

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

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended June 30, 2020  
OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 001-35896

**Ellington Residential Mortgage REIT**

(Exact Name of Registrant as Specified in Its Charter)

**Maryland**

(State or Other Jurisdiction of Incorporation or Organization)

**46-0687599**

(I.R.S. Employer Identification No.)

**53 Forest Avenue**

**Old Greenwich, Connecticut 06870**

(Address of Principal Executive Offices) (Zip Code)

**(203) 698-1200**

(Registrant's Telephone Number, Including Area Code)

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

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of Each Exchange on Which Registered</u>
Common Shares of Beneficial Interest, \$0.01 par value per share	EARN	The New York Stock Exchange

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

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

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

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

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input checked="" type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input checked="" type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

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

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

Number of the Registrant's common shares outstanding as of August 6, 2020: 12,319,616

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## PART I—FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements (Unaudited)

**ELLINGTON RESIDENTIAL MORTGAGE REIT**  
**CONSOLIDATED BALANCE SHEET**  
**(UNAUDITED)**

	June 30, 2020	December 31, 2019
<i>(In thousands except for share amounts)</i>		
<b>ASSETS</b>		
Cash and cash equivalents	\$ 50,935	\$ 35,351
Mortgage-backed securities, at fair value	1,154,047	1,401,778
Other investments, at fair value	411	—
Due from brokers	38,024	34,596
Financial derivatives—assets, at fair value	3,115	4,180
Reverse repurchase agreements	—	2,084
Receivable for securities sold	40,977	5,500
Interest receivable	4,289	5,016
Other assets	539	604
<b>Total Assets</b>	<b>\$ 1,292,337</b>	<b>\$ 1,489,109</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Repurchase agreements	\$ 909,821	\$ 1,296,272
Payable for securities purchased	205,950	19,433
Due to brokers	1,372	33
Financial derivatives—liabilities, at fair value	12,144	2,047
U.S. Treasury securities sold short, at fair value	—	2,070
Dividend payable	3,450	3,488
Accrued expenses	837	588
Management fee payable to affiliate	594	605
Interest payable	492	3,729
<b>Total Liabilities</b>	<b>1,134,660</b>	<b>1,328,265</b>
<b>SHAREHOLDERS' EQUITY</b>		
Preferred shares, par value \$0.01 per share, 100,000,000 shares authorized; (0 shares issued and outstanding, respectively)	—	—
Common shares, par value \$0.01 per share, 500,000,000 shares authorized; (12,319,616 and 12,455,758 shares issued and outstanding, respectively)	123	124
Additional paid-in-capital	229,491	230,358
Accumulated deficit	(71,937)	(69,638)
<b>Total Shareholders' Equity</b>	<b>157,677</b>	<b>160,844</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 1,292,337</b>	<b>\$ 1,489,109</b>

See Notes to Consolidated Financial Statements

**ELLINGTON RESIDENTIAL MORTGAGE REIT**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
**(UNAUDITED)**

	Three-Month Period Ended		Six-Month Period Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
<i>(In thousands except for per share amounts)</i>				
<b>INTEREST INCOME (EXPENSE)</b>				
Interest income	\$ 3,489	\$ 12,139	\$ 13,370	\$ 24,752
Interest expense	(2,330)	(9,662)	(8,430)	(19,217)
<b>Total net interest income</b>	<b>1,159</b>	<b>2,477</b>	<b>4,940</b>	<b>5,535</b>
<b>EXPENSES</b>				
Management fees to affiliate	594	582	1,119	1,177
Professional fees	598	207	806	436
Compensation expense	142	112	293	263
Insurance expense	82	74	158	148
Other operating expenses	316	325	643	644
<b>Total expenses</b>	<b>1,732</b>	<b>1,300</b>	<b>3,019</b>	<b>2,668</b>
<b>OTHER INCOME (LOSS)</b>				
Net realized gains (losses) on securities	5,175	1,418	6,268	(256)
Net realized gains (losses) on financial derivatives	(8,452)	(8,771)	(14,951)	(20,862)
Change in net unrealized gains (losses) on securities	15,690	14,511	22,458	36,482
Change in net unrealized gains (losses) on financial derivatives	9,505	(8,442)	(11,096)	(9,410)
<b>Total other income (loss)</b>	<b>21,918</b>	<b>(1,284)</b>	<b>2,679</b>	<b>5,954</b>
<b>NET INCOME (LOSS)</b>	<b>\$ 21,345</b>	<b>\$ (107)</b>	<b>\$ 4,600</b>	<b>\$ 8,821</b>
<b>NET INCOME (LOSS) PER COMMON SHARE:</b>				
Basic and Diluted	\$ 1.73	\$ (0.01)	\$ 0.37	\$ 0.71

See Notes to Consolidated Financial Statements

**ELLINGTON RESIDENTIAL MORTGAGE REIT**  
**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**  
**(UNAUDITED)**

	Common Shares	Common Shares, par value	Preferred Shares	Preferred Shares, par value	Additional Paid-in-Capital	Accumulated (Deficit) Earnings	Total
<i>(In thousands except for share amounts)</i>							
<b>BALANCE, December 31, 2019</b>	12,455,758	\$ 124	—	\$ —	\$ 230,358	\$ (69,638)	\$ 160,844
Share based compensation					59		59
Repurchase of common shares	(136,142)	(1)			(985)		(986)
Dividends declared <sup>(1)</sup>						(3,449)	(3,449)
Net income (loss)						(16,745)	(16,745)
<b>BALANCE, March 31, 2020</b>	12,319,616	123	—	—	229,432	(89,832)	139,723
Share based compensation					59		59
Dividends declared <sup>(1)</sup>						(3,450)	(3,450)
Net income (loss)						21,345	21,345
<b>BALANCE, June 30, 2020</b>	12,319,616	\$ 123	—	\$ —	\$ 229,491	\$ (71,937)	\$ 157,677
<b>BALANCE, December 31, 2018</b>	12,507,213	\$ 125	—	\$ —	\$ 230,888	\$ (77,191)	\$ 153,822
Share based compensation					53		53
Repurchase of common shares	(40,110)	—			(414)		(414)
Dividends declared <sup>(1)</sup>						(4,239)	(4,239)
Net income (loss)						8,928	8,928
<b>BALANCE, March 31, 2019</b>	12,467,103	125	—	—	230,527	(72,502)	158,150
Share based compensation					53		53
Dividends declared <sup>(1)</sup>						(3,491)	(3,491)
Net income (loss)						(107)	(107)
<b>BALANCE, June 30, 2019</b>	12,467,103	\$ 125	—	\$ —	\$ 230,580	\$ (76,100)	\$ 154,605

(1) For each of the three-month periods ended June 30, 2020 and 2019, dividends totaling \$0.28 per common share outstanding, were declared. For the six-month periods ended June 30, 2020 and 2019, dividends totaling \$0.56 and \$0.62, respectively, per common share outstanding, were declared.

See Notes to Consolidated Financial Statements

**ELLINGTON RESIDENTIAL MORTGAGE REIT**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(UNAUDITED)**

	<b>Six-Month Period Ended</b>	
	<b>June 30, 2020</b>	<b>June 30, 2019</b>
<i>(In thousands)</i>		
<b>Cash flows provided by (used in) operating activities:</b>		
Net income (loss)	\$ 4,600	\$ 8,821
<b>Reconciliation of net income (loss) to net cash provided by (used in) operating activities:</b>		
Net realized (gains) losses on securities	(6,268)	256
Change in net unrealized (gains) losses on securities	(22,458)	(36,482)
Net realized (gains) losses on financial derivatives	14,951	20,862
Change in net unrealized (gains) losses on financial derivatives	11,096	9,410
Amortization of premiums and accretion of discounts, net	9,282	6,106
Share based compensation	118	106
<b>(Increase) decrease in assets:</b>		
Interest receivable	727	403
Other assets	65	(159)
<b>Increase (decrease) in liabilities:</b>		
Accrued expenses	249	(174)
Interest payable	(3,237)	(16)
Management fees payable to affiliate	(11)	3
Net cash provided by (used in) operating activities	<u>9,114</u>	<u>9,136</u>
<b>Cash flows provided by (used in) investing activities:</b>		
Purchases of securities	(408,505)	(861,386)
Proceeds from sale of securities	708,337	888,047
Principal repayments of mortgage-backed securities	120,681	81,160
Proceeds from investments sold short	222,741	267,205
Repurchase of investments sold short	(227,522)	(233,841)
Proceeds from disposition of financial derivatives	10,574	8,126
Purchase of financial derivatives	(26,417)	(29,017)
Payments made on reverse repurchase agreements	(3,839,520)	(2,774,397)
Proceeds from reverse repurchase agreements	3,841,604	2,734,679
Due from brokers, net	(11,551)	(11,108)
Due to brokers, net	1,024	(182)
Net cash provided by (used in) investing activities	<u>391,446</u>	<u>69,286</u>

See Notes to Consolidated Financial Statements

**ELLINGTON RESIDENTIAL MORTGAGE REIT**  
**CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)**  
**(UNAUDITED)**

	Six-Month Period Ended	
	June 30, 2020	June 30, 2019
<b>Cash flows provided by (used in) financing activities:</b>		
Repurchase of common shares	(986)	(414)
Dividends paid	(6,937)	(8,491)
Borrowings under repurchase agreements	1,274,931	893,858
Repayments of repurchase agreements	(1,661,382)	(933,376)
Due from brokers, net	9,234	(6,643)
Due to brokers, net	164	(468)
Cash provided by (used in) financing activities	(384,976)	(55,534)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	15,584	22,888
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	35,351	18,585
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 50,935</b>	<b>\$ 41,473</b>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 11,668	\$ 19,233
Dividends payable	3,450	3,491

See Notes to Consolidated Financial Statements

**ELLINGTON RESIDENTIAL MORTGAGE REIT**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2020**  
**(UNAUDITED)**

**1. Organization and Investment Objective**

Ellington Residential Mortgage REIT, or "EARN," was formed as a Maryland real estate investment trust, or "REIT," on August 2, 2012, and commenced operations on September 25, 2012. EARN conducts its business through its wholly owned subsidiaries, EARN OP GP LLC, or the "General Partner," and Ellington Residential Mortgage LP, or the "Operating Partnership," which were formed as a Delaware limited liability company and a Delaware limited partnership, respectively, on July 31, 2012 and commenced operations on September 25, 2012. The Operating Partnership conducts its business of acquiring, investing in, and managing residential mortgage- and real estate-related assets through its wholly owned subsidiaries. EARN, the General Partner, the Operating Partnership, and their consolidated subsidiaries are hereafter defined as the "Company."

Ellington Residential Mortgage Management LLC, or the "Manager," serves as the Manager of the Company pursuant to the terms of the Fifth Amended and Restated Management Agreement, or the "Management Agreement." The Manager is an affiliate of Ellington Management Group, L.L.C., or "EMG," an investment management firm that is an SEC-registered investment adviser with a 25-year history of investing in a broad spectrum of mortgage-backed securities and related derivatives, with an emphasis on the residential mortgage-backed securities, or "RMBS," market. In accordance with the terms of the Management Agreement and the Services Agreement (as described in Note 9), the Manager is responsible for administering the Company's business activities and day-to-day operations, and performs certain services, subject to oversight by the Board of Trustees. See Note 9 for further information on the Management Agreement.

The Company acquires and manages RMBS, for which the principal and interest payments are guaranteed by a U.S. government agency or a U.S. government-sponsored entity, or "Agency RMBS," and RMBS that do not carry such guarantees, or "non-Agency RMBS," such as RMBS backed by prime jumbo, Alternative A-paper, manufactured housing, and subprime residential mortgage loans. Agency RMBS include both Agency pools and Agency collateralized mortgage obligations, or "CMOs," and non-Agency RMBS primarily consist of non-Agency CMOs, both investment grade and non-investment grade. The Company may also acquire and manage CMBS, mortgage servicing rights, credit risk transfer securities, residential mortgage loans, and other mortgage- and real estate-related assets. The Company may also invest in other instruments including, but not limited to, forward-settling To-Be-Announced Agency pass-through certificates, or "TBAs," interest rate swaps and swaptions, U.S. Treasury securities, Eurodollar and U.S. Treasury futures, other financial derivatives, and cash equivalents. The Company's targeted investments may range from unrated first loss securities to AAA senior securities.

The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, or "the Code," and conducts its operations to qualify and be taxed as a REIT. As a REIT, the Company is required to distribute annually at least 90% of its taxable income. As long as the Company continues to qualify as a REIT, it will not be subject to U.S. federal corporate taxes on its taxable income to the extent that it distributes all of its annual taxable income to its shareholders within the time limits prescribed by the Code. It is the intention of the Company to distribute at least 100% of its taxable income, after application of available tax attributes, within the time limits prescribed by the Code, which may extend into the subsequent taxable year.

*COVID-19 Impact*

During the first quarter of 2020, there was a worldwide outbreak of a novel coronavirus disease, or "COVID-19." The outbreak was declared a pandemic by the World Health Organization and numerous countries, including the United States, have responded by instituting quarantines or lockdowns, imposing restrictions on travel, restrictions on the ability of individuals to assemble in groups, and restrictions on the ability of certain businesses to operate, all of which have resulted in significant disruptions in the U.S. and global economies. In mid-March 2020, adverse economic conditions related to the COVID-19 pandemic began to impact the Company's financial position and results of operations. The COVID-19 pandemic has contributed to volatility, dislocations in the financial markets, and illiquidity. As a result, the Company received margin calls under its repurchase agreements that were higher than typical historical levels. The Company satisfied all of these margin calls. Actions during the second half of March 2020 by the U.S. Federal Reserve helped stabilize the market for Agency RMBS. In light of the heightened levels of market volatility and systemic liquidity risk experienced during the first quarter of 2020, the Company proactively reduced the size of its Agency RMBS portfolio, thereby bolstering its liquidity and lowering its leverage. Actions by the Federal Reserve continued to stabilize the market for Agency RMBS during the second quarter, and margin calls under our financing arrangements reverted to more typical levels. The Company's management team has implemented business continuity plans, and the Company, the Manager, and EMG continue to be fully operational in a largely work-from-home environment.



## 2. Significant Accounting Policies

(A) *Basis of Presentation:* The Company's unaudited interim consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America, or "U.S. GAAP," and Regulation S-X. Entities in which the Company has a controlling financial interest, through ownership of the majority of the entities' voting equity interests, or through other contractual rights that give the Company control, are consolidated by the Company. All inter-company balances and transactions have been eliminated. The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material (particularly in light of the significant volatility, lack of pricing transparency, and market dislocations that have been caused by the COVID-19 pandemic, and associated responses to the pandemic). In management's opinion, all material adjustments considered necessary for a fair statement of the Company's interim consolidated financial statements have been included and are only of a normal recurring nature. Interim results are not necessarily indicative of the results that may be expected for the entire fiscal year. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2019 and Part II. Item 1A—*Risk Factors*, included in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020.

(B) *Valuation:* The Company applies ASC 820-10, *Fair Value Measurement* ("ASC 820-10"), to its holdings of financial instruments. ASC 820-10 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the observability of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1—inputs to the valuation methodology are observable and reflect quoted prices (unadjusted) for identical assets or liabilities in active markets. Currently, the types of financial instruments the Company generally includes in this category are exchange-traded derivatives and equities;
- Level 2—inputs to the valuation methodology other than quoted prices included in Level 1 are observable for the asset or liability, either directly or indirectly. Currently, the types of financial instruments that the Company generally includes in this category are Agency RMBS, U.S. Treasury securities, certain non-Agency RMBS, and actively traded derivatives such as TBAs, interest rate swaps, and swaptions; and
- Level 3—inputs to the valuation methodology are unobservable and significant to the fair value measurement. Currently, this category includes certain RMBS, such as certain non-Agency RMBS and certain Agency interest only securities, or "IOs," where there is less price transparency.

For certain financial instruments, the various inputs that management uses to measure fair value may fall into different levels of the fair value hierarchy. For each such financial instrument, the determination of which category within the fair value hierarchy is appropriate is based on the lowest level of input that is significant to the fair value measurement. ASC 820 prioritizes the various inputs that management uses to measure fair value, with the highest priority given to inputs that are observable and reflect quoted prices (unadjusted) for identical assets or liabilities in active markets (Level 1), and the lowest priority given to inputs that are unobservable and significant to the fair value measurement (Level 3). The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument. The Company may use valuation techniques consistent with the market and income approaches to measure the fair value of its assets and liabilities. The market approach uses third-party valuations and information obtained from market transactions involving identical or similar assets or liabilities. The income approach uses projections of the future economic benefits of an instrument to determine its fair value, such as in the discounted cash flow methodology. The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risk associated with investing in these financial instruments. The leveling of each financial instrument is reassessed at the end of each period. Transfers between levels of the fair value hierarchy are assumed to occur at the end of the reporting period.

### *Summary Valuation Techniques*

For financial instruments that are traded in an "active market," the best measure of fair value is the quoted market price. However, many of the Company's financial instruments are not traded in an active market. Therefore, management generally uses third-party valuations when available. If third-party valuations are not available, management uses other valuation techniques, such as the discounted cash flow methodology. The following are summary descriptions, for the various categories of financial instruments, of the valuation methodologies management uses in determining fair value of the Company's financial instruments in such categories. Management utilizes such methodologies to assign a fair value (the estimated price that, in an orderly transaction at the valuation date, would be received to sell an asset, or paid to transfer a liability, as the case may be) to each such financial instrument.

For the Company's RMBS investments and TBAs, management seeks to obtain at least one third-party valuation, and often obtains multiple valuations when available. Management has been able to obtain third-party valuations on the vast majority of these instruments and expects to continue to solicit third-party valuations in the future. Management generally values each financial instrument at the average of third-party valuations received and not rejected as described below. Third-party valuations are not binding, management may adjust the valuations it receives (e.g., downward adjustments for odd lots), and management may challenge or reject a valuation when, based on its validation criteria, management determines that such valuation is unreasonable or erroneous. Furthermore, based on its validation criteria, management may determine that the average of the third-party valuations received for a given instrument does not result in what management believes to be the fair value of such instrument, and in such circumstances management may override this average with its own good faith valuation. The validation criteria may take into account output from management's own models, recent trading activity in the same or similar instruments, and valuations received from third parties. The use of proprietary models requires the use of a significant amount of judgment and the application of various assumptions including, but not limited to, assumptions concerning future prepayment rates and default rates.

Given their relatively high level of price transparency, Agency RMBS pass-throughs and TBAs are typically designated as Level 2 assets. Non-Agency RMBS and Agency interest only and inverse interest only RMBS are generally classified as either Level 2 or Level 3 based on the analysis of available market data and/or third-party valuations. Furthermore, the methodology used by the third-party valuation providers is reviewed at least annually by management, so as to ascertain whether such providers are utilizing observable market data to determine the valuations that they provide.

Interest rate swaps and swaptions are typically valued based on internal models that use observable market data, including applicable interest rates in effect as of the measurement date; the model-generated valuations are then typically compared to counterparty valuations for reasonableness. These financial derivatives are generally designated as Level 2 instruments.

In valuing its derivatives, the Company also considers the creditworthiness of both the Company and its counterparties, along with collateral provisions contained in each derivative agreement.

The Company's repurchase and reverse repurchase agreements are carried at cost, which approximates fair value. Repurchase agreements and reverse repurchase agreements are classified as Level 2 assets and liabilities based on the adequacy of the collateral and their short term nature.

The Company's valuation process, including the application of validation criteria, is overseen by the Manager's Valuation Committee ("Valuation Committee"). The Valuation Committee includes senior level executives from various departments within the Manager, and each quarter the Valuation Committee reviews and approves the valuations of the Company's investments. The valuation process also includes a monthly review by the Company's third party administrator. The goal of this review is to replicate various aspects of the Company's valuation process based on the Company's documented procedures.

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

*(C) Accounting for Securities:* Purchases and sales of securities are recorded on trade date and realized and unrealized gains and losses are calculated based on identified cost.

The Company has chosen to make a fair value election pursuant to ASC 825-10, *Financial Instruments*, for its securities portfolio. Electing the fair value option, or "FVO," allows the Company to record changes in fair value in the Consolidated Statement of Operations, which, in management's view, more appropriately reflects the results of operations for a particular reporting period as all securities activities will be recorded in a similar manner. As such, securities are recorded at fair value on the Consolidated Balance Sheet and the period change in fair value is recorded in current period earnings on the Consolidated Statement of Operations as a component of Change in net unrealized gains (losses) on securities.

*Periods after January 1, 2020*—For periods subsequent to the Company's application of the principles of ASU 2016-13, *Financial Instruments—Credit Losses* ("ASU 2016-13"), as discussed below, the Company evaluates the cost basis of its securities on at least a quarterly basis under ASC 326-30, *Financial Instruments—Credit Losses: Available-for-Sale Debt Securities* ("ASC 326-30"). When the fair value of a security is less than its amortized cost basis as of the balance sheet date, the security's cost basis is considered impaired. The Company must evaluate the decline in the fair value of the impaired security and determine whether such decline resulted from a credit loss or non-credit related factors. In its assessment of whether a credit loss exists, the Company compares the present value of estimated future cash flows of the impaired security with the amortized cost basis of such security. The estimated future cash flows reflect those that a "market participant" would use and typically include assumptions related to fluctuations in interest rates, prepayment speeds, default rates, collateral performance, and the timing and amount of projected credit losses, as well as incorporating observations of current market

developments and events. Cash flows are discounted at an interest rate equal to the current yield used to accrete interest income. If the present value of estimated future cash flows is less than the amortized cost basis of the security, an expected credit loss exists and is included in Unrealized gains (losses) on securities and loans, net, on the Consolidated Statement of Operations. If it is determined as of the financial reporting date that all or a portion of a security's cost basis is not collectible, then the Company will recognize a realized loss to the extent of the adjustment to the security's cost basis. This adjustment to the amortized cost basis of the security is reflected in Net realized gains (losses) on securities, on the Consolidated Statement of Operations.

*Periods prior to January 1, 2020*—For periods prior to the Company's application of the principles of ASU 2016-13, the Company evaluated the cost basis of its Agency IOs and non-Agency RMBS for other-than-temporary impairment, or "OTTI," on at least a quarterly basis.

When the fair value of a security was less than its amortized cost basis as of the balance sheet date, the security was considered impaired, and the impairment was designated as either temporary or other-than-temporary. When a security's cost basis was impaired, an OTTI was considered to have occurred if (i) the Company intended to sell the security (i.e., a decision had been made as of the reporting date), (ii) it was more likely than not that the Company would have been required to sell the security before recovery of its amortized cost basis, or (iii) the Company did not expect to recover the security's amortized cost basis, even if the Company did not intend to sell the security and it was not more likely than not that the Company would have been required to sell the security. If any of these conditions existed as of the financial reporting date, the entire amount of the impairment loss, if any, was recognized in earnings as a realized loss and the cost basis of the security was adjusted. Any resulting OTTI adjustments made to the amortized cost basis of the security were reflected in Net realized gains (losses) on securities, on the Consolidated Statement of Operations.

*(D) Interest Income:* Coupon interest income on investment securities is accrued based on the outstanding principal balance or notional amount and the current coupon rate on each security. The Company amortizes purchase premiums and accretes purchase discounts on its fixed-income securities. For RMBS that are deemed to be of high credit quality at the time of purchase, premiums and discounts are generally amortized/accreted into interest income over the life of such securities using the effective interest method. For such RMBS whose cash flows vary depending on prepayments, an effective yield retroactive to the time of purchase is periodically recomputed based on actual prepayments and changes in projected prepayment activity, and a catch-up adjustment, or "Catch-up Premium Amortization Adjustment," is made to amortization to reflect the cumulative impact of the change in effective yield.

For RMBS that are deemed not to be of high credit quality at the time of purchase, interest income is recognized based on the effective interest method. For purposes of estimating future expected cash flows, management uses assumptions including, but not limited to, assumptions for future prepayment rates, default rates, and loss severities (each of which may in turn incorporate various macro-economic assumptions, such as future housing prices). These assumptions are re-evaluated not less than quarterly. Changes in estimated future cash flows, as applied to the current amortized cost of the security, may result in a prospective change in the yield/interest income recognized on such securities.

Certain of the Company's debt securities, at the date of acquisition, have experienced or are expected to experience more-than-insignificant deterioration in credit quality since origination. For periods subsequent to the Company's application of the principles of ASU 2016-13, if at the date of acquisition for a particular asset the Company projects a significant difference between contractual cash flows and expected cash flows, it establishes an initial estimate for credit losses as an upward adjustment to the acquisition cost of the asset for the purpose of calculating interest income using the effective yield method.

The Company's accretion of discounts and amortization of premiums on securities for U.S. federal and other tax purposes is likely to differ from the accounting treatment under U.S. GAAP of these items as described above.

*(E) Cash and Cash Equivalents:* Cash and cash equivalents include cash and short term investments with original maturities of three months or less at the date of acquisition. Cash and cash equivalents typically include amounts held in interest bearing overnight accounts and amounts held in money market funds, and these balances generally exceed insured limits. The Company holds its cash at institutions that it believes to be highly creditworthy.

*(F) Due from brokers/Due to brokers:* Due from brokers and Due to brokers accounts on the Consolidated Balance Sheet include collateral transferred to or received from counterparties, including clearinghouses, along with receivables and payables for open and/or closed derivative positions.

*(G) Financial Derivatives:* The Company enters into various types of financial derivatives subject to its investment guidelines, which include restrictions associated with maintaining its qualification as a REIT. The Company's financial derivatives are predominantly subject to bilateral collateral arrangements or clearing in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. The Company may be required to deliver or may receive cash or

securities as collateral upon entering into derivative transactions. In addition, changes in the relative value of financial derivative transactions may require the Company or the counterparty to post or receive additional collateral. In the case of cleared financial derivatives, the clearinghouse becomes the Company's counterparty and a futures commission merchant acts as intermediary between the Company and the clearinghouse with respect to all facets of the related transaction, including the posting and receipt of required collateral. Collateral received by the Company is reflected on the Consolidated Balance Sheet as "Due to Brokers." Conversely, collateral posted by the Company is reflected as "Due from Brokers" on the Consolidated Balance Sheet. The types of financial derivatives that have been utilized by the Company to date include interest rate swaps, TBAs, swaptions, and futures.

*Swaps:* The Company enters into interest rate swaps. Interest rate swaps are contractual agreements whereby one party pays a floating interest rate on a notional principal amount and receives a fixed-rate payment on the same notional principal, or vice versa, for a fixed period of time. The Company enters into interest rate swap contracts primarily to mitigate interest rate risk. The Company is subject to interest rate risk exposure in the normal course of pursuing its investment objectives.

Swaps change in value with movements in interest rates or total return of the reference securities. During the term of swap contracts, changes in value are recognized as unrealized gains or losses on the Consolidated Statement of Operations. When a contract is terminated, the Company realizes a gain or loss equal to the difference between the proceeds from (or cost of) the closing transaction and the Company's basis in the contract, if any. Periodic payments or receipts required by swap agreements are recorded as unrealized gains or losses when accrued and realized gains or losses when received or paid. Upfront payments paid and/or received by the Company to open swap contracts are recorded as an asset and/or liability on the Consolidated Balance Sheet and are recorded as a realized gain or loss on the termination date.

*TBA Securities:* The Company transacts in the forward settling TBA market. A TBA position is a forward contract for the purchase ("long position") or sale ("short position") of Agency RMBS at a predetermined price, face amount, issuer, coupon, and maturity on an agreed-upon future delivery date. For each TBA contract and delivery month, a uniform settlement date for all market participants is determined by the Securities Industry and Financial Markets Association. The specific Agency RMBS to be delivered into the contract at the settlement date are not known at the time of the transaction. The Company typically does not take delivery of TBAs, but rather enters into offsetting transactions and settles the associated receivable and payable balances with its counterparties. The Company uses TBAs to mitigate interest rate risk, usually by taking short positions. The Company also invests in TBAs as a means of acquiring additional exposure to Agency RMBS, or for speculative purposes, including holding long positions.

TBAs are accounted for by the Company as financial derivatives. The difference between the contract price and the fair value of the TBA position as of the reporting date is included in Change in net unrealized gains (losses) on financial derivatives in the Consolidated Statement of Operations. Upon settlement of the TBA contract, the realized gain (loss) on the TBA contract is equal to the net cash amount received (paid).

*Options:* The Company enters into swaption contracts. It may purchase or write put, call, straddle, or other similar options contracts. The Company enters into options contracts primarily to help mitigate interest rate risk. When the Company purchases an options contract, the option asset is initially recorded at an amount equal to the premium paid, if any, and is subsequently marked-to-market. Premiums paid for purchasing options contracts that expire unexercised are recognized on the expiration date as realized losses. If an options contract is exercised, the premium paid is subtracted from the proceeds of the sale or added to the cost of the purchase to determine whether the Company has realized a gain or loss on the related investment transaction. When the Company writes an options contract, the option liability is initially recorded at an amount equal to the premium received, if any, and is subsequently marked-to-market. Premiums received for writing options contracts that expire unexercised are recognized on the expiration date as realized gains. If an options contract is exercised, the premium received is subtracted from the cost of the purchase or added to the proceeds of the sale to determine whether the Company has realized a gain or loss on the related investment transaction. When the Company enters into a closing transaction, the Company will realize a gain or loss depending upon whether the amount from the closing transaction is greater or less than the premiums paid or received. In general, the Company's options contracts contain forward-settling premiums. In this case, no money is exchanged upfront; instead, the agreed-upon premium is paid by the buyer upon expiration of the options contract, regardless of whether or not the options contract is exercised. Unrealized gains or (losses) resulting from the options contract being marked-to-market are included in Change in net unrealized gains (losses) on financial derivatives in the Consolidated Statement of Operations. Realized gains or (losses) are included in Net realized gains (losses) on financial derivatives on the Consolidated Statement of Operations.

*Futures Contracts:* The Company enters into Eurodollar futures contracts and U.S. Treasury futures contracts. A futures contract is an exchange-traded agreement to buy or sell an asset for a set price on a future date. Initial margin deposits are made upon entering into futures contracts and can be either in the form of cash or securities. During the period the futures contract is open, changes in the value of the contract are recognized as unrealized gains or losses by marking-to-market to reflect the

current market value of the contract. Unrealized gains or (losses) are included in Change in net unrealized gains (losses) on financial derivatives in the Consolidated Statement of Operations. Variation margin payments are made or received periodically, depending upon whether unrealized losses or gains are incurred. When the contract is closed, the Company records a realized gain or loss equal to the difference between the proceeds of the closing transaction and the Company's basis in the contract. Realized gains or (losses) are included in Net realized gains (losses) on financial derivatives on the Consolidated Statement of Operations.

Financial derivative assets are included in Financial derivatives—assets, at fair value on the Consolidated Balance Sheet while financial derivative liabilities are included in Financial derivatives—liabilities, at fair value on the Consolidated Balance Sheet. The Company has chosen to elect the FVO for its financial derivatives. Electing the FVO allows the Company to record changes in fair value in the Consolidated Statement of Operations, which, in management's view, more appropriately reflects the results of operations for a particular reporting period as all securities activities will be recorded in a similar manner. Changes in unrealized gains and losses on financial derivatives are included in Change in net unrealized gains (losses) on financial derivatives, on the Consolidated Statement of Operations. Realized gains and losses on financial derivatives are included in Net realized gains (losses) on financial derivatives on the Consolidated Statement of Operations.

*(H) Repurchase Agreements:* The Company enters into repurchase agreements with third-party broker-dealers, whereby it sells securities under agreements to repurchase at an agreed upon price and date. The Company accounts for repurchase agreements as collateralized borrowings, with the initial sale price representing the amount borrowed, and with the future repurchase price consisting of the amount borrowed plus interest, at the implied interest rate of the repurchase agreement, on the amount borrowed over the term of the repurchase agreement. The interest rate on a repurchase agreement is based on competitive market rates (or competitive market spreads, in the case of agreements with floating interest rates) at the time such agreement is entered into. When the Company enters into a repurchase agreement, the lender establishes and maintains an account containing cash and/or securities having a value not less than the repurchase price, including accrued interest, of the repurchase agreement. Repurchase agreements are carried at their contractual amounts, which approximate fair value due to their short-term nature.

*(I) Reverse Repurchase Agreements:* The Company enters into reverse repurchase agreement transactions with third-party broker-dealers, whereby it purchases securities under agreements to resell at an agreed upon price and date. The interest rate on a reverse repurchase agreement is based on competitive market rates (or competitive market spreads, in the case of agreements with floating interest rates) at the time such agreement is entered into. Reverse repurchase agreements are carried at their contractual amounts, which approximate fair value due to their short-term nature.

Repurchase and reverse repurchase agreements that are conducted with the same counterparty can be reported on a net basis if they meet the requirements of ASC 210-20, *Balance Sheet Offsetting*. There are currently no repurchase and reverse repurchase agreements reported on a net basis in the Company's consolidated financial statements.

*(J) Securities Sold Short:* The Company may purchase or engage in short sales of U.S. Treasury securities to mitigate the potential impact of changes in interest rates on the performance of its portfolio. When the Company sells securities short, it typically satisfies its security delivery settlement obligation by borrowing or purchasing the security sold short from the same or a different counterparty. When borrowing a security sold short from a counterparty, the Company generally is required to deliver cash or securities to such counterparty as collateral for the Company's obligation to return the borrowed security.

The Company has chosen to make the fair value election pursuant to ASC 825-10, *Financial Instruments*, for its securities sold short. Electing the FVO allows the Company to record changes in fair value in the Consolidated Statement of Operations, which, in management's view, more appropriately reflects the results of operations for a particular reporting period as all securities activities will be recorded in a similar manner. As such, securities sold short are recorded at fair value on the Consolidated Balance Sheet and the period change in fair value is recorded in current period earnings on the Consolidated Statement of Operations as a component of Change in net unrealized gains (losses) on securities. A realized gain or loss will be recognized upon the termination of a short sale if the market price is less or greater than the original sale price. Such realized gain or loss is recorded on the Company's Consolidated Statement of Operations in Net realized gains (losses) on securities.

*(K) Offering Costs/Deferred Offering Costs/Underwriters' Discounts:* Offering costs, underwriters' discounts and commissions and fees, are charged against shareholders' equity within Additional paid-in-capital. Offering costs typically include legal, accounting, and other fees associated with the cost of raising equity capital.

*(L) Share Based Compensation:* The Company applies the provisions of ASC 718, *Compensation—Stock Compensation* ("ASC 718"), with regard to its equity incentive plan. ASC 718 covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. ASC 718 requires that compensation cost relating to share-based payment transactions be recognized in the

financial statements. The cost is measured based on the fair value, at the grant date, of the equity or liability instruments issued and is amortized over the vesting period. Restricted shares issued to the Company's independent trustees and partially dedicated personnel are participating securities and receive dividends prior to vesting. Fair value for such awards is based on the closing stock price on the New York Stock Exchange at the grant date. The vesting period for restricted share awards is typically one to two years. Shares issued to the Company's independent trustees and partially dedicated personnel are subject to tax withholding upon vesting. The Company's independent trustees and partially dedicated personnel are permitted to forfeit a portion of their vested shares to pay such withholding tax. Forfeited shares decrease the total number of shares issued and outstanding and are immediately retired upon settlement.

(M) *Dividends*: Dividends payable are recorded on the declaration date.

(N) *Expenses*: Expenses are recognized as incurred on the Consolidated Statement of Operations.

(O) *Earnings Per Share*: In accordance with the provisions of ASC 260, *Earnings per Share*, the Company calculates basic income (loss) per share by dividing net income (loss) for the period by the weighted average of the Company's common shares outstanding for that period. Diluted income (loss) per share takes into account the effect of dilutive instruments, such as share options and warrants, and uses the average share price for the period in determining the number of incremental shares that are to be added to the weighted average number of shares outstanding.

(P) *Share Repurchases*: Common shares that are repurchased by the Company subsequent to issuance are immediately retired upon settlement and decrease the total number of shares issued and outstanding. The cost of such share repurchases is charged against Additional paid-in-capital on the Company's Consolidated Balance Sheet.

(Q) *Income Taxes*: The Company has elected to be taxed as a REIT under Sections 856 through 860 of the Code. As a REIT, the Company is generally not subject to corporate-level federal and state income tax on net income it distributes to its shareholders within the prescribed timeframes. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including distributing at least 90% of its annual taxable income to shareholders. Even if the Company qualifies as a REIT, it may be subject to certain federal, state, local and foreign taxes on its income and property, and to federal income and excise taxes on its undistributed taxable income. If the Company fails to qualify as a REIT, and does not qualify for certain statutory relief provisions, it will be subject to U.S. federal, state, and local income taxes and may be precluded from qualifying as a REIT for the four taxable years following the year in which the Company fails to qualify as a REIT.

The Company follows the authoritative guidance on accounting for and disclosure of uncertainty on tax positions, which requires management to determine whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For uncertain tax positions, the tax benefit to be recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Company did not have any unrecognized tax benefits resulting from tax positions related to the current period or its open tax years. In the normal course of business, the Company may be subject to examination by federal, state, local, and foreign jurisdictions, where applicable, for the current period and its open tax years. The Company may take positions with respect to certain tax issues which depend on legal interpretation of facts or applicable tax regulations. Should the relevant tax regulators successfully challenge any of such positions, the Company might be found to have a tax liability that has not been recorded in the accompanying consolidated financial statements. Also, management's conclusions regarding the authoritative guidance may be subject to review and adjustment at a later date based on changing tax laws, regulations, and interpretations thereof. There were no amounts accrued for penalties or interest as of or during the periods presented in these consolidated financial statements.

(R) *Recent Accounting Pronouncements*: In August 2018, the Financial Accounting Standards Board, or "FASB," issued ASU 2018-13, *Fair Value Measurement—Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"). This amends ASC 820, *Fair Value Measurement*, to remove or modify various current disclosure requirements related to fair value measurement. Additionally ASU 2018-13 requires certain additional disclosures around fair value measurement. ASU 2018-13 is effective for annual periods beginning after December 15, 2019 and interim periods within those years, with early adoption permitted. Entities are permitted to early adopt any removed or modified disclosures and delay adoption of the additional disclosures until their effective date. The adoption of the additional disclosure requirements, as required under ASU 2018-13, did not have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, which introduced a new model related to the accounting for credit losses on financial assets subject to credit losses and measured at amortized cost, and certain off-balance sheet credit exposures. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. ASU 2016-13 amends the guidance which required an OTTI charge only when fair value is below the amortized cost of an asset. The

length of time the fair value of an available-for-sale debt security has been below the amortized cost will no longer impact the determination of whether a credit loss exists; as a result, there is no longer an other-than-temporary impairment model. In addition, credit losses on available-for-sale debt securities will now be limited to the difference between the security's amortized cost basis and its fair value. The new debt security model will also require the use of an allowance to record estimated credit losses. While ASU 2016-13 is generally not applicable for securities for which the fair value option has been elected, the Company has applied the principles of ASU 2016-13 as described above. The adoption of ASU 2016-13 did not have a material impact on the Company's consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform—Facilitation of the Effects of Reference Rate Reform on Financial Reporting* ("ASU 2020-04"), which provides optional guidance for a limited period meant to ease the potential burden in accounting for, or recognizing the effects of, reform to LIBOR and certain other reference rates. The standard is effective for all entities beginning on March 12, 2020 and may be elected over time. However, ASU 2020-04 is only applicable to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform, and that were entered into or evaluated prior to January 1, 2023. The Company is currently evaluating the impact that the adoption of ASU 2020-04 would have on its consolidated financial statements.

### 3. Mortgage-Backed Securities

The following tables present details of the Company's mortgage-backed securities portfolio at June 30, 2020 and December 31, 2019, respectively. The Company's Agency RMBS include mortgage pass-through certificates and CMOs representing interests in or obligations backed by pools of residential mortgage loans issued or guaranteed by a U.S. government agency or government-sponsored enterprise, or "GSE." The non-Agency RMBS portfolio is not issued or guaranteed by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, or any agency of the U.S. Government and is therefore subject to greater credit risk.

#### By RMBS Type

##### June 30, 2020:

(\$ in thousands)

	Current Principal	Unamortized Premium (Discount)	Amortized Cost	Gross Unrealized		Fair Value	Weighted Average			
				Gains	Losses		Coupon <sup>(1)</sup>	Yield	Life (Years) <sup>(2)</sup>	
Agency RMBS:										
15-year fixed-rate mortgages	\$ 64,491	\$ 1,681	\$ 66,172	\$ 3,004	\$ (7)	\$ 69,169	3.61%	2.66%	3.29	
20-year fixed-rate mortgages	1,077	71	1,148	43	—	1,191	5.00%	3.19%	4.46	
30-year fixed-rate mortgages	825,850	36,144	861,994	38,247	(238)	900,003	3.88%	2.84%	4.26	
Adjustable rate mortgages	25,471	559	26,030	797	—	26,827	3.59%	2.24%	3.20	
Reverse mortgages	89,561	5,890	95,451	4,942	—	100,393	4.10%	2.51%	5.23	
Interest only securities	n/a	n/a	16,023	400	(1,946)	14,477	3.21%	5.01%	3.43	
<b>Total Agency RMBS</b>	<b>1,006,450</b>	<b>44,345</b>	<b>1,066,818</b>	<b>47,433</b>	<b>(2,191)</b>	<b>1,112,060</b>	<b>3.78%</b>	<b>2.82%</b>	<b>4.13</b>	
Non-Agency RMBS	58,642	(19,626)	39,016	2,991	(20)	41,987	1.31%	6.37%	6.54	
<b>Total RMBS</b>	<b>\$ 1,065,092</b>	<b>\$ 24,719</b>	<b>\$ 1,105,834</b>	<b>\$ 50,424</b>	<b>\$ (2,211)</b>	<b>\$ 1,154,047</b>	<b>3.66%</b>	<b>2.95%</b>	<b>4.25</b>	

(1) Weighted average coupon represents the weighted average pass-through rates of the securities rather than the weighted average gross mortgage rates of the underlying collateral.

(2) Average lives of RMBS are generally shorter than stated contractual maturities. Average lives are affected by the contractual maturities of the underlying mortgages, scheduled periodic payments of principal, and unscheduled prepayments of principal.

**December 31, 2019:**

(\$ in thousands)

	Current Principal	Unamortized Premium (Discount)	Amortized Cost	Gross Unrealized		Fair Value	Weighted Average			
				Gains	Losses		Coupon <sup>(1)</sup>	Yield	Life (Years) <sup>(2)</sup>	
Agency RMBS:										
15-year fixed-rate mortgages	\$ 173,350	\$ 3,498	\$ 176,848	\$ 4,424	\$ (41)	\$ 181,231	3.45%	2.89%	4.06	
20-year fixed-rate mortgages	1,276	80	1,356	29	—	1,385	5.00%	3.34%	5.09	
30-year fixed-rate mortgages	996,451	45,099	1,041,550	19,676	(2,348)	1,058,878	4.18%	3.12%	6.71	
Adjustable rate mortgages	32,122	927	33,049	264	(58)	33,255	3.79%	2.41%	4.20	
Reverse mortgages	91,560	6,847	98,407	1,549	(22)	99,934	4.53%	2.73%	5.66	
Interest only securities	n/a	n/a	17,795	648	(199)	18,244	3.22%	9.11%	3.97	
<b>Total Agency RMBS</b>	<b>1,294,759</b>	<b>56,451</b>	<b>1,369,005</b>	<b>26,590</b>	<b>(2,668)</b>	<b>1,392,927</b>	<b>3.99%</b>	<b>3.12%</b>	<b>5.92</b>	
Non-Agency RMBS	10,947	(4,023)	6,924	1,928	(1)	8,851	3.73%	13.48%	5.93	
<b>Total RMBS</b>	<b>\$ 1,305,706</b>	<b>\$ 52,428</b>	<b>\$ 1,375,929</b>	<b>\$ 28,518</b>	<b>\$ (2,669)</b>	<b>\$ 1,401,778</b>	<b>3.98%</b>	<b>3.17%</b>	<b>5.92</b>	

- (1) Weighted average coupon represents the weighted average pass-through rates of the securities rather than the weighted average gross mortgage rates of the underlying collateral.  
 (2) Average lives of RMBS are generally shorter than stated contractual maturities. Average lives are affected by the contractual maturities of the underlying mortgages, scheduled periodic payments of principal, and unscheduled prepayments of principal.

**By Estimated Weighted Average Life**
**As of June 30, 2020:**

(\$ in thousands)

Estimated Weighted Average Life <sup>(1)</sup>	Agency RMBS			Agency Interest Only Securities			Non-Agency RMBS		
	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(2)</sup>	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(2)</sup>	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(2)</sup>
Less than three years	\$ 132,974	\$ 128,750	4.19%	\$ 4,693	\$ 5,222	4.69%	\$ 4,885	\$ 4,739	4.66%
Greater than three years and less than seven years	921,243	880,846	3.86%	9,685	10,699	2.64%	26,198	23,808	0.54%
Greater than seven years and less than eleven years	43,366	41,199	3.30%	99	102	0.24%	7,916	7,512	0.80%
Greater than eleven years	—	—	—%	—	—	—%	2,988	2,957	4.72%
<b>Total</b>	<b>\$ 1,097,583</b>	<b>\$ 1,050,795</b>	<b>3.88%</b>	<b>\$ 14,477</b>	<b>\$ 16,023</b>	<b>3.21%</b>	<b>\$ 41,987</b>	<b>\$ 39,016</b>	<b>1.31%</b>

- (1) Average lives of RMBS are generally shorter than stated contractual maturities.  
 (2) Weighted average coupon represents the weighted average pass-through rates of the securities rather than the weighted average gross mortgage rates of the underlying collateral.

**As of December 31, 2019:**

(\$ in thousands)

Estimated Weighted Average Life <sup>(1)</sup>	Agency RMBS			Agency Interest Only Securities			Non-Agency RMBS		
	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(2)</sup>	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(2)</sup>	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(2)</sup>
Less than three years	\$ 53,620	\$ 52,683	4.72%	\$ 3,695	\$ 3,407	4.53%	\$ 4,000	\$ 3,823	5.35%
Greater than three years and less than seven years	793,820	778,950	4.18%	14,446	14,283	2.93%	784	307	3.88%
Greater than seven years and less than eleven years	496,334	488,956	3.92%	103	105	0.33%	4,067	2,794	2.29%
Greater than eleven years	30,909	30,621	3.97%	—	—	—%	—	—	—%
<b>Total</b>	<b>\$ 1,374,683</b>	<b>\$ 1,351,210</b>	<b>4.10%</b>	<b>\$ 18,244</b>	<b>\$ 17,795</b>	<b>3.22%</b>	<b>\$ 8,851</b>	<b>\$ 6,924</b>	<b>3.73%</b>

- (1) Average lives of RMBS are generally shorter than stated contractual maturities.  
 (2) Weighted average coupon represents the weighted average pass-through rates of the securities rather than the weighted average gross mortgage rates of the underlying collateral.



The following tables reflect the components of interest income on the Company's RMBS for the three- and six-month periods ended June 30, 2020 and 2019:

(\$ in thousands)	Three-Month Period Ended June 30, 2020			Six-Month Period Ended June 30, 2020		
	Coupon Interest	Net Amortization	Interest Income	Coupon Interest	Net Amortization	Interest Income
Agency RMBS	\$ 10,333	\$ (7,332)	\$ 3,001	\$ 24,512	\$ (12,175)	\$ 12,337
Non-Agency RMBS	161	274	435	250	382	632
<b>Total</b>	<b>\$ 10,494</b>	<b>\$ (7,058)</b>	<b>\$ 3,436</b>	<b>\$ 24,762</b>	<b>\$ (11,793)</b>	<b>\$ 12,969</b>

(\$ in thousands)	Three-Month Period Ended June 30, 2019			Six-Month Period Ended June 30, 2019		
	Coupon Interest	Net Amortization	Interest Income	Coupon Interest	Net Amortization	Interest Income
Agency RMBS	\$ 15,683	\$ (4,209)	\$ 11,474	\$ 31,953	\$ (8,355)	\$ 23,598
Non-Agency RMBS	109	131	240	221	263	484
<b>Total</b>	<b>\$ 15,792</b>	<b>\$ (4,078)</b>	<b>\$ 11,714</b>	<b>\$ 32,174</b>	<b>\$ (8,092)</b>	<b>\$ 24,082</b>

For the three-month periods ended June 30, 2020 and 2019, the Catch-up Premium Amortization Adjustment was \$(3.8) million and \$(0.9) million, respectively. For the six-month periods ended June 30, 2020 and 2019, the Catch-up Premium Amortization Adjustment was \$(4.5) million and \$(1.8) million, respectively.

At June 30, 2020, the Company had gross unrealized losses on RMBS of \$(2.2) million, of which \$(1.8) million relates to adverse changes in estimated future cash flows on Agency IOs and non-Agency RMBS, primarily resulting from an increase in expected prepayments. Certain of the Company's securities, at the date of acquisition, have experienced or are expected to experience more-than-insignificant deterioration in credit quality since origination and the Company has established an initial estimate for credit losses on such securities for the purpose of calculating interest income; as of June 30, 2020, the estimated credit losses on such securities was \$(3.4) million.

For the three- and six-month periods ended June 30, 2019, the Company recognized an impairment charge of \$2.1 million and \$3.2 million, respectively, relating to its Agency IOs, which is included in Net realized gains (losses) on securities, on the Consolidated Statement of Operations. This impairment charge was due to an adverse change in estimated future cash flows resulting from an increase in expected prepayments.

#### 4. Valuation

The following tables present the Company's financial instruments measured at fair value on:

June 30, 2020:

(In thousands)

Description	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
<b>Mortgage-backed securities, at fair value:</b>				
Agency RMBS:				
15-year fixed-rate mortgages	\$ —	\$ 69,169	\$ —	\$ 69,169
20-year fixed-rate mortgages	—	1,191	—	1,191
30-year fixed-rate mortgages	—	900,003	—	900,003
Adjustable rate mortgages	—	26,827	—	26,827
Reverse mortgages	—	100,393	—	100,393
Interest only securities	—	11,957	2,520	14,477
Non-Agency RMBS	—	29,844	12,143	41,987
<b>Mortgage-backed securities, at fair value</b>	<b>—</b>	<b>1,139,384</b>	<b>14,663</b>	<b>1,154,047</b>
<b>Other investments, at fair value:</b>				
Preferred equity securities	411	—	—	411
<b>Financial derivatives—assets, at fair value:</b>				
TBAs	—	2,271	—	2,271
Interest rate swaps	—	844	—	844
Futures	—	—	—	—
<b>Total financial derivatives—assets, at fair value</b>	<b>—</b>	<b>3,115</b>	<b>—</b>	<b>3,115</b>
<b>Total mortgage-backed securities, other investments, and financial derivatives—assets, at fair value</b>	<b>\$ 411</b>	<b>\$ 1,142,499</b>	<b>\$ 14,663</b>	<b>\$ 1,157,573</b>
<b>Liabilities:</b>				
<b>U.S. Treasury securities sold short, at fair value</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Financial derivatives—liabilities, at fair value:</b>				
TBAs	—	(735)	—	(735)
Interest rate swaps	—	(11,032)	—	(11,032)
Futures	(377)	—	—	(377)
<b>Total financial derivatives—liabilities, at fair value</b>	<b>(377)</b>	<b>(11,767)</b>	<b>—</b>	<b>(12,144)</b>
<b>Total U.S. Treasury securities sold short and financial derivatives—liabilities, at fair value</b>	<b>\$ (377)</b>	<b>\$ (11,767)</b>	<b>\$ —</b>	<b>\$ (12,144)</b>

**December 31, 2019:**

(In thousands)

Description	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
<b>Mortgage-backed securities, at fair value:</b>				
Agency RMBS:				
15-year fixed-rate mortgages	\$ —	\$ 181,231	\$ —	\$ 181,231
20-year fixed-rate mortgages	—	1,385	—	1,385
30-year fixed-rate mortgages	—	1,058,878	—	1,058,878
Adjustable rate mortgages	—	33,255	—	33,255
Reverse mortgages	—	99,934	—	99,934
Interest only securities	—	10,605	7,639	18,244
Non-Agency RMBS	—	5,578	3,273	8,851
<b>Mortgage-backed securities, at fair value</b>	<b>—</b>	<b>1,390,866</b>	<b>10,912</b>	<b>1,401,778</b>
<b>Financial derivatives—assets, at fair value:</b>				
TBA's	—	122	—	122
Interest rate swaps	—	3,624	—	3,624
Futures	434	—	—	434
<b>Total financial derivatives—assets, at fair value</b>	<b>434</b>	<b>3,746</b>	<b>—</b>	<b>4,180</b>
<b>Total mortgage-backed securities and financial derivatives—assets, at fair value</b>	<b>\$ 434</b>	<b>\$ 1,394,612</b>	<b>\$ 10,912</b>	<b>\$ 1,405,958</b>
<b>Liabilities:</b>				
<b>U.S. Treasury securities sold short, at fair value</b>	<b>\$ —</b>	<b>\$ (2,070)</b>	<b>\$ —</b>	<b>\$ (2,070)</b>
<b>Financial derivatives—liabilities, at fair value:</b>				
TBA's	—	(304)	—	(304)
Interest rate swaps	—	(1,647)	—	(1,647)
Futures	(96)	—	—	(96)
<b>Total financial derivatives—liabilities, at fair value</b>	<b>(96)</b>	<b>(1,951)</b>	<b>—</b>	<b>(2,047)</b>
<b>Total U.S. Treasury securities sold short and financial derivatives—liabilities, at fair value</b>	<b>\$ (96)</b>	<b>\$ (4,021)</b>	<b>\$ —</b>	<b>\$ (4,117)</b>

The following tables present additional information about the Company's investments which are measured at fair value for which the Company has utilized Level 3 inputs to determine fair value.

**Three-Month Period Ended June 30, 2020:**

(In thousands)

	Non-Agency RMBS	Agency RMBS
<b>Beginning balance as of March 31, 2020</b>	<b>\$ 3,001</b>	<b>\$ 6,966</b>
Purchases	14,289	—
Proceeds from sales	(5,574)	—
Principal repayments	(175)	—
(Amortization)/accretion, net	116	(705)
Net realized gains (losses)	280	—
Change in net unrealized gains (losses)	206	(68)
Transfers:		
Transfers into level 3	—	420
Transfers out of level 3	—	(4,093)
<b>Ending balance as of June 30, 2020</b>	<b>\$ 12,143</b>	<b>\$ 2,520</b>

All amounts of net realized and changes in net unrealized gains (losses) in the table above are reflected in the accompanying Consolidated Statement of Operations. The table above incorporates changes in net unrealized gains (losses) for

both Level 3 financial instruments held by the Company at June 30, 2020, as well as Level 3 financial instruments disposed of by the Company during the three-month period ended June 30, 2020. For Level 3 financial instruments held by the Company as of June 30, 2020, change in net unrealized gains (losses) of \$0.2 million and \$(28) thousand, for the three-month period ended June 30, 2020 relate to non-Agency RMBS and Agency RMBS, respectively.

At June 30, 2020, the Company transferred \$4.1 million of RMBS from Level 3 to Level 2 and \$0.4 million of RMBS from Level 2 to Level 3. Transfers between hierarchy levels are based on the availability of sufficient observable inputs to meet Level 2 versus Level 3 criteria. The level designation of each financial instrument is reassessed at the end of each period, and is based on pricing information received from third party pricing sources.

### Three-month period ended June 30, 2019:

<i>(In thousands)</i>	<b>Non-Agency RMBS</b>	<b>Agency RMBS</b>
<b>Beginning balance as of March 31, 2019</b>	\$ 4,610	\$ 3,316
Purchases	—	—
Proceeds from sales	(1,372)	—
Principal repayments	(119)	—
(Amortization)/accretion, net	91	(304)
Net realized gains (losses)	55	(199)
Change in net unrealized gains (losses)	(147)	56
Transfers:		
Transfers into level 3	—	3,353
Transfers out of level 3	(758)	(1,272)
<b>Ending balance as of June 30, 2019</b>	<b>\$ 2,360</b>	<b>\$ 4,950</b>

All amounts of net realized and changes in net unrealized gains (losses) in the table above are reflected in the accompanying Consolidated Statement of Operations. The table above incorporates changes in net unrealized gains (losses) for both Level 3 financial instruments held by the Company at June 30, 2019, as well as Level 3 financial instruments disposed of by the Company during the three-month period ended June 30, 2019. For Level 3 financial instruments held by the Company as of June 30, 2019, change in net unrealized gains (losses) of \$(0.1) million and \$(89) thousand, for the three-month period ended June 30, 2019 relate to non-Agency RMBS and Agency RMBS, respectively.

At June 30, 2019, the Company transferred \$2.0 million of RMBS from Level 3 to Level 2 and \$3.4 million of RMBS from Level 2 to Level 3. Transfers between hierarchy levels are based on the availability of sufficient observable inputs to meet Level 2 versus Level 3 criteria. The level designation of each financial instrument is reassessed at the end of each period, and is based on pricing information received from third party pricing sources.

### Six-Month Period Ended June 30, 2020:

<i>(In thousands)</i>	<b>Non-Agency RMBS</b>	<b>Agency RMBS</b>
<b>Beginning balance as of December 31, 2019</b>	\$ 3,273	\$ 7,639
Purchases	14,289	77
Proceeds from sales	(5,574)	—
Principal repayments	(269)	—
(Amortization)/accretion, net	207	(1,144)
Net realized gains (losses)	280	(1)
Change in net unrealized gains (losses)	(63)	(542)
Transfers:		
Transfers into level 3	—	1,401
Transfers out of level 3	—	(4,910)
<b>Ending balance as of June 30, 2020</b>	<b>\$ 12,143</b>	<b>\$ 2,520</b>

All amounts of net realized and changes in net unrealized gains (losses) in the table above are reflected in the accompanying Consolidated Statement of Operations. The table above incorporates changes in net unrealized gains (losses) for both Level 3 financial instruments held by the Company at June 30, 2020, as well as Level 3 financial instruments disposed of

by the Company during the six-month period ended June 30, 2020. For Level 3 financial instruments held by the Company as of June 30, 2020, change in net unrealized gains (losses) of \$(63) thousand and \$(0.6) million, for the six-month period ended June 30, 2020 relate to non-Agency RMBS and Agency RMBS, respectively.

At June 30, 2020, the Company transferred \$4.9 million of RMBS from Level 3 to Level 2 and \$1.4 million of RMBS from Level 2 to Level 3. Transfers between hierarchy levels are based on the availability of sufficient observable inputs to meet Level 2 versus Level 3 criteria. The level designation of each financial instrument is reassessed at the end of each period, and is based on pricing information received from third party pricing sources.

**Six-Month Period Ended June 30, 2019:**

<i>(In thousands)</i>	<b>Non-Agency RMBS</b>	<b>Agency RMBS</b>
<b>Beginning balance as of December 31, 2018</b>	\$ 4,634	\$ 2,832
Purchases	—	—
Proceeds from sales	(1,371)	—
Principal repayments	(572)	—
(Amortization)/accretion, net	176	(503)
Net realized gains (losses)	54	(862)
Change in net unrealized gains (losses)	197	592
Transfers:		
Transfers into level 3	—	3,353
Transfers out of level 3	(758)	(462)
<b>Ending balance as of June 30, 2019</b>	<b>\$ 2,360</b>	<b>\$ 4,950</b>

All amounts of net realized and changes in net unrealized gains (losses) in the table above are reflected in the accompanying Consolidated Statement of Operations. The table above incorporates changes in net unrealized gains (losses) for both Level 3 financial instruments held by the Company as of June 30, 2019, as well as Level 3 financial instruments disposed of by the Company during the six-month period ended June 30, 2019. For Level 3 financial instruments held by the Company as of June 30, 2019, change in net unrealized gains (losses) of \$0.2 million and \$(27) thousand, for the six-month period ended June 30, 2019 relate to non-Agency RMBS and Agency RMBS, respectively.

At June 30, 2019, the Company transferred \$1.2 million of RMBS from Level 3 to Level 2 and \$3.4 million of RMBS from Level 2 to Level 3. Transfers between these hierarchy levels are based on the availability of sufficient observable inputs to meet Level 2 versus Level 3 criteria. The level designation of each financial instrument is reassessed at the end of each period, and is based on pricing information received from third party pricing sources.

The following tables identify the significant unobservable inputs that affect the valuation of the Company's Level 3 assets and liabilities as of June 30, 2020 and December 31, 2019:

**June 30, 2020:**

Description	Fair Value	Valuation Technique	Significant Unobservable Input	Range		Weighted Average <sup>(1)</sup>
				Min	Max	
<i>(In thousands)</i>						
Non-Agency RMBS	\$ 6,898	Market quotes	Non-Binding Third-Party Valuation	\$ 40.68	\$ 88.41	\$ 69.07
Agency RMBS–Interest Only Securities	394	Market quotes	Non-Binding Third-Party Valuation	13.07	13.07	13.07
Non-Agency RMBS	5,245	Discounted Cash Flows	Yield	2.7%	5.0%	4.3%
			Projected Collateral Prepayments	37.8%	49.8%	43.4%
			Projected Collateral Losses	7.0%	15.0%	11.6%
			Projected Collateral Recoveries	13.1%	19.4%	16.4%
			Projected Collateral Scheduled Amortization	23.9%	35.7%	28.6%
						100.0%
Agency RMBS–Interest Only Securities	2,126	Option Adjusted Spread ("OAS")	LIBOR OAS <sup>(2)(3)</sup>	164	1,072	657
			Projected Collateral Prepayments	54.2%	88.8%	83.5%
			Projected Collateral Scheduled Amortization	11.2%	45.8%	16.5%
						100.0%

(1) Averages are weighted based on the fair value of the related instrument.

(2) Shown in basis points.

(3) For the range minimum, the range maximum, and the weighted average of LIBOR OAS, excludes Agency interest only securities with a negative LIBOR OAS, with a total fair value of \$0.9 million. Including these securities the weighted average was (671) basis points.

December 31, 2019:

Description	Fair Value	Valuation Technique	Significant Unobservable Input	Range		Weighted Average <sup>(1)</sup>
				Min	Max	
<i>(In thousands)</i>						
Non-Agency RMBS	\$ 1,558	Market quotes	Non-Binding Third-Party Valuation	\$ 64.56	\$ 89.04	\$ 81.56
Agency RMBS–Interest Only Securities	2,615	Market quotes	Non-Binding Third-Party Valuation	6.67	17.14	11.96
Non-Agency RMBS	1,715	Discounted Cash Flows	Yield	1.3%	9.9%	4.4%
			Projected Collateral Prepayments	50.5%	61.8%	57.7%
			Projected Collateral Losses	2.2%	2.2%	2.2%
			Projected Collateral Recoveries	6.6%	14.5%	11.6%
			Projected Collateral Scheduled Amortization	21.6%	40.7%	28.5%
						100.0%
Agency RMBS–Interest Only Securities	5,024	Option Adjusted Spread ("OAS")	LIBOR OAS <sup>(2)</sup>	77	25,553	824
			Projected Collateral Prepayments	41.7%	80.3%	73.4%
			Projected Collateral Scheduled Amortization	19.7%	58.3%	26.6%
						100.0%

(1) Averages are weighted based on the fair value of the related instrument.

(2) Shown in basis points.

Third-party non-binding valuations are validated by comparing such valuations to internally generated prices based on the Company's models and, when available, to recent trading activity in the same or similar instruments. For those instruments valued using discounted cash flows, collateral prepayments, losses, recoveries, and scheduled amortization are projected over the remaining life of the collateral and expressed as a percentage of the collateral's current principal balance. For those assets valued using the LIBOR Option Adjusted Spread, or "OAS," valuation methodology, cash flows are projected using the Company's models over multiple interest rate scenarios, and these projected cash flows are then discounted using the LIBOR rates implied by each interest rate scenario. The LIBOR OAS of an asset is then computed as the unique constant yield spread that, when added to all LIBOR rates in each interest rate scenario generated by the model, will equate (a) the expected present value of the projected asset cash flows over all model scenarios to (b) the actual current market price of the asset. LIBOR OAS is therefore model-dependent. Generally speaking, LIBOR OAS measures the additional yield spread over LIBOR that an asset provides at its current market price after taking into account any interest rate options embedded in the asset.

Material changes in any of the inputs above in isolation could result in a significant change to reported fair value measurements. Fair value measurements are impacted by the interrelationships of these inputs. For example, a higher expectation of collateral prepayments will generally result in a lower expectation of collateral losses. Conversely, higher losses will generally result in lower prepayments.

The following table summarizes the estimated fair value of all other financial instruments not included in the disclosures above as of June 30, 2020 and December 31, 2019:

(In thousands)	June 30, 2020		December 31, 2019	
	Fair Value	Carrying Value	Fair Value	Carrying Value
<b>Assets:</b>				
Cash and cash equivalents	\$ 50,935	\$ 50,935	\$ 35,351	\$ 35,351
Due from brokers	38,024	38,024	34,596	34,596
Reverse repurchase agreements	—	—	2,084	2,084
<b>Liabilities:</b>				
Repurchase agreements	909,821	909,821	1,296,272	1,296,272
Due to brokers	1,372	1,372	33	33

Cash and cash equivalents includes cash held in interest bearing overnight accounts, for which fair value equals the carrying value, and cash held in money market accounts, which are liquid in nature and for which fair value equals the carrying value; such assets are considered Level 1 assets. Due from brokers and Due to brokers include collateral transferred to or received from counterparties, along with receivables and payables for open and/or closed derivative positions. These receivables and payables are short term in nature and any collateral transferred consists primarily of cash; fair value of these items approximates carrying value and such items are considered Level 1 assets and liabilities. The Company's repurchase and reverse repurchase agreements are carried at cost, which approximates fair value due to their short term nature. Repurchase agreements and reverse repurchase agreements are classified as Level 2 assets and liabilities based on the adequacy of the collateral and their short term nature.

## 5. Financial Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. Specifically, the Company's primary source of financing is repurchase agreements and the Company enters into financial derivative and other instruments to manage exposure to variable cash flows on portions of its borrowings under those repurchase agreements. Since the interest rates on repurchase agreements typically change with market interest rates such as LIBOR, the Company is exposed to constantly changing interest rates, which accordingly affects cash flows associated with the Company's borrowings. To mitigate the effect of changes in these interest rates and their related cash flows, the Company may enter into a variety of derivative contracts, including interest rate swaps, futures, swaptions, and TBAs. Additionally, from time to time, the Company may use short positions in U.S. Treasury securities to mitigate its interest rate risk.

The following table details the fair value of the Company's holdings of financial derivatives as of June 30, 2020 and December 31, 2019:

	June 30, 2020	December 31, 2019
	(In thousands)	
<b>Financial derivatives—assets, at fair value:</b>		
TBA securities purchase contracts	\$ 1,147	\$ 48
TBA securities sale contracts	1,124	74
Fixed payer interest rate swaps	—	3,543
Fixed receiver interest rate swaps	844	81
Futures	—	434
<b>Total financial derivatives—assets, at fair value</b>	<b>3,115</b>	<b>4,180</b>
<b>Financial derivatives—liabilities, at fair value:</b>		
TBA securities purchase contracts	(129)	(71)
TBA securities sale contracts	(606)	(233)
Fixed payer interest rate swaps	(11,012)	(1,632)
Fixed receiver interest rate swaps	(20)	(15)
Futures	(377)	(96)
<b>Total financial derivatives—liabilities, at fair value</b>	<b>(12,144)</b>	<b>(2,047)</b>
<b>Total, net</b>	<b>\$ (9,029)</b>	<b>\$ 2,133</b>



### Interest Rate Swaps

The following tables provide information about the Company's fixed payer interest rate swaps as of June 30, 2020 and December 31, 2019:

#### June 30, 2020:

Maturity	Notional Amount	Fair Value	Weighted Average		Remaining Years to Maturity
			Pay Rate	Receive Rate	
<i>(In thousands)</i>					
2022	\$ 127,777	\$ (2,542)	1.05%	0.34%	2.10
2023	89,849	(2,589)	1.10	0.46	2.98
2026	28,502	(2,123)	1.57	0.36	6.42
2027	38,228	(428)	0.62	0.30	7.03
2042	10,303	(2,002)	1.81	0.36	22.43
2048	630	(375)	3.18	0.37	28.43
2049	3,633	(953)	1.89	1.02	29.34
<b>Total</b>	<b>\$ 298,922</b>	<b>\$ (11,012)</b>	<b>1.10%</b>	<b>0.38%</b>	<b>4.50</b>

#### December 31, 2019:

Maturity	Notional Amount	Fair Value	Weighted Average		Remaining Years to Maturity
			Pay Rate	Receive Rate	
<i>(In thousands)</i>					
2020	\$ 86,000	\$ 148	1.60%	1.97%	0.32
2021	161,581	(134)	1.79	1.92	1.55
2022	74,370	292	1.54	1.91	2.92
2023	84,373	(1,223)	1.97	1.91	3.61
2024	19,073	246	1.46	2.04	4.76
2025	106,812	1,129	1.56	1.92	5.91
2026	28,502	402	1.57	1.91	6.92
2027	35,550	547	1.61	1.92	7.91
2029	170	2	1.72	1.90	9.89
2042	10,303	501	1.81	1.91	22.93
2048	630	(157)	3.18	1.92	28.93
2049	3,633	158	1.89	1.94	29.84
<b>Total</b>	<b>\$ 610,997</b>	<b>\$ 1,911</b>	<b>1.69%</b>	<b>1.93%</b>	<b>3.87</b>

The following tables provide information about the Company's fixed receiver interest rate swaps as of June 30, 2020 and December 31, 2019.

#### June 30, 2020:

Maturity	Notional Amount	Fair Value	Weighted Average		Remaining Years to Maturity
			Pay Rate	Receive Rate	
<i>(In thousands)</i>					
2023	\$ 13,200	\$ 596	1.02%	1.87%	2.82
2025	16,294	229	0.31	0.58	4.74
2030	6,730	(1)	1.42	0.69	9.77
<b>Total</b>	<b>\$ 36,224</b>	<b>\$ 824</b>	<b>0.77%</b>	<b>1.07%</b>	<b>4.98</b>

December 31, 2019:

Maturity	Notional Amount	Fair Value	Weighted Average		Remaining Years to Maturity
			Pay Rate	Receive Rate	
<i>(In thousands)</i>					
2023	\$ 13,200	\$ 81	1.94%	1.87%	3.32
2029	9,902	(15)	1.92	1.87	9.98
<b>Total</b>	<b>\$ 23,102</b>	<b>\$ 66</b>	<b>1.93%</b>	<b>1.87%</b>	<b>6.17</b>

#### Futures

The following tables provide information about the Company's futures as of June 30, 2020 and December 31, 2019.

June 30, 2020:

Description	Notional Amount	Fair Value	Remaining Months to Expiration
<i>(\$ in thousands)</i>			
<b>Long Contracts:</b>			
U.S. Treasury Futures	\$ 2,200	\$ (3)	2.77
<b>Short Contracts:</b>			
U.S. Treasury Futures	(124,400)	(374)	2.89
<b>Total, net</b>	<b>\$ (122,200)</b>	<b>\$ (377)</b>	<b>2.90</b>

December 31, 2019:

Description	Notional Amount	Fair Value	Remaining Months to Expiration
<i>(\$ in thousands)</i>			
<b>Long Contracts:</b>			
U.S. Treasury Futures	\$ 4,100	\$ (96)	2.84
<b>Short Contracts:</b>			
U.S. Treasury Futures	(37,500)	434	2.72
<b>Total, net</b>	<b>\$ (33,400)</b>	<b>\$ 338</b>	<b>2.71</b>

#### TBAs

The Company transacts in the forward settling TBA market. Pursuant to these TBA transactions, the Company agrees to purchase or sell, for future delivery, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered is not identified until shortly before the TBA settlement date. TBAs are generally liquid, have quoted market prices, and represent the most actively traded class of MBS. The Company uses TBAs to mitigate interest rate risk, usually by taking short positions. The Company also invests in TBAs as a means of acquiring additional exposure to Agency RMBS, or for speculative purposes, including holding long positions.

The Company does not generally take delivery of TBAs; rather, it settles the associated receivable and payable with its trading counterparties on a net basis. Transactions with the same counterparty for the same TBA that result in a reduction of the position are treated as extinguished.

As of June 30, 2020 and December 31, 2019, the Company had outstanding contracts to purchase ("long positions") and sell ("short positions") TBA securities as follows:

TBA Securities	June 30, 2020				December 31, 2019			
	Notional Amount <sup>(1)</sup>	Cost Basis <sup>(2)</sup>	Market Value <sup>(3)</sup>	Net Carrying Value <sup>(4)</sup>	Notional Amount <sup>(1)</sup>	Cost Basis <sup>(2)</sup>	Market Value <sup>(3)</sup>	Net Carrying Value <sup>(4)</sup>
<i>(In thousands)</i>								
Purchase contracts:								
Assets	\$ 279,500	\$ 288,024	\$ 289,171	\$ 1,147	\$ 26,877	\$ 27,087	\$ 27,135	\$ 48
Liabilities	39,780	42,308	42,179	(129)	43,570	45,629	45,558	(71)
	319,280	330,332	331,350	1,018	70,447	72,716	72,693	(23)
Sale contracts:								
Assets	(237,905)	(252,708)	(251,584)	1,124	(82,520)	(85,124)	(85,050)	74
Liabilities	(291,983)	(308,262)	(308,868)	(606)	(164,435)	(170,779)	(171,012)	(233)
	(529,888)	(560,970)	(560,452)	518	(246,955)	(255,903)	(256,062)	(159)
Total TBA securities, net	\$ (210,608)	\$ (230,638)	\$ (229,102)	\$ 1,536	\$ (176,508)	\$ (183,187)	\$ (183,369)	\$ (182)

(1) Notional amount represents the principal balance of the underlying Agency RMBS.

(2) Cost basis represents the forward price to be paid (received) for the underlying Agency RMBS.

(3) Market value represents the current market value of the underlying Agency RMBS (on a forward delivery basis) as of period end.

(4) Net carrying value represents the difference between the market value of the TBA contract as of period end and the cost basis and is reported in Financial derivatives-assets at fair value and Financial derivatives-liabilities at fair value on the Consolidated Balance Sheet.

The table below details the average notional values of the Company's financial derivatives, using absolute value of month end notional values, for the six-month period ended June 30, 2020 and the year ended December 31, 2019:

Derivative Type	Six-Month Period Ended June 30, 2020	Year Ended December 31, 2019
<i>(In thousands)</i>		
Interest rate swaps	\$ 470,836	\$ 651,793
TBAs	475,838	474,555
Futures	82,400	114,277
Options	—	1,492

Gains and losses on the Company's financial derivatives for the three- and six-month periods ended June 30, 2020 and 2019 are summarized in the tables below:

Derivative Type	Three-Month Period Ended June 30, 2020					
	Net Realized Gains (Losses) on Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) on Financial Derivatives Other Than Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) on Financial Derivatives	Change in Net Unrealized Gains (Losses) on Accrued Periodic Settlements of Interest Rate Swaps	Change in Net Unrealized Gains (Losses) on Financial Derivatives Other Than on Accrued Periodic Settlements of Interest Rate Swaps	Change in Net Unrealized Gains (Losses) on Financial Derivatives
<i>(In thousands)</i>						
Interest rate swaps	\$ (1,223)	\$ (1,698)	\$ (2,921)	\$ 896	\$ 1,281	\$ 2,177
TBAs		(1,886)	(1,886)		4,336	4,336
Futures		(3,645)	(3,645)		2,992	2,992
Total	\$ (1,223)	\$ (7,229)	\$ (8,452)	\$ 896	\$ 8,609	\$ 9,505

**Three-Month Period Ended June 30, 2019**

Derivative Type	Net Realized Gains (Losses) on Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) on Financial Derivatives Other Than Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) on Financial Derivatives	Change in Net Unrealized Gains (Losses) on Accrued Periodic Settlements of Interest Rate Swaps	Change in Net Unrealized Gains (Losses) on Financial Derivatives Other Than on Accrued Periodic Settlements of Interest Rate Swaps	Change in Net Unrealized Gains (Losses) on Financial Derivatives
<i>(In thousands)</i>						
Interest rate swaps	\$ (383)	\$ (324)	\$ (707)	\$ 1,045	\$ (13,169)	\$ (12,124)
TBAs		(2,323)	(2,323)		179	179
Futures		(5,741)	(5,741)		3,503	3,503
<b>Total</b>	<b>\$ (383)</b>	<b>\$ (8,388)</b>	<b>\$ (8,771)</b>	<b>\$ 1,045</b>	<b>\$ (9,487)</b>	<b>\$ (8,442)</b>

**Six-Month Period Ended June 30, 2020**

Derivative Type	Net Realized Gains (Losses) on Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) on Financial Derivatives Other Than Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) on Financial Derivatives	Change in Net Unrealized Gains (Losses) on Accrued Periodic Settlements of Interest Rate Swaps	Change in Net Unrealized Gains (Losses) on Financial Derivatives Other Than on Accrued Periodic Settlements of Interest Rate Swaps	Change in Net Unrealized Gains (Losses) on Financial Derivatives
<i>(In thousands)</i>						
Interest rate swaps	\$ 110	\$ (6,282)	\$ (6,172)	\$ (253)	\$ (11,846)	\$ (12,099)
TBAs		(2,686)	(2,686)		1,718	1,718
Futures		(6,093)	(6,093)		(715)	(715)
<b>Total</b>	<b>\$ 110</b>	<b>\$ (15,061)</b>	<b>\$ (14,951)</b>	<b>\$ (253)</b>	<b>\$ (10,843)</b>	<b>\$ (11,096)</b>

**Six-Month Period Ended June 30, 2019**

Derivative Type	Net Realized Gains (Losses) on Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) on Financial Derivatives Other Than Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) on Financial Derivatives	Change in Net Unrealized Gains (Losses) on Accrued Periodic Settlements of Interest Rate Swaps	Change in Net Unrealized Gains (Losses) on Financial Derivatives Other Than on Accrued Periodic Settlements of Interest Rate Swaps	Change in Net Unrealized Gains (Losses) on Financial Derivatives
<i>(In thousands)</i>						
Interest rate swaps	\$ 631	\$ (2,293)	\$ (1,662)	\$ 711	\$ (18,695)	\$ (17,984)
TBAs		(4,993)	(4,993)		504	504
Futures		(14,107)	(14,107)		8,070	8,070
Options		(100)	(100)		—	—
<b>Total</b>	<b>\$ 631</b>	<b>\$ (21,493)</b>	<b>\$ (20,862)</b>	<b>\$ 711</b>	<b>\$ (10,121)</b>	<b>\$ (9,410)</b>

From time to time, the Company uses short positions in U.S. Treasury positions as a component of its interest rate hedging portfolio. As of December 31, 2019, the Company held short positions in U.S. Treasury securities, with a principal amount of \$2.1 million and a fair value of \$2.1 million; as of June 30, 2020, the Company did not hold any short positions in U.S. Treasury securities. Such securities are included on the Company's Consolidated Balance Sheet under the caption U.S. Treasury securities sold short, at fair value.

## 6. Borrowings under Repurchase Agreements

The Company enters into repurchase agreements. A repurchase agreement involves the sale of an asset to a counterparty together with a simultaneous agreement to repurchase the transferred asset or similar asset from such counterparty at a future date. The Company accounts for its repurchase agreements as collateralized borrowings, with the transferred assets effectively

servicing as collateral for the related borrowing. The Company's repurchase agreements typically range in term from 30 to 180 days. The principal economic terms of each repurchase agreement—such as loan amount, interest rate, and maturity date—are typically negotiated on a transaction-by-transaction basis. Other terms and conditions, such as relating to events of default, are typically governed under the Company's master repurchase agreements. Absent an event of default, the Company maintains beneficial ownership of the transferred securities during the term of the repurchase agreement and receives the related principal and interest payments. Interest rates on these borrowings are generally fixed based on prevailing rates corresponding to the terms of the borrowings, and interest is paid at the termination of the repurchase agreement at which time the Company may enter into a new repurchase agreement at prevailing market rates with the same counterparty, repay that counterparty and possibly negotiate financing terms with a different counterparty, or choose to no longer finance the related asset. In response to a decline in the fair value of the transferred securities, whether as a result of changes in market conditions, security paydowns, or other factors, repurchase agreement counterparties will typically make a margin call, whereby the Company will be required to post additional securities and/or cash as collateral with the counterparty in order to re-establish the agreed-upon collateralization requirements. In the event of increases in fair value of the transferred securities, the Company generally can require the counterparty to post collateral with it in the form of cash or securities. The Company is generally permitted to sell or re-pledge any securities posted by the counterparty as collateral; however, upon termination of the repurchase agreement, or other circumstance in which the counterparty is no longer required to post such margin, the Company must return to the counterparty the same security that had been posted. The contractual amount (loan amount) of the Company's repurchase agreements approximates fair value, based on the short-term nature of the debt and the adequacy of the collateral.

At any given time, the Company seeks to have its outstanding borrowings under repurchase agreements with several different counterparties in order to reduce the exposure to any single counterparty. As of June 30, 2020 and December 31, 2019, the Company had outstanding borrowings under repurchase agreements with 16 and 15 counterparties, respectively.

The following table details the Company's outstanding borrowings under repurchase agreements as of June 30, 2020 and December 31, 2019:

Remaining Days to Maturity	June 30, 2020			December 31, 2019		
	Borrowings Outstanding	Weighted Average		Borrowings Outstanding	Weighted Average	
Interest Rate		Remaining Days to Maturity	Interest Rate		Remaining Days to Maturity	
	<i>(In thousands)</i>					
30 days or less	\$ 212,165	0.54%	16	\$ 513,092	2.10%	15
31-60 days	513,347	0.33	45	549,541	1.91	45
61-90 days	113,116	0.30	80	233,639	1.97	74
91-120 days	12,498	0.30	107	—	—	—
151-180 days	4,291	1.50	167	—	—	—
181-360 days	54,404	0.32	346	—	—	—
<b>Total</b>	<b>\$ 909,821</b>	<b>0.38%</b>	<b>62</b>	<b>\$ 1,296,272</b>	<b>2.00%</b>	<b>39</b>

Repurchase agreements involving underlying investments that the Company sold prior to period end, for settlement following period end, are shown using their original maturity dates even though such repurchase agreements may be expected to be terminated early upon settlement of the sale of the underlying investment.

As of June 30, 2020 and December 31, 2019, the fair value of RMBS transferred as collateral under outstanding borrowings under repurchase agreements was \$0.9 billion and \$1.3 billion, respectively. Collateral transferred under outstanding borrowings as of December 31, 2019 includes RMBS in the amount of \$3.0 million that were sold prior to year end but for which such sale had not yet settled. In addition as of June 30, 2020 and December 31, 2019, the Company was posting to repurchase agreement counterparties net cash collateral of \$15.6 million and \$24.9 million, respectively, as a result of margin calls with various repurchase agreement counterparties.

Amount at risk represents the excess, if any, for each counterparty of the fair value of collateral held by such counterparty over the amounts outstanding under repurchase agreements. There was no counterparty for which the amount at risk was greater than 10% of shareholders' equity as of June 30, 2020 or December 31, 2019.

## 7. Offsetting of Assets and Liabilities

The Company records certain financial instruments at fair value as described in Note 2. In connection with its financial derivatives, repurchase agreements, and related trading agreements, the Company and its counterparties are required to pledge collateral. Cash or other collateral is exchanged as required with each of the Company's counterparties in connection with open derivative positions and repurchase agreements.

The following tables present information about certain assets and liabilities representing financial instruments as of June 30, 2020 and December 31, 2019. The Company has not previously entered into master netting agreements with any of its counterparties. Certain of the Company's repurchase and reverse repurchase agreements and financial derivative transactions are governed by underlying agreements that generally provide a right of net settlement, as well as a right of offset in the event of default or in the event of a bankruptcy of either party to the transaction.

### June 30, 2020:

Description	Amount of Assets (Liabilities) Presented in the Consolidated Balance Sheet <sup>(1)</sup>	Financial Instruments Available for Offset	Financial Instruments Transferred or Pledged as Collateral <sup>(2)(3)</sup>	Cash Collateral (Received) Pledged <sup>(2)(3)</sup>	Net Amount
<i>(In thousands)</i>					
<b>Assets:</b>					
Financial derivatives—assets	\$ 3,115	\$ (1,967)	\$ —	\$ (208)	\$ 940
Reverse repurchase agreements	—	—	—	—	—
<b>Liabilities:</b>					
Financial derivatives—liabilities	(12,144)	1,967	—	10,143	(34)
Repurchase agreements	(909,821)	—	894,209	15,612	—

- (1) In the Company's Consolidated Balance Sheet, all balances associated with repurchase and reverse repurchase agreements and financial derivatives are presented on a gross basis.
- (2) For the purpose of this presentation, for each row the total amount of financial instruments transferred or pledged and cash collateral (received) or pledged may not exceed the applicable gross amount of assets or (liabilities) as presented here. Therefore, the Company has reduced the amount of financial instruments transferred or pledged as collateral related to the Company's repurchase agreements and cash collateral pledged on the Company's financial derivative assets and liabilities. Total financial instruments transferred or pledged as collateral on the Company's repurchase agreements as of June 30, 2020 were \$0.9 billion. As of June 30, 2020 total cash collateral (received) pledged on financial derivative assets and liabilities excludes \$4.9 million and \$5.2 million respectively of net excess cash collateral.
- (3) When collateral is pledged to or pledged by a counterparty, it is often pledged or posted with respect to all positions with such counterparty, and in such cases such collateral cannot be specifically identified as relating to a particular asset or liability. As a result, in preparing the above table, the Company has made assumptions in allocating pledged or posted collateral among the various rows.

### December 31, 2019:

Description	Amount of Assets (Liabilities) Presented in the Consolidated Balance Sheet <sup>(1)</sup>	Financial Instruments Available for Offset	Financial Instruments Transferred or Pledged as Collateral <sup>(2)(3)</sup>	Cash Collateral (Received) Pledged <sup>(2)(3)</sup>	Net Amount
<i>(In thousands)</i>					
<b>Assets:</b>					
Financial derivatives—assets	\$ 4,180	\$ (1,756)	\$ —	\$ —	\$ 2,424
Reverse repurchase agreements	2,084	(2,084)	—	—	—
<b>Liabilities:</b>					
Financial derivatives—liabilities	(2,047)	1,756	—	211	(80)
Repurchase agreements	(1,296,272)	2,084	1,269,264	24,924	—

- (1) In the Company's Consolidated Balance Sheet, all balances associated with repurchase and reverse repurchase agreements and financial derivatives are presented on a gross basis.
- (2) For the purpose of this presentation, for each row the total amount of financial instruments transferred or pledged and cash collateral (received) or pledged may not exceed the applicable gross amount of assets or (liabilities) as presented here. Therefore the Company has reduced the amount of financial instruments transferred or pledged as collateral related to the Company's repurchase agreements and cash collateral pledged on the Company's financial derivative assets and liabilities. Total financial instruments transferred or pledged as collateral on the Company's repurchase agreements as of December 31, 2019 were \$1.3 billion. As of December 31, 2019 total cash collateral on financial derivative assets and liabilities excludes \$8.3 million and \$1.1 million, respectively of net excess cash collateral.

- (3) When collateral is pledged to or pledged by a counterparty, it is often pledged or posted with respect to all positions with such counterparty, and in such cases such collateral cannot be specifically identified as relating to a particular asset or liability. As a result, in preparing the above table, the Company has made assumptions in allocating pledged or posted collateral among the various rows.

## 8. Earnings Per Share

Basic earnings per share, or "EPS," is calculated by dividing net income (loss) for the period by the weighted average of the Company's common shares outstanding for the period. Diluted EPS takes into account the effect of outstanding dilutive instruments, such as share options and warrants, if any, and uses the average share price for the period in determining the number of incremental shares that are to be added to the weighted average number of shares outstanding. As of June 30, 2020 and 2019, the Company did not have any dilutive instruments outstanding.

The following table presents a reconciliation of the earnings/(losses) and shares used in calculating basic EPS for the three- and six-month periods ended June 30, 2020 and 2019:

	Three-Month Period Ended		Six-Month Period Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
<i>(In thousands except for share amounts)</i>				
<b>Numerator:</b>				
Net income (loss)	\$ 21,345	\$ (107)	\$ 4,600	\$ 8,821
<b>Denominator:</b>				
Basic and diluted weighted average shares outstanding	12,319,616	12,467,103	12,377,185	12,467,506
Basic and diluted earnings per share	\$ 1.73	\$ (0.01)	\$ 0.37	\$ 0.71

## 9. Related Party Transactions

### Management Agreement

The Company is party to the Management Agreement, which has a current term that expires on September 24, 2020, and has been, and is expected to be, renewed automatically each year thereafter for an additional one-year period, subject to certain termination rights. The Company is externally managed and advised by the Manager. Pursuant to the terms of the Management Agreement, the Manager provides the Company with its management team, including its officers, and appropriate support personnel. The Company does not have any employees. The Manager is responsible for the day-to-day operations of the Company.

The Manager receives an annual management fee in an amount equal to 1.50% per annum of shareholders' equity (as defined in the Management Agreement) as of the end of each fiscal quarter (before deductions for any management fee with respect to such fiscal period). The management fee is payable quarterly in arrears. For each of the three-month periods ended June 30, 2020 and 2019, the total management fee incurred was \$0.6 million. For the six-month periods ended June 30, 2020 and 2019, the total management fee incurred was \$1.1 million and \$1.2 million, respectively.

### Services Agreement

The Manager and EMG are parties to a services agreement, pursuant to which EMG is required to provide to the Manager sufficient personnel, services, and resources to enable the Manager to carry out its obligations and responsibilities under the Management Agreement. The Company is a named third-party beneficiary to the services agreement and, as a result, has, as a non-exclusive remedy, a direct right of action against EMG in the event of any breach by the Manager of any of its duties, obligations, or agreements under the Management Agreement that arise out of or result from any breach by EMG of its obligations under the services agreement. The services agreement will terminate upon the termination of the Management Agreement. Pursuant to the services agreement, the Manager makes certain payments to EMG in connection with the services provided. The Manager and EMG have overlapping ownership and are under common control.

### Expense Reimbursement

Under the terms of the Management Agreement, the Company is required to reimburse the Manager for operating expenses related to the Company that are incurred by the Manager, including expenses relating to legal, accounting, due diligence, other services, and all other costs and expenses. The Company's reimbursement obligation is not subject to any dollar limitation. Expenses will be reimbursed in cash within 60 days following delivery of the expense statement by the Manager; provided, however, that such reimbursement may be offset by the Manager against amounts due to the Company from the Manager. The Company will not reimburse the Manager for the salaries and other compensation of the Manager's personnel except that the Company will be responsible for expenses incurred by the Manager in employing certain dedicated or partially dedicated personnel as further described below.

The Company reimburses the Manager for the allocable share of the compensation, including, without limitation, wages, salaries, and employee benefits paid or reimbursed, as approved by the Compensation Committee of the Board of Trustees, to certain dedicated or partially dedicated personnel who spend all or a portion of their time managing the Company's affairs, based upon the percentage of time devoted by such personnel to the Company's affairs. In their capacities as officers or personnel of the Manager or its affiliates, such personnel will devote such portion of their time to the Company's affairs as is necessary to enable the Company to operate its business.

For the six-month periods ended June 30, 2020 and 2019, the Company reimbursed the Manager \$1.2 million and \$1.4 million, respectively, for previously incurred operating and compensation expenses. As of both June 30, 2020 and December 31, 2019, the outstanding payable to the Manager for operating and compensation expenses was \$0.2 million which are included in Accrued expenses on the Consolidated Balance Sheet.

#### Termination Fee

The Management Agreement requires the Company to pay a termination fee to the Manager in the event of (1) the Company's termination or non-renewal of the Management Agreement without cause or (2) the Manager's termination of the Management Agreement upon a default by the Company in the performance of any material term of the Management Agreement. Such termination fee will be equal to 5% of Shareholders' Equity, as defined in the Management Agreement as of the month-end preceding the date of the notice of termination or non-renewal of the Management Agreement.

#### Registration Rights Agreement

The Company is a party to a registration rights agreement with an affiliate of EMG and with the Blackstone Tactical Opportunities Funds (the "Blackstone Funds") pursuant to which the Company has granted its initial investors and each of their permitted transferees and other holders of the Company's "registrable common shares" (as such term is defined in the registration rights agreement) who become parties to the registration rights agreement with certain demand and/or piggy-back registration and shelf takedown rights.

### 10. Capital

The Company has authorized 500,000,000 common shares, \$0.01 par value per share, and 100,000,000 preferred shares, \$0.01 par value per share. The Board of Trustees may authorize the issuance of additional shares of either class. As of June 30, 2020 and December 31, 2019, there were 12,319,616 and 12,455,758 common shares outstanding, respectively. No preferred shares have been issued.

Detailed below is a roll forward of the Company's common shares outstanding for the three- and six-month periods ended June 30, 2020 and 2019:

	Three-Month Period Ended		Six-Month Period Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Common Shares Outstanding (3/31/20, 3/31/19, 12/31/2019, and 12/31/2018, respectively)	12,319,616	12,467,103	12,455,758	12,507,213
Share Activity:				
Shares repurchased	—	—	(136,142)	(40,110)
Common Shares Outstanding (6/30/2020, 6/30/19, 6/30/20, and 6/30/2019, respectively)	12,319,616	12,467,103	12,319,616	12,467,103
Unvested restricted shares outstanding (6/30/2020, 6/30/19, 6/30/20, and 6/30/2019, respectively)	25,476	21,159	25,476	21,159



The below table provides details on the Company's restricted shares granted pursuant to share award agreements which are unvested at June 30, 2020:

Grant Recipient	Number of Restricted Shares Granted	Grant Date	Vesting Date <sup>(1)</sup>
Independent trustees:	15,024	September 11, 2019	September 10, 2020
Partially dedicated employees:	3,669	December 13, 2019	December 13, 2020
	3,668	December 13, 2019	December 13, 2021
	3,115	December 11, 2018	December 11, 2020

(1) Date at which such restricted shares will vest and become non-forfeitable.

As of June 30, 2020, there were 298,724 shares available for future issuance under the Company's 2013 Equity Incentive Plan.

On June 13, 2018, the Company's Board of Trustees approved the adoption of a share repurchase program under which the Company is authorized to repurchase up to 1.2 million common shares. The program, which is open-ended in duration, allows the Company to make repurchases from time to time on the open market or in negotiated transactions, including through Rule 10b5-1 plans. Repurchases are at the Company's discretion, subject to applicable law, share availability, price and its financial performance, among other considerations. During the six-month period ended June 30, 2020, the Company repurchased 136,142 of its common shares at an aggregate cost of \$1.0 million, and an average price per share of \$7.24. The Company did not purchase any of its common shares during the three-month period ended June 30, 2020. From inception of the current share repurchase program adopted on June 13, 2018 through June 30, 2020, the Company repurchased 434,171 of its common shares at an aggregate cost of \$4.1 million, and an average price per share of \$9.45.

### Distribution Policy

The timing and frequency of distributions will be determined by the Board of Trustees based upon a variety of factors deemed relevant by the Company's trustees, including restrictions under applicable law, capital requirements of the Company, and the REIT requirements of the Code. Distributions to shareholders generally will be taxable as ordinary income, although a portion of such distributions may be designated as long-term capital gain or qualified dividend income, or may constitute a return of capital. The Company will furnish annually to each shareholder a statement setting forth distributions paid or deemed paid during the preceding year and their U.S. federal income tax treatment. It is the intention of the Company to distribute at least 100% of its taxable income, after application of available tax attributes, within the time limits prescribed by the Internal Revenue Code, which may extend into the subsequent taxable year.

### 11. Commitments and Contingencies

From time to time, the Company may become involved in various claims and legal actions arising in the ordinary course of business. The Company provides current trustees and officers with a limited indemnification against liabilities arising in connection with the performance of their duties to the Company.

In the normal course of business the Company may also enter into contracts that contain a variety of representations, warranties, and general indemnifications. The Company's maximum exposure under these arrangements, including future claims that may be made against the Company that have not yet occurred, is unknown. The Company has not incurred any costs to defend lawsuits or settle claims related to these indemnification agreements. The Company has no liabilities recorded for these agreements as of June 30, 2020 and December 31, 2019 and management is not aware of any significant contingencies at June 30, 2020.

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

*In this Quarterly Report on Form 10-Q, except where the context suggests otherwise, "EARN," "we," "us," and "our" refer to Ellington Residential Mortgage REIT and its subsidiaries, our "Manager" refers to Ellington Residential Mortgage Management LLC, our external manager, and "Ellington" refers to Ellington Management Group, L.L.C. and its affiliated investment advisory firms.*

### Special Note Regarding Forward-Looking Statements

When used in this Quarterly Report on Form 10-Q, in future filings with the Securities and Exchange Commission, or the "SEC," or in press releases or other written or oral communications, statements which are not historical in nature, including those containing words such as "believe," "expect," "anticipate," "estimate," "project," "plan," "continue," "intend," "should," "would," "could," "goal," "objective," "will," "may," "seek," or similar expressions, are intended to identify "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, or the "Securities Act," and Section 21E of the Securities Exchange Act of 1934, as amended, or the "Exchange Act," and, as such, may involve known and unknown risks, uncertainties and assumptions.

Forward-looking statements are based on our beliefs, assumptions, and expectations of our future operations, business strategies, performance, financial condition, liquidity and prospects, taking into account all information currently available to us. These beliefs, assumptions, and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity, results of operations and strategies may vary materially from those expressed or implied in our forward-looking statements. The following factors are examples of those that could cause actual results to vary from our forward-looking statements: changes in interest rates and the market value of our securities; our use of and dependence on leverage; future changes with respect to the Federal National Mortgage Association, or "Fannie Mae," and Federal Home Loan Mortgage Corporation, or "Freddie Mac," and related events, including the lack of certainty as to the future roles of these entities and the U.S. Government in the mortgage market and changes to legislation and regulations affecting these entities; market volatility; changes in the prepayment rates on the mortgage loans underlying the securities we own and intend to acquire; changes in rates of default and/or recovery rates on our non-Agency assets; our ability to borrow to finance our assets; changes in government regulations affecting our business; our ability to maintain our exclusion from registration under the Investment Company Act of 1940, as amended, or the "Investment Company Act"; and risks associated with investing in real estate assets, including changes in business conditions and the general economy, such as those resulting from the economic effects related to the COVID-19 pandemic, and associated responses to the pandemic. These and other risks, uncertainties and factors, including the risk factors described under Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 and Part II, Item 1A of our Quarterly Report on Form 10-Q for the three-month period ended March 31, 2020, could cause our actual results to differ materially from those projected or implied in any forward-looking statements we make. All forward-looking statements speak only as of the date on which they are made. New risks and uncertainties arise over time, and it is not possible to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

### Executive Summary

We are a Maryland real estate investment trust, or "REIT," formed in August 2012 that specializes in acquiring, investing in, and managing residential mortgage- and real estate-related assets. Our primary objective is to generate attractive current yields and risk-adjusted total returns for our shareholders by making investments that we believe compensate us appropriately for the risks associated with them. We seek to attain this objective by constructing and actively managing a portfolio consisting primarily of residential mortgage-backed securities, or "RMBS," for which the principal and interest payments are guaranteed by a U.S. government agency or a U.S. government-sponsored entity, or "Agency RMBS," and, to a lesser extent, RMBS that do not carry such guarantees, or "non-Agency RMBS," such as RMBS backed by prime jumbo, Alternative A-paper, manufactured housing, and subprime residential mortgage loans. We also may opportunistically acquire other types of mortgage- and real estate-related asset classes, such as commercial mortgage-backed securities, or "CMBS," residential mortgage loans, mortgage servicing rights, or "MSRs," and credit risk transfer securities, or "CRTs." We believe that being able to combine Agency RMBS with non-Agency RMBS and other mortgage- and real estate-related asset classes enables us to balance a range of mortgage-related risks.

We were formed through an initial strategic venture among affiliates of Ellington Management Group, L.L.C., an investment management firm and registered investment adviser with a 25-year history of investing in a broad spectrum of residential and commercial mortgage-backed securities, or "MBS," and related derivatives, with an emphasis on the RMBS market, and the Blackstone Tactical Opportunity Funds, or the "Blackstone Funds." As of June 30, 2020, the Blackstone Funds owned approximately 26.8% of our outstanding common shares. We are externally managed and advised by our Manager, an affiliate of Ellington.

We use leverage in our Agency RMBS strategy and, while we have not done so meaningfully to date, we may use leverage in our non-Agency RMBS strategy as well, although we expect such leverage to be lower. We have financed our purchases of Agency RMBS exclusively through repurchase agreements, which we account for as collateralized borrowings. As of June 30, 2020, we had outstanding borrowings under repurchase agreements in the amount of \$0.9 billion with 16 counterparties.

We have elected to be taxed as a REIT for U.S. federal income tax purposes. Accordingly, we generally will not be subject to U.S. federal income taxes on our taxable income that we distribute currently to our shareholders as long as we maintain our qualification as a REIT. We intend to conduct our operations so that neither we nor any of our subsidiaries is required to register as an investment company under the Investment Company Act of 1940, as amended, or the "Investment Company Act."

As of June 30, 2020, our book value per share was \$12.80, as compared to \$11.34 as of March 31, 2020 and \$12.91 as of December 31, 2019.

## **Trends and Recent Market Developments**

### *Market Overview*

- The U.S. Federal Reserve, or the "Federal Reserve," continued its accommodative monetary policy in the second quarter. At its April and June meetings, the Federal Reserve maintained its target range of 0.00%–0.25% for the federal funds rate, noting that "the coronavirus outbreak is causing tremendous human and economic hardship across the United States and around the world" including "sharp declines in economic activity and a surge in job losses." It further noted that "the Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time." After the June meeting, the chairman of the Federal Reserve, Jerome Powell, stated: "We're not thinking about raising rates. We're not even thinking about thinking about raising rates." During the quarter, the Federal Reserve continued to purchase significant amounts of U.S. Treasury securities, Agency RMBS, and other eligible collateral, pursuant to the asset purchase programs it outlined in March.
- After implementing several stimulus programs to counteract the economic impact and negative risk sentiment associated with the spread of the novel coronavirus disease ("COVID-19") in the first quarter, the Federal Reserve announced on April 9<sup>th</sup> that it would provide up to \$2.3 trillion in additional loans through the expansion of several programs implemented during the previous quarter, including the Paycheck Protection Program, the Main Street Lending Program, the Primary and Secondary Market Corporate Credit Facilities, and the Term Asset-Backed Securities Loan Facility, as well as through new facilities, including the Municipal Liquidity Facility. Similarly, central banks and governments around the globe continued to implement quantitative easing programs and stimulus packages during the second quarter.
- In May, Jerome Powell stated that "additional policy measures" may be necessary, noting that "the path ahead is both highly uncertain and subject to significant downside risks." On May 15<sup>th</sup>, the U.S. House of Representatives passed the HEROES Act, which would provide for \$3 trillion of additional stimulus, but as of August 6<sup>th</sup>, the bill had not passed in the Senate. Regardless, as the second quarter concluded, many market participants were anticipating additional stimulus measures to be implemented during the second half of 2020.
- After dropping dramatically during the first quarter of 2020 as the spread of COVID-19 prompted a flight to safety, interest rates hovered near all-time lows during the second quarter. U.S. Treasury yields changed only slightly quarter over quarter, with the 10-year U.S. Treasury yield finishing the second quarter at 0.66%, virtually unchanged from the start of the quarter and only 12 basis points above the record low reached in March. After a volatile first quarter, interest-rate volatility subsided considerably in the second quarter. After reaching its highest point since the 2008–2009 financial crisis in March, the MOVE index, which measures interest-rate volatility, had reverted to pre-COVID-19 levels by mid-April and remained low through quarter-end. The 10-year U.S. Treasury yield traded in a 33-basis-point range in the second quarter, compared to a 134-basis-point range in the first quarter.
- Mortgage rates continued to decline during the second quarter, with the Freddie Mac Survey 30-year mortgage rate decreasing by 37 basis points to close the quarter at 3.13%, and setting a new all-time low of 3.07% on July 2<sup>nd</sup>. Although down from the 11-year high seen in March, refinancing applications remained elevated with the declining mortgage rates. As of June 30<sup>th</sup>, the Mortgage Bankers Association's Refinance Index had declined 30% quarter over quarter, but was still up 74% year over year. Overall Fannie Mae 30-year MBS prepayments increased from a CPR of 23.6 in March to 29.8 in April, before declining slightly to 29.3 in May, and then reaching a more than 7-year high of 33.0 in June.
- LIBOR rates, which drive many of our financing costs, declined dramatically in the second quarter. One-month LIBOR decreased 83 basis points to end the quarter at 0.16%, and three-month LIBOR fell 115 basis points to 0.30%.

- After declining at an annualized rate of 5.0% in the first quarter, U.S. real GDP shrank at an estimated annualized rate of 32.9% in the second quarter, further reflecting the negative impact of the COVID-19 pandemic and associated measures to contain it. U.S. retail sales declined by a record rate in April, before rebounding by a record rate in May and increasing again in June, although a surge in COVID-19 cases in June muddled the picture going forward. Elsewhere, the Eurozone's GDP contracted by 3.8% in the first quarter, the fastest rate of decline on record, while China's GDP shrank by 6.8% in the first quarter, the first decline recorded since data collection began in 1992. For the second quarter, Chinese GDP growth was again positive at 3.2%.
- Unemployment claims totaled 38.5 million in the second quarter, and the unemployment rate surged to 11.1% at June 30<sup>th</sup>, from 4.4% at March 31<sup>st</sup>. A total of 48.6 million new unemployment claims were filed between March 15<sup>th</sup> and June 27<sup>th</sup>, although the weekly pace of filings decreased from 5.0 million per week in April, to 1.5 million per week in June.
- Forbearance rates on residential mortgages rose sharply during the second quarter, with the economic slowdown and spike in unemployment. According to the Mortgage Bankers Association, the total forbearance rate increased most significantly during the month of April, from 2.7% as of March 29<sup>th</sup> to 7.5% as of April 26<sup>th</sup>, before rising further to 8.5% as of May 31<sup>st</sup>, and then plateauing during June and finishing the quarter at 8.4%. Notably, many forbearance plans expired on June 30<sup>th</sup> and with renewed lockdown protocols in place, forbearance rates could increase again.
- For the second quarter, the Bloomberg Barclays U.S. MBS Index generated a return of 0.68%, and an excess return (on a duration-adjusted basis) of 0.39% relative to the Bloomberg Barclays U.S. Treasury Index. After underperforming in the first quarter, pay-ups on Agency specified pools performed exceptionally well during the second quarter.
- The Bloomberg Barclays U.S. Corporate Bond Index generated a gain of 8.66% and an excess return of 8.10%, while the Bloomberg Barclays U.S. Corporate High Yield Bond Index generated a gain of 8.89% and an excess return of 8.35%.
- Despite the negative economic impact of COVID-19, U.S. equities rebounded dramatically in the second quarter, with the Dow Jones Industrial Average ("DJIA") and S&P 500 indexes posting their biggest quarterly gains since 1998 and offsetting most of the losses suffered in March, amidst optimism over the reopening of the economy, possible additional stimulus measures, and advances on COVID-19 treatments and a possible vaccine. The DJIA rose 17.8% and the S&P 500 rose 20.0% quarter over quarter; year-to-date through June 30<sup>th</sup>, these indexes were down 9.6% and 4.0%, respectively. Meanwhile, the tech-heavy NASDAQ composite index rose 30.6% quarter over quarter and was up 12.1% on the year. Equity volatility declined during the quarter, but remained higher than pre-COVID-19 levels. The CBOE Volatility Index, which measures expected moves in the S&P 500 index, registered an all-time high of 82.69 on March 16<sup>th</sup>, but then steadily declined for most of the second quarter, finishing at 30.43 at June 30<sup>th</sup>. Meanwhile, London's FTSE 100 index increased 8.8% quarter over quarter, while the MSCI World global equity index rebounded by 18.8% over the same period.

#### *Portfolio Overview and Outlook*

As of June 30, 2020, our mortgage-backed securities portfolio consisted of \$970.4 million of fixed-rate Agency "specified pools," \$26.8 million of Agency RMBS backed by adjustable rate mortgages, or "Agency ARMs," \$100.4 million of Agency reverse mortgage pools, \$14.5 million of Agency interest only securities, or "Agency IOs," and \$42.0 million of non-Agency RMBS. Specified pools are fixed-rate Agency pools consisting of mortgages with special characteristics, such as mortgages with low loan balances, mortgages backed by investor properties, mortgages originated through the government-sponsored "Making Homes Affordable" refinancing programs, and mortgages with various other characteristics.

After reducing the size of our portfolio in response to the volatility of the first quarter, we opportunistically increased the size of both of our Agency RMBS and non-Agency RMBS holdings during the second quarter, as markets stabilized. Notably, we took advantage of an attractive entry point in non-Agency RMBS, increasing our holdings in that sector more than fivefold to \$42.0 million as of June 30, 2020, from \$7.5 million as of March 31, 2020. Over the same period, our Agency RMBS holdings increased 6.8% to \$1.098 billion from \$1.027 billion.

In total, our overall RMBS portfolio increased by approximately 10% to \$1.154 billion as of June 30, 2020, as compared to \$1.051 billion as of March 31, 2020.

Despite the growth of the portfolio during the quarter, our overall debt-to-equity ratio, adjusted for unsettled purchases and sales, actually declined to 6.8:1 as of June 30, 2020 from 7.2:1 as of March 31, 2020, primarily because our equity increased quarter over quarter, and because the non-Agency RMBS purchased during the quarter were not financed. Our debt-to-equity ratio may fluctuate period over period based on portfolio management decisions, market conditions, capital markets

activities, and the timing of security purchase and sale transactions. As of June 30, 2020, substantially all of our borrowings were secured by specified pools.

Forceful actions by the Federal Reserve continued to stabilize the market for Agency RMBS during the second quarter, and the economic terms of our financing arrangements reverted to more typical levels. As of June 30, 2020, we had cash and cash equivalents of \$50.9 million, along with other unencumbered assets of approximately \$45.1 million.

Our Agency RMBS portfolio performed exceptionally well during the second quarter, driven by significantly higher pay-ups on our specified pools. Pay-ups are price premiums for specified pools relative to their TBA counterparts. During the first quarter of 2020, pay-ups had declined in the face of market-wide liquidity stresses, exacerbated by quarter-end balance sheet pressures as well as the implementation in March of the Federal Reserve's amplified asset purchase program, which was generally limited to TBAs and generic pools, as opposed to specified pools with pay-ups.

During the second quarter, asset purchases by the Federal Reserve continued to be significant, and the liquidity stresses of the previous quarter subsided. At the same time, mortgage rates declined and actual and projected prepayment rates rose significantly, which benefited our prepayment-protected specified pools. Average pay-ups on our specified pools increased to 2.69% as of June 30, 2020, as compared to 1.67% as of March 31, 2020, generating significant net realized and unrealized gains on our portfolio.

Our results also benefited from the appreciation of our reverse mortgage pools, driven by strong investor demand and a recovery in yield spreads after the distress in March.

Primarily as a result of asset purchases and a lower net short TBA position, our net mortgage assets-to-equity ratio—which we define as the net aggregate market value of our mortgage-backed securities (including the underlying market values of our long and short TBA positions) divided by total shareholders' equity—increased during the quarter. From time to time, in response to market opportunities and other factors, we increase or decrease our net mortgage assets-to-equity ratio by varying the sizes of our net short TBA position and/or our long RMBS portfolio. The following table summarizes our net mortgage assets-to-equity ratio and provides additional details, for the last five quarters, to illustrate this fluctuation.

	<b>Notional Amount of Long TBAs</b>	<b>Notional Amount of Short TBAs</b>	<b>Fair Value of Mortgage-backed Securities</b>	<b>Net Short TBA Underlying Market Value<sup>(1)</sup></b>	<b>Net Mortgage Assets- to-Equity Ratio</b>
<i>(\$ In thousands)</i>					
June 30, 2020	\$ 319,280	\$ (529,888)	\$ 1,154,047	\$ (229,102)	5.9:1
March 31, 2020	53,800	(303,388)	1,050,521	(266,536)	5.6:1
December 31, 2019	70,447	(246,955)	1,401,778	(183,369)	7.6:1
September 30, 2019	106,465	(301,223)	1,394,568	(202,014)	7.7:1
June 30, 2019	259,155	(332,583)	1,459,452	(74,780)	9.0:1

(1) Market value represents the current market value of the underlying Agency RMBS (on a forward delivery basis) as of period end.

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

As the second quarter progressed, we added significantly to our non-Agency RMBS portfolio. This portfolio performed extremely well, as prices increased throughout the quarter. Our total investment in non-Agency RMBS was \$42.0 million and \$7.5 million as of June 30, 2020 and March 31, 2020, respectively. We may continue to increase our allocation to non-Agency RMBS going forward.

The following table summarizes prepayment rates for our portfolio of fixed-rate specified pools (excluding those backed by reverse mortgages) for the three-month periods ended June 30, 2020, March 31, 2020, December 31, 2019, September 30, 2019, and June 30, 2019.

	Three-Month Period Ended				
	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019
Three-Month Constant Prepayment Rates	18.0%	15.4%	14.9%	14.5%	9.6%

The following table provides details about the composition of our portfolio of fixed-rate specified pools (excluding those backed by reverse mortgages) as of June 30, 2020 and March 31, 2020.

	June 30, 2020			March 31, 2020			
	Coupon	Current Principal	Fair Value	Weighted Average Loan Age (Months)	Current Principal	Fair Value	Weighted Average Loan Age (Months)
		<i>(In thousands)</i>			<i>(In thousands)</i>		
<b>Fixed-rate Agency RMBS:</b>							
15-year fixed-rate mortgages:							
	2.50	\$ 1,700	\$ 1,717	15	\$ 1,700	\$ 1,797	6
	3.00	8,661	9,203	56	13,167	13,891	40
	3.50	28,144	30,171	46	86,460	91,906	32
	4.00	25,284	27,340	39	22,408	23,965	34
	4.50	702	738	129	776	816	126
Total 15-year fixed-rate mortgages		64,491	69,169	45	124,511	132,375	34
20-year fixed-rate mortgages:							
	5.00	1,077	1,191	22	1,087	1,187	19
Total 20-year fixed-rate mortgages		1,077	1,191	22	1,087	1,187	19
30-year fixed-rate mortgages:							
	2.50	5,100	5,394	1	—	—	—
	3.00	192,302	204,478	9	20,022	21,113	59
	3.03	305	334	96	309	329	93
	3.25	840	895	42	845	897	39
	3.28	99	108	96	100	106	93
	3.50	169,826	185,633	55	179,663	192,659	51
	3.75	3,022	3,215	35	3,038	3,234	32
	4.00	185,495	203,089	54	221,944	240,423	50
	4.50	177,959	195,351	42	174,550	189,502	40
	5.00	76,871	85,867	42	91,748	99,597	36
	5.50	9,071	10,158	44	9,669	10,674	40
	6.00	4,960	5,481	21	6,174	6,686	18
Total 30-year fixed-rate mortgages		825,850	900,003	39	708,062	765,220	46
Total fixed-rate Agency RMBS		\$ 891,418	\$ 970,363	39	\$ 833,660	\$ 898,782	44

Prices on our Agency RMBS portfolio increased during the three-month period ended June 30, 2020 and we had total net realized and unrealized gains on our Agency RMBS of \$18.3 million, or \$1.48 per share. Our Agency RMBS portfolio turnover was 13% for the three-month period ended June 30, 2020.

During the three-month period ended June 30, 2020, we continued to hedge interest rate risk, primarily through the use of interest rate swaps and short positions in TBAs, U.S. Treasury securities, and futures. We significantly decreased the size of our net short TBA position during the quarter, including by increasing the amount of long TBAs held for investment. As a result, the relative proportion, based on 10-year equivalents, of net short positions in TBAs decreased significantly quarter over quarter relative to our other interest rate hedges. Ten-year equivalents for a group of positions represent the amount of 10-year U.S. Treasury securities that would be expected to experience a similar change in market value under a standard parallel move in interest rates. The relative makeup of our interest rate hedging portfolio can change materially from period to period.

After giving effect to a dividend during the three-month period ended June 30, 2020 of \$0.28 per share, our book value per share increased to \$12.80 as of June 30, 2020, from \$11.34 as of March 31, 2020, and we had an economic return of 15.3% for the three-month period ended June 30, 2020. Economic return is computed by adding back dividends declared to ending book value per share, and comparing that amount to book value per share as of the beginning of the quarter.

Our net Agency premium as a percentage of the fair value of our specified pool holdings is one metric that we use to measure the overall prepayment risk of our specified pool portfolio. Net Agency premium represents the total premium (excess of market value over outstanding principal balance) on our specified pool holdings less the total premium on related net short TBA positions. The lower our net Agency premium, the less we believe that our specified pool portfolio is exposed to market-wide increases in Agency RMBS prepayments. As of June 30, 2020 and March 31, 2020, our net Agency premium as a percentage of fair value of our specified pool holdings was approximately 6.6% and 5.6%, respectively. Excluding TBA positions used to hedge our specified pool holdings, our Agency premium as a percentage of fair value was approximately 8.3% and 7.2% as of June 30, 2020 and March 31, 2020, respectively. Our Agency premium percentage and net Agency premium percentage may fluctuate from period to period based on a variety of factors, including market factors such as interest rates and mortgage rates, and, in the case of our net Agency premium percentage, based on the degree to which we hedge prepayment risk with short TBAs. We believe that our focus on purchasing pools with specific prepayment characteristics provides a measure of protection against prepayments.

We believe that our adaptive and active style of portfolio management is well suited to the current MBS market environment, which, especially given the current effects and future uncertainties related to COVID-19, exhibits high levels of interest rate risk, prepayment risk, financing and liquidity risk, shifting central bank and government policies, regulatory changes, and disruptive technological developments.

### *Financing*

For the three-month period ended June 30, 2020, our average repo borrowing cost decreased to 0.98% as compared to 1.86% for the three-month period ended March 31, 2020. The period-over-period decline in average repo borrowing cost was due to a significant decrease in short-term interest rates as well as a narrowing in financing spreads as measured against LIBOR. As of June 30, 2020, the weighted average borrowing rate on our repurchase agreements declined to 0.38% from 1.61% as of March 31, 2020.

While large banks still dominate the repo market, non-bank firms, not subject to the same regulations as banks, are active in providing repo financing. Most of our outstanding repo financing is still provided by banks and bank affiliates; however, we have also entered into repo agreements with non-bank dealers. During the quarter and through the date of this report, we were able to roll our repos in an orderly manner.

Our debt-to-equity ratio was 5.8:1 as of June 30, 2020, as compared to 7.9:1 as of March 31, 2020. Adjusted for unsettled security purchases and sales, our debt-to-equity ratio was 6.8:1 as of June 30, 2020, as compared to 7.2:1 as of March 31, 2020. Our debt-to-equity ratio may fluctuate period over period based on portfolio management decisions, market conditions, capital markets activities, and the timing of security purchase and sale transactions.

### **Critical Accounting Policies**

Our unaudited interim consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America, or "U.S. GAAP," and Regulation S-X. Entities in which we have a controlling financial interest, through ownership of the majority of the entities' voting equity interests, or through other contractual rights that give us control, are consolidated by us. All inter-company balances and transactions have been eliminated.

Certain of our critical accounting policies require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. We believe that all of the decisions and assessments upon which our consolidated financial statements are based were reasonable at the time made based upon

information available to us at that time. We rely on our Manager and Ellington's experience and analysis of historical and current market data in order to arrive at what we believe to be reasonable estimates. See Note 2 of the notes to our consolidated financial statements included in this Quarterly Report on Form 10-Q for a complete discussion of our significant accounting policies. We have identified our most critical accounting policies to be the following:

*Valuation:* For financial instruments that are traded in an "active market," the best measure of fair value is the quoted market price. However, many of our financial instruments are not traded in an active market. Therefore, management generally uses third-party valuations when available. If third-party valuations are not available, management uses other valuation techniques, such as the discounted cash flow methodology. Summary descriptions, for the various categories of financial instruments, of the valuation methodologies management uses in determining fair value of our financial instruments are detailed in Note 2 of the notes to our consolidated financial statements. Management utilizes such methodologies to assign a good faith fair value (the estimated price that, in an orderly transaction at the valuation date, would be received to sell an asset, or paid to transfer a liability, as the case may be) to each such financial instrument.

See the notes to our consolidated financial statements for more information on valuation techniques used by management in the valuation of our assets and liabilities.

*Accounting for Securities:* Investments in mortgage-backed securities are recorded on trade date. We have chosen to make a fair value election pursuant to ASC 825-10, *Financial Instruments*, for our mortgage-backed securities portfolio. Electing the fair value option allows us to record changes in fair value in our Consolidated Statement of Operations, which, in our view, more appropriately reflects the results of our operations for a particular reporting period as all securities activities will be recorded in a similar manner. As such, the mortgage-backed securities are recorded at fair value on our Consolidated Balance Sheet and the period change in fair value is recorded in current period earnings on our Consolidated Statement of Operations as a component of Change in net unrealized gains (losses) on securities.

Realized gains or losses on sales of mortgage-backed securities are included in Net realized gains (losses) on securities on the Consolidated Statement of Operations, and are recorded at the time of disposition. The cost of positions sold is calculated based on identified cost. Principal write-offs are generally treated as realized losses.

*Interest Income:* Coupon interest income on investment securities is accrued based on the outstanding principal balance and the current coupon rate on each security. We amortize purchase premiums and accrete purchase discounts on our fixed income investments using the effective interest method.

Our accretion of discounts and amortization of premiums on securities for U.S. federal and other tax purposes is likely to differ from the accounting treatment under U.S. GAAP of these items as described above.

See the Note 2 of the notes to our consolidated financial statements for more information on the assumptions and methods that we use to amortize purchase premiums and accrete purchase discounts.

*Income Taxes:* We made an election to be taxed as a REIT for U.S. federal income tax purposes. As a REIT, we generally are not subject to corporate-level federal and state income tax on net income we distribute to our shareholders within the prescribed timeframes. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement to distribute at least 90% of our taxable income to our shareholders. Even if we qualify as a REIT, we may be subject to certain federal, state, local and foreign taxes on our income and property, and to federal income and excise taxes on our undistributed taxable income. If we fail to qualify as a REIT, and do not qualify for certain statutory relief provisions, we will be subject to U.S. federal, state, and local income taxes and may be precluded from qualifying as a REIT for the four taxable years following the year in which we fail to qualify as a REIT.

We follow the authoritative guidance on accounting for and disclosure of uncertainty on tax positions, which requires management to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For uncertain tax positions, the tax benefit to be recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. We did not have any unrecognized tax benefits resulting from tax positions related to the current period or our open tax years. In the normal course of business, we may be subject to examination by federal, state, local, and foreign jurisdictions, where applicable, for the current period and our open tax years. We may take positions with respect to certain tax issues which depend on legal interpretation of facts or applicable tax regulations. Should the relevant tax regulators successfully challenge any such positions; we might be found to have a tax liability that has not been recorded in the accompanying consolidated financial statements. Also, management's conclusions regarding the authoritative guidance may be subject to review and adjustment at a later date based on changing tax laws, regulations, and interpretations thereof. There were no amounts accrued for penalties or interest as of or during the periods presented in the consolidated financial statements included in this Quarterly Report on Form 10-Q.



## Recent Accounting Pronouncements

Refer to the notes to our consolidated financial statements for a description of relevant recent accounting pronouncements.

## Financial Condition

### Investment portfolio

The following tables summarize our securities portfolio as of June 30, 2020 and December 31, 2019:

(In thousands)	June 30, 2020					December 31, 2019				
	Current Principal	Fair Value	Average Price <sup>(1)</sup>	Cost	Average Cost <sup>(1)</sup>	Current Principal	Fair Value	Average Price <sup>(1)</sup>	Cost	Average Cost <sup>(1)</sup>
Agency RMBS <sup>(2)</sup>										
15-year fixed-rate mortgages	\$ 64,491	\$ 69,169	\$ 107.25	\$ 66,172	\$ 102.61	\$ 173,350	\$ 181,231	\$ 104.55	\$ 176,848	\$ 102.02
20-year fixed-rate mortgages	1,077	1,191	110.58	1,148	106.59	1,276	1,385	108.54	1,356	106.27
30-year fixed-rate mortgages	825,850	900,003	108.98	861,994	104.38	996,451	1,058,878	106.26	1,041,550	104.53
ARMs	25,471	26,827	105.32	26,030	102.19	32,122	33,255	103.53	33,049	102.89
Reverse mortgages	89,561	100,393	112.09	95,451	106.58	91,560	99,934	109.15	98,407	107.48
Total Agency RMBS	1,006,450	1,097,583	109.05	1,050,795	104.41	1,294,759	1,374,683	106.17	1,351,210	104.36
Non-Agency RMBS	58,642	41,987	71.60	39,016	66.53	10,947	8,851	80.85	6,924	63.25
Total RMBS <sup>(2)</sup>	1,065,092	1,139,570	106.99	1,089,811	102.32	1,305,706	1,383,534	105.96	1,358,134	104.02
Agency IOs	n/a	14,477	n/a	16,023	n/a	n/a	18,244	n/a	17,795	n/a
Total mortgage-backed securities		1,154,047		1,105,834			1,401,778		1,375,929	
U.S. Treasury securities sold short	—	—	—	—	—	(2,100)	(2,070)	98.57	(2,070)	98.57
Reverse repurchase agreements	—	—	—	—	—	2,084	2,084	100.00	2,084	100.00
<b>Total</b>		<b>\$ 1,154,047</b>		<b>\$ 1,105,834</b>			<b>\$ 1,401,792</b>		<b>\$ 1,375,943</b>	

(1) Represents the dollar amount (not shown in thousands) per \$100 of current principal of the price or cost for the security.

(2) Excludes Agency IOs.

The majority of our capital is allocated to our Agency RMBS strategy, which includes investments in Agency pools and Agency collateralized mortgage obligations, or "CMOs." As of both June 30, 2020 and December 31, 2019, investments in non-Agency RMBS constituted a relatively small portion of our total investments, although the size of our non-Agency RMBS holdings increased significantly during this period.

Our most prevalent method of financing RMBS is through short-term repos, which generally have maturities of 180 days or less. The weighted average lives of the RMBS that we own are generally much longer. Consequently, the weighted average term of our repurchase agreement financings will almost always be substantially shorter than the expected average maturity of our RMBS. This mismatch in maturities, together with the uncertainty of RMBS prepayments, and other potential changes in timing and/or amount of cash flows on our RMBS assets, creates the risk that changes in interest rates will cause our financing costs with respect to our RMBS to increase relative to the income on our RMBS over the term of our investments.

## Financial Derivatives

The following table summarizes our portfolio of financial derivative holdings as of June 30, 2020 and December 31, 2019:

(In thousands)	June 30, 2020	December 31, 2019
<b>Financial derivatives—assets, at fair value:</b>		
TBA securities purchase contracts	\$ 1,147	\$ 48
TBA securities sale contracts	1,124	74
Fixed payer interest rate swaps	—	3,543
Fixed receiver interest rate swaps	844	81
Futures	—	434
<b>Total financial derivatives—assets, at fair value</b>	<b>3,115</b>	<b>4,180</b>
<b>Financial derivatives—liabilities, at fair value:</b>		
TBA securities purchase contracts	(129)	(71)
TBA securities sale contracts	(606)	(233)
Fixed payer interest rate swaps	(11,012)	(1,632)
Fixed receiver interest rate swaps	(20)	(15)
Futures	(377)	(96)
<b>Total financial derivatives—liabilities, at fair value</b>	<b>(12,144)</b>	<b>(2,047)</b>
<b>Total</b>	<b>\$ (9,029)</b>	<b>\$ 2,133</b>

Pursuant to our hedging program, we engage in a variety of interest rate hedging activities that are designed to reduce the interest rate risk with respect to the liabilities incurred to acquire or hold RMBS. These interest rate hedges generally seek to reduce the interest rate sensitivity of our liabilities or, in other words, reduce the volatility of our financing cost over time attributable to interest rate changes. Our interest rate hedging transactions may include:

- Interest rate swaps (a contract exchanging a variable rate for a fixed rate, or vice versa);
- Interest rate swaptions (options to enter into interest rate swaps at a future date);
- TBA forward contracts on Agency pass-through certificates;
- Short sales of U.S. Treasury securities;
- Eurodollar and U.S. Treasury futures; and
- Other derivatives.

We generally enter into these transactions to offset the potential adverse effects of rising interest rates on short-term repurchase agreements. Our repurchase agreements generally have maturities of up to 180 days and carry interest rates that are determined by reference to LIBOR or correlated benchmark rates for those same periods. As each then-existing fixed-rate repo borrowing matures, it will generally be replaced with a new fixed-rate repo borrowing based on market interest rates established at that future date.

In the case of interest rate swaps, most of our agreements are structured such that we receive payments based on a variable interest rate and make payments based on a fixed interest rate. The variable interest rate on which payments are received is generally calculated based on various reset mechanisms for LIBOR. To the extent that our future repo borrowing costs continue to be highly correlated with LIBOR, our LIBOR-based interest rate swap agreements help to reduce the variability of our overall repo borrowing costs, thus reducing risk to the extent we hold fixed-rate assets that are financed with repo borrowings. While for the time being we are continuing to enter into LIBOR-based interest rate swap agreements, we are currently considering entering into SOFR-based interest rate swap agreements as well.

In the case of TBAs, most of our positions are short TBA positions with negative duration, meaning that should interest rates rise, the value of the short position would be expected to increase. This expected increase in value would then serve to offset corollary expected increases in our current and/or future borrowing costs under our repurchase agreements, and so in this manner our short TBA positions serve as a hedge against potential increases in interest rates. While we use TBAs to hedge interest rate risk, we also hold net long positions in certain TBA securities as a means of acquiring exposure to Agency RMBS.

As of December 31, 2019, we also held short positions in U.S. Treasury securities, with a total principal amount of \$2.1 million and a fair value of \$2.1 million; as of June 30, 2020, the Company did not hold any short positions in U.S. Treasury securities.

The composition and relative mix of our hedging instruments may vary from period to period given the amount of our liabilities outstanding or anticipated to be entered into, the overall market environment and our view as to which instruments best enable us to execute our hedging goals.

#### Leverage

The following table summarizes our outstanding liabilities under repurchase agreements as of June 30, 2020 and December 31, 2019. We had no other borrowings outstanding.

Remaining Days to Maturity	June 30, 2020			December 31, 2019		
	Borrowings Outstanding	Weighted Average		Borrowings Outstanding	Weighted Average	
		Interest Rate	Remaining Days to Maturity		Interest Rate	Remaining Days to Maturity
	<i>(In thousands)</i>					
30 days or less	\$ 212,165	0.54%	16	\$ 513,092	2.10%	15
31-60 days	513,347	0.33	45	549,541	1.91	45
61-90 days	113,116	0.30	80	233,639	1.97	74
91-120 days	12,498	0.30	107	—	—	—
151-180 days	4,291	1.50	167	—	—	—
181-360 days	54,404	0.32	346	—	—	—
<b>Total</b>	<b>\$ 909,821</b>	<b>0.38%</b>	<b>62</b>	<b>\$ 1,296,272</b>	<b>2.00%</b>	<b>39</b>

We finance our assets with what we believe to be a prudent amount of leverage, which will vary from time to time based upon the particular characteristics of our portfolio, availability of financing, and market conditions. In response to the significant volatility of the first quarter caused by the spread of COVID-19, we strategically reduced the size of our portfolio in order to lower our leverage and enhance our liquidity position. As of June 30, 2020 and December 31, 2019, our total debt-to-equity ratio was 5.6:1 and 8.1:1, respectively. Collateral transferred with respect to our outstanding repo borrowings, including cash collateral posted, as of June 30, 2020 and December 31, 2019 had an aggregate fair value of \$959.5 million and \$1.4 billion, respectively. Adjusted for unsettled security purchases and sales, our debt-to-equity ratio was 6.8:1 and 8.1:1 as of June 30, 2020 and December 31, 2019, respectively. Our debt-to-equity ratio may fluctuate period over period based on portfolio management decisions, market conditions, capital markets conditions, and the timing of security purchase and sale transactions.

Forceful actions by the Federal Reserve continued to stabilize the market for Agency RMBS during the second quarter, and the economic terms of our financing arrangements, as well as margin calls under those financing arrangements, reverted to more typical levels. As of June 30, 2020, we had cash and cash equivalents of \$50.9 million, along with other unencumbered assets of approximately \$45.1 million.

#### Shareholders' Equity

As of June 30, 2020, our shareholders' equity decreased to \$157.7 million from \$160.8 million as of December 31, 2019. This decrease principally consisted of dividends declared of \$(6.9) million and common shares repurchased of \$(1.0) million, partially offset by net income of \$4.6 million. As of June 30, 2020, our book value per share was \$12.80, as compared to \$12.91 as of December 31, 2019.

## Results of Operations for the Three- and Six-Month Periods Ended June 30, 2020 and 2019

The following table summarizes our results of operations for the three- and six-month periods ended June 30, 2020 and 2019:

	Three-Month Period Ended June 30,		Six-Month Period Ended June 30,	
	2020	2019	2020	2019
<i>(In thousands except for per share amounts)</i>				
<b>Interest Income (Expense)</b>				
Interest income	\$ 3,489	\$ 12,139	\$ 13,370	\$ 24,752
Interest expense	(2,330)	(9,662)	(8,430)	(19,217)
<b>Net interest income</b>	<b>1,159</b>	<b>2,477</b>	<b>4,940</b>	<b>5,535</b>
<b>Expenses</b>				
Management fees to affiliate	594	582	1,119	1,177
Other operating expenses	1,138	718	1,900	1,491
<b>Total expenses</b>	<b>1,732</b>	<b>1,300</b>	<b>3,019</b>	<b>2,668</b>
<b>Other Income (Loss)</b>				
Net realized and change in net unrealized gains (losses) on securities	20,865	15,929	28,726	36,226
Net realized and change in net unrealized gains (losses) on financial derivatives	1,053	(17,213)	(26,047)	(30,272)
<b>Total Other Income (Loss)</b>	<b>21,918</b>	<b>(1,284)</b>	<b>2,679</b>	<b>5,954</b>
<b>Net Income (Loss)</b>	<b>\$ 21,345</b>	<b>\$ (107)</b>	<b>\$ 4,600</b>	<b>\$ 8,821</b>
<b>Net Income (Loss) Per Common Share</b>	<b>\$ 1.73</b>	<b>\$ (0.01)</b>	<b>\$ 0.37</b>	<b>\$ 0.71</b>

### Core Earnings

Core Earnings consists of net income (loss), excluding realized and change in net unrealized gains and (losses) on securities and financial derivatives, and excluding, if applicable, any non-recurring items of income or loss. Core Earnings also excludes the effect of the Catch-up Premium Amortization Adjustment on interest income. The Catch-up Premium Amortization Adjustment is a quarterly adjustment to premium amortization triggered by changes in actual and projected prepayments on our Agency RMBS (accompanied by a corresponding offsetting adjustment to realized and unrealized gains and losses). The adjustment is calculated as of the beginning of each quarter based on our then-current assumptions about cashflows and prepayments, and can vary significantly from quarter to quarter. Core Earnings includes net realized and change in net unrealized gains (losses) associated with periodic settlements on interest rate swaps.

Core Earnings is a supplemental non-GAAP financial measure. We believe that Core Earnings provides information useful to investors because it is a metric that we use to assess our performance and to evaluate the effective net yield provided by the portfolio. Moreover, one of our objectives is to generate income from the net interest margin on the portfolio, and Core Earnings is used to help measure the extent to which this objective is being achieved. In addition, we believe that presenting Core Earnings enables our investors to measure, evaluate and compare our operating performance to that of our peer companies. However, because Core Earnings is an incomplete measure of our financial results and differs from net income (loss) computed in accordance with GAAP, it should be considered as supplementary to, and not as a substitute for, net income (loss) computed in accordance with GAAP.

The following table reconciles, for the three- and six-month periods ended June 30, 2020 and 2019, Core Earnings to the line on the Consolidated Statement of Operations entitled Net Income (Loss), which we believe is the most directly comparable GAAP measure:

	Three-Month Period Ended June 30,		Six-Month Period Ended June 30,	
	2020	2019 <sup>(1)</sup>	2020	2019 <sup>(1)</sup>
<i>(In thousands except for share amounts)</i>				
<b>Net Income (Loss)</b>	\$ 21,345	\$ (107)	\$ 4,600	\$ 8,821
<b>Adjustments:</b>				
Net realized (gains) losses on securities	(5,175)	(1,418)	(6,268)	256
Change in net unrealized (gains) losses on securities	(15,690)	(14,511)	(22,458)	(36,482)
Net realized (gains) losses on financial derivatives	8,452	8,771	14,951	20,862
Change in net unrealized (gains) losses on financial derivatives	(9,505)	8,442	11,096	9,410
Net realized gains (losses) on periodic settlements of interest rate swaps	(1,223)	(383)	110	631
Change in net unrealized gains (losses) on accrued periodic settlements of interest rate swaps	896	1,045	(253)	711
Deferred offering costs expensed	313	—	313	—
Negative (positive) component of interest income represented by Catch-up Premium Amortization Adjustment	3,782	904	4,463	1,848
Subtotal	(18,150)	2,850	1,954	(2,746)
<b>Core Earnings</b>	\$ 3,195	\$ 2,743	\$ 6,554	\$ 6,057
<b>Weighted Average Shares Outstanding</b>	12,319,616	12,467,103	12,377,185	12,467,506
<b>Core Earnings Per Share</b>	\$ 0.26	\$ 0.22	\$ 0.53	\$ 0.49

(1) Conformed to current period presentation.

## Results of Operations for the Three-Month Periods Ended June 30, 2020 and 2019

### Net Income (Loss)

Net income (loss) for the three-month period ended June 30, 2020 was \$21.3 million, as compared to \$(0.1) million for the three-month period ended June 30, 2019. The period-over-period reversal in net income (loss) was primarily due to a reversal from Total Other (Loss) for the three-month period ended June 30, 2019, to Total Other Income for the three-month period ended June 30, 2020, partially offset by a decrease in net interest income.

### Interest Income

Our portfolio as of both June 30, 2020 and 2019 consisted primarily of Agency RMBS, and to a lesser extent, non-Agency RMBS. Before interest expense, we earned approximately \$3.4 million and \$11.7 million in interest income on these securities for the three-month periods ended June 30, 2020 and 2019, respectively. The period-over-period decrease in interest income primarily resulted from lower average holdings on our Agency RMBS portfolio and lower overall average asset yields. The Catch-up Premium Amortization Adjustment causes variability in our interest income and portfolio yields. For the three-month periods ended June 30, 2020 and 2019, we had a negative Catch-up Premium Amortization Adjustment of approximately \$(3.8) million and \$(0.9) million, respectively, which decreased interest income. Excluding the Catch-up Premium Amortization Adjustments, the weighted average yield of our overall portfolio was 2.99% and 3.34% for the three-month periods ended June 30, 2020 and 2019, respectively.

The following table details our interest income, average holdings of yield-bearing assets, and weighted average yield based on amortized cost for the three-month periods ended June 30, 2020 and 2019:

(In thousands)	Agency <sup>(1)</sup>			Non-Agency <sup>(1)</sup>			Total <sup>(1)</sup>		
	Interest Income	Average Holdings	Yield	Interest Income	Average Holdings	Yield	Interest Income	Average Holdings	Yield
Three-month period ended June 30, 2020	\$ 3,001	\$ 941,506	1.28%	\$ 435	\$ 23,768	7.33%	\$ 3,436	\$ 965,274	1.42%
Three-month period ended June 30, 2019	\$ 11,474	\$ 1,501,355	3.06%	\$ 240	\$ 7,695	12.49%	\$ 11,714	\$ 1,509,050	3.11%

(1) Amounts exclude interest income on cash and cash equivalents (including when posted as margin) and long U.S. Treasury securities.

### Interest Expense

For the three-month periods ended June 30, 2020 and 2019, the majority of interest expense that we incurred was related to our repo borrowings, which we use to finance our assets. We also incur interest expense in connection with our short positions in U.S. Treasury securities as well as on our counterparties' cash collateral held by us. Our total interest expense for the three-month period ended June 30, 2020 was \$2.3 million, of which \$2.3 million represented interest expense on our repo borrowings and \$35 thousand represented interest expense related primarily to our short positions in U.S. Treasury securities. Our total interest expense for the three-month period ended June 30, 2019 was \$9.7 million, of which \$9.5 million represented interest expense on our repo borrowings and \$0.2 million represented interest expense related primarily to our short positions in U.S. Treasury securities. The period-over-period decrease in our total interest expense resulted mainly from lower rates on our repo borrowings stemming from the decrease in short-term interest rates as well as lower average outstanding borrowings.

The following table shows information related to our average cost of funds<sup>(1)</sup> for the three-month periods ended June 30, 2020 and 2019.

(In thousands)	Repurchase Agreements			Interest Rate Swaps <sup>(2)</sup>		Short U.S. Treasury Securities <sup>(2)</sup>		Total <sup>(2)</sup>	
	Average Borrowed Funds	Interest Expense	Average Cost of Funds	Net periodic expense paid or payable	Average Cost of Funds	Interest expense	Average Cost of Funds	Interest and net periodic expense paid or payable	Average Cost of Funds
Three-month period ended June 30, 2020	\$ 941,242	\$ 2,294	0.98%	\$ 322	0.14%	\$ 35	0.01%	\$ 2,651	1.13%
Three-month period ended June 30, 2019	\$ 1,412,434	\$ 9,485	2.69%	\$ (656)	(0.18)%	\$ 172	0.05%	\$ 9,001	2.56%

(1) This metric does not take into account other instruments that we use to hedge interest rate risk, such as TBAs, swaptions, and futures.

(2) As an alternative cost of funds measure, we add to our repo borrowing cost the net periodic amounts paid or payable by us on our interest rate swaps and the interest expense we incur on our short positions in U.S. Treasury securities, and express the total as a percentage of our average outstanding repurchase agreement borrowings.

For the three-month periods ended June 30, 2020 and 2019, average one-month LIBOR was 0.36% and 2.44%, respectively. For the three-month periods ended June 30, 2020 and 2019, average six-month LIBOR was 0.71% and 2.50%, respectively. For the three-month period ended June 30, 2020, the weighted average yield of our portfolio of Agency and non-Agency RMBS excluding the impact of the Catch-up Premium Amortization Adjustment was 2.99%, while our total average cost of funds, including interest rate swaps and short U.S. Treasury securities, was 1.13%, resulting in a net interest margin of 1.86%. By comparison, for the three-month period ended June 30, 2019, the weighted average yield of our Agency and non-Agency RMBS excluding the impact of the Catch-up Premium Amortization Adjustment was 3.34%, while our average cost of funds, including interest rate swaps and short U.S. Treasury securities, was 2.56%, resulting in a net interest margin of 0.78%.

### Management Fees

For each of the three-month periods ended June 30, 2020 and 2019, our management fee expense was approximately \$0.6 million. Management fees are calculated based on our shareholders' equity at the end of each quarter.

## **Other Operating Expenses**

Other operating expenses, as presented above, include professional fees, compensation expense, insurance expense, and various other expenses incurred in connection with the operation of our business. For the three-month periods ended June 30, 2020 and 2019, our other operating expenses were approximately \$1.1 million and \$0.7 million, respectively. The increase in other operating expenses for the three-month period ended June 30, 2020 was primarily due to deferred offering costs that were expensed in the period.

## **Other Income (Loss)**

Other income (loss) consists of net realized and net change in unrealized gains (losses) on securities and financial derivatives. For the three-month period ended June 30, 2020, Other income (loss) was \$21.9 million, consisting primarily of net realized and change in net unrealized gains of \$18.3 million on our Agency RMBS, \$2.4 million on our non-Agency RMBS, and \$1.1 million on our financial derivatives. Our specified pools increased in price primarily as a result of the increased demand for prepayment protection that specified pools provide, relative to generic pools, amidst record-low mortgage rates and increasing actual and projected prepayment rates during the period ended June 30, 2020. Our reverse mortgage pools also increased in price, driven by strong investor demand and a recovery in yield spreads after the distress in March. As the three-month period ended June 30, 2020 progressed, we added significantly to our non-Agency RMBS portfolio, which performed extremely well, as prices increased throughout the quarter.

During the second quarter, we opportunistically decreased the size of our net short TBA position, primarily by increasing the amount of long TBAs held for investment. We had net gains on our interest rate hedges of \$1.1 million, which consisted of net realized and unrealized gains of \$2.5 million on our TBA positions, partially offset by net realized and unrealized losses of \$(0.7) million on our interest rate swaps and \$(0.7) million on our futures. For the three-month period ended June 30, 2020, as measured by sales and excluding paydowns, we turned over approximately 13% of our Agency RMBS portfolio and, as a result of these sales, we generated net realized gains of \$4.7 million on our Agency RMBS portfolio.

Other income (loss) for the three-month period ended June 30, 2019 was \$(1.3) million, consisting of net realized and change in net unrealized losses of \$(17.2) million on our financial derivatives, partially offset by net realized and change in net unrealized gains of \$15.9 million on our securities, primarily our Agency RMBS. Lower interest rates caused Agency RMBS prices to increase during the quarter ended June 30, 2019, which led to unrealized gains on our portfolio. The decline in interest rates during the quarter also led to losses on our interest rate hedges, including net realized and unrealized losses of \$(12.8) million on our interest rate swaps. For the three-month period ended June 30, 2019, as measured by sales and excluding paydowns, we turned over approximately 15% of our Agency RMBS portfolio and, as a result of these sales, we generated net realized gains of \$1.3 million on our Agency RMBS portfolio.

## **Results of Operations for the Six-Month Periods Ended June 30, 2020 and 2019**

### **Net Income (Loss)**

Net income (loss) for the six-month period ended June 30, 2020 was \$4.6 million, as compared to \$8.8 million for the six-month period ended June 30, 2019. The period-over-period decline in Net income (loss) was primarily due to a decrease in Total Other Income for the six-month period ended June 30, 2020, and a decrease in net interest income.

### **Interest Income**

Our portfolio as of both June 30, 2020 and 2019 consisted primarily of Agency RMBS, and to a lesser extent, non-Agency RMBS. Before interest expense, we earned approximately \$13.0 million and \$24.1 million in interest income on these securities for the six-month periods ended June 30, 2020 and 2019, respectively. The period-over-period decrease in interest income primarily resulted from lower average holdings on our Agency RMBS portfolio and lower overall average asset yields. The Catch-up Premium Amortization Adjustment causes variability in our interest income and portfolio yields. For the six-month periods ended June 30, 2020 and 2019, we had a negative Catch-up Premium Amortization Adjustment of approximately \$(4.5) million and \$(1.8) million, respectively, which decreased interest income. Excluding the Catch-up Premium Amortization Adjustments, the weighted average yield of our overall portfolio was 3.03% and 3.39% for the six-month periods ended June 30, 2020 and 2019, respectively.

The following table details our interest income, average holdings of yield-bearing assets, and weighted average yield based on amortized cost for the six-month periods ended June 30, 2020 and 2019:

(In thousands)	Agency <sup>(1)</sup>			Non-Agency <sup>(1)</sup>			Total <sup>(1)</sup>		
	Interest Income	Average Holdings	Yield	Interest Income	Average Holdings	Yield	Interest Income	Average Holdings	Yield
Six-month period ended June 30, 2020	\$ 12,337	\$ 1,136,839	2.17%	\$ 632	\$ 15,257	8.29%	\$ 12,969	\$ 1,152,096	2.25%
Six-month period ended June 30, 2019	\$ 23,598	\$ 1,521,101	3.10%	\$ 484	\$ 8,436	11.48%	\$ 24,082	\$ 1,529,537	3.15%

(1) Amounts exclude interest income on cash and cash equivalents (including when posted as margin) and long U.S. Treasury securities.

### Interest Expense

For the six-month periods ended June 30, 2020 and 2019, the majority of interest expense that we incurred was related to our repo borrowings, which we use to finance our assets. We also incur interest expense in connection with our short positions in U.S. Treasury securities as well as on our counterparties' cash collateral held by us. Our total interest expense for the six-month period ended June 30, 2020 was \$8.4 million, of which \$8.2 million represented interest expense on our repo borrowings and \$0.2 million represented interest expense related primarily to our short positions in U.S. Treasury securities. Our total interest expense for the six-month period ended June 30, 2019 was \$19.2 million, of which \$18.9 million represented interest expense on our repo borrowings and \$0.3 million represented interest expense related primarily to our short positions in U.S. Treasury securities. The period-over-period decrease in our total interest expense resulted mainly from lower rates on our repo borrowings stemming from the decrease in short-term interest rates, as well as lower average outstanding borrowings.

The following table shows information related to our average cost of funds<sup>(1)</sup> for the six-month periods ended June 30, 2020 and 2019.

(In thousands)	Repurchase Agreements			Interest Rate Swaps <sup>(2)</sup>		Short U.S. Treasury Securities <sup>(2)</sup>		Total <sup>(2)</sup>	
	Average Borrowed Funds	Interest Expense	Average Cost of Funds	Net periodic expense paid or payable	Average Cost of Funds	Interest expense	Average Cost of Funds	Interest and net periodic expense paid or payable	Average Cost of Funds
Six-month period ended June 30, 2020	\$ 1,111,374	\$ 8,212	1.49%	\$ 123	0.02%	\$ 197	0.03%	\$ 8,532	1.54%
Six-month period ended June 30, 2019	\$ 1,417,356	\$ 18,941	2.69%	\$ (1,330)	(0.19)%	\$ 267	0.04%	\$ 17,878	2.54%

(1) This metric does not take into account other instruments that we use to hedge interest rate risk, such as TBAs, swaptions, and futures.

(2) As an alternative cost of funds measure, we add to our repo borrowing cost the net periodic amounts paid or payable by us on our interest rate swaps and the interest expense we incur on our short positions in U.S. Treasury securities, and express the total as a percentage of our average outstanding repurchase agreement borrowings.

For the six-month periods ended June 30, 2020 and 2019, average one-month LIBOR was 0.90% and 2.47%, respectively. For the six-month periods ended June 30, 2020 and 2019, average six-month LIBOR was 1.11% and 2.63%, respectively. For the six-month period ended June 30, 2020, the weighted average yield of our portfolio of Agency and non-Agency RMBS excluding the impact of the Catch-up Premium Amortization Adjustment was 3.03%, while our total average cost of funds, including interest rate swaps and short U.S. Treasury securities, was 1.54%, resulting in a net interest margin of 1.49%. By comparison, for the three-month period ended June 30, 2019, the weighted average yield of our Agency and non-Agency RMBS excluding the impact of the Catch-up Premium Amortization Adjustment was 3.39%, while our average cost of funds, including interest rate swaps and short U.S. Treasury securities, was 2.54%, resulting in a net interest margin of 0.85%.

### Management Fees

For six-month periods ended June 30, 2020 and 2019, our management fee expense was approximately \$1.1 million and \$1.2 million, respectively. The decrease in management fee was primarily due to a smaller capital base period over period. Management fees are calculated based on our shareholders' equity at the end of each quarter.



## Other Operating Expenses

Other operating expenses, as presented above, include professional fees, compensation expense, insurance expense, and various other expenses incurred in connection with the operation of our business. For the six-month periods ended June 30, 2020 and 2019, our other operating expenses were approximately \$1.9 million and \$1.5 million, respectively. The increase in other operating expenses for the six-month period ended June 30, 2020 was primarily due to deferred offering costs that were expensed in the period.

## Other Income (Loss)

Other income (loss) consists of net realized and net change in unrealized gains (losses) on securities and financial derivatives. For the six-month period ended June 30, 2020, Other income (loss) was \$2.7 million, consisting primarily of net realized and change in net unrealized gains of \$30.0 million on our Agency RMBS and \$1.4 million on our non-Agency RMBS, which were partially offset by net realized and change in net unrealized losses of \$(2.8) million on our short U.S. Treasury securities and \$(26.0) million on our financial derivatives. The increase in prices on our Agency RMBS holdings, mainly relating to our specified pools, was a result of the decrease in interest rates coupled with increased demand for the prepayment protection that specified pools provide, relative to generic pools, amidst record-low mortgage rates and increasing actual and projected prepayment rates during the six-month period ended June 30, 2020. During the first quarter of 2020, interest rates declined sharply and were highly volatile, generating significant net realized and unrealized losses on our interest rate hedges, only a small portion of which were offset by net unrealized gains on our interest rate hedges in the second quarter. For the six-month period ended June 30, 2020, we had net realized and change in net unrealized losses on our financial derivatives of \$(26.0) million, which consisted of net realized and change in net unrealized losses of \$(18.3) million on our interest rate swaps, \$(6.8) million on our futures, and \$(1.0) million on our TBAs. For the six-month period ended June 30, 2020, as measured by sales and excluding paydowns, we turned over approximately 29% of our Agency RMBS portfolio and, as a result of these sales, we generated net realized gains of \$8.7 million on our Agency RMBS portfolio.

Other income (loss) for the six-month period ended June 30, 2019 was \$6.0 million, consisting of net realized and change in net unrealized gains of \$36.2 million on our securities, primarily our Agency RMBS, partially offset by net realized and change in net unrealized losses of \$(30.3) million on our financial derivatives. The increase in prices on our Agency RMBS holdings, as a result of the decrease in interest rates during the six-month period ended June 30, 2019, led to significant net unrealized gains on our securities portfolio. The decrease in interest rates also led to losses on our interest rate hedges, including net realized and unrealized losses of \$(19.6) million on our interest rate swaps and \$(6.0) million on our futures. For the six-month period ended June 30, 2019, as measured by sales and excluding paydowns, we turned over approximately 32% of our Agency RMBS portfolio and, as a result of these sales, we generated net realized losses of \$(0.3) million on our Agency RMBS portfolio.

## Liquidity and Capital Resources

Liquidity refers to our ability to meet our cash needs, including repaying our borrowings, funding and maintaining RMBS and other assets, paying dividends, and other general business needs. Our short-term (one year or less) and long-term liquidity requirements include acquisition costs for assets we acquire, payment of our management fee, compliance with margin requirements under our repurchase agreements, TBA and other financial derivative contracts, repayment of repurchase agreement borrowings to the extent we are unable or unwilling to extend our repurchase agreements, the payment of dividends, and payment of our general operating expenses. Our capital resources primarily include cash on hand, cash flow from our investments (including monthly principal and interest payments received on our RMBS and proceeds from the sale of RMBS), borrowings under repurchase agreements, and proceeds from equity offerings. We expect that these sources of funds will be sufficient to meet our short-term and long-term liquidity needs.

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

As of June 30, 2020 and December 31, 2019, we had \$0.9 billion and \$1.3 billion outstanding under our repurchase agreements, respectively. As of June 30, 2020, our outstanding repurchase agreements were with 16 counterparties.

The amounts borrowed under our repurchase agreements are generally subject to the application of "haircuts." A haircut is the percentage discount that a repo lender applies to the market value of an asset serving as collateral for a repo borrowing, for the purpose of determining whether such repo borrowing is adequately collateralized. As of June 30, 2020 and December 31, 2019, the weighted average contractual haircut applicable to the assets that serve as collateral for our outstanding repo borrowings was 5.4% and 4.9%, respectively.

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

Quarter Ended	Borrowings Outstanding at Quarter End	Average Borrowings Outstanding	Maximum Borrowings Outstanding at Any Month End
	<i>(In thousands)</i>		
June 30, 2020	\$ 909,821	\$ 941,242	\$ 920,712
March 31, 2020 <sup>(1)</sup>	1,109,342	1,281,507	1,308,377
December 31, 2019	1,296,272	1,301,270	1,319,839
September 30, 2019	1,337,984	1,369,722	1,374,080
June 30, 2019	1,442,043	1,412,434	1,442,043
March 31, 2019	1,427,147	1,422,333	1,427,147
December 31, 2018	1,481,561	1,456,905	1,481,561
September 30, 2018	1,500,632	1,506,855	1,515,617
June 30, 2018	1,537,216	1,530,734	1,537,216
March 31, 2018	1,589,319	1,588,515	1,590,790
December 31, 2017	1,597,206	1,614,096	1,643,683
September 30, 2017	1,642,313	1,633,746	1,650,729

(1) For the quarter ended March 31, 2020 in response to significant volatility and heightened risks in the financial markets as a result of the spread of COVID-19, we significantly reduced our outstanding borrowings to lower leverage and increase our liquidity.

As of June 30, 2020, we had an aggregate amount at risk under our repurchase agreements with 17 counterparties of \$49.6 million. As of December 31, 2019, we had an aggregate amount at risk under our repurchase agreements with 15 counterparties of \$62.9 million. Amounts at risk represent the excess, if any, for each counterparty of the fair value of collateral held by such counterparty over the amounts outstanding under repurchase agreements. If the amounts outstanding under repurchase agreements with a particular counterparty are greater than the collateral held by the counterparty, there is no amount at risk for the particular counterparty. Amounts at risk under our repurchase agreements as of June 30, 2020 and December 31, 2019 does not include \$2.8 million and \$0.9 million, respectively, of net accrued interest receivable, which is defined as accrued interest on securities held as collateral less interest payable on cash borrowed.

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

As of June 30, 2020, we had an aggregate amount at risk under our derivative contracts, excluding TBAs, with two counterparties of approximately \$6.9 million. We also had \$5.2 million of initial margin for cleared over-the-counter, or "OTC," derivatives posted to central clearinghouses as of that date. As of December 31, 2019, we had an aggregate amount at risk under our derivatives contracts, excluding TBAs, with two counterparties of approximately \$10.4 million. We also had \$9.0 million of initial margin for cleared OTC derivatives posted to central clearinghouses as of that date. Amounts at risk under our derivatives contracts represent the excess, if any, for each counterparty of the fair value of our derivative contracts plus our collateral held directly by the counterparty less the counterparty's collateral held by us. If a particular counterparty's collateral held by us is greater than the aggregate fair value of the financial derivatives plus our collateral held directly by the counterparty, there is no amount at risk for the particular counterparty.

We purchase and sell TBAs and Agency pass-through certificates on a when-issued or delayed delivery basis. The delayed delivery for these securities means that these transactions are more prone to market fluctuations between the trade date and the

ultimate settlement date, and therefore are more vulnerable, especially in the absence of margining arrangements with respect to these transactions, to increasing amounts at risk with the applicable counterparties. As of June 30, 2020, in connection with our forward settling TBA and Agency pass-through certificates, we had an aggregate amount at risk with eight counterparties of approximately \$6.0 million. As of December 31, 2019, in connection with our forward settling TBA and Agency pass-through certificates, we had an aggregate amount at risk with five counterparties of approximately \$1.2 million. Amounts at risk in connection with our forward settling TBA and Agency pass-through certificates represent the excess, if any, for each counterparty of the net fair value of the forward settling securities plus our collateral held directly by the counterparty less the counterparty's collateral held by us. If a particular counterparty's collateral held by us is greater than the aggregate fair value of the forward settling securities plus our collateral held directly by the counterparty, there is no amount at risk for the particular counterparty.

Forceful actions by the Federal Reserve continued to stabilize the market for Agency RMBS during the second quarter, and the economic terms of our financing arrangements reverted to more typical levels.

We held cash and cash equivalents of approximately \$50.9 million and \$35.4 million as of June 30, 2020 and December 31, 2019, respectively.

We may declare dividends based on, among other things, our earnings, our financial condition, the REIT qualification requirements of the Internal Revenue Code of 1986, as amended, our working capital needs and new opportunities. The declaration of dividends to our shareholders and the amount of such dividends are at the discretion of our Board of Trustees. The following table sets forth the dividend distributions authorized by the Board of Trustees for the periods indicated below:

*Six-Month Period Ended June 30, 2020*

	<b>Dividend Per Share</b>	<b>Dividend Amount</b>	<b>Declaration Date</b>	<b>Record Date</b>	<b>Payment Date</b>
		<i>(In thousands)</i>			
First Quarter	\$ 0.28	\$ 3,449	March 4, 2020	March 31, 2020	April 27, 2020
Second Quarter	0.28	3,450	June 10, 2020	June 30, 2020	July 27, 2020

*Six-Month Period Ended June 30, 2019*

	<b>Dividend Per Share</b>	<b>Dividend Amount</b>	<b>Declaration Date</b>	<b>Record Date</b>	<b>Payment Date</b>
		<i>(In thousands)</i>			
First Quarter	\$ 0.34	\$ 4,239	March 4, 2019	March 29, 2019	April 25, 2019
Second Quarter	0.28	3,491	June 11, 2019	June 28, 2019	July 25, 2019

For the six-month period ended June 30, 2020, our operating activities provided net cash of \$9.1 million and our investing activities provided net cash of \$391.4 million. Our repo activity used to finance our purchase of securities (including repayments, in conjunction with the sales of securities, of amounts borrowed under our repurchase agreements as well as collateral posted in connection with our repo activity) used net cash of \$377.1 million. Thus our operating and investing activities, when combined with our net repo financing activities, provided net cash of \$23.5 million. We used \$6.9 million to pay dividends and \$1.0 million to repurchase common shares. As a result of these activities, there was an increase in our cash holdings of \$15.6 million, from \$35.4 million as of December 31, 2019 to \$50.9 million as of June 30, 2020.

For the six-month period ended June 30, 2019, our operating activities provided net cash of \$9.1 million and our investing activities provided net cash of \$69.3 million. Our repo activity used to finance our purchase of securities (including repayments, in conjunction with the sales of securities, of amounts borrowed under our repurchase agreements as well as collateral posted in connection with our repo activity) used net cash of \$46.6 million. Thus our operating and investing activities, when combined with our net repo financing activities, provided net cash of \$31.8 million. We used \$8.5 million to pay dividends and \$0.4 million to repurchase common shares. As a result of these activities, there was an increase in our cash holdings of \$22.9 million, from \$18.6 million as of December 31, 2018 to \$41.5 million as of June 30, 2019.

On June 13, 2018, our Board of Trustees approved the adoption of a share repurchase program under which we are authorized to repurchase up to 1.2 million common shares. The program, which is open-ended in duration, allows us to make repurchases from time to time on the open market or in negotiated transactions, including through Rule 10b5-1 plans. Repurchases are at our discretion, subject to applicable law, share availability, price and our financial performance, among other considerations. During the six-month period ended June 30, 2020, we repurchased 136,142 common shares at an average price

per share of \$7.24 and a total cost of \$1.0 million. Under the current repurchase program adopted on June 13, 2018, we have repurchased 434,171 common shares through August 6, 2020 at an average price per share of \$9.45 and an aggregate cost of \$4.1 million, and have authorization to repurchase an additional 765,829 common shares.

Based on our current portfolio, amount of free cash on hand, debt-to-equity ratio and current and anticipated availability of credit, we believe that our capital resources will be sufficient to enable us to meet anticipated short-term and long-term liquidity requirements.

We are not required by our investment guidelines to maintain any specific debt-to-equity ratio, and we believe that the appropriate leverage for the particular assets we hold depends on the credit quality and risk of those assets, as well as the general availability and terms of stable and reliable financing for those assets.

### **Contractual Obligations and Commitments**

We are a party to a management agreement with our Manager. Pursuant to that agreement, our Manager is entitled to receive a management fee based on shareholders' equity, reimbursement of certain expenses and, in certain circumstances, a termination fee. Such fees and expenses do not have fixed and determinable payments. For a description of the management agreement provisions, see Note 9 to our consolidated financial statements.

We enter into repurchase agreements with third-party broker-dealers whereby we sell securities to such broker-dealers at agreed-upon purchase prices at the initiation of the repurchase agreements and agree to repurchase such securities at predetermined repurchase prices and termination dates, thus providing the broker-dealers with an implied interest rate on the funds initially transferred to us by the broker-dealers. We may enter into reverse repurchase agreements with third-party broker-dealers whereby we purchase securities under agreements to resell at an agreed-upon price and date. In general, we most often will enter into reverse repurchase agreement transactions in order to effectively borrow securities that we can then deliver to counterparties to whom we have made short sales of the same securities. The implied interest rates on the repurchase agreements and reverse repurchase agreements we enter into are based upon competitive market rates at the time of initiation. Repurchase agreements and reverse repurchase agreements that are conducted with the same counterparty may be reported on a net basis if they meet the requirements of ASC 210-20, *Balance Sheet, Offsetting*. As of both June 30, 2020 and December 31, 2019, there were no repurchase agreements and reverse repurchase agreements reported on a net basis on the Consolidated Balance Sheet.

As of June 30, 2020, we had \$0.9 billion of outstanding borrowings with 16 counterparties.

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

As of June 30, 2020, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed any obligations of unconsolidated entities nor do we have any commitment or intent to provide funding to any such entities. As such, we are not materially exposed to any market, credit, liquidity, or financing risk that could arise if we had engaged in such relationships.

### **Inflation**

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

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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

#### ***Interest Rate Risk***

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations, and other factors beyond our control. We are subject to interest rate risk in connection with most of our assets and liabilities. For some securities in our portfolio, the coupon interest rates on, and therefore also the values of, such securities are highly sensitive to interest rate movements, such as inverse floating rate RMBS,

which benefit from falling interest rates. Our repurchase agreements generally have maturities of up to 180 days and carry interest rates that are determined by reference to LIBOR or similar short-term benchmark rates for those same periods. Whenever one of our fixed-rate repo borrowings matures, it will generally be replaced with a new fixed-rate repo borrowing based on market interest rates prevailing at such time. Subject to qualifying and maintaining our qualification as a REIT and our exclusion from registration under the Investment Company Act, we opportunistically hedge our interest rate risk by entering into interest rate swaps, TBAs, U.S. Treasury securities, Eurodollar and U.S. Treasury futures, and other instruments. In general, such hedging instruments are used to mitigate the interest rate risk arising from the mismatch between the duration of our financed Agency RMBS and the duration of the liabilities used to finance such assets.

In addition to measuring and mitigating the risk related to changes in interest rates with respect to the generally shorter-term liabilities we incur to acquire and hold generally longer-lived RMBS, we also monitor the effect of changes in interest rates on the discounted present value of our portfolio of assets and liabilities. The following sensitivity analysis table shows the estimated impact on the fair value of our portfolio segregated by certain identified categories as of June 30, 2020, assuming a static portfolio and immediate and parallel shifts in interest rates from current levels as indicated below.

(In thousands)

Category of Instruments	Estimated Change for a Decrease in Interest Rates by				Estimated Change for an Increase in Interest Rates by			
	50 Basis Points		100 Basis Points		50 Basis Points		100 Basis Points	
	Market Value	% of Total Equity	Market Value	% of Total Equity	Market Value	% of Total Equity	Market Value	% of Total Equity
Agency RMBS, excluding TBAs	\$ 9,415	5.96 %	\$ 18,730	11.85 %	\$ (9,517)	(6.02)%	\$ (19,134)	(12.11)%
TBAs	(624)	(0.39)%	(2,549)	(1.61)%	(675)	(0.43)%	(2,650)	(1.68)%
Non-Agency RMBS	1,112	0.70 %	2,269	1.44 %	(1,065)	(0.68)%	(2,085)	(1.32)%
U.S. Treasury Securities, Interest Rate Swaps, and Futures	(10,021)	(6.35)%	(20,459)	(12.95)%	9,605	6.08 %	18,791	11.89 %
Corporate Securities and Derivatives on Corporate Securities	(1)	— %	(2)	— %	—	— %	1	— %
Repurchase and Reverse Repurchase Agreements	(528)	(0.33)%	(538)	(0.34)%	786	0.50 %	1,572	1.00 %
Total	\$ (647)	(0.41)%	\$ (2,549)	(1.61)%	\$ (866)	(0.55)%	\$ (3,505)	(2.22)%

Our analysis of interest rate risk is derived from Ellington's proprietary models as well as third-party information and analytics. Many assumptions have been made in connection with the calculations set forth in the table above and, as such, there can be no assurance that assumed events will occur or that other events will not occur that would affect the outcomes. For example, for each hypothetical immediate shift in interest rates, assumptions have been made as to the response of mortgage prepayment rates, the shape of the yield curve, and market volatilities of interest rates; each of the foregoing factors can significantly and adversely affect the fair value of our interest rate sensitive instruments.

The above analysis utilizes assumptions and estimates based on management's judgment and experience, and relies on financial models, which are inherently imperfect; in fact, different models can produce different results for the same securities. While the table above reflects the estimated impacts of immediate parallel interest rate increases and decreases on specific categories of instruments in our portfolio, we intend to actively trade many of the instruments in our portfolio and intend to diversify our portfolio to reflect a portfolio comprised primarily of Agency RMBS, and, to a lesser extent, non-Agency RMBS and mortgage-related assets. Therefore, our current or future portfolios may have risks that differ significantly from those of our June 30, 2020 portfolio estimated above. Moreover, the impact of changing interest rates on fair value can change significantly when interest rates change by a greater amount than the hypothetical shifts assumed above. Furthermore, our portfolio is subject to many risks other than interest rate risks, and these additional risks may or may not be correlated with changes in interest rates. For all of the foregoing reasons and others, the table above is for illustrative purposes only and actual changes in interest rates would likely cause changes in the actual fair value of our portfolio that would differ from those presented above, and such differences might be significant and adverse. See "Business—Special Note Regarding Forward-Looking Statements."

### Prepayment Risk

Prepayment risk is the risk of change, whether an increase or a decrease, in the rate at which principal is returned in

respect to mortgage loans underlying RMBS, including both through voluntary prepayments and through liquidations due to defaults and foreclosures. This rate of prepayment is affected by a variety of factors, including the prevailing level of interest rates as well as economic, demographic, tax, social, legal, and other factors. Changes in prepayment rates will have varying effects on the different types of securities in our portfolio, and we attempt to take these effects into account in making asset management decisions. Additionally, increases in prepayment rates may cause us to experience losses on our investment in interest-only securities, or "IOs," and inverse interest only securities, or "IIOs," as these securities are extremely sensitive to prepayment rates. Finally, prepayment rates, besides being subject to interest rates and borrower behavior, are also substantially affected by government policy and regulation.

### ***Credit Risk***

We are subject to credit risk in connection with certain of our assets, especially our non-Agency RMBS. Credit losses on real estate loans underlying our non-Agency RMBS can occur for many reasons, including, but not limited to, poor origination practices, fraud, faulty appraisals, documentation errors, poor underwriting, legal errors, poor servicing practices, weak economic conditions, decline in the value of homes, special hazards, earthquakes and other natural events, over-leveraging of the borrower on the property, reduction in market rents and occupancies and poor property management services in the case of rented homes, changes in legal protections for lenders, reduction in personal income, job loss, and personal events such as divorce or health problems. Property values are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional, and local economic conditions (which may be adversely affected by industry slowdowns and other factors), local real estate conditions (such as an oversupply of housing), changes or continued weakness in specific industry segments, construction quality, age and design, demographic factors, and retroactive changes to building or similar codes. For mortgage-related instruments, the two primary components of credit risk are default risk and severity risk.

### ***Default Risk***

Default risk is the risk that borrowers will fail to make principal and interest payments on their mortgage loans. Subject to qualifying and maintaining our qualification as a REIT and our exclusion from registration under the Investment Company Act, we may selectively attempt to mitigate our default risk by, among other things, opportunistically entering into credit default swaps and total return swaps. These instruments can reference various RMBS indices, corporate bond indices, or corporate entities, such as publicly traded REITs. We also rely on third-party mortgage servicers to mitigate our default risk, but such third-party mortgage servicers may have little or no economic incentive to mitigate loan default rates.

### ***Severity Risk***

Severity risk is the risk of loss upon a borrower default on a mortgage loan underlying our RMBS. Severity risk includes the risk of loss of value of the property underlying the mortgage loan as well as the risk of loss associated with taking over the property, including foreclosure costs. We rely on third-party mortgage servicers to mitigate our severity risk, but such third-party mortgage servicers may have little or no economic incentive to mitigate loan loss severities. Such mitigation efforts may include loan modification programs and prompt foreclosure and property liquidation following a default.

## **Item 4. Controls and Procedures**

### **Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosures. An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of June 30, 2020. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2020.

### **Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings

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

We and Ellington cannot provide any assurance that, whether the result of regulatory inquiries or otherwise, neither we nor Ellington nor its affiliates will become subject to investigations, enforcement actions, fines, penalties or the assertion of private litigation claims or that, if any such events were to occur, they would not materially adversely affect us. For a discussion of these and other related risks, see "Risk Factors—We, Ellington, or its affiliates may be subject to regulatory inquiries and proceedings, or other legal proceedings" included in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019.

### Item 1A. Risk Factors

For information regarding factors that could affect our results of operations, financial condition, and liquidity, see the risk factors discussed under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019 and Part II, Item IA of our Quarterly Report on Form 10-Q for the three-month period ended March 31, 2020. There have been no material changes from these previously disclosed risk factors. See also "Special Note Regarding Forward-Looking Statements," included in Part I, Item 2 of this Quarterly Report on Form 10-Q.

**Item 6. Exhibits**

<b>Exhibit</b>	<b>Description</b>
31.1	<a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002</a>
31.2	<a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002</a>
32.1*	<a href="#">Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes – Oxley Act of 2002</a>
32.2*	<a href="#">Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes – Oxley Act of 2002</a>
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase

\* Furnished herewith. These certifications are not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.



**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 7, 2020

ELLINGTON RESIDENTIAL MORTGAGE REIT  
By: /s/ LAURENCE PENN  
Laurence Penn  
Chief Executive Officer  
(Principal Executive Officer)

Date: August 7, 2020

ELLINGTON RESIDENTIAL MORTGAGE REIT  
By: /s/ CHRISTOPHER SMERNOFF  
Christopher Smernoff  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Laurence Penn, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ellington Residential Mortgage REIT;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2020

/s/ Laurence Penn

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Laurence Penn

Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Christopher Smernoff, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ellington Residential Mortgage REIT;

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

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

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

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

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

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

Date: August 7, 2020

/s/ Christopher Smernoff

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Christopher Smernoff

Chief Financial Officer

(Principal Financial and Accounting Officer)

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

In connection with the Quarterly Report of Ellington Residential Mortgage REIT (the "Company") on Form 10-Q for the quarter ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Laurence Penn, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: August 7, 2020

/s/ Laurence Penn

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Laurence Penn  
Chief Executive Officer  
(Principal Executive Officer)

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

In connection with the Quarterly Report of Ellington Residential Mortgage REIT (the "Company") on Form 10-Q for the quarter ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher Smernoff, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: August 7, 2020

/s/ Christopher Smernoff

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Christopher Smernoff  
Chief Financial Officer  
(Principal Financial and Accounting Officer)