.94 %	5.08 %	5.52 %	5.48 %	5.03 %
Cost of Funding *(2)*	2.79 %	2.28 %	2.20 %	2.25 %	2.70 %
Net Interest Spread	2.15 %	2.80 %	3.32 %	3.23 %	2.33 %

(1) Reflects annualized interest income on Residential whole loans divided by average amortized cost of Residential whole loans. Excludes servicing costs.
(2) Reflects annualized interest expense divided by average balance of repurchase agreements, agreements with non-mark-to-market collateral provisions, and securitized debt. Cost of funding shown in the table above for the quarterly periods ended March 31, 2022 and December 31, 2021 includes the impact of the net carrying cost (the amount by which swap interest expense paid exceeds swap interest income received) on our Swaps. While we have not elected hedge accounting treatment for Swaps and accordingly the net carrying cost is not presented in interest expense in our consolidated statement of operations, we believe it is appropriate to allocate the net carrying cost to the cost of funding to reflect the economic impact of our Swaps on the funding costs shown in the table above. For the quarter ended March 31, 2022, this increased the overall funding cost by 35 basis points for our Residential whole loans, 33 basis points for our Purchased Performing Loans, 56 basis points for our Purchased Credit Deteriorated Loans, and 39 basis points for our Purchased Non-Performing Loans. For the quarter ended December 31, 2021, this increased the overall funding cost by 5 basis points for our

Residential whole loans, 5 basis points for our Purchased Performing Loans, 9 basis points for our Purchased Credit Deteriorated Loans, and 2 basis points for our Purchased Non-Performing Loans.

The following table presents the components of the net interest spread earned on our residential mortgage securities and MSR-related assets for the quarterly periods presented:

	Securities, at fair value		
Quarter Ended	**Net Yield *(1)(2)***	**Cost of Funding *(3)***	**Net Interest Rate Spread**
March 31, 2022	10.13 %	1.72 %	8.41 %
December 31, 2021	26.28	1.50	24.78
September 30, 2021	18.78	1.61	17.17
June 30, 2021	24.57	1.81	22.76
March 31, 2021	22.25	2.02	20.23

(1) Reflects annualized interest income divided by average amortized cost. Impairment charges recorded on MSR-related assets resulted in a lower amortized cost basis which impacted the calculation of net yields in subsequent periods.

(2) For the quarter ended December 31, 2021, the net yield of 26.28% includes $8.1 million of accretion income recognized on the redemption at par of an MSR-related asset that had been held at amortized cost basis below par due to an impairment charge during the first quarter of 2020. Excluding this accretion, the yield reported would have been 11.37%. For the quarter ended September 30, 2021, the net yield of 18.78% includes $4.0 million of accretion income recognized on the redemption at par of an MSR-related asset that had been held at amortized cost basis below par due to an impairment charge during the first quarter of 2020. Excluding this accretion, the yield reported would have been 11.63%. For the quarter ended June 30, 2021, the net yield of 24.57% includes $8.4 million of accretion income recognized on the redemption at par of an MSR-related asset that had been held at amortized cost basis below par due to an impairment charge recorded in the first quarter of 2020. Excluding this accretion, the yield reported would have been 11.13%. For the quarter ended March 31, 2021, the net yield of 22.25% includes $8.1 million of accretion income recognized on the redemption of an RPL/NPL MBS security that was previously purchased at a discount. Excluding this accretion, the yield reported would have been 11.26%.

(3) Reflects annualized interest expense divided by average balance of repurchase agreements..

Interest Income

Interest income on our residential whole loans increased by $34.9 million, or 54.1%, for the first quarter of 2022, to $99.5 million compared to $64.5 million for the first quarter of 2021. This increase primarily reflects a $2.9 billion increase in the average balance of this portfolio to $8.0 billion for the first quarter of 2022, partially offset by a decrease in the yield to 4.94% for the first quarter of 2022 from 5.03% for the first quarter of 2021.

Interest income on our securities, at fair value portfolio decreased $11.2 million to $5.3 million for the first quarter of 2022 from $16.5 million for the first quarter of 2021. This decrease primarily reflects a decrease in the net yield on our Securities, at fair value to 10.13% for the first quarter of 2022, compared to 22.25% for the first quarter of 2021 and a decrease in the average amortized cost of the portfolio of $87.5 million. The decrease in the net yield on our Securities, at fair value portfolio primarily reflects higher accretion income recognized in the prior year quarter due to the impact of the redemption of a Non-Agency MBS that had been previously purchased at a discount.

Interest Expense

Our interest expense for the first quarter of 2022 increased by $13.2 million, or 44.0%, to $43.3 million, from $30.1 million for the first quarter of 2021. This increase primarily reflects an increase in our average collateralized financing agreement borrowings to finance our residential mortgage asset portfolio, partially offset by a decrease in financing rates on our financing agreements.

Provision for Credit Losses on Residential Whole Loans Held at Carrying Value

For the first quarter of 2022, we recorded a reversal of provision for credit losses on residential whole loans held at carrying value of $3.5 million (which includes a reversal of provision for credit losses on undrawn commitments of $48,000) compared to a reversal of provision of $22.8 million for the first quarter of 2021. The reversal recorded in both the current and prior periods primarily reflects run-off of loans held at carrying value and adjustments to certain macroeconomic and loan prepayment speed assumptions used in our credit loss forecasts. The larger prior year reversal reflects a greater impact of adjustments to macro-economic assumptions consistent with revised economic forecasts as the U.S economy continued to recover from the impact of the COVID-19 pandemic. With respect to our residential whole loans held at carrying value, CECL requires that reserves for credit losses are estimated at the reporting date based on expected cash flows over the life of the loan or financial instrument, including anticipated prepayments and reasonable and supportable forecasts of future economic conditions.

Other (Loss)/Income, net

For the first quarter of 2022, Other Loss, net was $107.5 million, compared to Other Income, net of $34.3 million for the first quarter of 2021. The components of Other (Loss)/Income, net for the first quarter of 2022 and 2021 are summarized in the table below:

	Quarter Ended March 31,	
(In Thousands)	**2022**	**2021**
Net mark-to-market and other net (loss)/gain on residential whole loans measured at fair value	$ (288,375)	$ 31,490
Net gains on derivatives used for risk management purposes	94,101	—
Net mark-to-market on Securitized debt measured at fair value	64,117	(1,011)
Net gain on real estate owned	8,732	2,440
Lima One - origination, servicing and other fee income	14,494	—
Other, net	(585)	1,400
Total Other (Loss)/Income, net	$ (107,516)	$ 34,319

Operating and Other Expense

For the first quarter of 2022, we had compensation and benefits and other general and administrative expenses of $28.3 million, compared to $15.2 million for the first quarter of 2021. Compensation and benefits expense increased $11.1 million to $19.6 million for the first quarter of 2022, compared to $8.4 million for the first quarter of 2021, primarily reflecting the impact of including Lima One compensation expense in our financial results and an increase in annual bonus and long term incentive compensation for the first quarter of 2022. Lima One's compensation expense includes commissions paid to employees, which are subject to variability based on their volume of loan originations, where the commission rate generally increases over the course of the calendar year as origination thresholds are met. Our other general and administrative expenses increased by $1.9 million to $8.7 million for the first quarter of 2022, compared to $6.8 million for the first quarter of 2021, primarily reflecting the impact of including Lima One expenses in our financial results and increased information technology costs, partially offset by lower costs associated with deferred compensation to Directors in the current period, which were impacted by changes in our stock price.

Operating and Other Expense for the first quarter of 2022 also includes $10.4 million of loan servicing and other related operating expenses related to our residential whole loan activities. These expenses increased compared to the prior year period by approximately $3.1 million, or 42.5%, primarily due to higher expenses recognized related to loan securitization activities, partially offset by lower servicing fees and non-recoverable advances on our REO portfolio.

In addition, Other expenses for the first quarter of 2022 also includes $3.3 million of amortization related to intangible assets recognized as part of the purchase accounting for the Lima One acquisition.

Selected Financial Ratios

The following table presents information regarding certain of our financial ratios at or for the dates presented:

At or for the Quarter Ended	Return on Average Total Assets *(1)*	Return on Average Total Stockholders' Equity *(2)*	Dividend Payout Ratio *(3)*	Total Average Stockholders' Equity to Total Average Assets *(4)*	Leverage Multiple *(5)*	Recourse Leverage Multiple *(6)*
March 31, 2022	(3.89)%	(13.31)%	(0.51)	26.63 %	3.1	1.9
December 31, 2021	1.67	6.84	1.38	30.00	2.5	1.5
September 30, 2021	6.64	20.48	0.36	34.55	2.2	1.4
June 30, 2021	3.46	10.57	0.77	37.28	1.8	1.0
March 31, 2021	4.55	13.54	0.44	37.21	1.6	1.0

(1) Reflects annualized net income available to common stock and participating securities divided by average total assets.
(2) Reflects annualized net income divided by average total stockholders' equity.
(3) Reflects dividends declared per share of common stock divided by earnings per share.
(4) Reflects total average stockholders' equity divided by total average assets.
(5) Represents the sum of our borrowings under financing agreements and payable for unsettled purchases divided by stockholders' equity.
(6) Represents the sum of our borrowings under financing agreements (excluding securitized debt) and payable for unsettled purchases divided by stockholders' equity.

Reconciliation of GAAP and Non-GAAP Financial Measures

Reconciliation of GAAP Net Income to non-GAAP Distributable Earnings

"Distributable earnings" is a non-GAAP financial measure of our operating performance, within the meaning of Regulation G and Item 10(e) of Regulation S-K, as promulgated by the Securities and Exchange Commission. Distributable earnings is determined by adjusting GAAP net income/(loss) by removing certain unrealized gains and losses, primarily on residential mortgage investments, associated debt, and hedges that are, in each case, accounted for at fair value through earnings, as well as certain non-cash expenses and securitization-related transaction costs. Management believes that the adjustments made to GAAP earnings result in the removal of (i) income or expenses that are driven by changes in market valuations and are not reflective of the longer term performance of our investment portfolio, (ii) certain non-cash expenses, and (iii) expense items required to be recognized solely due to the election of the fair value option on certain related residential mortgage assets and associated liabilities. Distributable earnings is one of the factors that our Board of Directors considers when evaluating distributions to our shareholders. Accordingly, we believe that the adjustments to compute Distributable earnings specified below provide investors and analysts with additional information to evaluate our financial results.

Distributable earnings should be used in conjunction with results presented in accordance with GAAP. Distributable earnings does not represent and should not be considered as a substitute for net income or cash flows from operating activities, each as determined in accordance with GAAP, and our calculation of this measure may not be comparable to similarly titled measures reported by other companies.

The following table provides a reconciliation of our GAAP net (loss)/income used in the calculation of basic EPS to our non-GAAP Distributable earnings for the quarterly periods below:

	Quarter Ended				
(In Thousands, Except Per Share Amounts)	**March 31, 2022**	**December 31, 2021**	**September 30, 2021**	**June 30, 2021**	**March 31, 2021**
GAAP Net (loss)/income used in the calculation of basic EPS	$ (91,266)	$ 35,734	$ 123,858	$ 58,290	$ 77,029
Adjustments:					
Unrealized gains and losses on:					
Residential whole loans held at fair value	287,935	42,564	(20,494)	(6,226)	(32,088)
Securities held at fair value	2,934	364	(494)	(1,374)	(100)
Interest rate swaps	(80,753)	(71)	—	—	—
Securitized debt held at fair value	(62,855)	(6,137)	(857)	232	(7,629)
Investments in loan origination partners	780	(23,956)	(48,933)	—	—
Expense items:					
Amortization of intangible assets	3,300	3,300	3,300	—	—
Equity based compensation	2,645	2,306	2,306	2,744	1,688
Deferred taxes	—	—	—	—	—
Securitization-related transaction costs	3,233	5,178	—	—	2
Total adjustments	157,219	23,548	(65,172)	(4,624)	(38,127)
Distributable earnings	$ 65,953	$ 59,282	$ 58,686	$ 53,666	$ 38,902
GAAP (loss)/earnings per basic common share	$ (0.86)	$ 0.33	$ 1.12	$ 0.53	$ 0.68
Distributable earnings per basic common share	$ 0.62	$ 0.54	$ 0.53	$ 0.49	$ 0.34
Weighted average common shares for basic earnings per share	106,568	109,468	110,222	110,383	112,784

Selected Financial Ratios (using Distributable earnings)

The following table presents information regarding certain of our financial ratios at or for the dates presented:

At or for the Quarter Ended	**Return on Average Total Assets *(1)***	**Return on Average Total Stockholders' Equity *(2)***	**Dividend Payout Ratio *(3)***
March 31, 2022	2.82 % 0	11.90 % 0	0.71
December 31, 2021	2.76	10.46	0.81
September 30, 2021	3.13	10.34	0.75
June 30, 2021	3.17	9.80	0.82
March 31, 2021	2.29	7.46	0.88

(1) Reflects annualized Distributable earnings divided by average total assets.
(2) Reflects annualized Distributable earnings before preferred dividends divided by average total stockholders' equity.
(3) Reflects dividends declared per share of common stock divided by Distributable earnings per share.

Reconciliation of GAAP Book Value per Common Share to non-GAAP Economic Book Value per Common Share

"Economic book value" is a non-GAAP financial measure of our financial position. To calculate our Economic book value, our portfolios of Residential whole loans and securitized debt held at carrying value are adjusted to their fair value, rather than the carrying value that is required to be reported under the GAAP accounting model applied to these financial instruments. These adjustments are also reflected in the table below in our end of period stockholders' equity. Management considers that Economic book value provides investors with a useful supplemental measure to evaluate our financial position as it reflects the impact of fair value changes for all of our residential mortgage investments and certain associated financing arrangements, irrespective of the accounting model applied for GAAP reporting purposes. Economic book value does not represent and should not be considered as a substitute for Stockholders' Equity, as determined in accordance with GAAP, and our calculation of this measure may not be comparable to similarly titled measures reported by other companies.

The following table provides a reconciliation of our GAAP book value per common share to our non-GAAP Economic book value per common share as of the quarterly periods below:

	Quarter Ended:				
(In Millions, Except Per Share Amounts)	**March 31, 2022**	**December 31, 2021**	**September 30, 2021**	**June 30, 2021**	**March 31, 2021**
GAAP Total Stockholders' Equity	$ 2,349.0	$ 2,542.8	$ 2,601.1	$ 2,526.5	$ 2,542.3
Preferred Stock, liquidation preference	(475.0)	(475.0)	(475.0)	(475.0)	(475.0)
GAAP Stockholders' Equity for book value per common share	1,874.0	2,067.8	2,126.1	2,051.5	2,067.3
Adjustments:					
Fair value adjustment to Residential whole loans, at carrying value	54.0	153.5	198.8	206.2	203.0
Fair value adjustment to Securitized debt, at carrying value *(1)*	47.7	4.3	(8.0)	(8.9)	(3.6)
Stockholders' Equity including fair value adjustments to Residential whole loans and Securitized debt held at carrying value (Economic book value) *(1)*	$ 1,975.7	$ 2,225.6	$ 2,316.9	$ 2,248.8	$ 2,266.7
GAAP book value per common share	$ 17.84	$ 19.12	$ 19.29	$ 18.62	$ 18.54
Economic book value per common share *(1)*	$ 18.81	$ 20.58	$ 21.02	$ 20.41	$ 20.32
Number of shares of common stock outstanding	105.0	108.1	110.2	110.2	111.5

(1) Economic book value per common share for periods prior to December 31, 2021 have been restated to include the impact of fair value changes in securitized debt held at carrying value.

Recent Accounting Standards to Be Adopted in Future Periods

We are not aware of any recent accounting standards to be adopted in future periods that we expect would materially impact us.

Liquidity and Capital Resources

General

Our principal sources of cash generally consist of borrowings under repurchase agreements and other collateralized financings, payments of principal and interest we receive on our investment portfolio, cash generated from our operating results and, to the extent such transactions are entered into, proceeds from capital market and structured financing transactions. Our most significant uses of cash are generally to pay principal and interest on our financing transactions, to purchase and originate residential mortgage assets, to make dividend payments on our capital stock, to fund our operations, to meet margin calls and to make other investments that we consider appropriate.

We seek to employ a diverse capital raising strategy under which we may issue capital stock and other types of securities. To the extent we raise additional funds through capital market transactions, we currently anticipate using the net proceeds from such transactions to acquire additional residential mortgage-related assets, consistent with our investment policy, and for working capital, which may include, among other things, the repayment of our financing transactions. There can be no assurance, however, that we will be able to access the capital markets at any particular time or on any particular terms. We have available for issuance an unlimited amount (subject to the terms and limitations of our charter) of common stock, preferred stock, depository shares representing preferred stock, warrants, debt securities, rights and/or units pursuant to our automatic shelf registration statement and, at March 31, 2022, we had approximately 2.0 million shares of common stock available for issuance pursuant to our DRSPP shelf registration statement. During the three months ended March 31, 2022, we issued 32,460 shares of common stock through our DRSPP, raising net proceeds of approximately $594,000. During the three months ended March 31, 2022, we did not sell any shares of common stock through our at-the-market equity offering program.

During the three months ended March 31, 2022, we repurchased 3,195,769 shares of our common stock through the stock repurchase program at an average cost of $17.15 per share and a total cost of approximately $54.7 million, net of fees and commissions paid to the sales agents of approximately $128,000. Through April, 29, 2022, we repurchased an additional 2.8 million shares at an average price of $14.48, leaving $209.7 million outstanding for future repurchases under the repurchase program.

Financing agreements

Our borrowings under financing agreements include a combination of shorter term and longer arrangements. Certain of these arrangements are collateralized directly by our residential mortgage investments or otherwise have recourse to us, while securitized debt financing is non-recourse financing. Further, certain of our financing agreements contain terms that allow the lender to make margin calls on us based on changes in the value of the underlying collateral securing the borrowing. As of March 31, 2022, we had $2.9 billion of total unpaid principal balance related to asset-backed financing agreements with mark-to-market collateral provisions and $3.9 billion of total unpaid principal balance related to asset-backed financing agreements that do not include mark-to-market collateral provisions. Repurchase agreements and other forms of collateralized financing are renewable at the discretion of our lenders and, as such, our lenders could determine to reduce or terminate our access to future borrowings at virtually any time. The terms of the repurchase transaction borrowings under our master repurchase agreements, as such terms relate to repayment, margin requirements and the segregation of all securities that are the subject of repurchase transactions, generally conform to the terms contained in the standard master repurchase agreement published by the Securities Industry and Financial Markets Association (or SIFMA) or the global master repurchase agreement published by SIFMA and the International Capital Market Association. In addition, each lender typically requires that we include supplemental terms and conditions to the standard master repurchase agreement. Typical supplemental terms and conditions, which differ by lender, may include changes to the margin maintenance requirements, required haircuts (or the percentage amount by which the collateral value is contractually required to exceed the loan amount), purchase price maintenance requirements, requirements that all controversies related to the repurchase agreement be litigated in a particular jurisdiction and cross default and setoff provisions. Other non-repurchase agreement financing arrangements also contain provisions governing collateral maintenance.

With respect to margin maintenance requirements for agreements secured by harder to value assets, such as residential whole loans, Non-Agency MBS and MSR-related assets, margin calls are typically determined by our counterparties based on their assessment of changes in the fair value of the underlying collateral and in accordance with the agreed upon haircuts specified in the transaction confirmation with the counterparty. We address margin call requests in accordance with the required terms specified in the applicable agreement and such requests are typically satisfied by posting additional cash or collateral on the same business day. We review margin calls made by counterparties and assess them for reasonableness by comparing the counterparty valuation against our valuation determination. When we believe that a margin call is unnecessary because our assessment of collateral value differs from the counterparty valuation, we typically hold discussions with the counterparty and are able to resolve the matter. If this is not successful, we will look to resolve the dispute based on the remedies available to us under the terms of the repurchase agreement, which in some instances may include the engagement of a third-party to review collateral valuations. For certain other agreements that do not include such provisions, we could resolve the matter by substituting collateral as permitted in accordance with the agreement or otherwise request the counterparty to return the collateral in exchange for cash to unwind the financing. For additional information regarding our various types of financing arrangements, including those with non-mark-to-market terms and the haircuts for those agreements with mark-to-market collateral provisions, see Note 6 to the consolidated financial statements, included under Item 1 of this Quarterly Report on Form 10-Q.

We expect that we will continue to pledge residential mortgage assets as part of certain of our ongoing financing arrangements. When the value of our residential mortgage assets pledged as collateral experiences rapid decreases, margin calls under our financing arrangements could materially increase, causing an adverse change in our liquidity position. Additionally, if one or more of our financing counterparties choose not to provide ongoing funding, our ability to finance our long-maturity assets would decline or otherwise become available on possibly less advantageous terms. Further, when liquidity tightens, our counterparties to our short term arrangements with mark-to-market collateral provisions may increase their required collateral cushion (or margin) requirements on new financings, including financings that we roll with the same counterparty, thereby reducing our ability to use leverage. Access to financing may also be negatively impacted by ongoing volatility in financial markets, thereby potentially adversely impacting our current or future lenders' ability or willingness to provide us with financing. In addition, there is no assurance that favorable market conditions will exist to permit us to consummate additional securitization transactions if we determine to seek that form of financing.

Our ability to meet future margin calls will be affected by our ability to use cash or obtain financing from unpledged collateral, the amount of which can vary based on the market value of such collateral, our cash position and margin requirements. Our cash position fluctuates based on the timing of our operating, investing and financing activities and is managed based on our anticipated cash needs. (See our Consolidated Statements of Cash Flows, included under Item 1 of this Quarterly Report on Form 10-Q and "Interest Rate Risk" included under Item 3 of this Quarterly Report on Form 10-Q.)

At March 31, 2022, we had a total of $5.2 billion of residential whole loans and securities and $13.2 million of restricted cash pledged to our financing counterparties. At March 31, 2022, we had access to various sources of liquidity, including $410.9 million of cash and cash equivalents. Our sources of liquidity do not include restricted cash. In addition, at March 31, 2022, we had $62.4 million of unencumbered residential whole loans. Further, we believe that we have unused capacity in certain borrowing lines, given that the amount currently borrowed is less than the maximum advance rate permitted by the facility. This unused capacity serves to act as a buffer against potential margin calls on certain pledged assets in the event that asset prices do not decline by more than a specified amount.

The table below presents certain information about our borrowings under asset-backed financing agreements and securitized debt:

	Asset-backed Financing Agreements			Securitized Debt		
Quarter Ended *(1)*	**Quarterly Average Balance**	**End of Period Balance**	**Maximum Balance at Any Month-End**	**Quarterly Average Balance**	**End of Period Balance**	**Maximum Balance at Any Month-End**
(In Thousands)						
March 31, 2022	$ 3,920,895	$ 3,942,343	$ 4,138,377	$ 2,555,241	$ 2,859,061	$ 2,859,061
December 31, 2021	3,313,641	3,501,839	3,501,839	2,302,990	2,650,473	2,650,473
September 30, 2021	2,516,940	3,278,941	3,278,941	2,008,639	2,045,729	2,137,773
June 30, 2021	2,063,852	2,156,598	2,156,598	1,778,909	2,046,381	2,046,381
March 31, 2021	2,362,791	2,221,570	2,443,149	1,535,995	1,548,920	1,602,148

(1) The information presented in the table above excludes $230.0 million of Convertible Senior Notes issued in June 2019 and $100.0 million of Senior Notes issued in April 2012. The outstanding balance of the Convertible Senior Notes have been unchanged since issuance. During the first quarter of 2021, we redeemed all of our outstanding Senior Notes.

Cash Flows and Liquidity for the Three Months Ended March 31, 2022

Our cash, cash equivalents and restricted cash increased by $151.1 million during the three months ended March 31, 2022, reflecting: $583.5 million used in our investing activities, $601.0 million provided by our financing activities and $133.6 million provided by our operating activities.

At March 31, 2022, our debt-to-equity multiple was 3.1 times compared to 2.5 times at December 31, 2021. At March 31, 2022, we had borrowings under collateralized financing agreements of $3.9 billion, of which $3.8 billion were secured by residential whole loans, $159.0 million were secured by securities and $24.7 million were secured by REO. In addition, at March 31, 2022, we had securitized debt of $2.9 billion in connection with our loan securitization transactions. At December 31, 2021, we had borrowings under collateralized financing agreements of $3.5 billion, of which $3.3 billion were secured by residential whole loans, $159.1 million were secured by securities and $23.0 million were secured by REO. In addition, at December 31, 2021, we had securitized debt of $2.7 billion in connection with our loan securitization transactions.

During the three months ended March 31, 2022, $583.5 million was used in our investing activities. We utilized $1.2 billion for acquisitions of residential whole loans, loan related investments and capitalized advances. During the three months ended March 31, 2022, we received $567.1 million of principal payments on residential whole loans and loan related investments and $41.3 million of proceeds on sales of REO. In addition, during the three months ended March 31, 2022, we received cash of $1.5 million from prepayments and scheduled amortization on our securities.

In connection with our repurchase agreement financings and Swaps, we routinely receive margin calls/reverse margin calls from our counterparties and make margin calls to our counterparties. Margin calls and reverse margin calls, which requirements vary over time, may occur daily between us and any of our counterparties when the value of collateral pledged changes from the amount contractually required. The value of securities pledged as collateral fluctuates reflecting changes in: (i) the face (or par) value of our assets; (ii) market interest rates and/or other market conditions; and (iii) the market value of our Swaps. Margin calls/reverse margin calls are satisfied when we pledge/receive additional collateral in the form of additional assets and/or cash.

The table below summarizes our margin activity with respect to our repurchase agreement financings and derivative hedging instruments for the quarterly periods presented:

	Collateral Pledged to Meet Margin Calls				
For the Quarter Ended *(1)*	**Fair Value of Securities Pledged**	**Cash Pledged**	**Aggregate Assets Pledged For Margin Calls**	**Cash and Securities Received for Reverse Margin Calls**	**Net Assets Received/(Pledged) for Margin Activity**
(In Thousands)					
March 31, 2022	$ —	$ 40,834	$ 40,834	$ 346	$ (40,488)
December 31, 2021	—	14,446	14,446	2,000	(12,446)
September 30, 2021	—	—	—	2,500	2,500
June 30, 2021	—	3,433	3,433	—	(3,433)
March 31, 2021	—	—	—	—	—

(1) Excludes variation margin payments on the Company's cleared Swaps which are treated as a legal settlement of the exposure under the Swap contract.

We are subject to various financial covenants under our financing agreements, which include minimum liquidity and net worth requirements, net worth decline limitations and maximum debt-to-equity ratios. We were in compliance with all financial covenants as of March 31, 2022.

During the three months ended March 31, 2022, we paid $47.2 million for cash dividends on our common stock and dividend equivalents and paid cash dividends of $8.2 million on our preferred stock. On March 11, 2022, we declared our first quarter 2022 dividend on our common stock of $0.11 per share (based on the number of shares held by stockholders at the record date for such dividend (March 22, 2022) and before giving effect to the Company's 1-for-4 reverse stock split effected on April 4, 2022). On April 29, 2022, we paid this dividend, which totaled approximately $46.4 million, including dividend equivalents of approximately $141,000.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We seek to manage our risks related to interest rates, liquidity, prepayment speeds, market value and the credit quality of our assets while, at the same time, seeking to provide an opportunity to stockholders to realize attractive total returns through ownership of our capital stock. While we do not seek to avoid risk, we seek, consistent with our investment policies, to: assume risk that can be quantified based on management's judgment and experience and actively manage such risk; earn sufficient returns to justify the taking of such risks; and maintain capital levels consistent with the risks that we undertake.

Interest Rate Risk

We are exposed to interest rate risk on our residential mortgage assets, as well as on our liabilities. Changes in interest rates can affect our net interest income and the fair value of our assets and liabilities.

In general, when interest rates change, borrowing costs on our financing agreements will change more quickly than the yield on our assets. In a rising interest rate environment, the borrowing costs may increase faster than the interest income on our assets, thereby reducing our net income. In order to mitigate compression in net income based on such interest rate movements, we may use Swaps or other derivatives to lock in a portion of the net interest spread between assets and liabilities or otherwise hedge interest rate risk.

When interest rates change, the fair value of our residential mortgage assets could change at a different rate than the fair value of our liabilities. We measure the sensitivity of our portfolio to changes in interest rates by estimating the duration of our assets and liabilities. Duration is the approximate percentage change in fair value for a 100 basis point parallel shift in the yield curve. In general, our assets have higher duration than our liabilities, and in order to reduce this exposure, we have historically used Swaps and other derivatives to reduce the gap in duration between our assets and liabilities.

The fair value of our re-performing and non-performing residential whole loans is in part dependent on the value of the underlying real estate collateral, past and expected delinquency status of the borrower as well as the level of interest rates. For certain loans that were re-performing or non-performing when purchased and where the borrower has brought the loan current, but nonetheless may be less likely to prepay due to weak credit history and/or high LTV, we believe these loans exhibit positive duration. We estimate the duration of these residential whole loans using management's assumptions.

The fair value of our Purchased Performing Loans is typically dependent on the value of the underlying real estate collateral, as well as the level of interest rates. Because these loans are primarily newly or recently originated performing loans, we believe these investments exhibit positive duration. Given the short duration of our Rehabilitation loans, we believe the fair value of these loans exhibits little sensitivity to changes in interest rates. We estimate the duration of these Purchased Performing Loans held at carrying value using management's assumptions.

The fair value of our non-performing residential whole loans is typically dependent on the value of the underlying real estate collateral and the time required for collateral liquidation. Since neither the value of the collateral nor the liquidation timeline is generally sensitive to interest rates, we believe their fair value exhibits little sensitivity to interest rates. We estimate the duration of our non-performing residential whole loans using management's assumptions.

We use derivative financial instruments, including Swaps, as part of our overall interest rate risk management strategy. Such instruments are used to economically hedge against future interest rate increases on our financing transactions. While use of such derivatives does not extend the maturities of our borrowings under repurchase agreements, they do, in effect, lock in a fixed rate of interest over their term for a corresponding amount of our repurchase agreement financings that are hedged, or otherwise act as a hedge against changes in interest rates. Additionally, we have entered into short positions in TBA securities to economically hedge interest rate and other market risks arising from our investments in Agency eligible investor loans.

The interest rates for the vast majority of our investments, financings and certain of our hedging transactions are either explicitly or indirectly based on LIBOR. On March 5, 2021, the United Kingdom Financial Conduct Authority (or FCA), which regulates LIBOR, announced that all LIBOR tenors relevant to us will cease to be published or will no longer be representative after June 30, 2023. The FCA's announcement coincides with the March 5, 2021 announcement of LIBOR's administrator, the ICE Benchmark Administration Limited (or IBA), indicating that, as a result of not having access to input data necessary to calculate LIBOR tenors relevant to us on a representative basis after June 30, 2023, IBA would have to cease publication of such LIBOR tenors immediately after the last publication on June 30, 2023. At present, it is not possible to predict the effect of such change, including the establishment of potential alternative reference rates, on the economy or markets we are active in either currently or in the future, or on any of our assets or liabilities whose interest rates are based on LIBOR.

We are in the process of evaluating the potential impact of a discontinuation of LIBOR on our portfolio, as well as the related accounting impact. However, we expect that in the near term, we will work closely with the Trustee companies and/or other entities that are involved in calculating the interest rates for our residential mortgage securities and securitized debt, our loan servicers for our hybrid and floating rate loans, and with the various counterparties to our financing and hedging transactions in order to determine what changes, if any, are required to be made to existing agreements for these transactions.

Shock Table

The information presented in the following "Shock Table" projects the potential impact of sudden parallel changes in interest rates on our net interest income and portfolio value, including the impact of Swaps and short positions in TBA securities (if any), over the next 12 months based on the assets in our investment portfolio at March 31, 2022. All changes in income and value are measured as the percentage change from the projected net interest income and portfolio value under the base interest rate scenario at March 31, 2022.

Change in Interest Rates	Estimated Value of Assets *(1)*	Estimated Value of Securitized and Other Fixed Rate Debt	Estimated Value of Financial Instruments	Change in Estimated Value	Percentage Change in Net Interest Income	Percentage Change in Portfolio Value
(Dollars in Thousands)						
+100 Basis Point Increase	$ 9,081,370	$ 286,899	$ 9,368,269	$ (141,753)	2.72 %	(1.49)%
+ 50 Basis Point Increase	$ 9,261,073	$ 187,882	$ 9,448,955	$ (61,067)	1.52 %	(0.64)%
Actual at March 31, 2022	$ 9,420,561	$ 89,461	$ 9,510,022	$ —	— %	— %
- 50 Basis Point Decrease	$ 9,559,831	$ (8,360)	$ 9,551,471	$ 41,449	(0.97)%	0.44 %
-100 Basis Point Decrease	$ 9,678,886	$ (105,584)	$ 9,573,302	$ 63,280	(3.16)%	0.67 %

(1) Such assets include residential whole loans and REO, CRT securities, MSR-related assets, cash and cash equivalents and restricted cash.

Certain assumptions have been made in connection with the calculation of the information set forth in the Shock Table 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. The base interest rate scenario assumes interest rates at March 31, 2022. The analysis presented utilizes assumptions and estimates based on management's judgment and experience. Furthermore, while we generally expect to retain the majority of our assets and the associated interest rate risk to maturity, future purchases and sales of assets could materially change our interest rate risk profile. It should be specifically noted that the information set forth in the above table and all related disclosure constitute forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Actual results could differ significantly from those estimated in the Shock Table above.

The Shock Table quantifies the potential changes in net interest income and portfolio value, which includes the value of our derivative and other hedging transactions (if any) and securitized and other fixed rate debt (which are carried at fair value), should interest rates immediately change (i.e., are shocked). The Shock Table presents the estimated impact of interest rates instantaneously rising 50 and 100 basis points, and falling 50 and 100 basis points. The cash flows associated with our portfolio for each rate shock are calculated based on assumptions, including, but not limited to, prepayment speeds, yield on replacement assets, the slope of the yield curve and composition of our portfolio. Assumptions made with respect to the interest rate sensitive liabilities include anticipated interest rates, collateral requirements as a percent of repurchase agreement financings, and the amounts and terms of borrowing. At March 31, 2022, we applied a floor of 0% for all anticipated interest rates included in our assumptions. Due to this floor, it is anticipated that any hypothetical interest rate shock decrease would have a limited positive impact on our funding costs; however, because prepayments speeds are unaffected by this floor, it is expected that any increase in our prepayment speeds (occurring as a result of any interest rate shock decrease or otherwise) could result in an acceleration of premium amortization on assets purchased at a premium and discount accretion on assets purchased at a discount and in the reinvestment of principal repayments in lower yielding assets. As a result, because the presence of this floor limits the positive impact of interest rate decrease on our funding costs, hypothetical interest rate shock decreases could cause a decline in the fair value of our financial instruments and our net interest income.

At March 31, 2022, the impact on portfolio value was approximated using estimated net effective duration (i.e., the price sensitivity to changes in interest rates), including the effect of securitized and other fixed rate debt, of 1.09 which is the weighted average of 3.56 for our Residential whole loans, 0.08 for our Securities investments, (3.39) for our derivative and other hedging transactions and securitized and other fixed rate debt, and 0.22 for our Other assets and cash and cash equivalents. Estimated convexity (i.e., the approximate change in duration relative to the change in interest rates) of the portfolio was (0.83), which is the weighted average of (0.97) for our Residential whole loans, 0.04 for our derivative and other hedging transactions and securitized and other fixed rate debt, zero for our Securities and zero for our Other assets and cash and cash equivalents. The impact on our net interest income is driven mainly by the difference between portfolio yield and cost of funding of our repurchase agreements. Our asset/liability structure is generally such that an increase in interest rates would be expected to result in a decrease in net interest income, as our borrowings are generally shorter in term than our interest-earning assets. When interest rates are shocked, prepayment assumptions are adjusted based on management's expectations along with the results from the prepayment model.

Credit Risk

We are exposed to credit risk through our credit sensitive residential mortgage investments, in particular residential whole loans and CRT securities and to a lesser extent our investments in MSR-related assets. Our primary credit risk currently relates to our residential whole loans.

Our exposure to credit risk from our credit sensitive investments is discussed in more detail below:

Residential Whole Loans

We are exposed to credit risk from our investments in residential whole loans. Our investment process for Purchased Non-performing and Purchased Credit Deteriorated Loans is focused on quantifying and pricing credit risk. Non-Performing and Purchased Credit Deteriorated Loans are acquired at purchase prices that are generally discounted to the contractual loan balances based on a number of factors, including the impaired credit history of the borrower and the value of the collateral securing the loan. In addition, as we generally own the mortgage-servicing rights associated with these loans, our process is also focused on selecting a sub-servicer with the appropriate expertise to mitigate losses and maximize our overall return. This involves, among other things, performing due diligence on the sub-servicer prior to their engagement as well as ongoing oversight and surveillance. To the extent that delinquencies and defaults on these loans are higher than our expectation at the time the loans were purchased, the discounted purchase price at which the asset is acquired is intended to provide a level of protection against financial loss.

Credit risk on Purchased Performing Loans is mitigated through our process to underwrite the loan before it is acquired and/or originated and includes an assessment of the borrower's financial condition and ability to repay the loan, nature of the collateral and relatively low LTV, including after-repair LTV for the majority of our Rehabilitation loans.

The following table presents certain information about our Residential whole loans at March 31, 2022:

	Purchased Performing Loans *(1)* Loans with an LTV:		Purchased Credit Deteriorated Loans Loans with an LTV:		Purchased Non-Performing Loans Loans with an LTV:		
(Dollars in Thousands)	**80% or Below**	**Above 80%**	**80% or Below**	**Above 80%**	**80% or Below**	**Above 80%**	**Total**
Amortized cost	$ 6,782,395	$ 242,296	$ 387,985	$ 130,465	$ 600,280	$ 223,145	$ 8,366,566
Unpaid principal balance (UPB)	$ 6,631,214	$ 237,882	$ 440,581	$ 170,070	$ 671,430	$ 346,228	$ 8,497,405
Weighted average coupon *(2)*	5.0 %	5.5 %	4.6 %	4.5 %	4.9 %	4.8 %	5.0 %
Weighted average term to maturity (months)	302	328	265	319	259	319	298
Weighted average LTV *(3)*	64.9 %	88.0 %	54.2 %	105.6 %	52.8 %	111.1 %	66.3 %
Loans 90+ days delinquent (UPB)	$ 181,321	$ 24,398	$ 67,710	$ 44,180	$ 246,123	$ 180,455	$ 744,187

(1) Excluded from the table above are approximately $28.9 million of Residential whole loans, at fair value for which the closing of the purchase transaction had not occurred as of March 31, 2022.

(2) Weighted average is calculated based on the interest bearing principal balance of each loan within the related category. For loans acquired with servicing rights released by the seller, interest rates included in the calculation do not reflect loan servicing fees. For loans acquired with servicing rights retained by the seller, interest rates included in the calculation are net of servicing fees.

(3) LTV represents the ratio of the total unpaid principal balance of the loan to the estimated value of the collateral securing the related loan as of the most recent date available, which may be the origination date. For Rehabilitation loans, the LTV presented is the ratio of the maximum unpaid principal balance of the loan, including unfunded commitments, to the estimated "after repaired" value of the collateral securing the related loan, where available. For certain Rehabilitation loans, totaling $160.5 million, an after repaired valuation was not obtained and the loan was underwritten based on an "as is" valuation. The LTV of these loans based on the current unpaid principal balance and the valuation obtained during underwriting, is 74%. Excluded from the calculation of weighted average LTV are certain low value loans secured by vacant lots for which the LTV ratio is not meaningful.

The following table presents the five largest geographic concentrations by state of our residential whole loan portfolio at March 31, 2022:

Property Location	Percent of Interest-Bearing Unpaid Principal Balance
California	36.6 %
Florida	11.0 %
New York	6.0 %
Texas	4.2 %
New Jersey	4.0 %

MSR-Related Assets

Term Notes

We have invested in certain term notes that are issued by SPVs that have acquired rights to receive cash flows representing the servicing fees and/or excess servicing spread associated with certain MSRs. Payment of principal and interest on these term notes is considered by us to be largely dependent on the cash flows generated by the underlying MSRs as this impacts the cash flows available to the SPV that issued the term notes. Credit risk borne by the holders of the term notes is also mitigated by structural credit support in the form of over-collateralization. In addition, credit support is also provided by a corporate guarantee from the ultimate parent or sponsor of the SPV that is intended to provide for payment of interest and principal to the holders of the term notes should cash flows generated by the underlying MSRs be insufficient.

CRT Securities

We are exposed to potential credit losses from our investments in CRT securities issued by or sponsored by Fannie Mae and Freddie Mac. While CRT securities are issued by or sponsored by these GSEs, payment of principal on these securities is not guaranteed. As an investor in a CRT security, we may incur a loss if losses on the mortgage loans in the reference pool exceed the credit enhancement on the underlying CRT security owned by us or if an actual pool of loans experience losses. We assess the credit risk associated with our investments in CRT securities by assessing the current and expected future performance of the associated loan pool.

Credit Spread Risk

Credit spreads measure the additional yield demanded by investors in financial instruments based on the credit risk associated with an instrument relative to benchmark interest rates. They are impacted by the available supply and demand for instruments with various levels of credit risk. Widening credit spreads would result in higher yields being required by investors in financial instruments. Credit spread widening generally results in lower values of the financial instruments we hold at that time, but will generally result in a higher yield on future investments with similar credit risk. It is possible that the credit spreads on our assets and liabilities, including hedges, will not always move in tandem. Consequently, changes in credit spreads can result in volatility in our financial results and reported book value.

Liquidity Risk

The primary liquidity risk we face arises from financing long-maturity assets with shorter-term borrowings primarily in the form of repurchase agreement financings. This risk was particularly pronounced during the first quarter of 2020, as conditions created by COVID-19 resulted in us receiving an unusually high number of margin calls, negatively impacting our overall liquidity and ultimately leading us to enter into forbearance agreements.

We pledge residential mortgage assets and cash to secure our financing agreements. Our financing agreements with mark-to-market collateral provisions require us to pledge additional collateral in the event the market value of the assets pledged decreases, in order maintain the lenders contractually specified collateral cushion, which is measured as the difference between the loan amount and the market value of the asset pledged as collateral. Should the value of our residential mortgage assets pledged as collateral suddenly decrease, margin calls under our repurchase agreements would likely increase, causing an adverse change in our liquidity position. Additionally, if one or more of our financing counterparties chose not to provide ongoing funding, our ability to finance our long-maturity assets would decline or be available on possibly less advantageous terms. Further, when liquidity tightens, our repurchase agreement counterparties may increase our collateral cushion (or margin) requirements on new financings, including repurchase agreement borrowings that we roll with the same counterparty, reducing our ability to use leverage.

At March 31, 2022, we had access to various sources of liquidity, including $410.9 million of cash and cash equivalents. Our sources of liquidity do not include restricted cash. In addition, at March 31, 2022, we had $62.4 million of unencumbered residential whole loans. Further, we believe that we have unused capacity of approximately $250 million in certain borrowing lines, given that the amount currently borrowed is less than the maximum advance rate permitted by the facility. This unused capacity serves to act as a buffer against potential margin calls on certain pledged assets in the events that asset prices do not decline by more than a specified amount.

Prepayment Risk

Premiums arise when we acquire an MBS or loan at a price in excess of the aggregate principal balance of the mortgages securing the MBS (i.e., par value) or when we acquire residential whole loans at a price in excess of their aggregate principal balance. Conversely, discounts arise when we acquire an MBS or loan at a price below the aggregate principal balance of the mortgages securing the MBS or when we acquire residential whole loans at a price below their aggregate principal balance. Premiums paid are amortized against interest income and accretable purchase discounts on these investments are accreted to interest income. Purchase premiums, which are primarily carried on our Purchased Performing Loans (excluding Rehabilitation loans that are typically purchased at par), are amortized against interest income over the life of the investment using the effective yield method, adjusted for actual prepayment activity. An increase in the prepayment rate, as measured by the CPR, will typically accelerate the amortization of purchase premiums, thereby reducing the interest income earned on these assets. Fees payable by borrowers on the early repayment of certain of our Purchased Performing Loans serve to mitigate the impact on our income of higher prepayment rates. Generally, if prepayments on residential whole loans purchased at significant discounts and not accounted for at fair value are less than anticipated, we expect that the income recognized on these assets will be reduced and impairments and/or credit loss reserves may result.

In addition, increased prepayments are generally associated with decreasing market interest rates as borrowers are able to refinance their mortgages at lower rates. Therefore, increased prepayments on our investments may accelerate the redeployment of our capital to generally lower yielding investments. Similarly, decreased prepayments are generally associated with increasing market interest rates and may slow our ability to redeploy capital to generally higher yielding investments.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Management, under the direction of its Chief Executive Officer and Chief Financial Officer, is responsible for maintaining disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

In connection with the preparation of this Quarterly Report on Form 10-Q, management reviewed and evaluated the Company's disclosure controls and procedures. The evaluation was performed under the direction of the Company's Chief Executive Officer and Chief Financial Officer to determine the effectiveness, as of March 31, 2022, of the design and operation of the Company's disclosure controls and procedures. Based on that review and evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's current disclosure controls and procedures, as designed and implemented, were effective as of March 31, 2022. Notwithstanding the foregoing, a control system, no matter how well designed, implemented and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company's current periodic reports.

(b) Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2022 that materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There are no material pending legal proceedings to which we are a party or any of our assets are subject.

Item 1A. Risk Factors

For a discussion of the Company's risk factors, see Part 1, Item 1A. "Risk Factors" of the Company's Annual Report on Form 10-K for the year ended December 31, 2021 (the "2021 Form 10-K"). There are no material changes from the risk factors set forth in the 2021 Form 10-K. However, the risks and uncertainties that the Company faces are not limited to those set forth in the 2021 Form 10-K. Additional risks and uncertainties not currently known to the Company (or that it currently believes to be immaterial) may also adversely affect the Company's business and the trading price of our securities.

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

Purchases of Equity Securities

On March 11, 2022, our Board authorized a stock repurchase program (the "March 2022 Repurchase Authorization") under which we may repurchase up to $250 million of our common stock through the end of 2023. The Board's authorization replaced the authorization under a prior stock repurchase program that was adopted in November 2020 (the "November 2020 Repurchase Authorization"), which had also authorized us to repurchase up to $250 million.

The stock repurchase program does not require the purchase of any minimum number of shares. Subject to applicable securities laws, repurchases of common stock under the repurchase program may be made at times and in amounts as we deem appropriate, using available cash resources. The timing and extent to which we repurchase our shares will depend upon, among other things, market conditions, share price, liquidity, regulatory requirements and other factors, and repurchases may be commenced or suspended at any time without prior notice. Acquisitions under the stock repurchase program may be made in the open market, through privately negotiated transactions or block trades or other means, in accordance with applicable securities laws (including, in our discretion, through the use of one or more plans adopted under Rule 10b5-1 promulgated under the Exchange Act). Shares of common stock repurchased by us under the repurchase program are cancelled and, until reissued by us, are deemed to be authorized but unissued shares of our common stock. The repurchase program may be suspended or discontinued by us at any time and without prior notice.

During the three months ended March 31, 2022, we repurchased 3,195,769 shares of our common stock through the stock repurchase program at an average cost of $17.15 per share and a total cost of approximately $54.7 million, net of fees and commissions paid to the sales agent of approximately $128,000. All stock repurchases for the three months ended March 31, 2022 were executed under the November 2020 Repurchase Authorization and prior to the Board's adoption of the March 2022 Repurchase Authorization. Accordingly, at March 31, 2022, $250.0 million remained outstanding for future repurchases under the repurchase program.

The following table presents information with respect to (i) shares of common stock repurchased by us under the stock repurchase program, (ii) restricted shares withheld (under the terms of grants under our Equity Compensation Plan (or Equity Plan)) to offset tax withholding obligations that occur upon the vesting and release of restricted stock awards and/or restricted stock units (or RSUs) and (iii) approximate dollar value for repurchase under the stock repurchase program during the first quarter of 2022:

Month	Total Number of Shares Purchased *(1)*	Weighted Average Price Paid Per Share *(2)*	Total Number of Shares Repurchased as Part of Publicly Announced Repurchase Program or Employee Plan	Approximate Dollar Value that May Yet be Purchased Under the Repurchase Program or Employee Plan *(1)*
January 1-31, 2022:				
Shares Repurchased *(3)*	575,709	$ 17.70	575,709	$ 70,098,914
Employee Transactions *(4)*	56,690	$ 18.32	N/A	N/A
February 1-28, 2022:				
Shares Repurchased *(3)*	2,330,670	$ 17.18	2,330,670	$ 30,160,435
March 1-31, 2022:				
Shares Repurchased *(3)*	289,390	15.82	289,390	$ 250,000,000
Total Shares Repurchased *(3)*	3,195,769	$ 17.15	3,195,769	$ 250,000,000
Employee Transactions *(4)*	56,690	$ 18.32	N/A	N/A

(1) All stock repurchases for the quarter ended March 31, 2022, which are reported in the table above, were executed under the November 2020 Repurchase Authorization and prior to the Board's adoption of the March 2022 Repurchase Authorization. Accordingly, at March 31, 2022, all of the $250.0 million remained outstanding for future repurchases under the repurchase program pursuant to the March 2022 Repurchase Authorization.

(2) Includes brokerage commissions.

(3) As of March 31, 2022, we had repurchased an aggregate approximate dollar value of $224.4 million under the November 2020 Repurchase Authorization.

(4) Our Equity Plan provides that the value of the shares delivered or withheld be based on the price of our common stock on the date the relevant transaction occurs.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

Amendment to Amended and Restated Employment Agreements with Craig L Knutson, Gudmundur Kristjansson and Bryan Wulfsohn

On May 3, 2022, the Company entered into separate amendments (each, an "Amendment" and together, the "Amendments") to the amended and restated employment agreements (each, an "Employment Agreement" and together, the "Employment Agreements"), effective as of January 1, 2021, with Craig L. Knutson, Chief Executive Officer and President of the Company, and each of Gudmundur Kristjansson and Bryan Wulfsohn, each a Co-Chief Investment Officer and Senior Vice President of the Company. (Messrs. Knutson, Kristjansson and Wulfsohn are sometimes hereinafter referred to individually as the "Executive" or together, the "Executives"). The principal purpose of each of the Amendments was to modify Exhibit A (Annual Performance Bonus) of each Executive's Employment Agreement. More specifically, Exhibit A has been modified to remove the construct of return on average equity ("ROAE") as the sole determinant of the formulaic portion (i.e., the ROAE Bonus) of the Executive's annual bonus, and it has been replaced with a construct that permits the Compensation Committee of the Board of Directors to base the formulaic component of the Executive's annual bonus on the achievement of objective performance goals established by the Compensation Committee on an annual basis, which may include performance goals based on ROAE as well as other objective performance measures that the Compensation Committee shall determine are appropriate for a given performance period.

A copy of each of the Amendments is attached hereto as Exhibits 10.1, 10.2 and 10.3 to this Form 10-Q. The above description of the principal terms of the Amendments is a summary only and is qualified in its entirety by reference to the applicable exhibit, each of which is incorporated by reference into this Item 5.

Item 6. Exhibits

Exhibits required by Item 601 of Regulation S-K.

EXHIBIT INDEX

The following exhibits are filed as part of this Quarterly Report. The exhibit numbers followed by an asterisk (*) indicate exhibits electronically filed or furnished herewith. All other exhibit numbers indicate exhibits previously filed and are hereby incorporated herein by reference.

Exhibit	Description
3.1	Articles of Amendment of MFA Financial, Inc. dated April 4, 2022 (incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K, dated April 4, 2022 (Commission File No. 1-13991)).
3.2	Articles of Amendment of MFA Financial, Inc. dated April 4, 2022 (incorporated herein by reference to Exhibit 3.2 to the Company's Form 8-K, dated April 4, 2022 (Commission File No. 1-13991)).
10.1*	Amendment No. 1, dated as of May 3, 2022, to Amended and Restated Employment Agreement, entered into as of February 22, 2021, by and between the Company and Craig L. Knutson.
10.2*	Amendment No. 1, dated as of May 3, 2022, to Amended and Restated Employment Agreement, entered into as of February 22, 2021, by and between the Company and Gudmundur Kristjansson.
10.3*	Amendment No. 1, dated as of May 3, 2022, to Amended and Restated Employment Agreement entered into as of February 22, 2021, by and between the Company and Bryan Wulfsohn.
31.1*	Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive Data Files pursuant to Rule 405 of Regulation S-T formatted in iXBRL (Inline Extensible Business Reporting Language): (i) our Consolidated Balance Sheets as of March 31, 2022 (Unaudited) and December 31, 2021; (ii) our Consolidated Statements of Operations (Unaudited) for the three months ended March 31, 2022 and 2021; (iii) our Consolidated Statements of Comprehensive Income / (Loss) (Unaudited) for the three months ended March 31, 2022 and 2021; (iv) Consolidated Statements of Changes in Stockholders' Equity (Unaudited) for the three months ended March 31, 2022 and 2021; (v) our Consolidated Statements of Cash Flows (Unaudited) for the three months ended March 31, 2022 and 2021; and (vi) the notes to our Unaudited Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

SIGNATURES

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

Date: May 4, 2022	MFA FINANCIAL, INC. (Registrant)	
	By:	/s/ Stephen D. Yarad Stephen D. Yarad Chief Financial Officer (Principal Financial Officer)

Exhibit 10.1

AMENDMENT TO EMPLOYMENT AGREEMENT

THIS AMENDMENT NO. 1 (the "Amendment"), dated as of May 3, 2022, to the Amended and Restated Employment Agreement with the Company entered into as of February 22, 2021 (the "Employment Agreement"), is made by and between MFA Financial, Inc. (the "Company") and Craig L. Knutson ("Executive").

WITNESSETH:

WHEREAS, the Company and Executive desire to amend the Employment Agreement.

NOW, THEREFORE, the Company and Executive agree as follows:

1. Section 2 of Exhibit A of the Employment Agreement is hereby deleted in its entirety and replaced with the following:

"2. Target Bonus. For each Performance Period, the Executive's target annual cash bonus (the "Target Bonus") shall be $2,000,000. The Compensation Committee may increase or decrease the Executive's Target Bonus for a Performance Period; provided that, the Executive's Target Bonus may only be decreased if such decrease is part of an overall Company reduction of executive target bonuses and the applicable decrease (on a percentage basis) is substantially equivalent to that applicable to other senior executives of MFA. The Executive is eligible to receive an Annual Bonus from zero to two times the Target Bonus for each Performance Period, and the actual amount of the Annual Bonus payable to the Executive, if any, for each Performance Period, shall be determined by the Compensation Committee in accordance with the following: (a) 75% of the Annual Bonus shall be based on achievement of objective performance goals established by the Compensation Committee, and (b) 25% of the Annual Bonus shall be based on such factors as determined by the Compensation Committee, including individual performance."

2. Section 3 of Exhibit A of the Employment Agreement is hereby deleted in its entirety and replaced with the following:

"3. Payment of Annual Bonus. The Annual Bonus shall be paid in cash between January 1 and March 15 following the end of the Performance Period. All determinations with respect to the Annual Bonus, including the amount, if any, which is payable to the Executive for each Performance Period, shall be made by the Compensation Committee, in good faith. Any such determinations shall be final and binding on the Executive and MFA."

3. Sections 4, 5, 6, 7, and 8 of Exhibit A to the Employment Agreement are hereby deleted in their entirety.

4. Except as hereinabove modified and amended, the Employment Agreement shall remain in full force and effect. This Amendment may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

IN WITNESS WHEREOF, the Company has caused this Amendment to be executed by an authorized officer or authorized signatory, and Executive has hereunto set Executive's hand, to be effective as of the date set forth above.

MFA FINANCIAL, INC.

By: /s/ Laurie S. Goodman
Name: Laurie S. Goodman
Title: Chair of the Board

EXECUTIVE:

/s/ Craig L. Knutson
Craig L. Knutson

Exhibit 10.2

AMENDMENT TO EMPLOYMENT AGREEMENT

THIS AMENDMENT NO. 1 (the "Amendment"), dated as of May 3, 2022, to the Amended and Restated Employment Agreement with the Company entered into as of February 22, 2021 (the "Employment Agreement"), is made by and between MFA Financial, Inc. (the "Company") and Gudmundur Kristjansson ("Executive").

WITNESSETH:

WHEREAS, the Company and Executive desire to amend the Employment Agreement.

NOW, THEREFORE, the Company and Executive agree as follows:

1. Section 2 of Exhibit A of the Employment Agreement is hereby deleted in its entirety and replaced with the following:

"2. Target Bonus. For each Performance Period, the Executive's target annual cash bonus (the "Target Bonus") shall be $950,000. The Compensation Committee may increase or decrease the Executive's Target Bonus for a Performance Period; provided that, the Executive's Target Bonus may only be decreased if such decrease is part of an overall Company reduction of executive target bonuses and the applicable decrease (on a percentage basis) is substantially equivalent to that applicable to other senior executives of MFA. The Executive is eligible to receive an Annual Bonus from zero to two times the Target Bonus for each Performance Period, and the actual amount of the Annual Bonus payable to the Executive, if any, for each Performance Period, shall be determined by the Compensation Committee in accordance with the following: (a) 75% of the Annual Bonus shall be based on achievement of objective performance goals established by the Compensation Committee, and (b) 25% of the Annual Bonus shall be based on such factors as determined by the Compensation Committee, including individual performance."

2. Section 3 of Exhibit A of the Employment Agreement is hereby deleted in its entirety and replaced with the following:

"3. Payment of Annual Bonus. The Annual Bonus shall be paid in cash between January 1 and March 15 following the end of the Performance Period. All determinations with respect to the Annual Bonus, including the amount, if any, which is payable to the Executive for each Performance Period, shall be made by the Compensation Committee, in good faith. Any such determinations shall be final and binding on the Executive and MFA."

3. Sections 4, 5, 6, 7, and 8 of Exhibit A to the Employment Agreement are hereby deleted in their entirety.

4. Except as hereinabove modified and amended, the Employment Agreement shall remain in full force and effect. This Amendment may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

IN WITNESS WHEREOF, the Company has caused this Amendment to be executed by an authorized officer or authorized signatory, and Executive has hereunto set Executive's hand, to be effective as of the date set forth above.

MFA FINANCIAL, INC.

By: /s/ Craig L. Knutson
Name: Craig L. Knutson
Title: Chief Executive Officer and President

EXECUTIVE:

/s/ Gudmundur Kristjansson
Gudmundur Kristjansson

Exhibit 10.3

AMENDMENT TO EMPLOYMENT AGREEMENT

THIS AMENDMENT NO. 1 (the "Amendment"), dated as of May 3, 2022, to the Amended and Restated Employment Agreement with the Company entered into as of February 22, 2021 (the "Employment Agreement"), is made by and between MFA Financial, Inc. (the "Company") and Bryan Wulfsohn ("Executive").

WITNESSETH:

WHEREAS, the Company and Executive desire to amend the Employment Agreement.

NOW, THEREFORE, the Company and Executive agree as follows:

1. Section 2 of Exhibit A of the Employment Agreement is hereby deleted in its entirety and replaced with the following:

"2. Target Bonus. For each Performance Period, the Executive's target annual cash bonus (the "Target Bonus") shall be $950,000. The Compensation Committee may increase or decrease the Executive's Target Bonus for a Performance Period; provided that, the Executive's Target Bonus may only be decreased if such decrease is part of an overall Company reduction of executive target bonuses and the applicable decrease (on a percentage basis) is substantially equivalent to that applicable to other senior executives of MFA. The Executive is eligible to receive an Annual Bonus from zero to two times the Target Bonus for each Performance Period, and the actual amount of the Annual Bonus payable to the Executive, if any, for each Performance Period, shall be determined by the Compensation Committee in accordance with the following: (a) 75% of the Annual Bonus shall be based on achievement of objective performance goals established by the Compensation Committee, and (b) 25% of the Annual Bonus shall be based on such factors as determined by the Compensation Committee, including individual performance."

2. Section 3 of Exhibit A of the Employment Agreement is hereby deleted in its entirety and replaced with the following:

"3. Payment of Annual Bonus. The Annual Bonus shall be paid in cash between January 1 and March 15 following the end of the Performance Period. All determinations with respect to the Annual Bonus, including the amount, if any, which is payable to the Executive for each Performance Period, shall be made by the Compensation Committee, in good faith. Any such determinations shall be final and binding on the Executive and MFA."

3. Sections 4, 5, 6, 7, and 8 of Exhibit A to the Employment Agreement are hereby deleted in their entirety.

4. Except as hereinabove modified and amended, the Employment Agreement shall remain in full force and effect. This Amendment may be executed in any number of

counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

IN WITNESS WHEREOF, the Company has caused this Amendment to be executed by an authorized officer or authorized signatory, and Executive has hereunto set Executive's hand, to be effective as of the date set forth above.

MFA FINANCIAL, INC.

By: /s/ Craig L. Knutson
Name: Craig L. Knutson
Title: Chief Executive Officer and President

EXECUTIVE:

/s/ Bryan Wulfsohn
Bryan Wulfsohn

Exhibit 31.1

CERTIFICATION

I, Craig L. Knutson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of MFA Financial, Inc. (the "Registrant");

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:

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: May 4, 2022

By: /s/ Craig L. Knutson
Name: Craig L. Knutson
Title: President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Stephen D. Yarad, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of MFA Financial, Inc. (the "Registrant");

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:

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: May 4, 2022

By: /s/ Stephen D. Yarad

Name: Stephen D. Yarad
Title: Chief Financial Officer
and Chief Accounting Officer

Exhibit 32.1

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

The undersigned, the Chief Executive Officer of MFA Financial, Inc. (the "Company"), hereby certifies on the date hereof, pursuant to 18 U.S.C. 1350(a), as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that, to my knowledge, the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2022 (the "Form 10-Q"), filed herewith by the Company, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Craig L. Knutson
Name: Craig L. Knutson
Title: President and Chief Executive Officer

Date: May 4, 2022

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes—Oxley Act of 2002, and is not being "filed" as part of the Form 10-Q or as a separate disclosure document for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference to any filing under the Securities Act of 1933, as amended, or the Exchange Act except to the extent that this Exhibit 32.1 is expressly and specifically incorporated by reference in any such filing.

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

Exhibit 32.2

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

The undersigned, the Chief Financial Officer of MFA Financial, Inc. (the "Company"), hereby certifies on the date hereof, pursuant to 18 U.S.C. 1350(a), as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that, to my knowledge, the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2022 (the "Form 10-Q"), filed herewith by the Company, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Stephen D. Yarad
Name: Stephen D. Yarad
Title: Chief Financial Officer
and Chief Accounting Officer

Date: May 4, 2022

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes—Oxley Act of 2002, and is not being "filed" as part of the Form 10-Q or as a separate disclosure document for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference to any filing under the Securities Act of 1933, as amended, or the Exchange Act except to the extent that this Exhibit 32.2 is expressly and specifically incorporated by reference in any such filing.

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