

**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 September 30, 2021
OR

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

For the transition period from _____ to _____
Commission file number 001-34569

Ellington Financial Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of Incorporation or Organization)

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

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

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

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

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 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 shares of the Registrant's common stock outstanding as of November 5, 2021: 57,427,667

ELLINGTON FINANCIAL INC.
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PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

ELLINGTON FINANCIAL INC.
CONDENSED CONSOLIDATED BALANCE SHEET
(UNAUDITED)

<i>(In thousands, except share amounts)</i>	<i>Expressed in U.S. Dollars</i>	
	September 30, 2021	December 31, 2020
Assets		
Cash and cash equivalents ⁽¹⁾	\$ 103,617	\$ 111,647
Restricted cash ⁽¹⁾	175	175
Securities, at fair value ⁽¹⁾⁽²⁾	1,895,563	1,514,185
Loans, at fair value ⁽¹⁾⁽²⁾	1,996,529	1,453,480
Investments in unconsolidated entities, at fair value ⁽¹⁾	142,019	141,620
Real estate owned ⁽¹⁾⁽²⁾	37,002	23,598
Financial derivatives—assets, at fair value	15,976	15,479
Reverse repurchase agreements	38,062	38,640
Due from brokers	89,983	63,147
Investment related receivables ⁽¹⁾	97,721	49,317
Other assets ⁽¹⁾	3,608	2,575
Total Assets	\$ 4,420,255	\$ 3,413,863
Liabilities		
Securities sold short, at fair value	\$ 30,294	\$ 38,642
Repurchase agreements ⁽¹⁾	2,105,836	1,496,931
Financial derivatives—liabilities, at fair value	14,119	24,553
Due to brokers	2,560	5,059
Investment related payables	82,295	4,754
Other secured borrowings ⁽¹⁾	90,981	51,062
Other secured borrowings, at fair value ⁽¹⁾	872,306	754,921
Senior notes, net	85,759	85,561
Base management fee payable to affiliate	3,675	3,178
Incentive fee payable to affiliate	5,255	—
Dividends payable	9,149	5,738
Interest payable ⁽¹⁾	1,813	3,233
Accrued expenses and other liabilities ⁽¹⁾	20,943	18,659
Total Liabilities	3,324,985	2,492,291
Commitments and contingencies (Note 21)		
Equity		
Preferred stock, par value \$0.001 per share, 100,000,000 shares authorized; 6.750% Series A Fixed-to-Floating Rate Cumulative Redeemable; 4,600,000 shares issued and outstanding, respectively (\$115,000 liquidation preference)	111,034	111,034
Common stock, par value \$0.001 per share, 100,000,000 shares authorized; 51,677,667 and 43,781,684 shares issued and outstanding, respectively	52	44
Additional paid-in-capital	1,057,939	915,658
Retained earnings (accumulated deficit)	(105,699)	(141,521)
Total Stockholders' Equity	1,063,326	885,215
Non-controlling interests ⁽¹⁾	31,944	36,357
Total Equity	1,095,270	921,572
Total Liabilities and Equity	\$ 4,420,255	\$ 3,413,863

(1) Ellington Financial Inc.'s Condensed Consolidated Balance Sheet includes assets and liabilities of variable interest entities it has consolidated. See Note 9 for additional details on Ellington Financial Inc.'s consolidated variable interest entities.
(2) Includes assets pledged as collateral to counterparties. See Note 11 for additional details on the Company's borrowings and related collateral.

See Notes to Condensed Consolidated Financial Statements

ELLINGTON FINANCIAL INC.
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

	Three-Month Period Ended		Nine-Month Period Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
<i>(In thousands, except per share amounts)</i>				
Net Interest Income				
Interest income	\$ 40,146	\$ 43,075	\$ 126,115	\$ 134,463
Interest expense	(10,604)	(12,937)	(33,111)	(49,713)
Total net interest income	29,542	30,138	93,004	84,750
Other Income (Loss)				
Realized gains (losses) on securities and loans, net	6,359	1,446	8,627	(2,335)
Realized gains (losses) on financial derivatives, net	(1,782)	(1,620)	4,438	(25,702)
Realized gains (losses) on real estate owned, net	(50)	(18)	(63)	121
Unrealized gains (losses) on securities and loans, net	(3,212)	24,208	5,006	(65,418)
Unrealized gains (losses) on financial derivatives, net	1,155	(298)	6,183	(2,109)
Unrealized gains (losses) on real estate owned, net	672	122	(1,435)	(462)
Other, net	2,986	(2,747)	9,310	(1,503)
Total other income (loss)	6,128	21,093	32,066	(97,408)
Expenses				
Base management fee to affiliate (Net of fee rebates of \$395, \$201, \$784, and \$853, respectively) ⁽¹⁾	3,675	2,981	10,308	8,330
Incentive fee to affiliate	5,255	—	12,412	—
Investment related expenses:				
Servicing expense	1,182	2,379	3,142	7,402
Debt issuance costs related to Other secured borrowings, at fair value	—	—	3,704	2,075
Other	1,697	1,199	5,719	3,328
Professional fees	1,202	1,209	3,437	3,819
Compensation expense	1,554	1,085	4,386	2,813
Other expenses	1,682	1,625	4,893	4,876
Total expenses	16,247	10,478	48,001	32,643
Net Income (Loss) before Income Tax Expense (Benefit) and Earnings (Losses) from Investments in Unconsolidated Entities				
	19,423	40,753	77,069	(45,301)
Income tax expense (benefit)	(2,009)	2,494	3,149	3,490
Earnings (losses) from investments in unconsolidated entities	2,549	11,443	27,786	10,590
Net Income (Loss)	23,981	49,702	101,706	(38,201)
Net income (loss) attributable to non-controlling interests	1,476	1,559	4,809	1,894
Dividends on preferred stock	1,941	1,940	5,822	5,822
Net Income (Loss) Attributable to Common Stockholders	\$ 20,564	\$ 46,203	\$ 91,075	\$ (45,917)
Net Income (Loss) per Share of Common Stock:				
Basic and Diluted	\$ 0.41	\$ 1.06	\$ 1.99	\$ (1.06)

(1) See Note 13 for further details on management fee rebates.

See Notes to Condensed Consolidated Financial Statements

ELLINGTON FINANCIAL INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)

	Preferred Stock	Common Stock		Additional Paid-in Capital	Retained Earnings/(Accumulated Deficit)	Total Stockholders' Equity	Non-controlling Interest	Total Equity
		Shares	Par Value					
<i>(In thousands, except share amounts)</i>								
<i>Expressed in U.S. Dollars</i>								
BALANCE, December 31, 2020	\$ 111,034	43,781,684	\$ 44	\$ 915,658	\$ (141,521)	\$ 885,215	\$ 36,357	\$ 921,572
Net income (loss)					39,797	39,797	1,459	41,256
Contributions from non-controlling interests							1,517	1,517
Common dividends ⁽¹⁾					(13,134)	(13,134)	(200)	(13,334)
Preferred dividends ⁽²⁾					(1,941)	(1,941)		(1,941)
Distributions to non-controlling interests							(5,923)	(5,923)
Adjustment to non-controlling interests					(307)	(307)	307	—
Share-based long term incentive plan unit awards				226		226	3	229
BALANCE, March 31, 2021	\$ 111,034	43,781,684	\$ 44	\$ 915,577	\$ (116,799)	\$ 909,856	\$ 33,520	\$ 943,376
Net income (loss)					34,595	34,595	1,874	36,469
Contributions from non-controlling interests							5,931	5,931
Common dividends ⁽¹⁾					(19,265)	(19,265)	(298)	(19,563)
Preferred dividends ⁽²⁾					(1,940)	(1,940)		(1,940)
Distributions to non-controlling interests							(9,413)	(9,413)
Share-based long term incentive plan unit awards				240		240	4	244
BALANCE, June 30, 2021	\$ 111,034	43,781,684	\$ 44	\$ 915,817	\$ (103,409)	\$ 923,486	\$ 31,618	\$ 955,104
Net income (loss)					22,505	22,505	1,476	23,981
Net proceeds from the issuance of common stock ⁽³⁾		7,852,900	8	141,295		141,303	—	141,303
Shares of common stock issued in connection with incentive fee payment		37,373	—	716		716	—	716
Contributions from non-controlling interests							4,030	4,030
Common dividends ⁽¹⁾					(22,854)	(22,854)	(307)	(23,161)
Preferred dividends ⁽²⁾					(1,941)	(1,941)		(1,941)
Distributions to non-controlling interests							(5,006)	(5,006)
Conversion of non-controlling interest units to shares of common stock		5,710	—	105		105	(105)	—
Adjustment to non-controlling interests					(234)	(234)	234	—
Share-based long term incentive plan unit awards				240		240	4	244
BALANCE, September 30, 2021	\$ 111,034	51,677,667	\$ 52	\$ 1,057,939	\$ (105,699)	\$ 1,063,326	\$ 31,944	\$ 1,095,270

See Notes to Condensed Consolidated Financial Statements

ELLINGTON FINANCIAL INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
(UNAUDITED)

	Common Stock			Additional Paid-in Capital	Retained Earnings/(Accumulated Deficit)	Total Stockholders' Equity	Non- controlling Interest	Total Equity
	Preferred Stock	Shares	Par Value					
BALANCE, December 31, 2019	\$ 111,034	38,647,943	\$ 39	\$ 821,747	\$ (103,555)	\$ 829,265	\$ 39,434	\$ 868,699
Net income (loss)					(127,457)	(127,457)	(885)	(128,342)
Net proceeds from the issuance of common stock ⁽³⁾		5,290,000	5	95,287		95,292	—	95,292
Shares of common stock issued in connection with incentive fee payment		637	—	12		12	—	12
Contributions from non-controlling interests							3,487	3,487
Common dividends ⁽¹⁾					(19,748)	(19,748)	(309)	(20,057)
Preferred dividends ⁽²⁾					(1,941)	(1,941)	—	(1,941)
Distributions to non-controlling interests							(4,798)	(4,798)
Conversion of non-controlling interest units to shares of common stock		129,516	—	2,378		2,378	(2,378)	—
Adjustment to non-controlling interests				(545)		(545)	545	—
Repurchase of shares of common stock		(288,172)	—	(3,035)		(3,035)		(3,035)
Share-based long term incentive plan unit awards				162		162	2	164
BALANCE, March 31, 2020	<u>\$ 111,034</u>	<u>43,779,924</u>	<u>\$ 44</u>	<u>\$ 916,006</u>	<u>\$ (252,701)</u>	<u>\$ 774,383</u>	<u>\$ 35,098</u>	<u>\$ 809,481</u>
Net income (loss)					39,219	39,219	1,220	40,439
Contributions from non-controlling interests							2,895	2,895
Common dividends ⁽¹⁾					(10,945)	(10,945)	(152)	(11,097)
Preferred dividends ⁽²⁾					(1,941)	(1,941)	—	(1,941)
Distributions to non-controlling interests							(2,280)	(2,280)
Share-based long term incentive plan unit awards				180		180	2	182
BALANCE, June 30, 2020	<u>\$ 111,034</u>	<u>43,779,924</u>	<u>\$ 44</u>	<u>\$ 916,186</u>	<u>\$ (226,368)</u>	<u>\$ 800,896</u>	<u>\$ 36,783</u>	<u>\$ 837,679</u>
Net income (loss)					48,143	48,143	1,559	49,702
Contributions from non-controlling interests							1,199	1,199
Common dividends ⁽¹⁾					(11,821)	(11,821)	(166)	(11,987)
Preferred dividends ⁽²⁾					(1,940)	(1,940)	—	(1,940)
Distributions to non-controlling interests							(2,541)	(2,541)
Conversion of non-controlling interest units to shares of common stock		3,638	—	59		59	(59)	—
Adjustment to non-controlling interests				(369)		(369)	369	—
Repurchase of shares of common stock		(1,878)	—	(21)		(21)		(21)
Share-based long term incentive plan unit awards				183		183	3	186
BALANCE, September 30, 2020	<u>\$ 111,034</u>	<u>43,781,684</u>	<u>\$ 44</u>	<u>\$ 916,038</u>	<u>\$ (191,986)</u>	<u>\$ 835,130</u>	<u>\$ 37,147</u>	<u>\$ 872,277</u>

- (1) For the three-month periods ended September 30, 2021 and 2020, dividends totaling \$0.45 and \$0.27, respectively, per share of common stock and convertible unit outstanding, were declared. For the nine-month periods ended September 30, 2021 and 2020, dividends totaling \$1.19 and \$0.97, respectively, per share of common stock and convertible unit outstanding, were declared.
- (2) For each of the three-month periods ended September 30, 2021 and 2020 dividends totaling \$0.421875 per share of preferred stock were declared. For the nine-month periods ended September 30, 2021 and 2020 dividends totaling \$1.265625 and \$0.84375, respectively, per share of preferred stock were declared.
- (3) Net of underwriters' discounts and commissions and offering costs.

See Notes to Condensed Consolidated Financial Statements

ELLINGTON FINANCIAL INC.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	Nine-Month Period Ended	
	September 30, 2021	September 30, 2020
	<i>Expressed in U.S. Dollars</i>	
<i>(In thousands)</i>		
Cash Flows from Operating Activities:		
Net cash provided by (used in) operating activities	\$ 58,832	\$ 82,480
Cash Flows from Investing Activities:		
Purchase of securities	(1,770,962)	(1,189,684)
Purchase of loans	(1,225,176)	(548,104)
Capital improvements of real estate owned	(2,205)	(153)
Proceeds from disposition of securities	1,090,836	1,830,612
Proceeds from disposition of loans	1,064	8,006
Contributions to investments in unconsolidated entities	(9,171)	(19,711)
Distributions from investments in unconsolidated entities	119,395	17,181
Proceeds from disposition of real estate owned	1,335	7,801
Proceeds from principal payments of securities	357,692	284,242
Proceeds from principal payments of loans	225,426	337,748
Proceeds from securities sold short	377,784	264,267
Repurchase of securities sold short	(384,275)	(292,105)
Payments on financial derivatives	(41,821)	(99,800)
Proceeds from financial derivatives	41,283	68,546
Payments made on reverse repurchase agreements	(15,049,417)	(6,659,967)
Proceeds from reverse repurchase agreements	15,046,818	6,686,565
Due from brokers, net	(628)	12,376
Due to brokers, net	(82)	5,641
Net cash provided by (used in) investing activities	(1,222,104)	713,461
Cash Flows from Financing Activities:		
Net proceeds from the issuance of common stock ⁽¹⁾	141,619	95,537
Offering costs paid	(482)	(253)
Repurchase of common stock	—	(3,056)
Dividends paid	(58,469)	(50,642)
Contributions from non-controlling interests	10,744	9,134
Distributions to non-controlling interests	(20,342)	(7,961)
Proceeds from issuance of Other secured borrowings	64,837	45,963
Principal payments on Other secured borrowings	(25,718)	(59,893)
Borrowings under repurchase agreements	4,131,514	3,445,412
Repayments of repurchase agreements	(3,482,991)	(4,423,440)
Proceeds from issuance of Other secured borrowings, at fair value	534,477	205,357
Repayment of Other secured borrowings, at fair value	(111,529)	—
Due from brokers, net	(26,700)	2,620
Due to brokers, net	(1,718)	(238)
Net cash provided by (used in) financing activities	1,155,242	(741,460)
Net Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash	(8,030)	54,481
Cash, Cash Equivalents, and Restricted Cash, Beginning of Period	111,822	72,477
Cash, Cash Equivalents, and Restricted Cash, End of Period	\$ 103,792	\$ 126,958

See Notes to Condensed Consolidated Financial Statements

ELLINGTON FINANCIAL INC.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
(UNAUDITED)

<i>(In thousands)</i>	Nine-Month Period Ended	
	September 30, 2021	September 30, 2020
	<i>Expressed in U.S. Dollars</i>	
Supplemental disclosure of cash flow information:		
Interest paid	\$ 34,531	\$ 54,958
Income tax paid	2,485	505
Dividends payable	9,149	5,299
Shares issued in connection with incentive fee payment (non-cash)	716	531
Contributions from non-controlling interests (non-cash)	—	2,340
Distributions to non-controlling interests (non-cash)	—	(2,340)
Transfers from mortgage loans to real estate owned (non-cash)	14,033	2,198
Transfers from mortgage loans to investments in unconsolidated entities (non-cash)	82,837	10,833
Purchase of loans (non-cash)	(800)	(6,270)
Principal payments on Other secured borrowings, at fair value (non-cash)	(341,503)	(138,608)
Proceeds received from Other secured borrowings, at fair value (non-cash)	40,670	27,735
Proceeds from issuance of Other secured borrowings (non-cash)	800	6,270
Proceeds from principal payments of investments (non-cash)	341,503	138,608
Repayments of repurchase agreements (non-cash)	(39,618)	(27,288)

(1) Net of underwriters' discounts and commissions.

See Notes to Condensed Consolidated Financial Statements

ELLINGTON FINANCIAL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2021
(UNAUDITED)

1. Organization and Investment Objective

Ellington Financial Inc., formerly known as Ellington Financial LLC, was originally formed as a Delaware limited liability company on July 9, 2007 and commenced operations on August 17, 2007. On February 28, 2019, Ellington Financial LLC filed a certificate of conversion with the Secretary of State of the State of Delaware (the "Secretary") to convert from a Delaware limited liability company to a Delaware corporation (the "Conversion") and change its name to Ellington Financial Inc. The Conversion became effective on March 1, 2019, and upon effectiveness, each of Ellington Financial LLC's existing common shares representing limited liability company interests, no par value, converted into one issued and outstanding, fully paid and nonassessable share of common stock, \$0.001 par value per share, of Ellington Financial Inc. In connection with the Conversion, Ellington Financial Inc.'s Board of Directors (the "Board of Directors") approved Ellington Financial Inc.'s Certificate of Incorporation (which was also filed with the Secretary) and Bylaws.

Ellington Financial Operating Partnership LLC (the "Operating Partnership"), a 98.8% owned consolidated subsidiary of Ellington Financial Inc., was formed as a Delaware limited liability company on December 14, 2012 and commenced operations on January 1, 2013. All of Ellington Financial Inc.'s operations and business activities are conducted through the Operating Partnership. Ellington Financial Inc., the Operating Partnership, and their consolidated subsidiaries are hereafter collectively referred to as the "Company." All intercompany accounts are eliminated in consolidation.

The Company conducts its operations to qualify and be taxed as a real estate investment trust, or "REIT," under the Internal Revenue Code of 1986, as amended (the "Code"), and has elected to be taxed as a corporation effective January 1, 2019. In anticipation of the Company's intended election to be taxed as a REIT under the Code beginning with its 2019 taxable year (the "REIT Election"), the Company implemented an internal restructuring as of December 31, 2018. As part of this restructuring, the Company moved certain of its non-REIT-qualifying investments and financial derivatives to taxable REIT subsidiaries or, "TRSs," and disposed of certain of its investments in non-REIT-qualifying investments and financial derivatives.

The Company invests in a diverse array of financial assets, including residential and commercial mortgage loans, residential mortgage-backed securities, or "RMBS," commercial mortgage-backed securities, or "CMBS," consumer loans and asset-backed securities, or "ABS," including ABS backed by consumer loans, collateralized loan obligations, or "CLOs," non-mortgage- and mortgage-related derivatives, equity investments in loan origination companies, and other strategic investments.

Ellington Financial Management LLC (the "Manager") is an SEC-registered investment adviser that serves as the Manager to the Company pursuant to the terms of its Seventh Amended and Restated Management Agreement (the "Management Agreement"), which was approved by the Board of Directors effective March 13, 2018. The Manager is an affiliate of Ellington Management Group, L.L.C. ("Ellington"), an investment management firm that is registered as both an investment adviser and a commodity pool operator. In accordance with the terms of the Management Agreement, the Manager implements the investment strategy and manages the business and operations on a day-to-day basis for the Company and performs certain services for the Company, subject to oversight by the Board of Directors.

2. Significant Accounting Policies

(A) Basis of Presentation: The Company's unaudited condensed consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America, or "U.S. GAAP," and Regulation S-X. The condensed consolidated financial statements include the accounts of the Company, the Operating Partnership, its subsidiaries, and variable interest entities, or "VIEs," for which the Company is deemed to be the primary beneficiary. All intercompany balances and transactions have been eliminated. The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material (particularly in light of the significant volatility, lack of pricing transparency, and market dislocations that have been caused by the novel coronavirus disease, or "COVID-19," pandemic, and associated responses to the pandemic). In management's opinion, all material adjustments considered necessary for a fair statement of the Company's condensed 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 the condensed consolidated financial statements and notes thereto should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2020, as amended.

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

- Level 1—inputs to the valuation methodology are observable and reflect quoted prices (unadjusted) for identical assets or liabilities in active markets. Currently, the types of financial instruments the Company generally includes in this category are listed equities and exchange-traded derivatives;
- Level 2—inputs to the valuation methodology other than quoted prices included in Level 1 are observable for the asset or liability, either directly or indirectly. Currently, the types of financial instruments that the Company generally includes in this category are RMBS, for which the principal and interest payments are guaranteed by a U.S. government agency or a U.S. government-sponsored entity, or "Agency RMBS," U.S. Treasury securities and sovereign debt, certain non-Agency RMBS, CMBS, CLOs, corporate debt, and actively traded derivatives such as interest rate swaps, foreign currency forwards, and other over-the-counter derivatives; and
- Level 3—inputs to the valuation methodology are unobservable and significant to the fair value measurement. The types of financial instruments that the Company generally includes in this category are certain RMBS, CMBS, CLOs, ABS, credit default swaps, or "CDS," on individual ABS, and total return swaps on distressed corporate debt, in each case where there is less price transparency. Also included in this category are residential and commercial mortgage loans, consumer loans, and private corporate debt and equity investments.

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

Summary Valuation Techniques

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

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

Level 2. Non-Agency RMBS, CMBS, Agency interest only and inverse interest only RMBS, CLOs, and corporate bonds are generally classified as either Level 2 or Level 3 based on analysis of available market data and/or third-party valuations. The Company's investments in distressed corporate debt can be in the form of loans as well as total return swaps on loans. These investments, as well as related non-listed equity investments, are generally designated as Level 3 assets. Valuations for total return swaps are typically based on prices of the underlying loans received from third-party pricing services. Private equity investments are generally classified as Level 3. Furthermore, the methodology used by the third-party valuation providers is reviewed at least annually by management, so as to ascertain whether such providers are utilizing observable market data to determine the valuations that they provide.

For residential and commercial mortgage loans, and consumer loans, management determines fair value by taking into account both external pricing data, which includes third-party valuations, and internal pricing models. Management has obtained third-party valuations on the majority of these investments and expects to continue to solicit third-party valuations in the future. In determining fair value for non-performing mortgage loans, management evaluates third-party valuations, if applicable, as well as management's estimates of the value of the underlying real estate, using information including general economic data, broker price opinions, or "BPOs," recent sales, property appraisals, and bids. In determining fair value for performing mortgage loans and consumer loans, management evaluates third-party valuations, if applicable, as well as discounted cash flows of the loans based on market assumptions. Cash flow assumptions typically include projected default and prepayment rates and loss severities, and may include adjustments based on appraisals and BPOs. Mortgage and consumer loans are classified as Level 3.

The Company has securitized certain mortgage loans that are not deemed "qualified mortgage," or "QM," loans under the rules of the Consumer Financial Protection Bureau, or "non-QM loans." The Company's securitized non-QM loans are held as part of a collateralized financing entity, or "CFE." A CFE is a VIE that holds financial assets, issues beneficial interests in those assets, and has no more than nominal equity, and for which the issued beneficial interests have contractual recourse only to the related assets of the CFE. ASC 810, *Consolidation* ("ASC 810") allows the Company to elect to measure both the financial assets and financial liabilities of the CFE using the more observable of the fair value of the financial assets and the fair value of the financial liabilities of the CFE. The Company has elected the fair value option, or "FVO," for initial and subsequent recognition of the debt issued by its consolidated securitization trusts and has determined that each consolidated securitization trust meets the definition of a CFE; see Note 10 "*Securitization Transactions—Residential Mortgage Loan Securitizations*" for further discussion on the Company's securitization trusts. The Company has determined the inputs to the fair value measurement of the financial liabilities of each of its CFEs to be more observable than those of the financial assets and, as a result, has used the fair value of the financial liabilities of each of the CFEs to measure the fair value of the financial assets of each of the CFEs. The fair value of the debt issued by each CFE is typically valued using both external pricing data, which includes third-party valuations, and internal pricing models. The securitized non-QM loans, which are assets of the CFEs, are included in Loans, at fair value, on the Company's Condensed Consolidated Balance Sheet. The debt issued by the CFEs is included in Other secured borrowings, at fair value, on the Company's Condensed Consolidated Balance Sheet. Unrealized gains (losses) from changes in fair value of Other secured borrowings, at fair value, are included in Other, net, on the Company's Condensed Consolidated Statement of Operations. The securitized non-QM loans and the debt issued by the Company's CFEs are both classified as Level 3.

For financial derivatives with greater price transparency, such as CDS on asset-backed indices, CDS on corporate indices, certain options on the foregoing, and total return swaps on publicly traded equities or indices, market-standard pricing sources are used to obtain valuations; these financial derivatives are generally classified as Level 2. Interest rate swaps, swaptions, and foreign currency forwards are typically valued based on internal models that use observable market data, including applicable interest rates and foreign currency rates in effect as of the measurement date; the model-generated valuations are then typically compared to counterparty valuations for reasonableness. These financial derivatives are also generally classified as Level 2. Financial derivatives with less price transparency, such as CDS on individual ABS, are generally valued based on internal models, and are classified as Level 3. In the case of CDS on individual ABS, the valuation process typically starts with an estimation of the value of the underlying ABS. In valuing its financial derivatives, the Company also considers the creditworthiness of both the Company and its counterparties, along with collateral provisions contained in each financial derivative agreement.

Investments in private operating entities, such as loan originators, are valued based on available metrics, such as relevant market multiples and comparable company valuations, company specific-financial data including actual and projected results, and independent third party valuation estimates. These investments are classified as Level 3.

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

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

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

(C) *Accounting for Securities*: Purchases and sales of investments in securities are generally recorded on trade date, and realized and unrealized gains and losses are calculated based on identified cost. Investments in securities are recorded in accordance with ASC 320, *Investments—Debt and Equity Securities* ("ASC 320") or ASC 325-40, *Beneficial Interests in Securitized Financial Assets* ("ASC 325-40"). The Company generally classifies its securities as available-for-sale. The Company has chosen to elect the FVO pursuant to ASC 825, *Financial Instruments* ("ASC 825") for its investments in securities. Electing the FVO allows the Company to record changes in fair value in the Condensed Consolidated Statement of Operations, as a component of Unrealized gains (losses) on securities and loans, net, which, in management's view, more appropriately reflects the results of operations for a particular reporting period as all investment activities will be recorded in a similar manner.

Many of the Company's investments in securities, such as MBS and CLOs, are issued by entities that are deemed to be VIEs. For the majority of such investments, the Company has determined it is not the primary beneficiary of such VIEs and therefore has not consolidated such VIEs. The Company's maximum risk of loss in these unconsolidated VIEs is generally limited to the fair value of the Company's investment in the VIE.

The Company evaluates its investments in interest only securities to determine whether they meet the requirements for classification as financial derivatives under ASC 815, *Derivatives and Hedging* ("ASC 815"). For interest only securities, where the holder is entitled only to a portion of the interest payments made on the mortgages underlying certain MBS, and inverse interest only securities, which are interest only securities whose coupon has an inverse relationship to its benchmark rate, such as LIBOR, the Company has determined that such investments do not meet the requirements for treatment as financial derivatives and are classified as securities.

The Company applies the principles of ASU 2016-13, *Financial Instruments—Credit Losses* ("ASU 2016-13") and evaluates the cost basis of its investments in securities on at least a quarterly basis, under ASC 326-30, *Financial Instruments—Credit Losses: Available-for-Sale Debt Securities* ("ASC 326-30"). When the fair value of a security is less than its amortized cost basis as of the balance sheet date, the security's cost basis is considered impaired. The Company must evaluate the decline in the fair value of the impaired security and determine whether such decline resulted from a credit loss or non-credit related factors. In its assessment of whether a credit loss exists, the Company compares the present value of estimated future cash flows of the impaired security with the amortized cost basis of such security. The estimated future cash flows reflect those that a "market participant" would use and typically include assumptions related to fluctuations in interest rates, prepayment speeds, default rates, collateral performance, and the timing and amount of projected credit losses, as well incorporating observations of current market developments and events. Cash flows are discounted at an interest rate equal to the current yield used to accrete interest income. If the present value of estimated future cash flows is less than the amortized cost basis of the security, an expected credit loss exists and is included in Unrealized gains (losses) on securities and loans, net, on the Condensed Consolidated Statement of Operations. If it is determined as of the financial reporting date that all or a portion of a security's cost basis is not collectible, then the Company will recognize a realized loss to the extent of the adjustment to the security's cost basis. This adjustment to the amortized cost basis of the security is reflected in Net realized gains (losses) on securities and loans, net, on the Condensed Consolidated Statement of Operations.

(D) *Accounting for Loans*: The Company's loan portfolio primarily consists of residential mortgage, commercial mortgage, and consumer loans. The Company's loans are accounted for under ASC 310-10, *Receivables*, and are classified as held-for-investment when the Company has the intent and ability to hold such loans for the foreseeable future or to maturity/payoff. When the Company has the intent to sell loans, such loans will be classified as held-for-sale. Mortgage loans held-for-sale are accounted for under ASC 948-310, *Financial services—mortgage banking*. The Company may aggregate its loans into pools based on common risk characteristics at purchase. The Company has chosen to elect the FVO pursuant to ASC 825 for its loan portfolios. Loans are recorded at fair value on the Condensed Consolidated Balance Sheet and changes in fair value are recorded in earnings on the Condensed Consolidated Statement of Operations as a component of Unrealized gains (losses) on securities and loans, net. The Company generates income from fees on certain loans, generally commercial mortgage loans, that it originates and holds for investment, including origination and exit fees. Such fee income is recorded when earned and

included in Other, net on the Condensed Consolidated Statement of Operations. Transfers between held-for-investment and held-for-sale occur once the Company's intent to sell the loans changes.

For residential and commercial mortgage loans, the Company generally accrues interest payments. Such loans are typically moved to non-accrual status if the loan becomes 90 days or more delinquent. The Company does not accrue interest payments on its consumer loans; interest payments are recorded upon receipt. Once consumer loans are more than 120 days past due, the Company will generally charge off such loans. The Company evaluates its charged-off loans and determines collectibility, if any, on such loans.

The Company evaluates the collectibility of both interest and principal on each of its loan investments and whether the cost basis of the loan is impaired. A loan's cost basis is impaired when, based on current information and market developments, it is probable that the Company will be unable to collect all amounts due according to the existing contractual terms. When a loan's cost basis is impaired, the Company does not record an allowance for loan loss as it elected the FVO on all of its loan investments.

Consistent with the Company's application of the principles of ASU 2016-13, in its assessment of whether a credit loss exists, the Company compares the present value of the amount expected to be collected on the impaired loan with the amortized cost basis of such loan. If the present value of the amount expected to be collected on the impaired loan is less than the amortized cost basis of such loan, an expected credit loss exists and is included in Unrealized gains (losses) on securities and loans, net, on the Condensed Consolidated Statement of Operations. If it is determined as of the financial reporting date that all or a portion of a loan's cost basis is not collectible, then the Company will recognize a realized loss to the extent of the adjustment to the loan's cost basis. This adjustment to the amortized cost basis of the loan is reflected in Realized gains (losses) on securities and loans, net, on the Condensed Consolidated Statement of Operations.

(E) Interest Income: The Company amortizes premiums and accretes discounts on its debt securities. Coupon interest income on fixed-income investments is generally accrued based on the outstanding principal balance or notional value and the current coupon rate.

For debt securities that are deemed to be of high credit quality at the time of purchase (generally Agency RMBS, exclusive of interest only securities), premiums and discounts are amortized/accreted into interest income over the life of such securities using the effective interest method. For such securities whose cash flows vary depending on prepayments, an effective yield retroactive to the time of purchase is periodically recomputed based on actual prepayments and changes in projected prepayment activity, and a catch-up adjustment, or "Catch-up Premium Amortization Adjustment," is made to amortization to reflect the cumulative impact of the change in effective yield.

For debt securities (generally non-Agency RMBS, CMBS, ABS, CLOs, and interest only securities) that are deemed not to be of high credit quality at the time of purchase, interest income is recognized based on the effective interest method. For purposes of estimating future expected cash flows, management uses assumptions including, but not limited to, assumptions for future prepayment rates, default rates, and loss severities (each of which may in turn incorporate various macro-economic assumptions, such as future housing prices, GDP growth rates, and unemployment rates). These assumptions are re-evaluated not less than quarterly. Changes in projected cash flows may result in prospective changes in the yield/interest income recognized on such securities based on the updated expected future cash flows.

For each loan purchased with the expectation that both interest and principal will be paid in full, the Company generally amortizes or accretes any premium or discount over the life of the loan utilizing the effective interest method. However, based on current information and market developments, the Company re-assesses the collectibility of interest and principal, and generally designates a loan as in non-accrual status either when any payments have become 90 or more days past due, or when, in the opinion of management, it is probable that the Company will be unable to collect either interest or principal in full. Once a loan is designated as in non-accrual status, as long as principal is still expected to be collectible in full, interest payments are recorded as interest income only when received (i.e., under the cash basis method); accruals of interest income are only resumed when the loan becomes contractually current and performance is demonstrated to be resumed. However, if principal is not expected to be collectible in full, the cost recovery method is used (i.e., no interest income is recognized, and all payments received—whether contractually interest or principal—are applied to cost).

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

In estimating future cash flows on the Company's debt securities, there are a number of assumptions that are subject to significant uncertainties and contingencies, including, in the case of MBS, assumptions relating to prepayment rates, default rates, loan loss severities, and loan repurchases. These estimates require the use of a significant amount of judgment.

(F) Investments in unconsolidated entities: The Company has made and may in the future make non-controlling equity investments in various entities, such as loan originators. Such investments are generally in the form of preferred and/or common equity, or membership interests. In certain cases, the Company can exercise significant influence over the entity (e.g. by having representation on the entity's board of directors) but the requirements for consolidation under ASC 810 are not met; in such cases the Company is required to account for such equity investments under ASC 323-10, *Investments—Equity Method and Joint Ventures* ("ASC 323-10"). The Company has chosen to elect the FVO pursuant to ASC 825 for its investments in unconsolidated entities, which, in management's view, more appropriately reflects the results of operations for a particular reporting period, as all investment activities will be recorded in a similar manner. The period change in fair value of the Company's investments in unconsolidated entities is recorded on the Condensed Consolidated Statement of Operations in Earnings (losses) from investments in unconsolidated entities.

(G) Real Estate Owned "REO": When the Company obtains possession of real property in connection with a foreclosure or similar action, the Company de-recognizes the associated mortgage loan according to ASU 2014-04, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure* ("ASU 2014-04"). Under the provisions of ASU 2014-04, the Company is deemed to have received physical possession of real estate property collateralizing a mortgage loan when it obtains legal title to the property upon completion of a foreclosure or when the borrower conveys all interest in the property to it through a deed in lieu of foreclosure or similar legal agreement. The Company's initial cost basis in REO is equal to the fair value of the real estate associated with the foreclosed mortgage loan, less expected costs to sell. REO valuations are reflected at the lower of cost or fair value. The fair value of such REO is typically based on management's estimates which generally use information including general economic data, BPOs, recent sales, property appraisals, and bids, and takes into account the expected costs to sell the property. REO recorded at fair value on a non-recurring basis are classified as Level 3.

(H) Securities Sold Short: The Company may purchase or engage in short sales of U.S. Treasury securities and sovereign debt to mitigate the potential impact of changes in interest rates and/or foreign exchange rates on the performance of its portfolio. When the Company sells securities short, it typically satisfies its security delivery settlement obligation by borrowing or purchasing the security sold short from the same or a different counterparty. When borrowing a security sold short from a counterparty, the Company generally is required to deliver cash or securities to such counterparty as collateral for the Company's obligation to return the borrowed security. The Company has chosen to elect the FVO pursuant to ASC 825 for its securities sold short. Electing the FVO allows the Company to record changes in fair value in the Condensed 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 Condensed Consolidated Balance Sheet and the period change in fair value is recorded in current period earnings on the Condensed Consolidated Statement of Operations as a component of Unrealized gains (losses) on securities and loans, net. A realized gain or loss will be recognized upon the termination of a short sale if the market price is less or greater than the original sale price. Such realized gain or loss is recorded on the Company's Condensed Consolidated Statement of Operations in Realized gains (losses) on securities and loans, net.

(I) Financial Derivatives: The Company enters into various types of financial derivatives subject to its investment guidelines, which include restrictions associated with maintaining qualification as a REIT. The Company's financial derivatives are predominantly subject to bilateral master trade agreements or clearing in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the "Dodd-Frank Act." The Company may be required to deliver or receive cash or securities as collateral upon entering into derivative transactions. In addition, changes in the value of derivative transactions may require the Company or the counterparty to post or receive additional collateral. In the case of cleared derivatives, the clearinghouse becomes the Company's counterparty and a futures commission merchant acts as an intermediary between the Company and the clearinghouse with respect to all facets of the related transaction, including the posting and receipt of required collateral. Cash collateral received by the Company is included in Due to brokers, on the Condensed Consolidated Balance Sheet. Conversely, cash collateral posted by the Company is included in Due from brokers, on the Condensed Consolidated Balance Sheet. The types of derivatives primarily utilized by the Company are swaps, TBAs, futures, options, and forwards.

Swaps: The Company may enter into various types of swaps, including interest rate swaps, credit default swaps, and total return swaps. The primary risk associated with the Company's interest rate swap activity is interest rate risk. The primary risk associated with the Company's credit default swaps and total return swaps is credit risk.

The Company is subject to interest rate risk exposure in the normal course of pursuing its investment objectives. Primarily to help mitigate interest rate risk, the Company enters into interest rate swaps. Interest rate swaps are contractual

agreements whereby one party pays a floating interest rate on a notional principal amount and receives a fixed-rate payment on the same notional principal, or vice versa, for a fixed period of time. Interest rate swaps change in value with movements in interest rates. The Company also enters into interest rate swaps whereby the Company pays one floating rate and receives a different floating rate, or "basis swaps."

The Company enters into credit default swaps. A credit default swap is a contract under which one party agrees to compensate another party for the financial loss associated with the occurrence of a "credit event" in relation to a "reference amount" or notional value of a "reference asset" (usually a bond, loan, or an index or basket of bonds or loans). The definition of a credit event may vary from contract to contract. A credit event may occur (i) when the reference asset (or underlying asset, in the case of a reference asset that is an index or basket) fails to make scheduled principal or interest payments to its holders, (ii) with respect to credit default swaps referencing mortgage/asset-backed securities and indices, when the reference asset (or underlying asset, in the case of a reference asset that is an index or basket) is downgraded below a certain rating level, or (iii) with respect to credit default swaps referencing corporate entities and indices, upon the bankruptcy of the obligor of the reference asset (or underlying obligor, in the case of a reference asset that is an index). The Company typically writes (sells) protection to take a "long" position with respect to the underlying reference assets, or purchases (buys) protection to take a "short" position with respect to the underlying reference assets or to hedge exposure to other investment holdings.

The Company enters into total return swaps in order to take a "long" or "short" position with respect to an underlying reference asset. The Company is subject to market price volatility of the underlying reference asset. A total return swap involves commitments to pay interest in exchange for a market-linked return based on a notional value. To the extent that the total return of the corporate debt, security, group of securities or index underlying the transaction exceeds or falls short of the offsetting interest obligation, the Company will receive a payment from or make a payment to the counterparty.

Swaps change in value with movements in interest rates, credit quality, or total return of the reference securities. During the term of swap contracts, changes in value are recognized as unrealized gains or losses on the Condensed 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 Condensed Consolidated Balance Sheet and are recorded as a realized gain or loss on the termination date.

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

TBAs are accounted for by the Company as financial derivatives. The difference between the forward contract price and the market value of the TBA position as of the reporting date is included in Unrealized gains (losses) on financial derivatives, net, on the Condensed Consolidated Statement of Operations.

Futures Contracts: A futures contract is an exchange-traded agreement to buy or sell an asset for a set price on a future date. The Company enters into Eurodollar and/or U.S. Treasury security futures contracts to hedge its interest rate risk. The Company may also enter into various other futures contracts, including equity index futures and foreign currency futures. Initial margin deposits are made upon entering into futures contracts and can generally be either in the form of cash or securities. During the period the futures contract is open, changes in the value of the contract are recognized as unrealized gains or losses by marking-to-market to reflect the current market value of the contract. Variation margin payments are made or received periodically, depending upon whether unrealized losses or gains are incurred. When the contract is closed, the Company records a realized gain or loss equal to the difference between the proceeds of the closing transaction and the Company's basis in the contract.

Options: The Company may purchase or write put or call options contracts or enter into swaptions. The Company enters into options contracts typically to help mitigate overall market, credit, or interest rate risk depending on the type of options contract. However, the Company also enters into options contracts from time to time for speculative purposes. When the Company purchases an options contract, the option asset is initially recorded at an amount equal to the premium paid, if any, and is subsequently marked-to-market. Premiums paid for purchasing options contracts that expire unexercised are recognized

on the expiration date as realized losses. If an options contract is exercised, the premium paid is subtracted from the proceeds of the sale or added to the cost of the purchase to determine whether the Company has realized a gain or loss on the related transaction. When the Company writes an options contract, the option liability is initially recorded at an amount equal to the premium received, if any, and is subsequently marked-to-market. Premiums received for writing options contracts that expire unexercised are recognized on the expiration date as realized gains. If an options contract is exercised, the premium received is subtracted from the cost of the purchase or added to the proceeds of the sale to determine whether the Company has realized a gain or loss on the related investment transaction. When the Company enters into a closing transaction, the Company will realize a gain or loss depending upon whether the amount from the closing transaction is greater or less than the premiums paid or received. The Company may also enter into options contracts that contain forward-settling premiums. In this case, no money is exchanged upfront. Instead, the agreed-upon premium is paid by the buyer upon expiration of the option, regardless of whether or not the option is exercised.

Forward Currency Contracts: A forward currency contract is an agreement between two parties to purchase or sell a specific quantity of currency with the delivery and settlement at a specific future date and exchange rate. During the period the forward currency contract is open, changes in the value of the contract are recognized as unrealized gains or losses. When the contract is settled, the Company records a realized gain or loss equal to the difference between the proceeds of the closing transaction and the Company's basis in the contract.

Financial derivative assets are included in Financial derivatives—assets, at fair value, on the Condensed Consolidated Balance Sheet. Financial derivative liabilities are included in Financial derivatives—liabilities, at fair value, on the Condensed Consolidated Balance Sheet. The Company has chosen to elect the FVO pursuant to ASC 825 for its financial derivatives. Electing the FVO allows the Company to record changes in fair value in the Condensed Consolidated Statement of Operations, which, in management's view, more appropriately reflects the results of operations for a particular reporting period as all securities activities will be recorded in a similar manner. Changes in unrealized gains and losses on financial derivatives are included in Unrealized gains (losses) on financial derivatives, net, on the Condensed Consolidated Statement of Operations. Realized gains and losses on financial derivatives are included in Realized gains (losses) on financial derivatives, net, on the Condensed Consolidated Statement of Operations.

(J) Cash and Cash Equivalents: Cash and cash equivalents include cash and short term investments with original maturities of three months or less at the date of acquisition. Cash and cash equivalents typically include amounts held in interest bearing overnight accounts and amounts held in money market funds, and these balances generally exceed insured limits. The Company holds its cash at institutions that it believes to be highly creditworthy. Restricted cash represents cash that the Company can use only for specific purposes. See Note 18 for further discussion of restricted cash balances.

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

(L) Reverse Repurchase Agreements: The Company enters into reverse repurchase agreement transactions whereby it purchases securities under agreements to resell at an agreed-upon price and date. In general, securities received pursuant to reverse repurchase agreements are delivered to counterparties of short sale transactions. The interest rate on a reverse repurchase agreement is based on competitive rates (or competitive market spreads, in the case of agreements with floating interest rates) at the time such agreement is entered into. Assets held pursuant to reverse repurchase agreements are reflected as assets on the Condensed Consolidated Balance Sheet. Reverse repurchase agreements are carried at their contractual amounts, which approximates fair value due to their short-term nature.

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

(M) Transfers of Financial Assets: The Company enters into transactions whereby it transfers financial assets to third parties. Upon such a transfer of financial assets, the Company will sometimes retain or acquire interests in the related assets. The Company evaluates transferred assets pursuant to ASC 860-10, *Transfers of Financial Assets*, or "ASC 860-10," which

requires that a determination be made as to whether a transferor has surrendered control over transferred financial assets. That determination must consider the transferor's continuing involvement in the transferred financial asset, including all arrangements or agreements made contemporaneously with, or in contemplation of, the transfer, even if they were not entered into at the time of the transfer. When a transfer of financial assets does not qualify as a sale, ASC 860-10 requires the transfer to be accounted for as a secured borrowing with a pledge of collateral. ASC 860-10 is a standard that requires the Company to exercise significant judgment in determining whether a transaction should be recorded as a "sale" or a "financing."

(N) Variable Interest Entities: VIEs are entities in which: (i) the equity investors do not have the characteristics of a controlling financial interest, or (ii) there is insufficient equity to permit the entity to finance its activities without additional subordinated financial support from other parties. Consolidation of a VIE is required by the entity that is deemed to be the primary beneficiary of the VIE. The Company evaluates all of its interests in VIEs for consolidation under ASC 810. The primary beneficiary is generally the party with both (i) the power to direct the activities of the VIE that most significantly impact its economic performance, and (ii) the obligation to absorb losses and the right to receive benefits from the VIE which could be potentially significant to the VIE.

When the Company has an interest in an entity that has been determined to be a VIE, the Company assesses whether it is deemed to be the primary beneficiary of the VIE. The Company will only consolidate a VIE for which it has concluded it is the primary beneficiary. To assess whether the Company has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, the Company considers all facts and circumstances, including its role in establishing the VIE and its ongoing rights and responsibilities. This assessment includes (i) identifying the activities that most significantly impact the VIE's economic performance; and (ii) identifying which party, if any, has power over those activities. To assess whether the Company has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE, it considers all of its economic interests, including debt and/or equity investments, as well as other arrangements deemed to be variable interests in the VIE. These assessments to determine whether the Company is the primary beneficiary require significant judgment. In instances where the Company and its related parties have interests in a VIE, the Company considers whether there is a single party in the related party group that meets the criteria to be deemed the primary beneficiary. If one party within the related party group meets such criteria, that reporting entity would be deemed to be the primary beneficiary of the VIE and no further analysis is needed. If no party within the related party group on its own meets the criteria to be deemed the primary beneficiary, but the related party group as a whole meets such criteria, the determination of the primary beneficiary within the related party group requires significant judgment. The Company performs analysis, which is based upon qualitative as well as quantitative factors, such as the relationship of the VIE to each of the members of the related party group, as well as the significance of the VIE's activities to those members, with the objective of determining which party is most closely associated with the VIE.

The Company performs ongoing reassessments of (i) whether any entities previously evaluated have become VIEs, based on certain events, and therefore subject to assessment to determine whether consolidation is appropriate, and (ii) whether changes in the facts and circumstances regarding the Company's involvement with a VIE causes its consolidation conclusion regarding the VIE to change. See Note 9 and Note 13 for further information on the Company's consolidated VIEs.

The Company's maximum amount at risk is generally limited to the Company's investment in the VIE. The Company is generally not contractually required to provide and has not provided any form of financial support to the VIEs.

The Company holds beneficial interests in certain securitization trusts that are considered VIEs. The beneficial interests in these securitization trusts are represented by certificates issued by the trusts. The securitization trusts have been structured as pass-through entities that receive principal and interest payments on the underlying collateral and distribute those payments to the certificate holders, which include both third-party investors and the Company. The certificates held by the Company typically include some or all of the most subordinated tranches. The assets held by the trusts are restricted in that they can only be used to fulfill the obligations of the related trust. In certain cases, the design and structure of the securitization trust is such that the Company effectively retains control of the assets as well as the activities that most significantly impact the economic performance of the trust. In such cases, the Company is determined to be the primary beneficiary, and the Company consolidates the trust and all intercompany transactions are eliminated in consolidation. In cases where the Company does not effectively retain control of the assets of, or have the power to direct the activities that most significantly impact the economic performance of, the related trust, it does not consolidate the trust. See Note 10 for further discussion of the Company's securitization trusts.

(O) Offering Costs/Underwriters' Discount: Offering costs and underwriters' discount are generally charged against stockholders' equity upon the completion of a capital raise. Offering costs typically include legal, accounting, and other fees associated with the cost of raising capital.

(P) *Debt Issuance Costs*: Debt issuance costs associated with debt for which the Company has elected the FVO are expensed at the issuance of the debt, and are included in Investment related expenses—Other on the Condensed Consolidated Statement of Operations. Costs associated with the issuance of debt for which the Company has not elected the FVO are deferred and amortized over the life of the debt, which approximates the effective interest rate method, and are included in Interest expense on the Condensed Consolidated Statement of Operations. Deferred debt issuance costs are presented on the Condensed Consolidated Balance Sheet as a direct deduction from the related debt liability, unless such deferred debt issuance costs are associated with borrowing facilities that are expected to have a future benefit, such as giving the Company the ability to access additional borrowings over the contractual term of the debt, in which case such deferred debt issuance costs are included in Other assets on the Condensed Consolidated Balance Sheet. Debt issuance costs include legal and accounting fees, purchasers' or underwriters' discount, as well as other fees associated with the cost of the issuance of the related debt.

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

(R) *Investment Related Expenses*: Investment related expenses consist of expenses directly related to specific financial instruments. Such expenses generally include dividend expense on common stock sold short, servicing fees and corporate and escrow advances on mortgage and consumer loans, and various other expenses and fees related directly to the Company's financial instruments. The Company has elected the FVO for its investments, and as a result all investment related expenses are expensed as incurred and included in Investment related expenses on the Condensed Consolidated Statement of Operations.

(S) *Investment Related Receivables*: Investment related receivables on the Company's Condensed Consolidated Balance Sheet includes receivables for securities sold and interest and principal receivable on securities and loans.

(T) *Long Term Incentive Plan Units*: Long term incentive plan units of the Operating Partnership ("OP LTIP Units") have been issued to certain Ellington personnel dedicated or partially dedicated to the Company, certain of the Company's directors, as well as the Manager. Costs associated with OP LTIP Units issued to dedicated or partially dedicated personnel, or to the Company's directors, are measured as of the grant date based on the Company's closing stock price on the New York Stock Exchange and are amortized over the vesting period in accordance with ASC 718-10, *Compensation—Stock Compensation*. The vesting periods for OP LTIP Units are typically one year from issuance for non-executive directors, and are typically one year to two years from issuance for dedicated or partially dedicated personnel.

(U) *Non-controlling interests*: Non-controlling interests include interests in the Operating Partnership represented by units convertible into shares of the Company's common stock ("Convertible Non-controlling Interests"). Convertible Non-controlling Interests include both the OP LTIP Units and those common units ("OP Units") of the Operating Partnership not held by the Company (collectively, the "Convertible Non-controlling Interest Units"). Non-controlling interests also include the interests of joint venture partners in certain of our consolidated subsidiaries. The joint venture partners' interests are not convertible into shares of the Company's common stock. The Company adjusts the Convertible Non-controlling Interests to align their carrying value with their share of total outstanding Operating Partnership units, including both the OP Units held by the Company and the Convertible Non-controlling Interests. Any such adjustments are reflected in Adjustment to non-controlling interests, on the Condensed Consolidated Statement of Changes in Equity. See Note 15 for further discussion of non-controlling interests.

(V) *Dividends*: Dividends payable on shares of common stock and Convertible Non-controlling Interest Units are recorded on the declaration date.

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

(X) *Earnings Per Share ("EPS")*: Basic EPS is computed using the two class method by dividing net income (loss) after adjusting for the impact of Convertible Non-controlling Interests which are participating securities, by the weighted average number of shares of common stock outstanding calculated including Convertible Non-controlling Interests. Because the Company's Convertible Non-controlling Interests are participating securities, they are included in the calculation of both basic and diluted EPS.

(Y) *Foreign Currency*: The functional currency of the Company is U.S. dollars. Assets and liabilities denominated in foreign currencies are remeasured into U.S. dollars at current exchange rates at the following dates: (i) assets, liabilities, and unrealized gains/losses—at the valuation date; and (ii) income, expenses, and realized gains/losses—at the accrual/transaction date. The Company isolates the portion of realized and change in unrealized gain (loss) resulting from changes in foreign currency exchange rates on investments and financial derivatives from the fluctuations arising from changes in fair value of investments and financial derivatives held. Changes in realized and change in unrealized gain (loss) due to foreign currency are included in Other, net, on the Condensed Consolidated Statement of Operations.

The Company's reporting currency is U.S. Dollars. If the Company has investments in unconsolidated entities that have a functional currency other than U.S. Dollars, the fair value is translated to U.S. dollars using the current exchange rate at the valuation date. The cumulative translation adjustment, if any, associated with the Company's investments in unconsolidated entities is recorded in accumulated other comprehensive income (loss), a component of consolidated stockholders' equity.

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

As a REIT, if the Company fails to distribute in any calendar year (subject to specific timing rules for certain dividends paid in January) at least the sum of (i) 85% of its ordinary income for such year, (ii) 95% of its capital gain net income for such year, and (iii) any undistributed taxable income from the prior year, the Company would be subject to a non-deductible 4% excise tax on the excess of such required distribution over the sum of (i) the amounts actually distributed and (ii) the amounts of income retained and on which the Company has paid corporate income tax.

The Company elected to treat certain domestic and foreign subsidiaries as TRSs, and may in the future elect to treat other current or future subsidiaries as TRSs. In general, a TRS may hold assets and engage in activities that the Company cannot hold or engage in directly and generally may engage in any real estate or non-real estate-related business. A domestic TRS may, but is not required to, declare dividends to the Company; such dividends will be included in the Company's taxable income/(loss) and may necessitate a distribution to the Company's stockholders. Conversely, if the Company retains earnings at the level of a domestic TRS, such earnings will increase the book equity of the consolidated entity. A domestic TRS is subject to U.S. federal, state, and local corporate income taxes. The Company has elected and may elect in the future to treat certain of its foreign corporate subsidiaries as TRSs and, accordingly, taxable income generated by these TRSs may not be subject to U.S. federal, state, and local corporate income taxation, but generally will be included in the Company's income on a current basis as Subpart F income, whether or not distributed. However, certain of the Company's foreign subsidiaries may be subject to income taxes in the relevant foreign jurisdictions. The Company's financial results are generally not expected to reflect provisions for current or deferred income taxes, except for any activities conducted through one or more TRSs that are subject to corporate income taxation.

The Company follows the authoritative guidance on accounting for and disclosure of uncertainty on tax positions, which requires management to determine whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For uncertain tax positions, the tax benefit to be recognized is measured as the largest amount of benefit that is more than 50% likely to be realized upon ultimate settlement. The Company did not have any unrecognized tax benefits resulting from tax positions related to the current period or its open tax years. In the normal course of business, the Company may be subject to examination by federal, state, local, and foreign jurisdictions, where applicable, for the current period and its open tax years. The Company may take positions with respect to certain tax issues which depend on legal interpretation of facts or applicable tax regulations. Should the relevant tax regulators successfully challenge any of such positions, the Company might be found to have a tax liability that has not been recorded in the accompanying condensed 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.

(AA) Recent Accounting Pronouncements: In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform—Facilitation of the Effects of Reference Rate Reform on Financial Reporting* ("ASU 2020-04"), which provides optional guidance for a limited period meant to ease the potential burden in accounting for, or recognizing the effects of, reform to LIBOR and certain other reference rates. The standard became effective for all entities beginning on March 12, 2020 and may be elected over time. However, ASU 2020-04 is only applicable to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform, and that were entered into or evaluated prior to January 1, 2023. In January 2021, the FASB issued ASU No. 2021-01, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* ("ASU 2021-01"), which clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications apply to derivatives that are affected by the reform to LIBOR. The amendments in this update became effective immediately for all entities. ASU 2021-01 provides increased clarity as the Company continues to evaluate the transition of reference rates, and it is currently evaluating the impact that the adoption of ASU 2020-04 would have on the condensed consolidated financial statements.

3. Valuation

The tables below reflect the value of the Company's Level 1, Level 2, and Level 3 financial instruments that are measured at fair value on a recurring basis as of September 30, 2021 and December 31, 2020:

September 30, 2021:

Description	Level 1	Level 2	Level 3	Total
	<i>(In thousands)</i>			
Assets:				
Securities, at fair value:				
Agency RMBS	\$ —	\$ 1,525,275	\$ 11,732	\$ 1,537,007
Non-Agency RMBS	—	86,953	106,600	193,553
CMBS	—	1,456	12,148	13,604
CLOs	—	37,157	30,121	67,278
Asset-backed securities, backed by consumer loans	—	—	71,295	71,295
Corporate debt securities	—	413	4,419	4,832
Corporate equity securities	—	—	7,994	7,994
Loans, at fair value:				
Residential mortgage loans	—	—	1,656,701	1,656,701
Commercial mortgage loans	—	—	267,591	267,591
Consumer loans	—	—	55,676	55,676
Corporate loans	—	—	16,561	16,561
Investment in unconsolidated entities, at fair value	—	—	142,019	142,019
Financial derivatives—assets, at fair value:				
Credit default swaps on asset-backed securities	—	—	303	303
Credit default swaps on asset-backed indices	—	1,599	—	1,599
Credit default swaps on corporate bond indices	—	174	—	174
Interest rate swaps	—	8,617	—	8,617
TBAs	—	2,399	—	2,399
Options	—	146	—	146
Warrants	—	938	—	938
Futures	1,440	—	—	1,440
Forwards	—	360	—	360
Total assets	\$ 1,440	\$ 1,665,487	\$ 2,383,160	\$ 4,050,087
Liabilities:				
Securities sold short, at fair value:				
Government debt	\$ —	\$ (30,294)	\$ —	\$ (30,294)
Financial derivatives—liabilities, at fair value:				
Credit default swaps on asset-backed indices	—	(38)	—	(38)
Credit default swaps on corporate bonds	—	(101)	—	(101)
Credit default swaps on corporate bond indices	—	(1,955)	—	(1,955)
Interest rate swaps	—	(8,851)	—	(8,851)
TBAs	—	(3,081)	—	(3,081)
Futures	(93)	—	—	(93)
Other secured borrowings, at fair value	—	—	(872,306)	(872,306)
Total liabilities	\$ (93)	\$ (44,320)	\$ (872,306)	\$ (916,719)

December 31, 2020:

Description	Level 1	Level 2	Level 3	Total
	<i>(In thousands)</i>			
Assets:				
Securities, at fair value:				
Agency RMBS	\$ —	\$ 947,780	\$ 11,663	\$ 959,443
Non-Agency RMBS	—	76,276	127,838	204,114
CMBS	—	54,505	63,148	117,653
CLOs	—	70,171	111,100	181,271
Asset-backed securities, backed by consumer loans	—	—	44,925	44,925
Corporate debt securities	—	1,107	4,082	5,189
Corporate equity securities	—	—	1,590	1,590
Loans, at fair value:				
Residential mortgage loans	—	—	1,187,069	1,187,069
Commercial mortgage loans	—	—	213,031	213,031
Consumer loans	—	—	47,525	47,525
Corporate loans	—	—	5,855	5,855
Investment in unconsolidated entities, at fair value	—	—	141,620	141,620
Financial derivatives—assets, at fair value:				
Credit default swaps on asset-backed securities	—	—	347	347
Credit default swaps on asset-backed indices	—	2,184	—	2,184
Credit default swaps on corporate bond indices	—	3,420	—	3,420
Interest rate swaps	—	8,519	—	8,519
TBAs	—	962	—	962
Total return swaps	—	—	9	9
Warrants	—	36	—	36
Futures	2	—	—	2
Total assets	\$ 2	\$ 1,164,960	\$ 1,959,802	\$ 3,124,764
Liabilities:				
Securities sold short, at fair value:				
Government debt	\$ —	\$ (38,424)	\$ —	\$ (38,424)
Corporate debt securities	—	(218)	—	(218)
Financial derivatives—liabilities, at fair value:				
Credit default swaps on asset-backed indices	—	(130)	—	(130)
Credit default swaps on corporate bonds	—	(747)	—	(747)
Credit default swaps on corporate bond indices	—	(6,438)	—	(6,438)
Interest rate swaps	—	(15,174)	—	(15,174)
TBAs	—	(925)	—	(925)
Futures	(376)	—	—	(376)
Forwards	—	(279)	—	(279)
Total return swaps	—	—	(484)	(484)
Other secured borrowings, at fair value	—	—	(754,921)	(754,921)
Total liabilities	\$ (376)	\$ (62,335)	\$ (755,405)	\$ (818,116)

The following tables identifies the significant unobservable inputs that affect the valuation of the Company's Level 3 assets and liabilities as of September 30, 2021 and December 31, 2020:

September 30, 2021:

Description	Fair Value <i>(In thousands)</i>	Valuation Technique	Unobservable Input	Range		Weighted Average
				Min	Max	
Non-Agency RMBS	\$ 69,090	Market Quotes	Non Binding Third-Party Valuation	\$ 0.91	\$ 112.85	\$ 77.36
	37,510	Discounted Cash Flows				
	106,600		Yield ⁽¹⁾	— %	37.9 %	6.4 %
			Projected Collateral Prepayments	— %	73.1 %	45.5 %
			Projected Collateral Losses	0.1 %	80.8 %	10.4 %
			Projected Collateral Recoveries	— %	58.4 %	17.7 %
Non-Agency CMBS	11,879	Market Quotes	Non Binding Third-Party Valuation	\$ 7.00	\$ 71.92	\$ 53.09
	269	Discounted Cash Flows				
	12,148		Yield	7.9 %	26.3 %	10.6 %
			Projected Collateral Losses	0.4 %	8.3 %	2.8 %
			Projected Collateral Recoveries	10.6 %	95.7 %	94.2 %
CLOs	24,199	Market Quotes	Non Binding Third-Party Valuation	\$ 15.00	\$ 97.80	\$ 55.74
	5,922	Discounted Cash Flows				
	30,121		Yield ⁽²⁾	7.4 %	100.0 %	28.3 %
			Projected Collateral Prepayments	54.1 %	94.5 %	89.6 %
			Projected Collateral Losses	2.8 %	37.8 %	5.7 %
			Projected Collateral Recoveries	2.5 %	8.1 %	3.8 %
Agency interest only RMBS	6,267	Market Quotes	Non Binding Third-Party Valuation	\$ 0.55	\$ 23.24	\$ 7.20
	5,465	Option Adjusted Spread ("OAS")				
	11,732		LIBOR OAS ⁽³⁾⁽⁴⁾	160	14,334	1,154
			Projected Collateral Prepayments	9.3 %	100.0 %	73.4 %
ABS backed by consumer loans	71,295	Discounted Cash Flows	Yield	12.7 %	121.4 %	16.1 %
			Projected Collateral Prepayments	0.2 %	12.0 %	9.0 %
			Projected Collateral Losses	1.9 %	32.7 %	20.6 %
Corporate debt and equity	12,413	Discounted Cash Flows	Yield	7.8 %	24.4 %	10.6 %
Performing and re-performing residential mortgage loans	716,144	Discounted Cash Flows	Yield	0.3 %	86.4 %	4.3 %

Description	Fair Value	Valuation Technique	Unobservable Input	Range		Weighted Average
				Min	Max	
<i>(continued)</i>	<i>(In thousands)</i>					
Securitized residential mortgage loans ⁽⁵⁾⁽⁶⁾	\$ 885,442	Market Quotes	Non Binding Third-Party Valuation	\$ 0.64	\$ 103.25	\$ 100.52
	31,833	Discounted Cash Flows				
	917,275		Yield	0.8 %	7.4 %	4.0 %
Non-performing residential mortgage loans	23,282	Discounted Cash Flows	Yield	0.8 %	35.1 %	12.6 %
			Recovery Amount	1.0 %	162.7 %	36.2 %
			Months to Resolution	0.5	73.0	32.5
Performing commercial mortgage loans	227,568	Discounted Cash Flows	Yield	6.2 %	10.6 %	8.0 %
Non-performing commercial mortgage loans	40,023	Discounted Cash Flows	Yield	4.0 %	18.1 %	7.4 %
			Recovery Amount	97.0 %	100.0 %	100.0 %
			Months to Resolution	0.2	0.2	0.2
Consumer loans	55,676	Discounted Cash Flows	Yield	6.6 %	65.8 %	9.3 %
			Projected Collateral Prepayments	0.2 %	30.7 %	14.3 %
			Projected Collateral Losses	1.1 %	80.8 %	9.4 %
Corporate loans	7,000	Market Quotes	Non Binding Third-Party Valuation	\$ 100.00	\$ 100.00	\$ 100.00
	9,561	Discounted Cash Flows				
	16,561		Yield	3.0 %	29.3 %	21.3 %
Investment in unconsolidated entities - Loan originators	92,838	Enterprise Value	Equity Price-to-Book ⁽⁷⁾	1.1x	1.3x	1.2x
Investment in unconsolidated entities - Other	38,613	Enterprise Value	Net Asset Value	n/a	n/a	n/a
Investment in unconsolidated entities - Loan originators	10,568	Recent Transactions	Transaction Price	n/a	n/a	n/a
	142,019					
Credit default swaps on asset-backed securities	303	Net Discounted Cash Flows	Projected Collateral Prepayments	29.9 %	41.0 %	38.5 %
			Projected Collateral Losses	5.0 %	8.7 %	6.4 %
			Projected Collateral Recoveries	11.3 %	16.8 %	12.6 %
Other secured borrowings, at fair value ⁽⁵⁾	(872,306)	Market Quotes	Non Binding Third-Party Valuation	\$ 97.84	\$ 103.25	\$ 100.97
			Yield	2.0%	3.2%	2.4%
			Projected Collateral Prepayments	—%	97.8%	67.2%

- (1) For the range minimum, the range maximum, and the weighted average yield, excludes non-Agency RMBS with a negative yield, with a total fair value of \$2.1 million. Including these securities the weighted average yield was 5.7%.
- (2) For the range minimum, the range maximum, and the weighted average yield, excludes CLOs with a negative yield, with a total fair value of \$0.4 million. Including these securities the weighted average yield was 26.4%.
- (3) Shown in basis points.
- (4) For range minimum, range maximum, and the weighted average of LIBOR OAS, excludes Agency interest only securities with a negative LIBOR OAS, with a total fair value of \$3.1 million. Including these securities the weighted average was 810 basis points.
- (5) Securitized residential mortgage loans and Other secured borrowings, at fair value, represent financial assets and liabilities of the Company's CFEs as discussed in Note 2.
- (6) Includes \$8.8 million of non-performing securitized residential mortgage loans.
- (7) Represents an estimation of where market participants might value an enterprise on a price-to-book basis.

December 31, 2020:

Description	Fair Value	Valuation Technique	Unobservable Input	Range		Weighted Average
				Min	Max	
	<i>(In thousands)</i>					
Non-Agency RMBS	\$ 70,619	Market Quotes	Non Binding Third-Party Valuation	\$ 9.53	\$ 204.61	\$ 85.70
	57,219	Discounted Cash Flows				
	<u>127,838</u>		Yield ⁽¹⁾	0.7 %	52.6 %	7.4 %
			Projected Collateral Prepayments	— %	99.1 %	45.3 %
			Projected Collateral Losses	0.4 %	72.6 %	18.4 %
			Projected Collateral Recoveries	— %	79.1 %	16.8 %
Non-Agency CMBS	53,199	Market Quotes	Non Binding Third-Party Valuation	\$ 4.79	\$ 98.00	\$ 65.20
	9,949	Discounted Cash Flows				
	<u>63,148</u>		Yield	3.7 %	26.3 %	8.7 %
			Projected Collateral Losses	0.7 %	10.7 %	3.6 %
			Projected Collateral Recoveries	72.4 %	96.1 %	90.6 %
CLOs	102,910	Market Quotes	Non Binding Third-Party Valuation	\$ 2.00	\$ 330.00	\$ 88.66
	8,190	Discounted Cash Flows				
	<u>111,100</u>		Yield	3.4 %	35.4 %	10.5 %
			Projected Collateral Prepayments	41.2 %	97.7 %	65.7 %
			Projected Collateral Losses	1.7 %	28.9 %	11.2 %
			Projected Collateral Recoveries	0.6 %	15.2 %	7.9 %
Agency interest only RMBS	4,844	Market Quotes	Non Binding Third-Party Valuation	\$ 1.91	\$ 18.91	\$ 8.38
	6,819	Option Adjusted Spread ("OAS")				
	<u>11,663</u>		LIBOR OAS ⁽²⁾⁽³⁾	297	2,886	914
			Projected Collateral Prepayments	8.3 %	100.0 %	75.9 %
ABS backed by consumer loans	97	Market Quotes	Non Binding Third-Party Valuation	\$ 96.51	\$ 98.43	\$ 97.33
	44,828	Discounted Cash Flows				
	<u>44,925</u>		Yield	12.6 %	27.5 %	15.6 %
			Projected Collateral Prepayments	0.0 %	11.6 %	7.7 %
			Projected Collateral Losses	1.0 %	21.1 %	17.1 %
Corporate debt and equity	5,672	Discounted Cash Flows	Yield	8.1 %	10.8 %	9.7 %
Performing and re-performing residential mortgage loans	338,265	Discounted Cash Flows	Yield	2.5 %	28.5 %	5.4 %
	15,659	Recent Transactions	Transaction Price	\$ 60.00	\$ 103.88	\$ 103.44
	<u>353,924</u>					
Securitized residential mortgage loans ⁽⁴⁾⁽⁵⁾	\$ 783,162	Market Quotes	Non Binding Third-Party Valuation	\$ 5.34	\$ 105.61	\$ 100.22
	18,182	Discounted Cash Flows				
	<u>801,343</u>		Yield	— %	38.7 %	4.4 %

Description	Fair Value	Valuation Technique	Unobservable Input	Range		Weighted Average
				Min	Max	
<i>(Continued)</i>	<i>(In thousands)</i>					
Non-performing residential mortgage loans	31,802	Discounted Cash Flows	Yield	1.2 %	41.0 %	12.1 %
			Recovery Amount	0.9 %	1713.0 %	30.6 %
			Months to Resolution	0.0	106.6	30.0
Performing commercial mortgage loans	181,545	Discounted Cash Flows	Yield	3.7 %	9.7 %	8.1 %
Non-performing commercial mortgage loans	31,486	Discounted Cash Flows	Yield	8.6 %	14.6 %	10.8 %
			Recovery Amount	100.0 %	102.4 %	100.8 %
			Months to Resolution	1.8	5.8	3.7
Consumer loans	47,525	Discounted Cash Flows	Yield	7.8 %	28.1 %	11.2 %
			Projected Collateral Prepayments	0.0 %	36.0 %	17.3 %
			Projected Collateral Losses	0.9 %	86.6 %	9.4 %
Corporate loans	5,855	Market Quotes	Non Binding Third-Party Valuation	\$ 100.00	\$ 100.00	\$ 100.00
			Yield	21.1 %	21.1 %	21.1 %
Investment in unconsolidated entities—Loan Originators ⁽¹⁾	79,536	Enterprise Value	Equity Price-to-Book ⁽⁷⁾	1.4x	6.2x	1.8x
Investment in unconsolidated entities—Other ⁽⁶⁾	62,084	Enterprise Value	Net Asset Value	n/a	n/a	n/a
	<u>141,620</u>					
Total return swaps—asset	9	Discounted Cash Flows	Yield	22.0 %	22.0 %	22.0 %
Credit default swaps on asset-backed securities	347	Net Discounted Cash Flows	Projected Collateral Prepayments	32.7 %	39.7 %	38.1 %
			Projected Collateral Losses	6.6 %	10.8 %	8.9 %
			Projected Collateral Recoveries	13.9 %	18.1 %	15.6 %
Total return swaps—liability	(484)	Discounted Cash Flows	Yield	16.8%	16.8%	16.8%
Other secured borrowings, at fair value ⁽⁴⁾	(754,921)	Market Quotes	Non Binding Third-Party Valuation	\$ 85.37	\$ 105.61	\$ 102.04
			Yield	1.6%	3.0%	2.6%
			Projected Collateral Prepayments	—%	75.3%	48.7%

(1) For the range minimum, the range maximum, and the weighted average yield, excludes non-Agency RMBS with a negative yield, with a total fair value of \$0.3 million. Including these securities the weighted average yield was 7.3%.

(2) Shown in basis points.

(3) For range minimum, range maximum, and the weighted average of LIBOR OAS, excludes Agency interest only securities with a negative LIBOR OAS, with a total fair value of \$4.5 million. Including these securities the weighted average was 396 basis points.

(4) Securitized residential mortgage loans and Other secured borrowings, at fair value, represent financial assets and liabilities of the Company's CFEs as discussed in Note 2.

(5) Includes \$26.4 million of non-performing securitized residential mortgage loans.

(6) Conformed to current period presentation.

(7) Represent an estimation of where market participants might value an enterprise on a price-to-book basis.

Third-party non-binding valuations are validated by comparing such valuations to internally generated prices based on the Company's models and, when available, to recent trading activity in the same or similar instruments.

For those instruments valued using discounted and net discounted cash flows, collateral prepayments, losses, recoveries, and scheduled amortization are projected over the remaining life of the collateral and expressed as a percentage of the collateral's current principal balance. Averages are weighted based on the fair value of the related instrument. In the case of credit default swaps on asset-backed securities, averages are weighted based on each instrument's bond equivalent value. Bond equivalent value represents the investment amount of a corresponding position in the reference obligation, calculated as the difference between the outstanding principal balance of the underlying reference obligation and the fair value, inclusive of accrued interest, of the derivative contract. For those assets valued using the LIBOR Option Adjusted Spread ("LIBOR OAS") valuation methodology, cash flows are projected using the Company's models over multiple interest rate scenarios, and these projected cash flows are then discounted using the LIBOR rates implied by each interest rate scenario. The LIBOR OAS of an asset is then computed as the unique constant yield spread that, when added to all LIBOR rates in each interest rate scenario

generated by the model, will equate (a) the expected present value of the projected asset cash flows over all model scenarios to (b) the actual current market price of the asset. LIBOR OAS is therefore model-dependent. Generally speaking, LIBOR OAS measures the additional yield spread over LIBOR that an asset provides at its current market price after taking into account any interest rate options embedded in the asset. The Company considers the expected timeline to resolution in the determination of fair value for its non-performing commercial and residential mortgage loans.

Material changes in any of the inputs above in isolation could result in a significant change to reported fair value measurements. Additionally, fair value measurements are impacted by the interrelationships of these inputs. For example, for instruments subject to prepayments and credit losses, such as non-Agency RMBS and consumer loans and ABS backed by consumer loans, a higher expectation of collateral prepayments will generally be accompanied by a lower expectation of collateral losses. Conversely, higher losses will generally be accompanied by lower prepayments. Because the Company's credit default swaps on asset-backed security holdings represent credit default swap contracts whereby the Company has purchased credit protection, such credit default swaps on asset-backed securities generally have the directionally opposite sensitivity to prepayments, losses, and recoveries as compared to the Company's long securities holdings. Prepayments do not represent a significant input for the Company's commercial mortgage-backed securities and commercial mortgage loans. Losses and recoveries do not represent a significant input for the Company's Agency RMBS interest only securities, given the guarantee of the issuing government agency or government-sponsored enterprise.

The tables below includes a roll-forward of the Company's financial instruments for the three- and nine-month periods ended September 30, 2021 and 2020 (including the change in fair value), for financial instruments classified by the Company within Level 3 of the valuation hierarchy.

Three-Month Period Ended September 30, 2021

(In thousands)	Beginning Balance as of June 30, 2021	Accreted Discounts/ (Amortized Premiums)	Net Realized Gain/ (Loss)	Change in Net Unrealized Gain/(Loss)	Purchases/Payments ⁽¹⁾	Sales/Issuances ⁽²⁾	Transfers Into Level 3	Transfers Out of Level 3	Ending Balance as of September 30, 2021
Assets:									
Securities, at fair value:									
Agency RMBS	\$ 9,936	\$ (1,285)	\$ (15)	\$ 278	\$ 2,038	\$ —	\$ 780	\$ —	\$ 11,732
Non-Agency RMBS	114,464	612	680	(1,918)	154	(9,005)	1,613	—	106,600
CMBS	17,025	27	1,987	(468)	—	(15,070)	8,647	—	12,148
CLOs	33,989	(1,688)	2,689	3,007	85	(7,961)	—	—	30,121
Asset-backed securities backed by consumer loans	69,254	(1,813)	287	(1,598)	15,853	(10,688)	—	—	71,295
Corporate debt securities	5,444	—	1,271	(700)	2,207	(3,803)	—	—	4,419
Corporate equity securities	8,497	—	661	224	351	(1,739)	—	—	7,994
Loans, at fair value:									
Residential mortgage loans	1,445,651	(3,864)	277	(4,475)	405,291	(186,179)	—	—	1,656,701
Commercial mortgage loans	228,450	—	17	71	72,415	(33,362)	—	—	267,591
Consumer loans	52,016	(1,919)	(105)	19	13,941	(8,276)	—	—	55,676
Corporate loan	16,584	—	—	(267)	254	(10)	—	—	16,561
Investments in unconsolidated entities, at fair value	178,979	—	4,225	(1,676)	9,674	(49,183)	—	—	142,019
Financial derivatives—assets, at fair value:									
Credit default swaps on asset-backed securities	303	—	(4)	—	4	—	—	—	303
Total return swaps	520	—	26	(520)	—	(26)	—	—	—
Total assets, at fair value	\$ 2,181,112	\$ (9,930)	\$ 11,996	\$ (8,023)	\$ 522,267	\$ (325,302)	\$ 11,040	\$ —	\$ 2,383,160
Liabilities:									
Financial derivatives—liabilities, at fair value:									
Total return swaps	\$ (56)	\$ —	\$ (67)	\$ 56	\$ 67	\$ —	\$ —	\$ —	\$ —
Other secured borrowings, at fair value	(1,003,037)	—	—	1,482	129,249	—	—	—	(872,306)
Total liabilities, at fair value	\$ (1,003,093)	\$ —	\$ (67)	\$ 1,538	\$ 129,316	\$ —	\$ —	\$ —	\$ (872,306)

(1) For Investments in unconsolidated entities, at fair value, amount represents contributions to investments in unconsolidated entities.

(2) For Investments in unconsolidated entities, at fair value, amount represents distributions from investments in unconsolidated entities.

All amounts of net realized and change in net unrealized gain (loss) in the table above are reflected in the accompanying Condensed Consolidated Statement of Operations. The table above incorporates changes in net unrealized gain (loss) for both Level 3 financial instruments held by the Company at September 30, 2021, as well as Level 3 financial instruments disposed of by the Company during the three-month period ended September 30, 2021. For Level 3 financial instruments held by the Company at September 30, 2021, change in net unrealized gain (loss) of \$3.1 million, \$(4.7) million, \$(2.7) million, \$0.1 million, \$0.1 million, and \$1.5 million, for the three-month period ended September 30, 2021 relate to securities, loans, investments in unconsolidated entities, financial derivatives—assets, financial derivatives—liabilities, and other secured borrowings, at fair value, respectively.

At September 30, 2021, the Company transferred \$11.0 million of assets from Level 2 to Level 3. Transfers between these hierarchy levels were based on the availability of sufficient observable inputs to meet Level 2 versus Level 3 criteria. The leveling of each financial instrument is reassessed at the end of each period, and is based on pricing information received from third-party pricing sources.

Three-Month Period Ended September 30, 2020

<i>(In thousands)</i>	Beginning Balance as of June 30, 2020	Accreted Discounts / (Amortized Premiums)	Net Realized Gain/ (Loss)	Change in Net Unrealized Gain/(Loss)	Purchases/Payments ⁽¹⁾	Sales/Issuances ⁽²⁾	Transfers Into Level 3	Transfers Out of Level 3	Ending Balance as of September 30, 2020
Assets:									
Securities, at fair value:									
Agency RMBS	\$ 12,907	\$ (1,482)	\$ 494	\$ 280	\$ 3,490	\$ (2,243)	\$ 2,621	\$ (3,927)	\$ 12,140
Non-Agency RMBS	128,607	884	(77)	2,610	21,138	(6,395)	10,895	(18,463)	139,199
CMBS	65,695	659	8	4,117	12,699	(8)	560	(40,921)	42,809
CLOs	136,466	1,962	(82)	1,920	2,241	(127)	6,483	(35,873)	112,990
Asset-backed securities backed by consumer loans	47,941	(1,435)	(4)	1,165	7,455	(7,824)	—	—	47,298
Corporate debt securities	1,951	—	296	509	28	(577)	—	—	2,207
Corporate equity securities	1,084	—	—	(73)	3	—	—	—	1,014
Loans, at fair value:									
Residential mortgage loans	948,447	(2,009)	(146)	15,672	139,609	(70,864)	—	—	1,030,709
Commercial mortgage loans	295,496	17	36	(6)	18,881	(62,193)	—	—	252,231
Consumer loans	166,681	(6,342)	(112)	(1,627)	28,554	(34,545)	—	—	152,609
Corporate loan	6,227	—	—	—	836	—	—	—	7,063
Investments in unconsolidated entities, at fair value									
	72,553	—	62	11,381	15,307	(3,500)	—	—	95,803
Financial derivatives—assets, at fair value:									
Credit default swaps on asset-backed securities	353	—	1	(2)	3	(4)	—	—	351
Total return swaps	442	—	(129)	(338)	209	(79)	—	—	105
Total assets, at fair value	\$ 1,884,850	\$ (7,746)	\$ 347	\$ 35,608	\$ 250,453	\$ (188,359)	\$ 20,559	\$ (99,184)	\$ 1,896,528
Liabilities:									
Financial derivatives—assets, at fair value:									
Total return swaps	\$ (77)	\$ —	\$ 4	\$ (11)	\$ (4)	\$ —	\$ —	\$ —	\$ (88)
Other secured borrowings, at fair value									
	(742,688)	—	—	(5,178)	52,350	—	—	—	(695,516)
Total liabilities, at fair value	\$ (742,765)	\$ —	\$ 4	\$ (5,189)	\$ 52,346	\$ —	\$ —	\$ —	\$ (695,604)

(1) For Investments in unconsolidated entities, at fair value, amount represents contributions to investments in unconsolidated entities.

(2) For Investments in unconsolidated entities, at fair value, amount represents distributions from investments in unconsolidated entities.

All amounts of net realized and change in net unrealized gain (loss) in the table above are reflected in the accompanying Condensed Consolidated Statement of Operations. The table above incorporates changes in net unrealized gain (loss) for both Level 3 financial instruments held by the Company at September 30, 2020, as well as Level 3 financial instruments disposed of by the Company during the three-month period ended September 30, 2020. For Level 3 financial instruments held by the Company at September 30, 2020, change in net unrealized gain (loss) of \$9.3 million, \$14.2 million, \$11.3 million, \$(0.3) million, \$(11) thousand, and \$(5.2) million, for the three-month period ended September 30, 2020 relate to securities, loans, investments in unconsolidated entities, financial derivatives—assets, financial derivatives—liabilities, and other secured borrowings, at fair value, respectively.

At September 30, 2020, the Company transferred \$99.2 million of assets from Level 3 to Level 2 and \$20.6 million from Level 2 to Level 3. Transfers between these hierarchy levels were based on the availability of sufficient observable inputs to meet Level 2 versus Level 3 criteria. The leveling of each financial instrument is reassessed at the end of each period, and is based on pricing information received from third-party pricing sources.

Nine-Month Period Ended September 30, 2021

(In thousands)	Beginning Balance as of December 31, 2020	Accreted Discounts / (Amortized Premiums)	Net Realized Gain/ (Loss)	Change in Net Unrealized Gain/(Loss)	Purchases/Payments ⁽¹⁾	Sales/Issuances ⁽²⁾	Transfers Into Level 3	Transfers Out of Level 3	Ending Balance as of September 30, 2021
Assets:									
Securities, at fair value:									
Agency RMBS	\$ 11,663	\$ (2,570)	\$ 943	\$ (1,408)	\$ 2,039	\$ (1,533)	\$ 5,093	\$ (2,495)	\$ 11,732
Non-Agency RMBS	127,838	1,926	2,993	(2,533)	22,392	(42,009)	5,831	(9,838)	106,600
CMBS	63,148	404	4,329	4,946	—	(60,449)	397	(627)	12,148
CLOs	111,100	(371)	934	19,782	104	(77,879)	1,601	(25,150)	30,121
Asset-backed securities backed by consumer loans	44,925	(3,796)	466	(3,181)	61,665	(28,784)	—	—	71,295
Corporate debt securities	4,082	—	1,497	(517)	3,824	(4,467)	—	—	4,419
Corporate equity securities	1,590	—	276	2,538	5,329	(1,739)	—	—	7,994
Loans, at fair value:									
Residential mortgage loans	1,187,069	(9,575)	738	(2,788)	955,069	(473,812)	—	—	1,656,701
Commercial mortgage loans	213,031	24	323	141	219,914	(165,842)	—	—	267,591
Consumer loans	47,525	(5,756)	(1,381)	476	40,008	(25,196)	—	—	55,676
Corporate loan	5,855	—	—	(267)	10,985	(12)	—	—	16,561
Investments in unconsolidated entities, at fair value	141,620	—	4,386	23,400	92,008	(119,395)	—	—	142,019
Financial derivatives—assets, at fair value:									
Credit default swaps on asset-backed securities	347	—	39	(44)	10	(49)	—	—	303
Total return swaps	9	—	167	(9)	—	(167)	—	—	—
Total assets, at fair value	\$ 1,959,802	\$ (19,714)	\$ 15,710	\$ 40,536	\$ 1,413,347	\$ (1,001,333)	\$ 12,922	\$ (38,110)	\$ 2,383,160
Liabilities:									
Financial derivatives—liabilities, at fair value:									
Total return swaps	\$ (484)	\$ —	\$ (1,428)	\$ 484	\$ 1,428	\$ —	\$ —	\$ —	\$ —
Other secured borrowings, at fair value	(754,921)	—	—	4,730	453,032	(575,147)	—	—	(872,306)
Total liabilities, at fair value	\$ (755,405)	\$ —	\$ (1,428)	\$ 5,214	\$ 454,460	\$ (575,147)	\$ —	\$ —	\$ (872,306)

(1) For Investments in unconsolidated entities, at fair value, amount represents contributions to investments in unconsolidated entities.

(2) For Investments in unconsolidated entities, at fair value, amount represents distributions from investments in unconsolidated entities.

All amounts of net realized and change in net unrealized gain (loss) in the table above are reflected in the accompanying Condensed Consolidated Statement of Operations. The table above incorporates changes in net unrealized gain (loss) for both Level 3 financial instruments held by the Company at September 30, 2021, as well as Level 3 financial instruments disposed of by the Company during the nine-month period ended September 30, 2021. For Level 3 financial instruments held by the Company at September 30, 2021, change in net unrealized gain (loss) of \$13.6 million, \$(2.4) million, \$19.9 million, \$(0.1) million, and \$4.7 million, for the nine-month period ended September 30, 2021 relate to securities, loans, investments in unconsolidated entities, financial derivatives—assets, and other secured borrowings, at fair value, respectively.

At September 30, 2021, the Company transferred \$38.1 million of assets from Level 3 to Level 2 and \$12.9 million from Level 2 to Level 3. Transfers between these hierarchy levels were based on the availability of sufficient observable inputs to meet Level 2 versus Level 3 criteria. The leveling of each financial instrument is reassessed at the end of each period, and is based on pricing information received from third-party pricing sources.

Nine-Month Period Ended September 30, 2020

<i>(In thousands)</i>	Beginning Balance as of December 31, 2019	Accreted Discounts / (Amortized Premiums)	Net Realized Gain/ (Loss)	Change in Net Unrealized Gain/(Loss)	Purchases/ Payments ⁽¹⁾	Sales/ Issuances ⁽²⁾	Transfers Into Level 3	Transfers Out of Level 3	Ending Balance as of September 30, 2020
Assets:									
Securities, at fair value:									
Agency RMBS	\$ 19,904	\$ (6,072)	\$ 614	\$ 2,803	\$ 8,219	\$ (3,295)	\$ 2,177	\$ (12,210)	\$ 12,140
Non-Agency RMBS	89,581	1,113	303	(1,996)	61,933	(29,811)	22,974	(4,898)	139,199
CMBS	29,805	617	(867)	(4,638)	51,432	(32,284)	7,828	(9,084)	42,809
CLOs	44,979	1,237	(7,586)	(24,206)	47,730	—	53,462	(2,626)	112,990
Asset-backed securities backed by consumer loans	48,610	(3,584)	(200)	(1,501)	25,001	(21,028)	—	—	47,298
Corporate debt securities	1,113	—	504	991	3,450	(3,851)	—	—	2,207
Corporate equity securities	1,394	—	7	(741)	366	(12)	—	—	1,014
Loans, at fair value:									
Residential mortgage loans	932,203	(4,414)	(722)	7,008	340,842	(244,208)	—	—	1,030,709
Commercial mortgage loans	274,759	113	135	(140)	107,608	(130,244)	—	—	252,231
Consumer loans	186,954	(21,712)	(97)	(6,965)	104,872	(110,443)	—	—	152,609
Corporate loan	18,510	—	—	—	1,053	(12,500)	—	—	7,063
Investment in unconsolidated entities, at fair value	71,850	—	62	10,528	29,522	(16,159)	—	—	95,803
Financial derivatives—assets, at fair value:									
Credit default swaps on asset-backed securities	993	—	(955)	915	29	(631)	—	—	351
Total return swaps	620	—	113	(515)	209	(322)	—	—	105
Total assets, at fair value	\$ 1,721,275	\$ (32,702)	\$ (8,689)	\$ (18,457)	\$ 782,266	\$ (604,788)	\$ 86,441	\$ (28,818)	\$ 1,896,528
Liabilities:									
Financial derivatives—liabilities, at fair value:									
Total return swaps	\$ (436)	\$ —	\$ (501)	\$ 349	\$ 500	\$ —	\$ —	\$ —	\$ (88)
Other secured borrowings, at fair value	(594,396)	—	—	(6,636)	138,608	(233,092)	—	—	(695,516)
Total liabilities, at fair value	\$ (594,832)	\$ —	\$ (501)	\$ (6,287)	\$ 139,108	\$ (233,092)	\$ —	\$ —	\$ (695,604)

- (1) For Investments in unconsolidated entities, at fair value, amount represents contributions to investments in unconsolidated entities.
(2) For Investments in unconsolidated entities, at fair value, amount represents distributions from investments in unconsolidated entities.

All amounts of net realized and change in net unrealized gain (loss) in the table above are reflected in the accompanying Condensed Consolidated Statement of Operations. The table above incorporates changes in net unrealized gain (loss) for both Level 3 financial instruments held by the Company at September 30, 2020, as well as Level 3 financial instruments disposed of by the Company during the nine-month period ended September 30, 2020. For Level 3 financial instruments held by the Company at September 30, 2020, change in net unrealized gain (loss) of \$(56.3) million, \$12 thousand, \$10.2 million, \$0.6 million, \$(0.1) million, and \$(6.6) million, for the nine-month period ended September 30, 2020 relate to securities, loans, investments in unconsolidated entities, financial derivatives—assets, financial derivatives—liabilities, and other secured borrowings, at fair value, respectively.

At September 30, 2020, the Company transferred \$28.8 million of assets from Level 3 to Level 2 and \$86.4 million from Level 2 to Level 3. Transfers between these hierarchy levels were based on the availability of sufficient observable inputs to meet Level 2 versus Level 3 criteria. The leveling of each financial instrument is reassessed at the end of each period, and is based on pricing information received from third-party pricing sources.

The following table summarizes the estimated fair value of all other financial instruments not measured at fair value on a recurring basis as of September 30, 2021 and December 31, 2020:

(In thousands)	As of			
	September 30, 2021		December 31, 2020	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Other financial instruments				
Assets:				
Cash and cash equivalents	\$ 103,617	\$ 103,617	\$ 111,647	\$ 111,647
Restricted cash	175	175	175	175
Due from brokers	89,983	89,983	63,147	63,147
Reverse repurchase agreements	38,062	38,062	38,640	38,640
Liabilities:				
Repurchase agreements	2,105,836	2,105,836	1,496,931	1,496,931
Other secured borrowings	90,981	90,981	51,062	51,062
Senior notes, net	86,490	85,759	86,000	85,561
Due to brokers	2,560	2,560	5,059	5,059

Cash and cash equivalents generally includes cash held in interest bearing overnight accounts, for which fair value equals the carrying value, and investments which are liquid in nature, such as investments in money market accounts or U.S. Treasury Bills, for which fair value equals the carrying value; such assets are considered Level 1. Restricted cash includes cash held in a segregated account for which fair value equals the carrying value; such assets are considered Level 1. Due from brokers and Due to brokers include collateral transferred to or received from counterparties, along with receivables and payables for open and/or closed derivative positions. These receivables and payables are short term in nature and any collateral transferred consists primarily of cash; fair value of these items is approximated by carrying value and such items are considered Level 1. The Company's reverse repurchase agreements, repurchase agreements, and other secured borrowings are carried at cost, which approximates fair value due to their short term nature. Reverse repurchase agreements, repurchase agreements, and other secured borrowings are classified as Level 2 based on the adequacy of the collateral and their short term nature. Senior notes, net are considered Level 3 liabilities given the relative unobservability of the most significant inputs to valuation estimation as well as the lack of trading activity of these instruments. As of September 30, 2021 and December 31, 2020, the estimated fair value of the Company's Senior notes was based on a third-party valuation.

4. Investment in Securities

The Company's securities portfolio primarily consists of Agency RMBS, non-Agency RMBS, CMBS, CLOs, ABS backed by consumer loans, and corporate debt and equity. The following tables detail the Company's investment in securities as of September 30, 2021 and December 31, 2020.

September 30, 2021:

(\$ in thousands)	Current Principal	Unamortized Premium (Discount)	Amortized Cost	Gross Unrealized		Fair Value	Weighted Average			
				Gains	Losses		Coupon ⁽¹⁾	Yield	Life (Years) ⁽²⁾	
Long:										
Agency RMBS:										
15-year fixed-rate mortgages	\$ 219,169	\$ 10,304	\$ 229,473	\$ 1,491	\$ (1,033)	\$ 229,931	2.65 %	1.42 %	4.47	
20-year fixed-rate mortgages	48,893	2,892	51,785	20	(852)	50,953	2.45 %	1.22 %	5.50	
30-year fixed-rate mortgages	1,079,522	55,479	1,135,001	14,478	(5,847)	1,143,632	3.21 %	2.09 %	6.61	
Adjustable rate mortgages	10,436	558	10,994	36	(150)	10,880	3.21 %	2.28 %	4.65	
Reverse mortgages	59,894	3,683	63,577	759	(802)	63,534	3.21 %	2.28 %	4.28	
Interest only securities	n/a	n/a	35,948	4,640	(2,511)	38,077	3.51 %	7.90 %	4.50	
Non-Agency RMBS	311,561	(131,975)	179,586	10,730	(5,306)	185,010	4.63 %	7.12 %	7.13	
CMBS	33,801	(22,359)	11,442	282	(926)	10,798	2.91 %	10.47 %	8.69	
Non-Agency interest only securities	n/a	n/a	9,999	1,598	(248)	11,349	0.98 %	14.00 %	6.28	
CLOs	n/a	n/a	74,021	6,888	(13,631)	67,278	3.57 %	9.15 %	3.23	
ABS backed by consumer loans	112,732	(38,471)	74,261	1,383	(4,349)	71,295	11.49 %	14.99 %	1.26	
Corporate debt	27,837	(23,748)	4,089	865	(122)	4,832	0.76 %	7.50 %	2.13	
Corporate equity	n/a	n/a	5,470	2,686	(162)	7,994	n/a	n/a	n/a	
Total Long	1,903,845	(143,637)	1,885,646	45,856	(35,939)	1,895,563	3.57 %	3.50 %	5.89	
Short:										
European sovereign bonds	(29,989)	553	(29,436)	227	(1,085)	(30,294)	0.02 %	0.05 %	3.48	
Total Short	(29,989)	553	(29,436)	227	(1,085)	(30,294)	0.02 %	0.05 %	3.48	
Total	\$ 1,873,856	\$ (143,084)	\$ 1,856,210	\$ 46,083	\$ (37,024)	\$ 1,865,269	3.63 %	3.45 %	5.93	

(1) Weighted average coupon represents the weighted average coupons of the securities, rather than, in the case of collateralized securities, the coupon rates or loan rates on the underlying collateral.

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

December 31, 2020:

(\$ in thousands)	Current Principal	Unamortized Premium (Discount)	Amortized Cost	Gross Unrealized		Fair Value	Weighted Average		
				Gains	Losses		Coupon ⁽¹⁾	Yield	Life (Years) ⁽²⁾
Long:									
Agency RMBS:									
15-year fixed-rate mortgages	\$ 67,875	\$ 2,543	\$ 70,418	\$ 1,832	\$ (36)	\$ 72,214	3.30 %	1.83 %	3.24
20-year fixed-rate mortgages	50,131	3,097	53,228	182	—	53,410	2.57 %	1.08 %	4.46
30-year fixed-rate mortgages	626,021	30,738	656,759	25,765	(444)	682,080	3.99 %	2.35 %	4.17
Adjustable rate mortgages	6,171	159	6,330	124	—	6,454	3.66 %	2.27 %	3.42
Reverse mortgages	89,383	5,152	94,535	3,123	(29)	97,629	3.97 %	2.37 %	4.60
Interest only securities	n/a	n/a	43,406	5,808	(1,558)	47,656	3.36 %	10.01 %	4.85
Non-Agency RMBS	321,842	(131,083)	190,759	15,880	(5,549)	201,090	3.15 %	6.40 %	5.46
CMBS	188,085	(61,763)	126,322	1,655	(16,910)	111,067	2.71 %	7.47 %	8.09
Non-Agency interest only securities	n/a	n/a	8,123	1,792	(305)	9,610	1.17 %	18.85 %	3.49
CLOs	n/a	n/a	208,907	2,563	(30,199)	181,271	3.67 %	8.50 %	3.50
ABS backed by consumer loans	69,646	(24,936)	44,710	221	(6)	44,925	11.95 %	18.57 %	1.11
Corporate debt	27,083	(23,187)	3,896	1,296	(3)	5,189	2.13 %	6.75 %	3.10
Corporate equity	n/a	n/a	1,604	376	(390)	1,590	n/a	n/a	n/a
Total Long	1,446,237	(199,280)	1,508,997	60,617	(55,429)	1,514,185	3.84 %	4.88 %	4.45
Short:									
Corporate debt	(200)	(1)	(201)	—	(17)	(218)	5.09 %	4.67 %	6.42
European sovereign bonds	(37,804)	3,163	(34,641)	—	(3,783)	(38,424)	0.23 %	0.06 %	3.11
Total Short	(38,004)	3,162	(34,842)	—	(3,800)	(38,642)	0.26 %	0.09 %	3.13
Total	\$ 1,408,233	\$ (196,118)	\$ 1,474,155	\$ 60,617	\$ (59,229)	\$ 1,475,543	3.92 %	4.77 %	4.49

(1) Weighted average coupon represents the weighted average coupons of the securities, rather than, in the case of collateralized securities, the coupon rates or loan rates on the underlying collateral.

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

The following tables detail weighted average life of the Company's Agency RMBS as of September 30, 2021 and December 31 2020.

September 30, 2021:

(\$ in thousands)

Estimated Weighted Average Life ⁽¹⁾	Agency RMBS			Agency Interest Only Securities		
	Fair Value	Amortized Cost	Weighted Average Coupon ⁽²⁾	Fair Value	Amortized Cost	Weighted Average Coupon ⁽²⁾
Less than three years	\$ 48,284	\$ 47,527	4.05 %	\$ 7,496	\$ 7,032	3.54 %
Greater than three years and less than seven years	977,274	970,123	3.31 %	28,763	27,162	3.63 %
Greater than seven years and less than eleven years	472,327	472,137	2.56 %	1,818	1,754	1.43 %
Greater than eleven years	1,045	1,043	2.00 %	—	—	— %
Total	\$ 1,498,930	\$ 1,490,830	3.10 %	\$ 38,077	\$ 35,948	3.51 %

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

(2) Weighted average coupon represents the weighted average coupons of the securities, rather than the coupon rates or loan rates on the underlying collateral.

December 31, 2020:

(\$ in thousands)

Estimated Weighted Average Life ⁽¹⁾	Agency RMBS			Agency Interest Only Securities		
	Fair Value	Amortized Cost	Weighted Average Coupon ⁽²⁾	Fair Value	Amortized Cost	Weighted Average Coupon ⁽²⁾
Less than three years	\$ 139,059	\$ 135,844	4.15 %	\$ 8,143	\$ 7,314	3.99 %
Greater than three years and less than seven years	770,173	742,946	3.79 %	32,669	29,362	3.74 %
Greater than seven years and less than eleven years	2,555	2,480	3.01 %	5,165	5,063	1.04 %
Greater than eleven years	—	—	— %	1,679	1,667	0.83 %
Total	\$ 911,787	\$ 881,270	3.84 %	\$ 47,656	\$ 43,406	3.36 %

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

(2) Weighted average coupon represents the weighted average coupons of the securities, rather than the coupon rates or loan rates on the underlying collateral.

The following tables detail weighted average life of the Company's long non-Agency RMBS, CMBS, and CLOs and other securities as of September 30, 2021 and December 31, 2020.

September 30, 2021:

(\$ in thousands)

Estimated Weighted Average Life ⁽¹⁾	Non-Agency RMBS and CMBS			Non-Agency IOs			CLOs and Other Securities ⁽²⁾		
	Fair Value	Amortized Cost	Weighted Average Coupon ⁽³⁾	Fair Value	Amortized Cost	Weighted Average Coupon ⁽³⁾	Fair Value	Amortized Cost	Weighted Average Coupon ⁽³⁾
Less than three years	\$ 73,102	\$ 68,824	5.06 %	\$ 2,172	\$ 1,324	— %	\$ 108,880	\$ 112,891	8.73 %
Greater than three years and less than seven years	56,905	54,286	3.57 %	4,142	3,980	2.18 %	34,525	39,480	3.43 %
Greater than seven years and less than eleven years	54,517	56,473	5.33 %	5,035	4,695	0.23 %	—	—	— %
Greater than eleven years	11,284	11,445	1.93 %	—	—	— %	—	—	— %
Total	\$ 195,808	\$ 191,028	4.53 %	\$ 11,349	\$ 9,999	0.98 %	\$ 143,405	\$ 152,371	7.36 %

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

(2) Other Securities includes asset-backed securities, backed by consumer loans and corporate debt.

(3) Weighted average coupon represents the weighted average coupons of the securities, rather than the coupon rates or loan rates on the underlying collateral.

December 31, 2020:

(In thousands)

Estimated Weighted Average Life ⁽¹⁾	Non-Agency RMBS and CMBS			Non-Agency IOs			CLOs and Other Securities ⁽²⁾		
	Fair Value	Amortized Cost	Weighted Average Coupon ⁽³⁾	Fair Value	Amortized Cost	Weighted Average Coupon ⁽³⁾	Fair Value	Amortized Cost	Weighted Average Coupon ⁽³⁾
Less than three years	\$ 58,350	\$ 54,339	3.39 %	\$ 5,163	\$ 3,754	0.92 %	\$ 89,235	\$ 90,869	7.73 %
Greater than three years and less than seven years	114,815	109,161	3.45 %	4,447	4,369	1.37 %	139,830	163,670	3.69 %
Greater than seven years and less than eleven years	109,519	123,782	2.74 %	—	—	— %	2,320	2,974	1.14 %
Greater than eleven years	29,473	29,799	1.46 %	—	—	— %	—	—	— %
Total	\$ 312,157	\$ 317,081	2.98 %	\$ 9,610	\$ 8,123	1.17 %	\$ 231,385	\$ 257,513	5.09 %

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

(2) Other Securities includes asset-backed securities, backed by consumer loans, corporate debt, and U.S. Treasury securities.

(3) Weighted average coupon represents the weighted average coupons of the securities, rather than the coupon rates or loan rates on the underlying collateral.

The following tables detail the components of interest income by security type for the three- and nine-month periods ended September 30, 2021 and 2020:

(In thousands)

Security Type	Three-Month Period Ended					
	September 30, 2021			September 30, 2020		
	Coupon Interest	Net Amortization	Interest Income	Coupon Interest	Net Amortization	Interest Income
Agency RMBS	\$ 14,797	\$ (9,551)	\$ 5,246	\$ 14,117	\$ (7,454)	\$ 6,663
Non-Agency RMBS and CMBS	3,307	748	4,055	3,311	1,911	5,222
CLOs	3,532	(1,456)	2,076	2,256	2,179	4,435
Other securities ⁽¹⁾	4,590	(1,813)	2,777	2,970	(1,435)	1,535
Total	\$ 26,226	\$ (12,072)	\$ 14,154	\$ 22,654	\$ (4,799)	\$ 17,855

(In thousands)

Security Type	Nine-Month Period Ended					
	September 30, 2021			September 30, 2020		
	Coupon Interest	Net Amortization	Interest Income	Coupon Interest	Net Amortization	Interest Income
Agency RMBS	\$ 43,449	\$ (20,123)	\$ 23,326	\$ 47,632	\$ (25,516)	\$ 22,116
Non-Agency RMBS and CMBS	10,321	3,179	13,500	10,995	4,001	14,996
CLOs	7,978	59	8,037	11,662	1,543	13,205
Other securities ⁽¹⁾	12,296	(3,796)	8,500	8,992	(3,584)	5,408
Total	\$ 74,044	\$ (20,681)	\$ 53,363	\$ 79,281	\$ (23,556)	\$ 55,725

(1) Other securities includes ABS backed by consumer loans, corporate debt securities, and U.S. Treasury securities.

For the three-month periods ended September 30, 2021 and 2020, the Catch-Up Premium Amortization Adjustment was \$(2.9) million and \$0.3 million, respectively. For the nine-month periods ended September 30, 2021 and 2020, the Catch-Up Premium Amortization Adjustment was \$10 thousand and \$(4.4) million, respectively.

The following tables present proceeds from sales and the resulting realized gains and (losses) of the Company's securities for the three- and nine-month periods ended September 30, 2021 and 2020.

Security Type	Three-Month Period Ended							
	September 30, 2021				September 30, 2020			
	Proceeds ⁽¹⁾	Gross Realized Gains	Gross Realized Losses ⁽²⁾	Net Realized Gain (Loss)	Proceeds ⁽¹⁾	Gross Realized Gains	Gross Realized Losses	Net Realized Gain (Loss)
Agency RMBS	\$ 128,510	\$ 831	\$ (1,860)	\$ (1,029)	\$ 10,675	\$ 2,467	\$ (564)	\$ 1,903
Non-Agency RMBS and CMBS	55,122	3,887	(1,081)	2,806	17,926	1,669	(171)	1,498
CLOs	—	2,846	—	2,846	—	—	256	256
Other securities ⁽³⁾	145,131	2,460	(313)	2,147	11,861	373	(74)	299
Total	\$ 328,763	\$ 10,024	\$ (3,254)	\$ 6,770	\$ 40,462	\$ 4,509	\$ (553)	\$ 3,956

(1) Includes proceeds on sales of securities not yet settled as of period end.

(2) Excludes realized losses of \$(0.3) million and \$(2.5) million, for the three-month periods ended September 30, 2021 and 2020, respectively, related to adjustments to the cost basis of certain securities for which the Company has determined all or a portion of such securities cost basis to be uncollectible.

(3) Other securities includes ABS backed by consumer loans, corporate debt and equity, exchange-traded equity, and U.S. Treasury securities.

Security Type	Nine-Month Period Ended							
	September 30, 2021				September 30, 2020			
	Proceeds ⁽¹⁾	Gross Realized Gains	Gross Realized Losses ⁽²⁾	Net Realized Gain (Loss)	Proceeds ⁽¹⁾	Gross Realized Gains	Gross Realized Losses	Net Realized Gain (Loss)
Agency RMBS	\$ 620,728	\$ 4,171	\$ (9,114)	\$ (4,943)	\$ 1,438,469	\$ 15,982	\$ (3,369)	\$ 12,613
Non-Agency RMBS and CMBS	196,874	13,396	(2,598)	10,798	116,349	11,081	(3,880)	7,201
CLOs	129,001	3,882	(973)	2,909	41,714	1,122	(2,928)	(1,806)
Other securities ⁽³⁾	169,812	2,705	(185)	2,520	169,172	1,273	(329)	944
Total	\$ 1,116,415	\$ 24,154	\$ (12,870)	\$ 11,284	\$ 1,765,704	\$ 29,458	\$ (10,506)	\$ 18,952

(1) Includes proceeds on sales of securities not yet settled as of period end.

(2) Excludes realized losses of \$(1.5) million and \$(16.3) million for the nine-month periods ended September 30, 2021 and 2020, respectively, related to adjustments to the cost basis of certain securities for which the Company has determined all or a portion of such securities cost basis to be uncollectible.

(3) Other securities includes ABS backed by consumer loans, corporate debt and equity, exchange-traded equity, and U.S. Treasury securities.

The following tables present the fair value and gross unrealized losses of our long securities, excluding those where there are expected credit losses as of the balance sheet date in relation to such securities' cost bases, by length of time that such securities have been in an unrealized loss position at September 30, 2021 and December 31, 2020.

September 30, 2021:

Security Type	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Agency RMBS	\$ 663,008	\$ (7,783)	\$ 31,177	\$ (972)	\$ 694,185	\$ (8,755)
Non-Agency RMBS and CMBS	41,556	(812)	4,050	(200)	45,606	(1,012)
CLOs	—	—	1,264	(1,006)	1,264	(1,006)
Total	\$ 704,564	\$ (8,595)	\$ 36,491	\$ (2,178)	\$ 741,055	\$ (10,773)

December 31, 2020:
(In thousands)

Security Type	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Agency RMBS	\$ 126,926	\$ (981)	\$ 832	\$ (44)	\$ 127,758	\$ (1,025)
Non-Agency RMBS and CMBS	20,474	(2,616)	2,599	(348)	23,073	(2,964)
CLOs	5,279	(753)	1,196	(1,131)	6,475	(1,884)
Other securities ⁽¹⁾	1,107	(8)	—	—	1,107	(8)
Total	\$ 153,786	\$ (4,358)	\$ 4,627	\$ (1,523)	\$ 158,413	\$ (5,881)

(1) Other securities includes ABS backed by consumer loans, corporate debt and equity, and U.S. Treasury securities.

As described in Note 2, the Company evaluates the cost basis of its securities for impairment on at least a quarterly basis. As of September 30, 2021 and December 31, 2020, the Company had expected future credit losses, which it tracks for purposes of calculating interest income, of \$19.2 million and \$24.9 million, respectively, related to adverse changes in estimated future cash flows on its securities. Certain of the Company's securities, at the date of acquisition, have experienced or are expected to experience more-than-insignificant deterioration in credit quality since origination and the Company has established an initial estimate for credit losses on such securities; as of December 31, 2020, the estimated credit losses on such securities was \$2.6 million. There were no estimated credit losses on such securities as of September 30, 2021.

The Company has determined for certain securities that a portion of such securities cost basis is not collectible. For the three-month periods ended September 30, 2021 and 2020, the Company recognized realized losses on these securities of \$(0.3) million and \$(2.5) million, respectively. For the nine-month periods ended September 30, 2021 and 2020, the Company recognized realized losses on these securities of \$(1.5) million and \$(16.3) million, respectively. Such losses are reflected in Net realized gains (losses) on securities and loans, net, on the Condensed Consolidated Statement of Operations.

5. Investment in Loans

The Company invests in various types of loans, such as residential mortgage, commercial mortgage, consumer, and corporate loans. As discussed in Note 2, the Company has elected the FVO for its investments in loans. The following table is a summary of the Company's investments in loans as of September 30, 2021 and December 31, 2020:

<i>(In thousands)</i>	As of			
	September 30, 2021		December 31, 2020	
Loan Type	Unpaid Principal Balance	Fair Value	Unpaid Principal Balance	Fair Value
Residential mortgage loans	\$ 1,602,548	\$ 1,656,701	\$ 1,150,303	\$ 1,187,0
Commercial mortgage loans	267,388	267,591	212,716	213,0
Consumer loans	53,515	55,676	48,180	47,5
Corporate loans	16,828	16,561	5,855	5,8
Total	\$ 1,940,279	\$ 1,996,529	\$ 1,417,054	\$ 1,453,4

The Company is subject to credit risk in connection with its investments in loans. The two primary components of credit risk are default risk, which is the risk that a borrower fails to make scheduled principal and interest payments, and severity risk, which is the risk of loss upon a borrower default on a mortgage loan or other secured or unsecured loan. Severity risk includes the risk of loss of value of the property or other asset, if any, securing the loan, as well as the risk of loss associated with taking over the property or other asset, if any, including foreclosure costs. Credit risk in our loan portfolio can be amplified by exogenous shocks impacting our borrowers such as man-made or natural disasters, including the COVID-19 pandemic.

The following table provides details, by accrual status, for loans that are 90 days or more past due as of September 30, 2021 and December 31, 2020:

(In thousands)	As of			
	September 30, 2021		December 31, 2020	
	Unpaid Principal Balance	Fair Value	Unpaid Principal Balance	Fair Value
90 days or more past due—non-accrual status				
Residential mortgage loans	\$ 37,010	\$ 34,003	\$ 64,509	\$ 60,381
Commercial mortgage loans	39,842	40,023	44,233	44,052
Consumer loans	501	488	1,015	930

Residential Mortgage Loans

The tables below detail certain information regarding the Company's residential mortgage loans as of September 30, 2021 and December 31, 2020.

September 30, 2021:

(\$ in thousands)	Unpaid Principal Balance	Premium (Discount)	Amortized Cost	Gross Unrealized		Fair Value	Weighted Average		
				Gains	Losses		Coupon	Yield	Life (Years) ⁽¹⁾
Residential mortgage loans, held-for-investment ⁽²⁾	\$ 1,602,548	\$ 34,431	\$ 1,636,979	\$ 25,125	\$ (5,403)	\$ 1,656,701	5.79 %	4.56 %	1.95

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

(2) Includes \$917.3 million of non-QM loans that have been securitized and are held in consolidated securitization trusts. Such loans had \$20.4 million and \$(0.4) million of gross unrealized gains and gross unrealized losses, respectively; such unrealized gains (losses) are included on the Company's Condensed Consolidated Statement of Operations in Unrealized gains (losses) on securities and loans, net. See Residential Mortgage Loan Securitizations in Note 10 for additional information.

December 31, 2020:

(\$ in thousands)	Unpaid Principal Balance	Premium (Discount)	Amortized Cost	Gross Unrealized		Fair Value	Weighted Average		
				Gains	Losses		Coupon	Yield	Life (Years) ⁽¹⁾
Residential mortgage loans, held-for-investment ⁽²⁾	\$ 1,150,303	\$ 14,263	\$ 1,164,566	\$ 27,892	\$ (5,389)	\$ 1,187,069	6.19 %	5.60 %	1.90

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

(2) Includes \$801.3 million of non-QM loans that have been securitized and are held in consolidated securitization trusts. Such loans had \$24.8 million and \$(0.1) million of gross unrealized gains and gross unrealized losses, respectively; such unrealized gains (losses) are included on the Company's Condensed Consolidated Statement of Operations in Unrealized gains (losses) on securities and loans, net. See Residential Mortgage Loan Securitizations in Note 10 for additional information.

The table below summarizes the geographic distribution of the real estate collateral underlying the Company's residential mortgage loans as a percentage of total outstanding unpaid principal balance as of September 30, 2021 and December 31, 2020:

Property Location by U.S. State	September 30, 2021	December 31, 2020
California	41.2 %	43.1 %
Florida	15.0 %	14.8 %
Texas	11.7 %	10.2 %
Colorado	2.6 %	3.1 %
Utah	2.6 %	1.7 %
Arizona	2.3 %	2.0 %
Massachusetts	2.3 %	2.6 %
Illinois	2.2 %	1.8 %
Nevada	1.8 %	1.9 %
New York	1.7 %	1.6 %
Oregon	1.6 %	2.2 %
Washington	1.6 %	1.4 %
North Carolina	1.6 %	1.1 %
Georgia	1.2 %	1.3 %
Connecticut	1.2 %	0.9 %
New Jersey	1.0 %	1.4 %
Maryland	0.8 %	1.0 %
Other	7.6 %	7.9 %
	100.0 %	100.0 %

The following table presents information on the Company's residential mortgage loans by re-performing or non-performing status, as of September 30, 2021 and December 31, 2020.

<i>(In thousands)</i>	As of			
	September 30, 2021		December 31, 2020	
	Unpaid Principal Balance	Fair Value	Unpaid Principal Balance	Fair Value
Re-performing	\$ 18,164	\$ 17,424	\$ 18,120	\$ 16,7
Non-performing	34,904	32,107	62,009	58,1

As described in Note 2, the Company evaluates the cost basis of its residential mortgage loans for impairment on at least a quarterly basis. As of September 30, 2021 and December 31, 2020, the Company had expected future credit losses, which it tracks for purposes of calculating interest income, of \$1.5 million and \$2.2 million, respectively, related to adverse changes in estimated future cash flows on its residential mortgage loans. Certain of the Company's residential mortgage loans, at the date of acquisition, have experienced or are expected to experience more-than-insignificant deterioration in credit quality since origination and the Company has established an initial estimate for credit losses on such loans; as of both September 30, 2021 and December 31, 2020, the estimated credit losses on such loans was \$0.2 million.

The Company has determined for certain of its residential mortgage loans that a portion of such loans' cost basis is not collectible. For the three-month periods ended September 30, 2020, the Company recognized realized losses on these loans of \$(51) thousand; no such realized losses were recognized for the three-month period ended September 30, 2021. For the nine-month periods ended September 30, 2021 and 2020, the Company recognized realized losses on these loans of \$(33) thousand and \$(0.5) million, respectively. Such losses are reflected in Net realized gains (losses) on securities and loans, net, on the Condensed Consolidated Statement of Operations.

As of September 30, 2021 and December 31, 2020, the Company had residential mortgage loans that were in the process of foreclosure with a fair value of \$12.9 million and \$14.9 million, respectively.

Commercial Mortgage Loans

The tables below detail certain information regarding the Company's commercial mortgage loans as of September 30, 2021 and December 31, 2020:

September 30, 2021:

(\$ in thousands)	Unpaid Principal Balance	Premium (Discount)	Amortized Cost	Gross Unrealized		Fair Value	Weighted Average		
				Gains	Losses		Coupon	Yield ⁽¹⁾	Life (Years) ⁽²⁾
Commercial mortgage loans, held-for-investment	\$ 267,388	\$ 38	\$ 267,426	\$ 338	\$ (173)	\$ 267,591	7.88 %	7.84 %	0.98

(1) Excludes non-performing commercial mortgage loans, in non-accrual status, with a fair value of \$40.0 million.

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

December 31, 2020:

(\$ in thousands)	Unpaid Principal Balance	Premium (Discount)	Amortized Cost	Gross Unrealized		Fair Value	Weighted Average		
				Gains	Losses		Coupon	Yield ⁽¹⁾	Life (Years) ⁽²⁾
Commercial mortgage loans, held-for-investment	\$ 212,716	\$ 290	\$ 213,006	\$ 479	\$ (454)	\$ 213,031	8.38 %	8.28 %	0.62

(1) Excludes non-performing commercial mortgage loans, in non-accrual status, with a fair value of \$31.5 million.

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

The table below summarizes the geographic distribution of the real estate collateral underlying the Company's commercial mortgage loans as a percentage of total outstanding unpaid principal balance as of September 30, 2021 and December 31, 2020:

Property Location by U.S. State	September 30, 2021	December 31, 2020
Florida	26.6 %	23.8 %
New York	20.2 %	15.2 %
Connecticut	7.0 %	11.2 %
Missouri	6.8 %	7.9 %
Arizona	6.2 %	4.3 %
Ohio	5.9 %	7.3 %
North Carolina	5.7 %	2.2 %
New Jersey	5.0 %	5.8 %
California	4.7 %	5.9 %
Michigan	4.7 %	— %
New Hampshire	3.4 %	— %
Indiana	2.3 %	2.8 %
Nevada	1.5 %	1.9 %
Massachusetts	— %	6.1 %
Virginia	— %	4.2 %
Illinois	— %	1.4 %
	<u>100.0 %</u>	<u>100.0 %</u>

As of September 30, 2021, the Company had six non-performing commercial mortgage loans with an unpaid principal balance and fair value of \$39.8 million and \$40.0 million, respectively. As of December 31, 2020, the Company had three non-performing commercial mortgage loans with an unpaid principal balance and fair value of \$31.8 million and \$31.5 million, respectively.

As described in Note 2, the Company evaluates the cost basis of its commercial mortgage loans for impairment on at least a quarterly basis. As of September 30, 2021 and December 31, 2020, the expected future credit losses, which the Company

tracks for purposes of calculating interest income, of \$0.2 million and \$0.4 million, related to adverse changes in estimated future cash flows on its commercial mortgage loans.

As of December 31, 2020, the Company had one commercial mortgage loan with a fair value of \$10.5 million that was in the process of foreclosure. The Company did not have any commercial mortgage loans in the process of foreclosure as of September 30, 2021.

Consumer Loans

The tables below detail certain information regarding the Company's consumer loans as of September 30, 2021 and December 31, 2020:

September 30, 2021:

(\$ in thousands)	Unpaid Principal Balance	Premium (Discount)	Amortized Cost	Gross Unrealized		Fair Value ⁽¹⁾	Weighted Average	
				Gains	Losses		Life (Years) ⁽²⁾	Delinquency (Days)
Consumer loans, held-for-investment	\$ 53,515	\$ 2,405	\$ 55,920	\$ 910	\$ (1,154)	\$ 55,676	0.96	3

(1) Includes \$0.3 million of charged-off loans for which the Company has determined that it is probable the servicer will be able to collect principal and interest.

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

December 31, 2020:

(\$ in thousands)	Unpaid Principal Balance	Premium (Discount)	Amortized Cost	Gross Unrealized		Fair Value ⁽¹⁾	Weighted Average	
				Gains	Losses		Life (Years) ⁽²⁾	Delinquency (Days)
Consumer loans, held-for-investment	\$ 48,180	\$ 72	\$ 48,252	\$ 1,160	\$ (1,887)	\$ 47,525	1.04	7

(1) Includes \$0.6 million of charged-off loans for which the Company has determined that it is probable the servicer will be able to collect principal and interest.

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

The table below provides details on the delinquency status as a percentage of total unpaid principal balance of the Company's consumer loans, which the Company uses as an indicator of credit quality, as of September 30, 2021 and December 31, 2020:

Days Past Due	September 30, 2021		December 31, 2020	
		%		%
Current	96.7	%	90.4	%
30-59 Days	1.4	%	3.4	%
60-89 Days	1.0	%	3.3	%
90-119 Days	0.9	%	2.8	%
>120 Days	—	%	0.1	%
	100.0	%	100.0	%

During the three-month periods ended September 30, 2021 and 2020, the Company charged off \$0.5 million and \$3.9 million, respectively, of unpaid principal balance of consumer loans that were greater than 120 days delinquent. During the nine-month periods ended September 30, 2021 and 2020, the Company charged off \$2.9 million and \$13.9 million, respectively, of unpaid principal balance of consumer loans that were greater than 120 days delinquent. As of September 30, 2021 and December 31, 2020, the Company held charged-off consumer loans with an aggregate fair value of \$0.3 million and \$0.6 million, respectively, for which the Company has determined that it is probable the servicer will be able to collect principal and interest.

As described in Note 2, the Company evaluates the cost basis of its consumer loans for impairment on at least a quarterly basis. As of September 30, 2021 and December 31, 2020, the Company had expected future credit losses, which it tracks for purposes of calculating interest income, of \$1.0 million and \$2.9 million, respectively, on its consumer loans. The Company has

determined for certain of its consumer loans that a portion of such loans' cost basis is not collectible. For the three- and nine-month periods ended September 30, 2021, the Company recognized realized losses on these loans of \$(0.1) million and \$(1.4) million. For the three- and nine-month periods ended September 30, 2020, the Company recognized realized losses on these loans of \$(0.1) million.

Corporate Loans

The tables below detail certain information regarding the Company's corporate loans as of September 30, 2021 and December 31, 2020:

September 30, 2021:

(\$ in thousands)	Unpaid Principal Balance	Fair Value	Weighted Average	
			Rate	Remaining Term (Years)
Corporate loans, held-for-investment ⁽¹⁾	\$ 16,828	\$ 16,561	17.68 %	2.91

(1) See Note 21 for further details on the Company's unfunded commitments related to certain of its corporate loans.

December 31, 2020:

(\$ in thousands)	Unpaid Principal Balance	Fair Value	Weighted Average	
			Rate	Remaining Term (Years)
Corporate loans, held-for-investment ⁽¹⁾	\$ 5,855	\$ 5,855	20.00 %	1.75

(1) See Note 21 for further details on the Company's unfunded commitments related to certain of its corporate loans.

6. Investments in Unconsolidated Entities

The Company has various equity investments in entities where it has the ability to exert significant influence over such entity, but does not control such entity. In these cases the criteria for consolidation have not been met and the Company is required to account for such investments under ASC 323-10; the Company has elected the FVO for its investments in unconsolidated entities. As of September 30, 2021 and December 31, 2020, the Company's investments in unconsolidated entities had an aggregate fair value of \$142.0 million and \$141.6 million, respectively, which is included on the Condensed Consolidated Balance Sheet in Investments in unconsolidated entities, at fair value. For the three-month periods ended September 30, 2021 and 2020, the Company recognized \$2.5 million and \$11.4 million, respectively, in Earnings (losses) from investments in unconsolidated entities, on its Condensed Consolidated Statement of Operations. For the nine-month periods ended September 30, 2021 and 2020, the Company recognized \$27.8 million and \$10.6 million, respectively, in Earnings (losses) from investments in unconsolidated entities, on its Condensed Consolidated Statement of Operations. As of September 30, 2021 and December 31, 2020, the Company had non-controlling equity interests in various loan originators with an aggregate fair value of \$103.4 million and \$79.5 million, respectively. Certain of the entities that the Company accounts for under ASC 323-10 are deemed to be VIEs, and the maximum amount at risk is generally limited to the Company's investment in the VIE. As of September 30, 2021 and December 31, 2020, the fair value of the Company's investments in unconsolidated entities that have been deemed to be VIEs was \$26.8 million and \$13.6 million, respectively.

The following table provides details about the Company's investments in unconsolidated entities as of September 30, 2021 and December 31, 2020:

Investment in Unconsolidated Entity	Form of Investment	Percentage Ownership of Unconsolidated Entity	
		September 30, 2021	December 31, 2020
Longbridge Financial, LLC ⁽¹⁾	Preferred shares	49.7%	49.7%
LendSure Mortgage Corp. ⁽¹⁾⁽²⁾	Common shares	49.9%	49.9%
Jepson Holdings Limited ⁽¹⁾	Membership Interest	30.1%	30.1%
Elizon DB 2015-1 LLC ⁽¹⁾⁽³⁾⁽⁴⁾	Membership Interest	3.1%	8.9%
Elizon NM CRE 2020-1 LLC ⁽¹⁾⁽³⁾⁽⁵⁾	Membership Interest	54.6%	—%
Elizon CH CRE 2021-1 LLC ⁽¹⁾⁽³⁾⁽⁶⁾	Membership Interest	13.6%	—%
Elizon TCG SBC 2017-1 ⁽¹⁾	Membership Interest	—%	36.0%
Other ⁽¹⁾⁽⁷⁾⁽⁸⁾⁽⁹⁾	Various	8.0%–80.0%	7.4%–56.3%

(1) See Note 13 for additional details on the Company's related party transactions.

- (2) Excludes investment in warrants convertible into non-voting common shares; including such warrants the Company's additional non-voting stake in the entity was 15.0% as of both September 30, 2021 and December 31, 2020. See Note 13 Related Party Transactions—*Transactions Involving Certain Loan Originators* for additional information.
- (3) The Company has evaluated this entity and determined that it meets the definition of a VIE. The Company evaluated its interest in the VIE and determined that the Company does not have the power to direct the activities of the VIE and does not have control of the underlying assets, where applicable. As a result, the Company determined that it is not the primary beneficiary of this VIE and therefore has not consolidated the VIE.
- (4) As discussed in Note 13 Related Party Transactions—*Participation in Multi-Borrower Financing Facilities*, the Company and the Affiliated Entities (as defined in Note 13) each consolidate their segregated silos of the Joint Entity (as defined in Note 13). The Company's effective percentage ownership before the effects of consolidation of both its and the Affiliated Entities' respective segregated silos of the Joint Entity, was 53.7% and 58.2% as of September 30, 2021 and December 31, 2020, respectively.
- (5) As discussed in Note 13 Related Party Transactions—*Participation in Multi-Borrower Financing Facilities*, the Company and the Affiliated Entities (as defined in Note 13) each consolidate their segregated silos of the Joint Entity (as defined in Note 13). The Company's effective percentage ownership before the effects of consolidation of both its and the Affiliated Entities' respective segregated silos of the Joint Entity, was 32.6% as of September 30, 2021.
- (6) As discussed in Note 13 Related Party Transactions—*Participation in Multi-Borrower Financing Facilities*, the Company and the Affiliated Entities (as defined in Note 13) each consolidate their segregated silos of the Joint Entity (as defined in Note 13). The Company's effective percentage ownership before the effects of consolidation of both its and the Affiliated Entities' respective segregated silos of the Joint Entity, was 44.0% as of September 30, 2021.
- (7) Includes interest in Consumer Risk Retention Vehicle, as defined in Note 10—*Participation in Multi-Seller Consumer Loan Securitization*. The Company has evaluated this entity and determined that it does not meet the definition of a VIE. The Company evaluated its interest in the entity under the voting interest model outlined in ASC 810, and has determined that the Company does not control this entity. As a result, the Company has not consolidated the entity. See Note 10 for additional details on the Company's securitization transactions.
- (8) Includes interest in warehouse facilities; see Note 13—*Participation in CLO Transactions*, for additional details.
- (9) Excludes investment in non-voting common shares of a loan originator; including such shares the Company's additional non-voting stake in such entity was 16.4% as of September 30, 2021. There were no additional non-voting shares held by the Company at December 31, 2020. See Note 13 Related Party Transactions—*Transactions Involving Certain Loan Originators* for additional information.

As of September 30, 2021, the Company's two largest investments in unconsolidated entities were in mortgage loan originators, LendSure Mortgage Corp. and Longbridge Financial, LLC, or "Longbridge." As of September 30, 2021 and December 31, 2020, the fair value of the Company's investment in LendSure Mortgage Corp. was \$27.1 million and \$15.5 million, respectively, which is included on the Condensed Consolidated Balance Sheet in Investments in unconsolidated entities, at fair value. The Company's investment in Longbridge was considered significant pursuant to Regulation S-X for the year ended December 31, 2020. For the three-month periods ended September 30, 2021 and 2020, the Company recognized \$(6.2) million and \$8.9 million, respectively of unrealized gains (losses) from its investment in Longbridge, which is included in Earnings (losses) from investments in unconsolidated entities on the Condensed Consolidated Statement of Operations. For the nine-month periods ended September 30, 2021 and 2020, the Company recognized \$5.1 million and \$13.2 million, respectively, of unrealized gains from its investment in Longbridge. As of September 30, 2021 and December 31, 2020, the fair value of the Company's investment in Longbridge was \$65.7 million and \$60.6 million, respectively, which is included on the Condensed Consolidated Balance Sheet in Investments in unconsolidated entities, at fair value. The following table provides a summary of the results of operations of Longbridge for the three- and nine-month periods ended September 30, 2021 and 2020.

(In thousands)	Three-Month Period Ended		Nine-Month Period Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Revenue ⁽¹⁾	\$ (21,954)	\$ 114,064	\$ 168,664	\$ 240,712
Net income (loss)	\$ (8,243)	\$ 15,962	\$ 23,469	\$ 28,962

(1) Longbridge includes in Revenue mark-to-market gains and losses on certain reverse mortgage loans held for investments.

7. Real Estate Owned

As discussed in Note 2, the Company obtains possession of REO as a result of foreclosures on the associated mortgage loans. The following tables detail activity in the Company's carrying value of REO for the three- and nine-month periods ended September 30, 2021 and 2020:

	Three-Month Period Ended			
	September 30, 2021		September 30, 2020	
	Number of Properties	Carrying Value <i>(In thousands)</i>	Number of Properties	Carrying Value <i>(In thousands)</i>
Beginning Balance (June 30, 2021 and 2020, respectively)	14	\$ 35,295	13	\$ 24,000
Transfers from mortgage loans	4	1,479	4	6
Capital expenditures and other adjustments to cost		312		
Adjustments to record at the lower of cost or fair value		699		1
Disposals	(3)	(783)	(1)	(11)
Ending Balance (September 30, 2021 and 2020, respectively)	15	\$ 37,002	16	\$ 24,794

	Nine-Month Period Ended			
	September 30, 2021		September 30, 2020	
	Number of Properties	Carrying Value <i>(In thousands)</i>	Number of Properties	Carrying Value <i>(In thousands)</i>
Beginning Balance (December 31, 2020 and 2019, respectively)	13	\$ 23,598	15	\$ 30,584
Transfers from mortgage loans	7	14,033	9	2,198
Capital expenditures and other adjustments to cost		2,205		153
Adjustments to record at the lower of cost or fair value		(1,406)		(813)
Disposals	(5)	(1,428)	(8)	(7,328)
Ending Balance (September 30, 2021 and 2020, respectively)	15	\$ 37,002	16	\$ 24,794

During the three-month period ended September 30, 2021, the Company sold three REO properties, realizing a net gain (loss) of approximately \$(50) thousand. During the three-month period ended September 30, 2020, the Company sold one REO property, realizing a net gain (loss) of approximately \$(18) thousand. During the nine-month period ended September 30, 2021, the Company sold five REO properties, realizing a net gain (loss) of approximately \$(63) thousand. During the nine-month period ended September 30, 2020, the Company sold eight REO properties, realizing a net gain (loss) of approximately \$0.1 million. Such realized gains (losses) are included in Realized gains (losses) on real estate owned, net, on the Company's Condensed Consolidated Statement of Operations. As of September 30, 2021 and December 31, 2020 all of the Company's REO had been obtained as a result of obtaining physical possession through foreclosure. Of the Company's total REO holdings, \$25.6 million and \$22.4 million were measured at fair value on a non-recurring basis as of September 30, 2021 and December 31, 2020, respectively.

8. Financial Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company manages certain risks associated with its investments and borrowings, including interest rate, credit, liquidity, and foreign exchange rate risk primarily by managing the amount, sources, and duration of its investments and borrowings, and through the use of derivative financial instruments. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of its known or expected cash receipts and its known or expected cash payments principally related to its investments and borrowings.

The following table details the fair value of the Company's holdings of financial derivatives as of September 30, 2021 and December 31, 2020:

<i>(In thousands)</i>	<u>September 30, 2021</u>	<u>December 31, 2020</u>
Financial derivatives—assets, at fair value:		
TBA securities purchase contracts	\$ —	\$ 961
TBA securities sale contracts	2,399	1
Fixed payer interest rate swaps	4,450	125
Fixed receiver interest rate swaps	4,167	8,394
Credit default swaps on asset-backed securities	303	347
Credit default swaps on asset-backed indices	1,599	2,184
Credit default swaps on corporate bond indices	174	3,420
Total return swaps	—	9
Options	146	—
Futures	1,440	2
Forwards	360	—
Warrants	938	36
Total financial derivatives—assets, at fair value	<u>15,976</u>	<u>15,479</u>
Financial derivatives—liabilities, at fair value:		
TBA securities purchase contracts	(2,596)	—
TBA securities sale contracts	(485)	(925)
Fixed payer interest rate swaps	(8,094)	(15,109)
Fixed receiver interest rate swaps	(757)	(65)
Credit default swaps on asset-backed indices	(38)	(130)
Credit default swaps on corporate bonds	(101)	(747)
Credit default swaps on corporate bond indices	(1,955)	(6,438)
Total return swaps	—	(484)
Futures	(93)	(376)
Forwards	—	(279)
Total financial derivatives—liabilities, at fair value	<u>(14,119)</u>	<u>(24,553)</u>
Total	<u>\$ 1,857</u>	<u>\$ (9,074)</u>

Interest Rate Swaps

The following tables provide information about the Company's fixed payer interest rate swaps as of September 30, 2021 and December 31, 2020:

September 30, 2021:

	Notional Amount	Fair Value	Pay Rate	Weighted Average		Remaining Years to Maturity
				Receive Rate		
	<i>(In thousands)</i>					
2022	\$ 64,100	\$ (269)	0.99 %	0.12 %		0.43
2023	691,110	(3,022)	0.55	0.12		1.72
2024	314,762	391	0.43	0.13		2.49
2025	52,692	(70)	0.86	0.13		3.69
2026	29,925	186	0.88	0.13		4.72
2027	9,732	360	0.49	0.13		5.73
2028	119,634	(215)	1.31	0.13		6.73
2029	19,152	(898)	1.98	0.13		7.80
2030	9,585	270	1.09	0.12		8.48
2031	111,409	835	1.43	0.13		9.68
2035	500	41	0.78	0.09		14.06
2036	1,100	37	1.45	0.12		14.39
2040	500	51	0.90	0.09		19.07
2049	5,796	(1,408)	2.89	0.15		27.28
2050	500	67	0.98	0.09		25.07
Total	\$ 1,430,497	\$ (3,644)	0.72 %	0.12 %		3.29

December 31, 2020:

Maturity	Notional Amount	Fair Value	Pay Rate	Weighted Average		Remaining Years to Maturity
				Receive Rate		
	<i>(In thousands)</i>					
2021	\$ 17,500	\$ (231)	2.75 %	0.24 %		0.22
2022	96,533	(1,535)	1.19	0.22		1.14
2023	146,012	(4,770)	1.50	0.23		2.42
2025	66,503	(1,034)	0.73	0.21		4.75
2026	11,216	(458)	1.23	0.25		5.50
2027	9,732	60	0.49	0.24		6.48
2028	16,644	(2,169)	2.39	0.24		7.32
2029	22,744	(2,289)	1.94	0.23		8.61
2030	13,015	(369)	1.13	0.22		9.29
2035	500	15	0.78	0.09		14.81
2036	1,100	(47)	1.45	0.25		15.13
2040	500	20	0.90	0.09		19.82
2049	5,796	(2,208)	2.89	0.23		28.02
2050	500	31	0.98	0.09		29.82
Total	\$ 408,295	\$ (14,984)	1.39 %	0.23 %		3.82

The following tables provide information about the Company's fixed receiver interest rate swaps as of September 30, 2021 and December 31, 2020:

September 30, 2021:

Maturity	Notional Amount	Fair Value	Weighted Average		
			Pay Rate	Receive Rate	Remaining Years to Maturity
	<i>(In thousands)</i>				
2022	\$ 53,974	\$ 463	— %	1.85 %	0.42
2023	41,407	1,094	0.12	2.00	1.47
2024	76,342	2,572	0.14	1.57	3.05
2026	59,640	(295)	0.13	0.89	4.76
2031	13,736	(251)	0.13	1.32	9.76
2035	500	(43)	0.09	0.74	14.06
2040	500	(55)	0.09	0.84	19.07
2050	500	(75)	0.09	0.90	29.07
Total	\$ 246,599	\$ 3,410	0.10 %	1.52 %	3.10

December 31, 2020:

Maturity	Notional Amount	Fair Value	Weighted Average		
			Pay Rate	Receive Rate	Remaining Years to Maturity
	<i>(In thousands)</i>				
2021	\$ 12,950	\$ 205	0.24 %	1.75 %	0.71
2022	103,974	1,413	0.22	1.07	1.48
2023	48,657	2,209	0.24	2.00	2.26
2024	86,342	4,567	0.22	1.65	3.73
2035	500	(14)	0.09	0.74	14.81
2040	500	(20)	0.09	0.84	19.82
2050	500	(31)	0.09	0.90	29.82
Total	\$ 253,423	\$ 8,329	0.22 %	1.48 %	2.48

Credit Default Swaps

The following table provides information about the Company's credit default swaps as of September 30, 2021 and December 31, 2020:

Type ⁽¹⁾	As of					
	September 30, 2021			December 31, 2020		
	Notional	Fair Value	Weighted Average Remaining Term (Years)	Notional	Fair Value	Weighted Average Remaining Term (Years)
<i>(\$ in thousands)</i>						
Asset:						
Long:						
Credit default swaps on asset-backed indices	\$ 499	\$ 8	24.32	\$ 395	\$ 5	16.99
Credit default swaps on corporate bond indices	2,206	174	2.22	67,779	3,296	2.52
Short:						
Credit default swaps on asset-backed securities	(909)	303	13.96	(957)	347	14.70
Credit default swaps on asset-backed indices	(12,298)	1,591	40.55	(12,888)	2,179	39.61
Credit default swaps on corporate bond indices	—	—	—	(2,173)	124	2.97
Liability:						
Long:						
Credit default swaps on asset-backed indices	90	(38)	27.66	479	(130)	32.36
Short:						
Credit default swaps on asset-backed indices	(1)	—	28.25	(1)	—	29.00
Credit default swaps on corporate bonds	(3,400)	(101)	3.72	(8,400)	(747)	4.17
Credit default swaps on corporate bond indices	(22,622)	(1,955)	4.54	(110,624)	(6,438)	2.78
	<u>\$ (36,435)</u>	<u>\$ (18)</u>	<u>16.67</u>	<u>\$ (66,390)</u>	<u>\$ (1,364)</u>	<u>10.25</u>

(1) Long notional represents contracts where the Company has written protection and short notional represents contracts where the Company has purchased protection.

Futures

The following table provides information about the Company's long and short positions in futures as of September 30, 2021 and December 31, 2020:

Description	As of					
	September 30, 2021			December 31, 2020		
	Notional Amount	Fair Value	Remaining Months to Expiration	Notional Amount	Fair Value	Remaining Months to Expiration
<i>(In thousands)</i>			<i>(In thousands)</i>			
Assets:						
Short Contracts:						
U.S. Treasury futures	\$ (221,400)	\$ 1,440	2.99	\$ (300)	\$ 2	2.70
Liabilities:						
Long Contracts:						
U.S. Treasury futures	1,900	(93)	2.73	1,900	(9)	2.70
Short Contracts:						
U.S. Treasury futures	—	—	—	(178,200)	(367)	2.94
Total, net	\$ (219,500)	\$ 1,347	2.99	\$ (176,600)	\$ (374)	2.94

Options

The following table provides information about the Company's options contracts as of September 30, 2021. The Company did not have any options contracts as of December 31, 2020:

Type	Option			Underlying Swap		
	Fair Value	Months to Expiration	Notional Amount	Term (Years)	Fixed Rate	
<i>(\$ in thousands)</i>						
Put options on credit default swaps on corporate bond indices ⁽¹⁾	\$ 146	2.5	\$ 30,000	5.00	5.00 %	

(1) Represents the option on the part of the Company to enter into a credit default swap on a corporate bond index whereby the Company would pay a fixed rate and receive credit protection payments.

Warrants

The following table provides information about the Company's warrants contracts to purchase shares as of September 30, 2021 and December 31, 2020:

Description	September 30, 2021			December 31, 2020		
	Number of Shares Underlying Warrant	Fair Value	Remaining Years to Expiration	Number of Shares Underlying Warrant	Fair Value	Remaining Years to Expiration
	<i>(In thousands)</i>			<i>(In thousands)</i>		
Warrants	2,120	\$ 938	1.79	1,897	\$ 36	2.40

TBAs

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

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

As of September 30, 2021 and December 31, 2020, the Company had outstanding TBA purchase and sale contracts as follows:

TBA Securities	September 30, 2021				December 31, 2020			
	Notional Amount ⁽¹⁾	Cost Basis ⁽²⁾	Market Value ⁽³⁾	Net Carrying Value ⁽⁴⁾	Notional Amount ⁽¹⁾	Cost Basis ⁽²⁾	Market Value ⁽³⁾	Net Carrying Value ⁽⁴⁾
<i>(In thousands)</i>								
Purchase contracts:								
Assets	\$ —	\$ —	\$ —	\$ —	\$ 149,990	\$ 155,008	\$ 155,969	\$ —
Liabilities	291,283	294,634	292,038	(2,596)	—	—	—	—
	291,283	294,634	292,038	(2,596)	149,990	155,008	155,969	—
Sale contracts:								
Assets	(596,773)	(623,051)	(620,652)	2,399	(4,400)	(4,765)	(4,764)	—
Liabilities	(326,878)	(348,177)	(348,662)	(485)	(499,667)	(531,034)	(531,959)	(9)
	(923,651)	(971,228)	(969,314)	1,914	(504,067)	(535,799)	(536,723)	(9)
Total TBA securities, net	\$ (632,368)	\$ (676,594)	\$ (677,276)	\$ (682)	\$ (354,077)	\$ (380,791)	\$ (380,754)	\$ —

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

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

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

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

Gains and losses on the Company's derivative contracts for the three- and nine-month periods ended September 30, 2021 and 2020 are summarized in the tables below:

Three-Month Period Ended September 30, 2021:

Derivative Type	Primary Risk Exposure	Net Realized Gains (Losses) on Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) on Financial Derivatives Other Than Periodic Settlements of Interest Rate Swaps	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 ⁽¹⁾	Change in Net Unrealized Gains (Losses) on Financial Derivatives ⁽¹⁾
<i>(In thousands)</i>							
Interest rate swaps	Interest Rate	\$ (1,069)	\$ (243)	\$ (1,312)	\$ 252	\$ 2,790	\$ 3,042
Credit default swaps on asset-backed securities	Credit		(4)	(4)		—	—
Credit default swaps on asset-backed indices	Credit		(136)	(136)		69	69
Credit default swaps on corporate bond indices	Credit		(264)	(264)		244	244
Credit default swaps on corporate bonds	Credit		184	184		(192)	(192)
Total return swaps	Credit		(41)	(41)		(465)	(465)
TBAs	Interest Rate		(425)	(425)		(2,381)	(2,381)
Options	Credit		—	—		(148)	(148)
Futures	Interest Rate		(271)	(271)		843	843
Forwards	Currency		487	487		(85)	(85)
Warrants	Equity Market/Credit		—	—		221	221
Total		\$ (1,069)	\$ (713)	\$ (1,782)	\$ 252	\$ 896	\$ 1,148

(1) Includes foreign currency remeasurement on financial derivatives in the amount of \$(7) thousand for the three-month period ended September 30, 2021, which is included on the Condensed Consolidated Statement of Operations in Other, net.

Three-Month Period Ended September 30, 2020:

Derivative Type	Primary Risk Exposure	Net Realized Gains (Losses) on Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) on Financial Derivatives Other Than Periodic Settlements of Interest Rate Swaps ⁽¹⁾	Net Realized Gains (Losses) on Financial Derivatives ⁽¹⁾	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 ⁽²⁾	Change in Net Unrealized Gains (Losses) on Financial Derivatives ⁽²⁾
<i>(In thousands)</i>							
Interest rate swaps	Interest Rate	\$ (1,150)	\$ (29)	\$ (1,179)	\$ 516	\$ 1,104	\$ 1,620
Credit default swaps on asset-backed securities	Credit		1	1		(1)	(1)
Credit default swaps on asset-backed indices	Credit		(239)	(239)		503	503
Credit default swaps on corporate bond indices	Credit		(1,067)	(1,067)		(1,059)	(1,059)
Credit default swaps on corporate bonds	Credit		(93)	(93)		(334)	(334)
Total return swaps	Credit		(125)	(125)		(348)	(348)
TBAs	Interest Rate		2,367	2,367		(744)	(744)
Futures	Interest Rate		(402)	(402)		52	52
Forwards	Currency		(898)	(898)		33	33
Total		\$ (1,150)	\$ (485)	\$ (1,635)	\$ 516	\$ (794)	\$ (278)

(1) Includes realized gain/(loss) on transactions involving foreign-currency-denominated financial derivatives in the amount of \$(15) thousand for the three-month period ended September 30, 2020, which is included on the Condensed Consolidated Statement of Operations in Other, net.

(2) Includes foreign currency remeasurement on financial derivatives in the amount of \$20 thousand for the three-month period ended September 30, 2020, which is included on the Condensed Consolidated Statement of Operations in Other, net.

Nine-Month Period Ended September 30, 2021

Derivative Type	Primary Risk Exposure	Net Realized Gains (Losses) on Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) on Financial Derivatives Other Than Periodic Settlements of Interest Rate Swaps ⁽¹⁾	Net Realized Gains (Losses) on Financial Derivatives ⁽¹⁾	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 ⁽²⁾	Change in Net Unrealized Gains (Losses) on Financial Derivatives ⁽²⁾
<i>(In thousands)</i>							
Interest rate swaps	Interest Rate	\$ (1,808)	\$ (96)	\$ (1,904)	\$ (47)	\$ 6,244	\$ 6,197
Credit default swaps on asset-backed securities	Credit		39	39		(44)	(44)
Credit default swaps on asset-backed indices	Credit		1,062	1,062		(1,109)	(1,109)
Credit default swaps on corporate bond indices	Credit		(351)	(351)		(647)	(647)
Credit default swaps on corporate bonds	Credit		265	265		(346)	(346)
Total return swaps	Credit		(1,243)	(1,243)		476	476
Options	Credit		—	—		(210)	(210)
TBAs	Interest Rate		4,536	4,536		(720)	(720)
Futures	Interest Rate		1,641	1,641		1,721	1,721
Forwards	Currency		411	411		640	640
Warrants	Equity Market/Credit		—	—		187	187
Total		\$ (1,808)	\$ 6,264	\$ 4,456	\$ (47)	\$ 6,192	\$ 6,145

(1) Includes realized gain/(loss) on transactions involving foreign-currency-denominated financial derivatives in the amount of \$18 thousand for the nine-month period ended September 30, 2021, which is included on the Condensed Consolidated Statement of Operations in Other, net.

(2) Includes foreign currency remeasurement on financial derivatives in the amount of \$(38) thousand for the nine-month period ended September 30, 2021, which is included on the Condensed Consolidated Statement of Operations in Other, net.

Nine-Month Period Ended September 30, 2020:

Derivative Type	Primary Risk Exposure	Net Realized Gains (Losses) on Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) on Financial Derivatives Other Than Periodic Settlements of Interest Rate Swaps ⁽¹⁾	Net Realized Gains (Losses) on Financial Derivatives ⁽¹⁾	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 ⁽²⁾	Change in Net Unrealized Gains (Losses) on Financial Derivatives ⁽²⁾
<i>(In thousands)</i>							
Interest rate swaps	Interest Rate	\$ (1,900)	\$ (8,761)	\$ (10,661)	\$ 541	\$ (16,373)	\$ (15,832)
Credit default swaps on asset-backed securities	Credit		(955)	(955)		915	915
Credit default swaps on asset-backed indices	Credit		3,660	3,660		7,642	7,642
Credit default swaps on corporate bond indices	Credit		(550)	(550)		3,080	3,080
Credit default swaps on corporate bonds	Credit		356	356		711	711
Total return swaps	Credit		(2,180)	(2,180)		607	607
TBAs	Interest Rate		(6,778)	(6,778)		1,280	1,280
Futures	Interest Rate		(7,866)	(7,866)		(434)	(434)
Forwards	Currency		(616)	(616)		343	343
Warrants	Equity Market/Credit		—	—		(382)	(382)
Options	Credit		(100)	(100)		—	—
Total		\$ (1,900)	\$ (23,790)	\$ (25,690)	\$ 541	\$ (2,611)	\$ (2,070)

(1) Includes realized gain/(loss) on transactions involving foreign-currency-denominated financial derivatives in the amount of \$12 thousand for the nine-month period ended September 30, 2020, which is included on the Condensed Consolidated Statement of Operations in Other, net.

(2) Includes foreign currency remeasurement on financial derivatives in the amount of \$39 thousand for the nine-month period ended September 30, 2020, which is included on the Condensed Consolidated Statement of Operations in Other, net.

The table below details the average notional values of the Company's financial derivatives, using absolute value of month end notional values, for the nine-month-period ended September 30, 2021 and the year ended December 31, 2020:

Derivative Type	Nine-Month Period Ended September 30, 2021	Year Ended December 31, 2020
<i>(In thousands)</i>		
Interest rate swaps	\$ 1,126,497	\$ 1,009,1
TBAs	1,083,070	713,6
Futures	184,690	149,5
Credit default swaps	130,899	277,9
Forwards	22,498	26,4
Options	12,000	1,5
Total return swaps	3,372	6,9
Warrants	1,956	1,5

From time to time the Company enters into credit derivative contracts for which the Company sells credit protection ("written credit derivatives"). As of September 30, 2021 and December 31, 2020, all of the Company's open written credit derivatives were credit default swaps on either mortgage/asset-backed indices (ABX and CMBX indices) or corporate bond indices (CDX), collectively referred to as credit indices, or on individual corporate bonds, for which the Company receives periodic payments at fixed rates from credit protection buyers, and is obligated to make payments to the credit protection buyer upon the occurrence of a "credit event" with respect to underlying reference assets.

Written credit derivatives held by the Company at September 30, 2021 and December 31, 2020 are summarized below:

Credit Derivatives	September 30, 2021		December 31, 2020	
<i>(In thousands)</i>				
Fair Value of Written Credit Derivatives, Net	\$	144	\$	3,171
Notional Value of Written Credit Derivatives ⁽¹⁾		2,795		68,653

(1) The notional value is the maximum amount that a seller of credit protection would be obligated to pay, and a buyer of credit protection would receive, upon occurrence of a "credit event." Movements in the value of credit default swap transactions may require the Company or the counterparty to post or receive collateral. Amounts due or owed under credit derivative contracts with an International Swaps and Derivatives Association, or "ISDA," counterparty may be offset against amounts due or owed on other credit derivative contracts with the same ISDA counterparty. As a result, the notional value of written credit derivatives involving a particular underlying reference asset or index has been reduced (but not below zero) by the notional value of any contracts where the Company has purchased credit protection on the same reference asset or index with the same ISDA counterparty.

A credit default swap on a credit index or a corporate bond typically terminates at the stated maturity date in the case of corporate indices or bonds, or, in the case of ABX and CMBX indices, the date that all of the reference assets underlying the index are paid off in full, retired, or otherwise cease to exist. Implied credit spreads may be used to determine the market value of such contracts and are reflective of the cost of buying/selling credit protection. Higher spreads would indicate a greater likelihood that a seller will be obligated to perform (*i.e.*, make protection payments) under the contract. In situations where the credit quality of the underlying reference assets has deteriorated, the percentage of notional values that would be paid up front to enter into a new such contract ("points up front") is frequently used as an indication of credit risk. Credit protection sellers entering the market in such situations would expect to be paid points up front corresponding to the approximate fair value of the contract. For the Company's written credit derivatives that were outstanding at September 30, 2021 and December 31, 2020, implied credit spreads on such contracts ranged between 110.3 and 147.7 basis points and 40.0 and 274.8 basis points, respectively. Excluded from these spread ranges are contracts outstanding for which the individual spread is greater than 2,000 basis points. The Company believes that these contracts would be quoted based on estimated points up front. The total fair value of contracts with individual implied credit spreads in excess of 2,000 basis points was \$(39) thousand and \$(0.1) million as of September 30, 2021 and December 31, 2020, respectively. Estimated points up front on these contracts as of September 30, 2021 ranged between 55.4 and 85.2 and as of December 31, 2020 ranged between 56.2 and 85.2. Total net up-front payments (paid) or received relating to written credit derivatives outstanding at September 30, 2021 and December 31, 2020 were \$0.8 million and \$(2.0) million, respectively.

9. Consolidated VIEs

As discussed in Note 2, the Company has interests in entities that it has determined to be VIEs. The following table summarizes the assets and liabilities of the Company's consolidated VIEs that are included on the Company's Condensed Consolidated Balance Sheet as of September 30, 2021 and December 31, 2020. See Note 10 and Note 13 for additional information on the Company's consolidated VIEs.

(In thousands)

	September 30, 2021	December 31, 2020
Assets		
Cash and cash equivalents	\$ 1,472	\$ 701
Restricted cash	175	175
Securities, at fair value	71,128	44,523
Loans, at fair value	1,967,426	1,435,067
Investments in unconsolidated entities, at fair value	22,931	6,345
Real estate owned	37,002	23,598
Investment related receivables	40,121	24,824
Other assets	2,472	2,001
Total Assets	\$ 2,142,727	\$ 1,537,234
Liabilities		
Repurchase agreements	\$ 475,714	\$ 275,019
Other secured borrowings	89,455	51,062
Other secured borrowings, at fair value	872,306	754,921
Interest payable	713	776
Accrued expenses and other liabilities	1,009	1,103
Total Liabilities	1,439,197	1,082,881
Total Stockholders' Equity	684,792	430,554
Non-controlling interests	18,738	23,799
Total Equity	703,530	454,353
Total Liabilities and Equity	\$ 2,142,727	\$ 1,537,234

10. Securitization Transactions

Participation in CLO Transactions

Since June 2017, an affiliate of Ellington has sponsored four CLO securitization transactions (the "Ellington-sponsored CLO Securitizations"), collateralized by corporate loans and managed by an affiliate of Ellington (the "CLO Manager"). Ellington, the Company, several other affiliates of Ellington, and in certain cases, third parties, participated in the Ellington-sponsored CLO Securitizations (collectively, the "CLO Co-Participants").

Pursuant to each Ellington-sponsored CLO Securitization, a newly formed securitization trust (each a "CLO Issuer") issued various classes of notes, which were in turn sold to unrelated third parties and the applicable CLO Co-Participants.

The CLO Issuers are each deemed to be a VIE. The Company evaluates its interests in the CLO Issuers under ASC 810, and while the Company retains credit risk in each of the securitization trusts through its beneficial ownership of a portion of the subordinated interests of each of the securitization trusts, which are the first to absorb credit losses on the securitized assets, the Company does not retain control of these assets or the power to direct the activities of the CLO Issuers that most significantly impact the CLO Issuers' economic performance. As a result, the Company determined that it is not the primary beneficiary of the CLO Issuers, and therefore the Company has not consolidated the CLO Issuers. The Company's maximum amount at risk is limited to the Company's investment in each of the CLO Issuers. As of September 30, 2021 and December 31, 2020, the fair value of the Company's investment in the notes issued by the CLO Issuers was \$31.0 million and \$17.3 million, respectively.

See Note 13 for further details on the Company's participation in CLO transactions.

Residential Mortgage Loan Securitizations

Since November 2017, the Company, through certain wholly owned subsidiaries (each, a "Sponsor"), has sponsored several securitizations of non-QM loans. In each case, the applicable Sponsor transferred a pool of non-QM loans (each, a Collateral Pool) to a wholly owned entity (each, a "Depositor") and on the closing date such loans were deposited into newly created securitization trusts (collectively, the "Issuing Entities"). Pursuant to the securitizations, the Issuing Entities issued various classes of mortgage pass-through certificates (the "Certificates") which are backed by the cash flows from the underlying non-QM loans.

Under the Dodd-Frank Act, sponsors of securitizations are generally required to retain at least 5% of the economic interest in the credit risk of the securitized assets (the "Risk Retention Rules"). In order to comply with the Risk Retention Rules, in each securitization, the Company purchased and intends to hold, at a minimum, the requisite amount of the most subordinated classes of Certificates and the excess cash flow certificates. The applicable Sponsor also purchased the Certificates entitled to excess servicing fees in each securitization, while the remaining classes of Certificates were purchased by unrelated parties.

Notwithstanding that the Certificates carry final scheduled distribution dates in November 2059 or later, the applicable Depositor may, at its sole option, purchase all of the outstanding Certificates (an "Optional Redemption") following the earlier of (1) the applicable anniversary of the closing date (typically two or three years) of the respective securitization or (2) the date on which the aggregate unpaid principal balance of the applicable Collateral Pool has declined below 30% of the aggregate unpaid principal balance of the applicable Collateral Pool as of the date as of which such loans were originally transferred to the applicable Issuing Entity. The purchase price that the Depositor is required to pay in connection with an Optional Redemption is equal to the sum of the unpaid principal balance of each class of Certificates as of the redemption date and any accrued and unpaid interest thereon. In light of these Optional Redemption rights held by the applicable Depositor, the transfers of non-QM loans to each of the Issuing Entities do not qualify as sales under ASC 860-10.

In the event that certain breaches of representations or warranties are discovered with respect to any underlying non-QM loans, the Company could be required to repurchase or replace such loans.

Each Sponsor also serves as the servicing administrator of its respective securitization, for which it is entitled to receive a monthly fee equal to one-twelfth of the product of (a) 0.03% and (b) the unpaid principal balance of the underlying non-QM loans as of the first day of the related due period. Each Sponsor in its role as servicing administrator provides direction and consent for certain loss mitigation activities to the third-party servicer of the underlying non-QM loans. In certain circumstances, the servicing administrator will be required to reimburse the servicer for principal and interest advances and servicing advances made by the servicer.

In light of the Company's retained interests in each of the securitizations, together with the Optional Redemption rights and the Company's ability to direct the third-party servicer regarding certain loss mitigation activities, the Company is deemed to be the primary beneficiary of the Issuing Entities, which are VIEs, and has consolidated the Issuing Entities. Interest income from these loans and the expenses related to the servicing of these loans are included in Interest income and Investment related expenses—Servicing expense, respectively, on the Condensed Consolidated Statement of Operations.

The Issuing Entities each meet the definition of a CFE as defined in Note 2, and as a result the assets of each of the Issuing Entities have been valued using the fair value of the liabilities of the respective Issuing Entity, as such liabilities have been assessed to be more observable than such assets.

The debt of the Issuing Entities is included in Other secured borrowings, at fair value, on the Condensed Consolidated Balance Sheet and is shown net of the Certificates held by the Company.

The following table details the Company's outstanding consolidated residential mortgage loan securitizations:

Issuing Entity	Closing Date	Principal Balance of Loans Transferred to the Depositor	Total Face Amount of Certifica Issued
			<i>(In thousands)</i>
Ellington Financial Mortgage Trust 2019-2	11/19	\$ 267,255	\$ 267,255
Ellington Financial Mortgage Trust 2020-1	6/20	259,273	259,273
Ellington Financial Mortgage Trust 2020-2	11/20	219,732	219,732
Ellington Financial Mortgage Trust 2021-1	2/21	251,771	251,771
Ellington Financial Mortgage Trust 2021-2	6/21	331,777	331,777

- (1) In order to comply with the Risk Retention Rules, the Sponsor purchased the two most subordinated classes of Certificates and the excess cash flow certificates, with an aggregate value as of the settlement date equal to 6.4% of the fair value of all Certificates issued. The Sponsor also purchased, for an aggregate purchase price of \$1.7 million, the Certificates entitled to excess servicing fees, while the remaining classes of Certificates were purchased by unrelated third parties.
- (2) In order to comply with the Risk Retention Rules, the Sponsor purchased the most subordinated class of Certificates and the excess cash flow certificates, with an aggregate value as of the settlement date equal to 5.1% of the fair value of all Certificates issued. Additionally, the Sponsor purchased two other subordinated classes of Certificates with an aggregate value equal to 6.4% of the fair value of all Certificates issued as of the settlement date; the Company subsequently sold one such subordinated class of Certificates to a third party. Finally, the Sponsor also purchased, for an aggregate purchase price of \$1.9 million, the Certificates entitled to excess servicing fees, while the remaining classes of Certificates were purchased by unrelated third parties.
- (3) In order to comply with the Risk Retention Rules, the Sponsor purchased the excess cash flow certificates, with an aggregate value as of the settlement date equal to 5.2% of the fair value of all Certificates issued. Additionally, the Sponsor purchased the most subordinated class of Certificates with an aggregate value as of the settlement date equal to 2.4% of the fair value of all Certificates issued. Finally, the Sponsor also purchased, for an aggregate purchase price of \$1.4 million, the Certificates entitled to excess servicing fees, while the remaining classes of Certificates were purchased by unrelated third parties.
- (4) In order to comply with the Risk Retention Rules, the Sponsor purchased the excess cash flow certificates, with an aggregate value as of the settlement date equal to 5.4% of the fair value of all Certificates issued. Additionally, the Sponsor purchased the most subordinated class of Certificates with an aggregate value as of the settlement date equal to 0.4% of the fair value of all Certificates issued. Finally, the Sponsor also purchased, for an aggregate purchase price of \$1.6 million, the Certificates entitled to excess servicing fees, while the remaining classes of Certificates were purchased by unrelated third parties.
- (5) In order to comply with the Risk Retention Rules, the Sponsor purchased the most subordinated class of Certificates and the excess cash flow certificates, with an aggregate value as of the settlement date equal to 6.5% of the fair value of all Certificates issued. The Sponsor also purchased, for an aggregate purchase price of \$2.1 million, the Certificates entitled to excess servicing fees, while the remaining classes of Certificates were purchased by unrelated third parties.

The following table details the assets and liabilities of the consolidated securitization trusts included in the Company's Condensed Consolidated Balance Sheet as of September 30, 2021 and December 31, 2020:

<i>(In thousands)</i>	September 30, 2021	December 31, 2020
Assets:		
Loans, at fair value	\$ 917,275	\$ 801,343
Investment related receivables	26,871	15,544
Liabilities:		
Other secured borrowings, at fair value	872,306	754,921

Participation in Multi-Seller Consumer Loan Securitization

In November 2020, the Company participated in a securitization whereby the Company, together with another entity managed by Ellington (the "Consumer Co-Participant"), sold consumer loans with an aggregate unpaid principal balance of approximately \$205.1 million to a newly formed securitization trust (the "Consumer Securitization Issuer"). Of the \$205.1 million in loans sold to the Consumer Securitization Issuer, the Company's share was 56.3% while the Consumer Co-Participant's share was 43.7%. The transfer was accounted for as a sale in accordance with ASC 860-10. Pursuant to the securitization, the Consumer Securitization Issuer issued senior and subordinated notes in the principal amounts of \$158.4 million and \$35.2 million, respectively. Trust certificates representing beneficial ownership of the Issuer were also issued. In connection with the transaction, and through a jointly owned newly formed entity (the "Consumer Risk Retention Vehicle"), the Company and the Consumer Co-Participant acquired certain of the subordinated notes as well as the trust certificates in the Issuer. The Company and the Consumer Co-participant acquired 56.3% and 43.7%, respectively, of the interests in the Consumer Risk Retention Vehicle. As of September 30, 2021, the Company's total interest in the Consumer Risk Retention Vehicle, for which the Company has elected the FVO, was 56.3%, or \$10.8 million. As of December 31, 2020, the Company's total interest in the Consumer Risk Retention Vehicle, for which the Company has elected the FVO, was 56.3% or

\$19.1 million. The fair value of the Consumer Risk Retention Vehicle is included on the Condensed Consolidated Balance Sheet in Investments in unconsolidated entities, at fair value.

The notes and trust certificates issued by the Consumer Securitization Issuer are backed by the cash flows from the underlying consumer loans. If there are breaches of representations and warranties with respect to any underlying consumer loans, the Company could, under certain circumstances, be required to repurchase or replace such loans. Absent such breaches, the Company has no obligation to repurchase or replace any underlying consumer loans that become delinquent or otherwise default. In addition, another affiliate of Ellington acts as the administrator for the securitization and is paid a monthly fee for its services.

The Consumer Securitization Issuer is deemed to be a VIE. The Company has evaluated its interest in the Consumer Securitization Issuer under ASC 810, and while the Company retains credit risk in the securitization trust through its beneficial ownership of most of the subordinated interests of the securitization trust, which are the first to absorb credit losses on the securitized assets, neither the Company nor the Consumer Risk Retention Vehicle retains control of these assets or the power to direct the activities of the Consumer Securitization Issuer that most significantly impact the Consumer Securitization Issuer's economic performance. As a result, the Company determined that neither the Company nor the Consumer Risk Retention Vehicle is the primary beneficiary of the Consumer Securitization Issuer, and therefore the Company has not consolidated the Consumer Securitization Issuer. Additionally, the Company evaluated its interest in the Consumer Risk Retention Vehicle, which does not meet the criteria to be deemed a VIE, under the voting interest model provided by ASC 810 and determined the Company does not control the Consumer Risk Retention Vehicle. As a result, the Company has not consolidated the Consumer Risk Retention Vehicle.

11. Borrowings

Secured Borrowings

The Company's secured borrowings consist of repurchase agreements, Other secured borrowings, and Other secured borrowings, at fair value. As of September 30, 2021 and December 31, 2020, the Company's total secured borrowings were \$3.1 billion and \$2.3 billion, respectively.

Repurchase Agreements

The Company enters into repurchase agreements. A repurchase agreement involves the sale of an asset to a counterparty together with a simultaneous agreement to repurchase the transferred asset or similar asset from such counterparty at a future date. The Company accounts for its repurchase agreements as collateralized borrowings, with the transferred assets effectively serving as collateral for the related borrowing. The Company's repurchase agreements typically range in term from 30 to 364 days, although the Company also has repurchase agreements that provide for longer or shorter terms. The principal economic terms of each repurchase agreement—such as loan amount, interest rate, and maturity date—are typically negotiated on a transaction-by-transaction basis. Other terms and conditions, such as those relating to events of default, are typically governed under the Company's master repurchase agreements. Absent an event of default, the Company maintains beneficial ownership of the transferred securities during the term of the repurchase agreement and receives the related principal and interest payments. Interest rates on these borrowings are generally fixed based on prevailing rates corresponding to the terms of the borrowings, and for most repurchase agreements, interest is generally paid at the termination of the repurchase agreement, at which time the Company may enter into a new repurchase agreement at prevailing market rates with the same counterparty, repay that counterparty and possibly negotiate financing terms with a different counterparty, or choose to no longer finance the related asset. Some repurchase agreements provide for periodic payments of interest, such as monthly payments. In response to a decline in the fair value of the transferred securities, whether as a result of changes in market conditions, security paydowns, or other factors, repurchase agreement counterparties will typically make a margin call, whereby the Company will be required to post additional securities and/or cash as collateral with the counterparty in order to re-establish the agreed-upon collateralization requirements. In the event of increases in fair value of the transferred securities, the Company can generally require the counterparty to post collateral with it in the form of cash or securities. The Company is generally permitted to sell or re-pledge any securities posted by the counterparty as collateral; however, upon termination of the repurchase agreement, or other circumstance in which the counterparty is no longer required to post such margin, the Company must return to the counterparty the same security that had been posted.

At any given time, the Company seeks to have its outstanding borrowings under repurchase agreements with several different counterparties in order to reduce the exposure to any single counterparty. The Company had outstanding borrowings under repurchase agreements with 24 counterparties as of both September 30, 2021 and December 31, 2020.

As of September 30, 2021, remaining days to maturity on the Company's open repurchase agreements ranged from 1 day to 730 days. Interest rates on the Company's open repurchase agreements ranged from 0.10% to 3.75% as of September 30,

2021. As of December 31, 2020, remaining days to maturity on the Company's open repurchase agreements ranged from 4 days to 516 days. Interest rates on the Company's open repurchase agreements ranged from 0.20% to 5.00% as of December 31, 2020.

The following table details the Company's outstanding borrowings under repurchase agreements for Agency RMBS and credit assets (which can include non-Agency RMBS, CMBS, CLOs, consumer loans, corporate debt, residential mortgage loans, and commercial mortgage loans and REO), by remaining maturity as of September 30, 2021 and December 31, 2020:

Remaining Maturity	September 30, 2021			December 31, 2020		
	Outstanding Borrowings	Weighted Average		Outstanding Borrowings	Weighted Average	
		Interest Rate	Remaining Days to Maturity		Interest Rate	Remaining Days to Maturity
Agency RMBS:	<i>(In thousands)</i>			<i>(In thousands)</i>		
30 Days or Less	\$ 367,272	0.14 %	13	\$ 265,556	0.28 %	17
31-60 Days	140,143	0.20 %	43	385,141	0.25 %	44
61-90 Days	20,351	0.33 %	71	174,586	0.28 %	70
91-120 Days	37,029	0.22 %	105	—	— %	—
121-150 Days	196,073	0.21 %	136	2,692	0.27 %	126
151-180 Days	83,344	0.19 %	162	59,857	0.32 %	162
181-364 Days	592,633	0.17 %	286	34,030	0.32 %	252
Total Agency RMBS	1,436,845	0.17 %	157	921,862	0.27 %	57
Credit:						
30 Days or Less	28,508	1.23 %	16	37,795	2.11 %	17
31-60 Days	95,264	1.60 %	48	84,554	2.23 %	50
61-90 Days	374,547	2.02 %	76	152,426	2.11 %	75
91-120 Days	23,758	2.94 %	100	89,931	2.47 %	106
121-150 Days	—	— %	—	66,412	4.75 %	125
151-180 Days	7,091	3.50 %	164	11,063	2.27 %	165
181-364 Days	105,889	2.71 %	243	38,640	2.90 %	289
> 364 Days	33,934	3.16 %	642	94,248	2.99 %	447
Total Credit Assets	668,991	2.14 %	126	575,069	2.69 %	155
Total	\$ 2,105,836	0.80 %	147	\$ 1,496,931	1.20 %	94

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

As of September 30, 2021 and December 31, 2020, the fair value of investments transferred as collateral under outstanding borrowings under repurchase agreements was \$2.4 billion and \$1.8 billion, respectively. Collateral transferred under outstanding borrowings under repurchase agreements as of September 30, 2021 and December 31, 2020 include investments in the amount of \$3.0 million and \$1.4 million, respectively, that were sold prior to period end but for which such sale had not yet settled. In addition, as of September 30, 2021 and December 31, 2020, the Company posted net cash collateral of \$57.0 million and \$28.9 million, respectively, to its counterparties.

Amount at risk represents the excess, if any, for each counterparty of the fair value of collateral held by such counterparty over the amounts outstanding under repurchase agreements. As of both September 30, 2021 and December 31, 2020, there was no single counterparty for which the amount at risk relating to our repurchase agreements was greater than 10% of total equity.

Other Secured Borrowings

The Company has entered into agreements to finance a portfolio of unsecured loans through a recourse secured borrowing facility. The facility has a term ending in February 2022. The facility accrues interest on a floating-rate basis. As of September 30, 2021 and December 31, 2020, the Company had outstanding borrowings under this facility in the amount of \$3.8 million and \$8.7 million, respectively, which is included under the caption Other secured borrowings, on the Company's Condensed Consolidated Balance Sheet. The effective interest rate, inclusive of related deferred financing costs, was 2.01% and 2.30% as of September 30, 2021 and December 31, 2020. As of September 30, 2021 and December 31, 2020, the fair value of

unsecured loans collateralizing this borrowing was \$5.7 million and \$11.5 million, respectively. There are a number of covenants, including several financial covenants, associated with this borrowing; as of September 30, 2021, the Company was in compliance with all of its covenants.

The Company has a non-recourse secured borrowing facility that is used to finance a portfolio of unsecured loans. The facility includes a reinvestment period ending in March 2022 (or earlier following an early amortization event), whereby the Company can vary its borrowings based on the size of its portfolio, subject to certain maximum limits. Following the reinvestment period, the facility will begin to amortize based on the collections from the underlying loans. The facility accrues interest on a floating rate basis. As of September 30, 2021 and December 31, 2020, the Company had outstanding borrowings under this facility in the amount of \$31.8 million and \$7.0 million, respectively, which is included under the caption Other secured borrowings, on the Company's Condensed Consolidated Balance Sheet. The effective interest rate on this facility, inclusive of any related deferred financing costs, was 2.25% as of both September 30, 2021 and December 31, 2020. As of September 30, 2021 and December 31, 2020, the fair value of unsecured loans collateralizing this borrowing was \$48.8 million and \$31.8 million, respectively. There are a number of covenants, including several financial covenants, associated with this borrowing; as of both September 30, 2021 and December 31, 2020, the Company was in compliance with all of its covenants.

The Company has entered into an agreement to finance a portfolio of ABS backed by consumer loans through a recourse secured borrowing facility. The facility includes a revolving borrowing period ending in September 2022 (or earlier following a trigger event), whereby the Company can vary its borrowings based on the size of its portfolio, subject to certain maximum limits. Following the revolving borrowing period, the facility amortizes, with a final termination date in September 2024. The facility accrues interest on a floating rate basis. As of September 30, 2021 and December 31, 2020, the Company had outstanding borrowings under this facility in the amount of \$46.4 million and \$28.7 million, respectively, which is included under the caption Other secured borrowings, on the Company's Condensed Consolidated Balance Sheet. The effective interest rate on this facility, inclusive of related deferred financing costs, was 4.70% and 5.22% as of September 30, 2021 and December 31, 2020, respectively. As of September 30, 2021 and December 31, 2020, the fair value of ABS backed by consumer loans collateralizing this borrowing was \$64.4 million and \$44.5 million, respectively. There are a number of covenants, including several financial covenants, associated with this borrowing; as of both September 30, 2021 and December 31, 2020, the Company was in compliance with all of its covenants.

The Company has completed securitization transactions, as discussed in Note 10, whereby it financed portfolios of non-QM loans. As of September 30, 2021 and December 31, 2020, the fair value of the Company's outstanding liabilities associated with these securitization transactions was \$872.3 million and \$754.9 million, respectively, representing the fair value of the securitization trust certificates held by third parties as of such date, and is included on the Company's Condensed Consolidated Balance Sheet in Other secured borrowings, at fair value. The weighted average coupon of the Certificates held by third parties was 1.73% and 2.43% as of September 30, 2021 and December 31, 2020, respectively. As of September 30, 2021 and December 31, 2020, the fair value of non-QM loans held in the consolidated securitization trusts was \$917.3 million and \$801.3 million, respectively.

In March 2020, the Company entered into a participation agreement with an unrelated third-party, the "Junior Participant," whereby the Company transferred to the Junior Participant an interest in a small balance commercial mortgage loan, the "Partial Loan," (together with the Company's interest, the "Whole Commercial Loan"). The Partial Loan is subordinate to the interest in the loan held by the Company. In accordance with ASC 860-10, the Partial Loan transferred to the Junior Participant does not meet the definition of a participating interest and, as a result, the Company does not recognize the transfer of the Partial Loan to the Junior Participant as a sale. The Company has recorded the Whole Commercial Loan in Loans, at fair value, on the Condensed Consolidated Balance Sheet. As of September 30, 2021 and December 31, 2020, the fair value of the Whole Commercial Loan was \$18.0 million and \$17.3 million, respectively. The Company's liability to the Junior Participant as of both September 30, 2021 and December 31, 2020, was \$7.5 million and \$6.7 million, respectively, and is included in Other secured borrowings on the Company's Condensed Consolidated Balance Sheet. Under the terms of the participation agreement, the Junior Participant is entitled to a portion of the cashflows of the underlying commercial mortgage loan.

The Company and a third-party (the "Participant") have entered into participation agreements whereby in each case the Company sold a participation in a syndicated bank loan (the "Participated Loans"). Simultaneous with the execution of the participation agreement, the Company entered into a forward purchase agreement with the Participant to repurchase the Participated Loan at a predetermined price. As of September 30, 2021, the fair value of the Participated Loans was \$1.8 million, and is included in Securities, at fair value on the Company's Condensed Consolidated Balance Sheet. The Company's liability to the Participant was \$1.5 million, as of September 30, 2021, and is included in Other secured borrowings on the Company's Condensed Consolidated Balance Sheet. The effective interest rate on the liability to the Participant was 3.20% as of September 30, 2021.

Unsecured Borrowings

Senior Notes

The Company has issued \$86.0 million in aggregate principal amount of unsecured long-term debt, which is structured as a joint and several co-issuance by certain of the Company's consolidated subsidiaries and fully guaranteed by the Company (the "Senior Notes"). At any time, the Company is permitted to add others of its consolidated subsidiaries as co-issuers of the Senior Notes. The Senior Notes bear interest at a rate of 5.50%, subject to adjustment based on changes, if any, in the ratings of the Senior Notes. Interest on the Senior Notes is payable semi-annually in arrears on March 1 and September 1 of each year. The Senior Notes mature on September 1, 2022. The Company may redeem the Senior Notes, at its option, in whole or in part, prior to March 1, 2022 at a price equal to 100% of the principal amount thereof, plus the applicable "make-whole" premium as of the applicable date of redemption. At any time on or after March 1, 2022, the Company may redeem the Senior Notes, in whole or in part, at a redemption price equal to 100% of the aggregate principal amount of the Senior Notes to be redeemed, plus accrued and unpaid interest. The Senior Notes are carried at amortized cost. There are a number of covenants, including several financial covenants, associated with the Senior Notes. As of both September 30, 2021 and December 31, 2020, the Company was in compliance with all of its covenants.

The Company amortizes debt issuance costs over the life of the associated debt; the amortized portion of debt issuance costs is included in Interest expense on the Condensed Consolidated Statement of Operations. The Senior Notes have an effective interest rate of 5.80%, inclusive of debt issuance costs.

The Senior Notes are unsecured and are effectively subordinated to secured indebtedness of the Company, to the extent of the value of the collateral securing such indebtedness.

Schedule of Principal Repayments

The following table details the Company's principal repayment schedule, over the next 5 years, for outstanding borrowings as of September 30, 2021:

Year	Repurchase Agreements ⁽¹⁾	Other Secured Borrowings ⁽²⁾	Senior Notes ⁽¹⁾	Total
<i>(In thousands)</i>				
Next Twelve Months	\$ 2,071,903	\$ 460,576	\$ 86,000	\$ 2,618,479
Year 2	33,933	301,549	—	335,482
Year 3	—	232,927	—	232,927
Year 4	—	—	—	—
Year 5	—	—	—	—
Total	\$ 2,105,836	\$ 995,052	\$ 86,000	\$ 3,186,888

(1) Reflects the Company's contractual principal repayment dates.

(2) Includes \$904.1 million of expected principal repayments related to the Company's consolidated residential mortgage loan securitizations, which are projected based upon the underlying assets' expected repayments and may be prior to the stated contractual maturities.

12. Income Taxes

The Company has elected to be taxed as a REIT under the Code. A REIT is generally not subject to U.S. federal, state, and local income tax on the portion of its income that is distributed to its owners if it distributes at least 90% of its REIT taxable income within the prescribed time frames, determined without regard to the deduction for dividends paid and excluding any net capital gains. The Company intends to operate in a manner which will allow it to continue to meet the requirements for qualification as a REIT. Accordingly, Ellington Financial Inc. does not believe that it will be subject to U.S. federal, state, and local income tax on the portion of its net taxable income that is distributed to its stockholders as long as certain asset, income, and share ownership tests are met.

Certain foreign and domestic subsidiaries of the Company have elected to be treated as TRSs and therefore are taxed as corporations for U.S. federal, state, and local income tax purposes. To the extent that those entities incur, or are expected to incur, U.S. federal, state, or local income taxes, or foreign income taxes, such taxes are recorded in the Company's condensed consolidated financial statements.

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes*, or "ASC 740." Deferred income taxes reflect the net tax effects of temporary differences that may exist between the carrying amounts of assets and liabilities under U.S. GAAP and the carrying amounts used for income tax purposes. For the three-month periods ended September 30,

2021 and 2020, the Company recorded an income tax expense (benefit) of \$(2.0) million and \$2.5 million, respectively. For the nine-month periods ended September 30, 2021 and 2020, the Company recorded an income tax expense of \$3.1 million and \$3.5 million, respectively.

13. Related Party Transactions

The Company is party to the Management Agreement (which may be amended from time to time), pursuant to which the Manager manages the assets, operations, and affairs of the Company, in consideration of which the Company pays the Manager management and incentive fees. The descriptions of the Base Management Fees and Incentive Fees are detailed below.

Base Management Fees

The Operating Partnership pays the Manager 1.50% per annum of total equity of the Operating Partnership calculated in accordance with U.S. GAAP as of the end of each fiscal quarter (before deductions for base management fees and incentive fees payable with respect to such fiscal quarter), provided that total equity is adjusted to exclude one-time events pursuant to changes in U.S. GAAP, as well as non-cash charges after discussion between the Manager and the Company's independent directors, and approval by a majority of the Company's independent directors in the case of non-cash charges.

Pursuant to the Management Agreement, if the Company invests at issuance in the equity of any collateralized debt obligation that is managed, structured, or originated by Ellington or one of its affiliates, or if the Company invests in any other investment fund or other investment for which Ellington or one of its affiliates receives management, origination, or structuring fees, then, unless agreed otherwise by a majority of the Company's independent directors, the base management and incentive fees payable by the Company to its Manager will be reduced by an amount equal to the applicable portion (as described in the Management Agreement) of any such management, origination, or structuring fees.

For the three-month period ended September 30, 2021, the total base management fee incurred was \$3.7 million, consisting of approximately \$4.1 million of total gross base management fee incurred, less \$0.4 million of management fee rebates. For the three-month period ended September 30, 2020, the total base management fee incurred was \$3.0 million, consisting of \$3.2 million of total gross base management incurred, less \$0.2 million of management fee rebates. For the nine-month period ended September 30, 2021, the total base management fee incurred was \$10.3 million, consisting of \$11.1 million of total gross base management fee incurred, less \$0.8 million of management fee rebates. For the nine-month period ended September 30, 2020, the total base management fee incurred was \$8.3 million, consisting of \$9.2 million of total gross base management fee incurred, less \$0.9 million of management fee rebates. See "*—Participation in CLO Transactions*" below for details on management fee rebates.

Incentive Fees

The Manager is entitled to receive a quarterly incentive fee equal to the positive excess, if any, of (i) the product of (A) 25% and (B) the excess of (1) Adjusted Net Income (described below) for the Incentive Calculation Period (which means such fiscal quarter and the immediately preceding three fiscal quarters) over (2) the sum of the Hurdle Amounts (described below) for the Incentive Calculation Period, over (ii) the sum of the incentive fees already paid or payable for each fiscal quarter in the Incentive Calculation Period preceding such fiscal quarter.

For purposes of calculating the incentive fee, "Adjusted Net Income" for the Incentive Calculation Period means the net increase in equity from operations of the Operating Partnership, after all base management fees but before any incentive fees for such period, and excluding any non-cash equity compensation expenses for such period, as reduced by any Loss Carryforward (as described below) as of the end of the fiscal quarter preceding the Incentive Calculation Period.

For purposes of calculating the incentive fee, the "Loss Carryforward" as of the end of any fiscal quarter is calculated by determining the excess, if any, of (1) the Loss Carryforward as of the end of the immediately preceding fiscal quarter over (2) the Company's net increase in equity from operations (expressed as a positive number) or net decrease in equity from operations (expressed as a negative number) of the Operating Partnership for such fiscal quarter. As of both September 30, 2021 and December 31, 2020, there was no Loss Carryforward.

For purposes of calculating the incentive fee, the "Hurdle Amount" means, with respect to any fiscal quarter, the product of (i) one-fourth of the greater of (A) 9% and (B) 3% plus the 10-year U.S. Treasury rate for such fiscal quarter, (ii) the sum of (A) the weighted average gross proceeds per share of all common stock and OP Unit issuances since inception of the Company and up to the end of such fiscal quarter, with each issuance weighted by both the number of shares of common stock and OP Units issued in such issuance and the number of days that such issued shares of common stock and OP Units were outstanding during such fiscal quarter, using a first-in first-out basis of accounting (*i.e.* attributing any share of common stock and OP Unit repurchases to the earliest issuances first) and (B) the result obtained by dividing (I) retained earnings attributable to shares of

common stock and OP Units at the beginning of such fiscal quarter by (II) the average number of shares of common stock and OP Units outstanding for each day during such fiscal quarter, and (iii) the sum of (x) the average number of shares of common stock and long term incentive plan units of the Company outstanding for each day during such fiscal quarter, and (y) the average number of Convertible Non-controlling Interests outstanding for each day during such fiscal quarter. For purposes of determining the Hurdle Amount, issuances of common stock, and Convertible Non-controlling Interests (a) as equity incentive awards, (b) to the Manager as part of its base management fee or incentive fee and (c) to the Manager or any of its affiliates in privately negotiated transactions, are excluded from the calculation. The payment of the incentive fee will be in a combination of shares of common stock and cash, provided that at least 10% of any quarterly payment will be made in shares of common stock.

Total incentive fee incurred for both the three- and nine-month periods ended September 30, 2021 was \$5.3 million and \$12.4 million, respectively. The Company did not accrue an incentive fee for either of the three- or nine-month periods ended September 30, 2020, since on a rolling four quarter basis, the Company's income did not exceed the prescribed hurdle amount.

Termination Fees

The Management Agreement requires the Company to pay a termination fee to the Manager in the event of (1) the Company's termination or non-renewal of the Management Agreement without cause or (2) the Company's termination of the Management Agreement based on unsatisfactory performance by the Manager that is materially detrimental to the Company or (3) the Manager's termination of the Management Agreement upon a default by the Company in the performance of any material term of the Management Agreement. Such termination fee will be equal to the amount of three times the sum of (i) the average annual quarterly base management fee amounts paid or payable with respect to the two 12-month periods ending on the last day of the latest fiscal quarter completed on or prior to the date of the notice of termination or non-renewal and (ii) the average annual quarterly incentive fee amounts paid or payable with respect to the two 12-month periods ending on the last day of the latest fiscal quarter completed on or prior to the date of the notice of termination or non-renewal.

Expense Reimbursement

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

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

For the nine-month periods ended September 30, 2021 and 2020, the Company reimbursed the Manager \$8.7 million and \$7.4 million, respectively, for previously incurred operating expenses. As of September 30, 2021 and December 31, 2020, the outstanding payable to the Manager for operating expenses was \$3.0 million and \$2.5 million, respectively, which are included in Accrued expenses and other liabilities on the Condensed Consolidated Balance Sheet.

Transactions Involving Certain Loan Originators

As of September 30, 2021 and December 31, 2020, the loan originators in which the Company holds equity investments represent related parties. Transactions that have been entered into with these related party loan originators are summarized below.

The Company is a party to a mortgage loan purchase and sale flow agreement, with a mortgage loan originator in which the Company holds a non-controlling equity investment, whereby the Company purchases residential mortgage loans that satisfy certain specified criteria. The Company has also provided a \$5.0 million line of credit to the mortgage originator. Under the terms of this line of credit, the Company has agreed to make advances to the mortgage originator solely for the purpose of funding specifically identified residential mortgage loans designated for sale to the Company. To the extent the advances are drawn by the mortgage originator, it must pay interest, at a rate of 15% per annum, on the outstanding balance of each advance

from the date the advance is made until such advance is repaid in full. The mortgage originator is required to repay advances in full no later than two business days following the date that the Company purchases the related residential mortgage loans from the mortgage originator. As of both September 30, 2021 and December 31, 2020, there were no advances outstanding. The Company has also entered into two agreements whereby it guarantees the performance of such mortgage originator under third-party master repurchase agreements. See Note 21, Commitments and Contingencies, for further information on the Company's guarantees of the third-party borrowing arrangements. Additionally, in August 2020, the Company entered into a commitment agreement whereby the Company committed to purchase \$150 million of residential mortgage loans that meet specified criteria, or the "Commitment Agreement." As of September 30, 2021, the Company had purchased the entire \$150 million of eligible residential mortgage loans under the terms of the Commitment Agreement. In connection with the Commitment Agreement, the Company also entered into an agreement whereby the Company would be entitled to receive warrants proportionally as it satisfied its purchase commitment under the Commitment Agreement to purchase a maximum of 9.329 million shares of non-voting common stock. As of September 30, 2021, the Company has received warrants for the maximum 9.329 million shares; such warrants have a fair value of \$6.3 million and \$3.6 million as of September 30, 2021 and December 31, 2020, respectively, and are included in Investments in unconsolidated entities on the Condensed Consolidated Balance Sheet.

The Company, through a related party of Ellington, or the "Loan Purchaser," is a party to a consumer loan purchase and sale flow agreement with a consumer loan originator in which the Company holds an investment in common and preferred stock and warrants to purchase additional preferred stock, whereby the Loan Purchaser purchases consumer loans that satisfy certain specified criteria. The Company has investments in participation certificates related to consumer loans titled in the name of the Loan Purchaser. Through its participation certificates, the Company has beneficial interests in the loan cash flows, net of servicing-related fees and expenses. The total fair value of the Company's participation certificates was \$71.1 million and \$44.5 million as of September 30, 2021 and December 31, 2020, respectively, which is included in Securities, at fair value on the Condensed Consolidated Balance Sheet. An employee of Ellington has a less-than-10% equity interest in, and serves on the board of, this consumer loan originator. Another employee of Ellington serves as the Company's representative on this board.

In May 2021, the Company entered into a convertible secured promissory note agreement whereby it agreed to lend up to \$6.0 million to a mortgage loan originator ("the Convertible Note") in which the Company also holds an equity investment. The Convertible Note matures on December 31, 2025 and is convertible into non-voting equity interests, at the option of the borrower, at any time prior to maturity. As of September 30, 2021, the outstanding principal balance on the Convertible Note was \$3.0 million and the applicable interest rate was 3.0%. The fair value of the Convertible Note as of September 30, 2021 was \$3.0 million. The Convertible Note is classified as a Corporate loan and is included in Loans, at fair value on the Condensed Consolidated Balance Sheet.

Consumer, Residential, and Commercial Loan Transactions with Affiliates

The Company purchases certain of its consumer loans through an affiliate, or the "Purchasing Entity." The Purchasing Entity has entered into purchase agreements, open-ended in duration, with third party consumer loan originators whereby it has agreed to purchase eligible consumer loans. The amount of loans purchased under these purchase agreements is dependent on, among other factors, the amount of loans originated in any given period by the selling originators. The Company and certain other affiliates of Ellington have entered into agreements with the Purchasing Entity whereby the Company and each of those other affiliates of Ellington have agreed to purchase their allocated portion (subject to monthly determination based on available capital and other factors) of the eligible loans acquired by the Purchasing Entity under each purchase agreement. Immediately after the Purchasing Entity purchases beneficial interests in the loans, the Company and other affiliates of Ellington purchase such beneficial interests from the Purchasing Entity, at the same price paid by the Purchasing Entity. During the nine-month periods ended September 30, 2021 and 2020, the Company purchased loans under these agreements with an aggregate principal balance of \$25.0 million and \$84.7 million, respectively. As of September 30, 2021 and December 31, 2020, the estimated remaining contingent purchase obligations of the Company under these purchase agreements was approximately \$34.3 million and \$13.0 million, respectively, in principal balance.

The Company's beneficial interests in the consumer loans purchased through the Purchasing Entity are evidenced by participation certificates issued by trusts that hold legal title to the loans. These trusts are owned by a related party of Ellington and were established to hold such loans. Through its participation certificates, the Company participates in the cash flows of the underlying loans held by each trust. The total amount of consumer loans underlying the Company's participation certificates and held in the related party trusts was \$54.5 million and \$45.1 million as of September 30, 2021 and December 31, 2020, respectively.

The Company has beneficial interests in residential mortgage loans and REO held in a trust owned by a related party of Ellington. Through these beneficial interests, the Company participates in the cash flows of the underlying loans held by such trust. The total amount of residential mortgage loans and REO underlying the Company's beneficial interests and held in the related party trust was \$741.6 million and \$387.4 million as of September 30, 2021 and December 31, 2020, respectively.

The Company is a co-investor in certain small balance commercial mortgage loans with several other investors, including an unrelated third party and various affiliates of Ellington. These loans are beneficially owned by a consolidated subsidiary of the Company. As of both September 30, 2021 and December 31, 2020, the aggregate fair value of these small balance commercial loans was \$34.0 million. As of September 30, 2021, the non-controlling interests held by the unrelated third party and the Ellington affiliates were \$2.0 million and \$3.6 million, respectively. As of December 31, 2020, the non-controlling interests held by the unrelated third party and the Ellington affiliates were \$4.1 million and \$8.9 million, respectively.

The Company is also a co-investor in certain small balance commercial mortgage loans and REO with other investors, including various unrelated third parties and various affiliates of Ellington. Each co-investor in a particular loan has an interest in the limited liability company that owns such loan or REO. As of September 30, 2021 and December 31, 2020, the aggregate fair value of the Company's investments in the jointly owned limited liability companies was approximately \$23.3 million and \$33.9 million, respectively. Such investments are included in Investments in unconsolidated entities, on the Condensed Consolidated Balance Sheet.

The consumer, residential mortgage, and certain commercial mortgage loans that are the subject of the foregoing loan transactions are held in trusts, each of which the Company has determined to be a VIE. The Company has evaluated each of these VIEs and determined that the Company has the power to direct the activities of each VIE that most significantly impact such VIE's economic performance and the Company has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. As a result the Company has determined it is the primary beneficiary of each of these VIEs and has consolidated each VIE.

Equity Investment in Unconsolidated Entity

The Company was a co-investor, together with other affiliates of Ellington, in Jepson Holdings Limited, the parent of an entity (the "Right Holder Entity") that held a call right (the "Call Right") to a European mortgage loan securitization (the "Initial Securitization"). The Right Holder Entity issued notes (the "Right Holder Notes") to the Company and its affiliates, and to an unrelated third party.

In March 2019, the Right Holder Entity assigned the Call Right to a newly formed entity, which exercised the Call Right and re-securitized the underlying European mortgage loan assets of the Initial Securitization through a new securitization trust (the "New Securitization"). In exchange for assigning the Call Right, the Right Holder Entity received a combination of (i) cash and (ii) certain notes issued by the New Securitization (the "New Securitization Notes"). The Right Holder Entity fully repaid the unrelated third party's Right Holder Note with a combination of cash and New Securitization Notes. The Right Holder Notes held by the Company and its affiliates were also fully repaid with cash and New Securitization Notes. Certain of the New Securitization Notes were distributed to the Company and its affiliates on a pro rata basis. The Right Holder Entity is expected to continue to hold certain of the New Securitization Notes in order to comply with European risk retention rules. As of September 30, 2021 and December 31, 2020, the Company's equity investment in Jepson Holdings Limited had a fair value of \$1.5 million and \$1.8 million, respectively. See Note 6 for additional details on this equity investment.

Participation in Multi-Borrower Financing Facilities

The Company is a co-participant with certain other entities managed by Ellington or its affiliates (the "Affiliated Entities") in various entities (each, a "Joint Entity"), which were formed in order to facilitate the financing of small balance commercial mortgage loans, residential mortgage loans, and REO (collectively, the "Mortgage Loan and REO Assets"), through repurchase agreements. Each Joint Entity has a master repurchase agreement with a particular financing counterparty.

In connection with the financing of the Mortgage Loan and REO Assets under repurchase agreements, each of the Company and the Affiliated Entities transferred certain of their respective Mortgage Loan and REO Assets to one of the Joint Entities in exchange for its pro rata share of the financing proceeds that the respective Joint Entity received from the financing counterparty. While the Company's Mortgage Loan and REO Assets were transferred to the Joint Entity, the Company's Mortgage Loan and REO Assets and the related debt were not derecognized for financial reporting purposes, in accordance with ASC 860-10, because the Company continued to retain the risks and rewards of ownership of its Mortgage Loan and REO Assets. As of September 30, 2021 and December 31, 2020, the Joint Entities had aggregate outstanding issued debt under the repurchase agreements in the amount of \$435.7 million and \$192.3 million, respectively. The Company's segregated silo of this debt as of September 30, 2021 and December 31, 2020 was \$134.9 million and \$116.1 million, respectively, and is included under the caption Repurchase agreements on the Company's Condensed Consolidated Balance Sheet. To the extent that there is a default under the repurchase agreements, all of the assets of each respective Joint Entity, including those beneficially owned by any non-defaulting owners of such Joint Entity, could be used to satisfy the outstanding obligations under such repurchase agreement. As of both September 30, 2021 and December 31, 2020, no party to any of the repurchase agreements was in default.

Each of the Joint Entities has been determined to be a VIE. The Company has evaluated each of these VIEs and determined that it continued to retain the risks and rewards of ownership of certain of the Mortgage Loan and REO Assets, where such Mortgage Loan and REO Assets and the related debt are segregated for the Company and each of the Affiliated Entities. On account of the segregation of certain of each co-participant's assets and liabilities within each of the Joint Entities, as well as the retention by each co-participant of control over its segregated Mortgage Loan and REO Assets within the Joint Entities, the Company has determined that it is the primary beneficiary of, and has consolidated its segregated silo of assets and liabilities within, each of the Joint Entities. See Note 9 and Note 11 for additional information.

Participation in CLO Transactions

As discussed in Note 10, the Company participated in a number of CLO securitization transactions, all managed by the CLO Manager.

The CLO Manager is entitled to receive management and incentive fees in accordance with the respective management agreements between the CLO Manager and the respective CLO Issuers. In accordance with the Management Agreement, the Manager rebates to the Company the portion of the management fees payable by each CLO Issuer to the CLO Manager that are allocable to the Company's participating interest in the unsecured subordinated notes issued by such CLO Issuer. For the three-month periods ended September 30, 2021 and 2020, the amount of such management fee rebates was \$0.4 million and \$0.2 million, respectively. For the nine-month periods ended September 30, 2021 and 2020, the amount of such management fee rebates was \$0.8 million and \$0.9 million, respectively.

In addition, from time to time, the Company along with various other affiliates of Ellington, and in certain cases various third parties, advance funds in the form of loans ("Initial Funding Loans") to securitization vehicles to enable them to establish warehouse facilities for the purpose of acquiring the assets to be securitized. Pursuant to the terms of the warehouse facilities and the Initial Funding Loans, the applicable securitization trust is required, at the closing of each respective CLO securitization, first to repay the warehouse facility, then to repay the Initial Funding Loans, and then to distribute interest earned, net of any necessary reserves and/or interest expense, and the aggregate realized or unrealized gains, if any, on assets purchased into the warehouse facility. In the event that such CLO securitization fails to close, the assets held by the respective securitization vehicle would, subject to a cure period, be liquidated. As of September 30, 2021 and December 31, 2020, the Company's investment in such warehouse facilities was \$2.1 million and \$6.1 million, respectively, which are included on the Condensed Consolidated Balance Sheet in Investments in unconsolidated entities.

During the three-month periods ended September 30, 2021 and 2020, the Company purchased various underperforming corporate debt and equity securities from certain of the Ellington-sponsored CLO Securitizations at market prices determined through the procedures set forth in the indentures of the respective Ellington-sponsored CLO Securitization. The total amount of such debt and equity securities purchased during the nine-month periods ended September 30, 2021 and 2020 was \$5.5 million and \$1.6 million, respectively. No such purchases were made during the three- and nine-month periods ended September 30, 2021 and 2020.

14. Long-Term Incentive Plan Units

OP LTIP Units subject to the Company's incentive plans are generally exercisable by the holder at any time after vesting. Each OP LTIP Unit is convertible into an OP Unit on a one-for-one basis. Subject to certain conditions, the OP Units are redeemable by the holder for an equivalent number of shares of common stock of the Company or for the cash value of such shares of common stock, at the Company's election. Costs associated with the OP LTIP Units issued under the Company's incentive plans are measured as of the grant date and expensed ratably over the vesting period. Total expense associated with OP LTIP Units issued under the Company's incentive plans for each of the three-month periods ended September 30, 2021 and 2020 was \$0.2 million. Total expense associated with OP LTIP Units issued under the Company's incentive plans for the nine-month periods ended September 30, 2021 and 2020 was \$0.7 million and \$0.5 million, respectively.

On March 3, 2021, the Company's Board of Directors authorized the issuance of 17,231 OP LTIP Units to certain of Ellington's personnel dedicated to the Company pursuant to the Company's 2017 Equity Incentive Plan.

On September 14, 2021, the Company's Board of Directors authorized the issuance of 16,264 OP LTIP Units to certain of its directors pursuant to the Company's 2017 Equity Incentive Plan. These OP LTIP Units will vest and become non-forfeitable on September 13, 2022.

The below table details unvested OP LTIP Units as of September 30, 2021:

Grant Recipient	Number of OP LTIP Units Granted	Grant Date	Vesting Date ⁽¹⁾
Directors:	16,264	September 14, 2021	September 13, 2022
Dedicated or partially dedicated personnel:	10,067	December 13, 2019	December 13, 2021
	18,211	December 17, 2020	December 17, 2021
	9,834	March 4, 2020	December 31, 2021
	3,697	March 3, 2021	December 31, 2021
	14,598	December 17, 2020	December 17, 2022
	13,534	March 3, 2021	December 31, 2022
Total unvested OP LTIP Units at September 30, 2021	86,205		

(1) Date at which such OP LTIP Units will vest and become non-forfeitable.

The following tables summarize issuance and exercise activity of OP LTIP Units for the three- and nine-month periods ended September 30, 2021 and 2020:

	Three-Month Period Ended					
	September 30, 2021			September 30, 2020		
	Manager	Director/ Employee	Total	Manager	Director/ Employee	Total
OP LTIP Units Outstanding (June 30, 2021 and 2020, respectively)	365,518	264,251	629,769	365,518	195,009	560,527
Granted	—	16,264	16,264	—	22,840	22,840
Exercised	—	(5,710)	(5,710)	—	(3,638)	(3,638)
OP LTIP Units Outstanding (September 30, 2021 and 2020, respectively)	<u>365,518</u>	<u>274,805</u>	<u>640,323</u>	<u>365,518</u>	<u>214,211</u>	<u>579,729</u>
OP LTIP Units Unvested and Outstanding (September 30, 2021 and 2020, respectively)	—	86,205	86,205	—	69,227	69,227
OP LTIP Units Vested and Outstanding (September 30, 2021 and 2020, respectively)	365,518	188,600	554,118	365,518	144,984	510,502

	Nine-Month Period Ended					
	September 30, 2021			September 30, 2020		
	Manager	Director/ Employee	Total	Manager	Director/ Employee	Total
OP LTIP Units Outstanding (December 31, 2020 and 2019, respectively)	365,518	247,020	612,538	365,518	180,198	545,716
Granted	—	33,495	33,495	—	37,651	37,651
Exercised	—	(5,710)	(5,710)	—	(3,638)	(3,638)
OP LTIP Units Outstanding (September 30, 2021 and 2020, respectively)	<u>365,518</u>	<u>274,805</u>	<u>640,323</u>	<u>365,518</u>	<u>214,211</u>	<u>579,729</u>
OP LTIP Units Unvested and Outstanding (September 30, 2021 and 2020, respectively)	—	86,205	86,205	—	69,227	69,227
OP LTIP Units Vested and Outstanding (September 30, 2021 and 2020, respectively)	365,518	188,600	554,118	365,518	144,984	510,502

There were an aggregate of 1,690,344 and 1,761,212 shares of common stock of the Company underlying awards, including OP LTIP Units, available for future issuance under the Company's 2017 Equity Incentive Plan as of September 30, 2021 and December 31, 2020, respectively.

15. Non-controlling Interests

Operating Partnership

Non-controlling interests include the Convertible Non-controlling Interests in the Operating Partnership owned by an affiliate of our Manager, our directors, and certain current and former Ellington employees and their related parties in the form of OP LTIP Units. Income allocated to Convertible Non-controlling Interests is based on the non-controlling interest owners' ownership percentage of the Operating Partnership during the period, calculated using a daily weighted average of all shares of common stock of the Company and Convertible Non-controlling Interests outstanding during the period. Holders of Convertible Non-controlling Interests are entitled to receive the same distributions that holders of shares of common stock of the Company receive. Convertible Non-controlling Interests are non-voting with respect to matters as to which holders of common stock of the Company are entitled to vote.

On March 2, 2020, certain related parties of current Ellington employees converted 129,516 OP Units into shares of common stock.

As of September 30, 2021, the Convertible Non-controlling Interests consisted of the outstanding 640,323 OP LTIP Units and 48,409 OP Units, and represented an interest of approximately 1.2% in the Operating Partnership. As of December 31, 2020, the Convertible Non-controlling Interests consisted of the outstanding 612,538 OP LTIP Units and 48,409 OP Units, and represented an interest of approximately 1.3% in the Operating Partnership. As of September 30, 2021 and December 31, 2020, non-controlling interests related to all outstanding Convertible Non-controlling Interests was \$12.7 million and \$11.7 million, respectively.

Joint Venture Interests

Non-controlling interests also include the interests of joint venture partners in various consolidated subsidiaries of the Company. These subsidiaries hold the Company's investments in certain commercial mortgage loans and REO. The joint venture partners participate in the income, expense, gains and losses of such subsidiaries as set forth in the related operating agreements of the subsidiaries. The joint venture partners make capital contributions to the subsidiaries as new approved investments are purchased by the subsidiaries, and are generally entitled to distributions when investments are sold or otherwise disposed of. As of September 30, 2021 and December 31, 2020, the joint venture partners' interests in subsidiaries of the Company were \$19.1 million and \$24.5 million, respectively.

The joint venture partners' interests are not convertible into shares of common stock of the Company or OP Units, nor are the joint venture partners entitled to receive distributions that holders of shares of common stock of the Company receive.

16. Equity

Preferred Stock

The Company has authorized 100,000,000 shares of preferred stock, \$0.001 par value per share. As of both September 30, 2021 and December 31, 2020, there were 4,600,000 shares of 6.750% Series A Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, \$0.001 par value per share ("Series A Preferred Stock") outstanding.

The Company's Series A Preferred Stock ranks senior to its common stock and Convertible Non-controlling Interests with respect to the payment of dividends and the distribution of assets upon a voluntary or involuntary liquidation, dissolution or winding up of the Company. Additionally, the Company's Series A Preferred Stock has no stated maturity and is not subject to any sinking fund or mandatory redemption. The Series A Preferred Stock is not redeemable by the Company prior to October 30, 2024, except under circumstances where it is necessary to allow the Company to maintain its qualification as a REIT for U.S. federal income tax purposes and except in certain instances upon the occurrence of a change of control. Holders of the Company's Series A Preferred Stock generally do not have any voting rights.

Holders of the Series A Preferred Stock are entitled to receive cumulative cash dividends (i) from and including the original issue date to, but excluding, October 30, 2024, at a fixed rate equal to 6.750% per annum of the \$25.00 per share liquidation preference and (ii) from and including October 30, 2024, at a floating rate equal to three-month LIBOR plus a spread of 5.196% per annum of the \$25.00 per share liquidation preference. Dividends are payable quarterly in arrears on or about the 30th day of each January, April, July, and October. As of both September 30, 2021 and December 31, 2020, the total amount of cumulative preferred dividends in arrears was \$1.3 million.

Common Stock

The Company has authorized 100,000,000 shares of common stock, \$0.001 par value per share. The Board of Directors may authorize the issuance of additional shares, subject to the approval of the holders of at least a majority of the shares of

common stock then outstanding present in person or represented by proxy at a meeting of the stockholders. As of September 30, 2021 and December 31, 2020, there were 51,677,667 and 43,781,684 shares of common stock outstanding, respectively.

On January 24, 2020, the Company completed a follow-on offering of 5,290,000 shares of its common stock, of which 690,000 shares were issued pursuant to the exercise of the underwriters' option. The issuance and sale of the 5,290,000 shares of common stock generated net proceeds, after underwriters' discount and offering costs, of \$95.3 million.

On July 30, 2021, the Company issued 37,373 shares of its common stock to its Manager for payment of 10% of the incentive fee incurred; see Note 13 for additional details on the Management Agreement.

On August 6, 2021, the Company commenced an "at-the-market" offering program, or "ATM program," by entering into equity distribution agreements with third party sales agents under which it was authorized to offer and sell up to 10.0 million shares of common stock from time to time. During the three- and nine-month periods ended September 30, 2021, the Company issued 1,549,900 shares of common stock under the ATM program which provided \$28.2 million of net proceeds after \$0.4 million of agent commissions and offering costs.

The following table summarizes issuance, repurchase, and other activity with respect to the Company's common stock for the three- and nine-month periods ended September 30, 2021 and 2020:

	Three-Month Period Ended		Nine-Month Period Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Shares of Common Stock Outstanding (6/30/2021, 6/30/2020, 12/31/2020, and 12/31/2019, respectively)	43,781,684	43,779,924	43,781,684	38,647,943
Share Activity:				
Shares of common stock issued	7,852,900	—	7,852,900	5,290,000
Shares of common stock issued in connection with incentive fee payment	37,373	—	37,373	637
Shares of common stock repurchased	—	(1,878)	—	(290,050)
OP Units exercised	5,710	3,638	5,710	133,154
Shares of Common Stock Outstanding (9/30/2021, 9/30/2020, 9/30/2021, and 9/30/2020, respectively)	<u>51,677,667</u>	<u>43,781,684</u>	<u>51,677,667</u>	<u>43,781,684</u>

If all Convertible Non-controlling Interests that have been previously issued were to become fully vested and exchanged for shares of common stock as of September 30, 2021 and December 31, 2020, the Company's issued and outstanding shares of common stock would increase to 52,366,399 and 44,442,631 shares, respectively.

On June 13, 2018, the Board of Directors approved the adoption of a share repurchase program under which the Company is authorized to repurchase up to 1.55 million shares of common stock. The program, which is open-ended in duration, allows the Company to make repurchases from time to time on the open market or in negotiated transactions, including under Rule 10b5-1 plans. Repurchases are at the Company's discretion, subject to applicable law, share availability, price and financial performance, among other considerations. During the three-month period ended September 30, 2020, the Company repurchased 1,878 shares at an average price of \$11.00 and a total cost of \$21 thousand. During the nine-month period ended September 30, 2020, the Company repurchased 290,050 shares at an average price per share of \$10.54 and a total cost of \$3.1 million. The Company did not repurchase any common shares during the three- or nine-month periods ended September 30, 2021. From inception of the current repurchase plan through September 30, 2021, the Company repurchased 701,965 shares at an average price per share of \$13.36 and a total cost of \$9.4 million.

17. Earnings Per Share

The components of the computation of basic and diluted EPS are as follows:

	Three-Month Period Ended		Nine-Month Period Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
<i>(In thousands except share amounts)</i>				
Net income (loss) attributable to common stockholders	\$ 20,564	\$ 46,203	\$ 91,075	\$ (45,917)
Add: Net income (loss) attributable to Convertible Non-controlling Interests ⁽¹⁾	281	647	1,363	(916)
Net income (loss) attributable to common stockholders and Convertible Non-controlling Interests	20,845	46,850	92,438	(46,833)
Dividends Paid:				
Common stockholders	(22,854)	(11,821)	(55,253)	(42,514)
Convertible Non-controlling Interests	(307)	(166)	(805)	(627)
Total dividends paid to common stockholders and Convertible Non-controlling Interests	(23,161)	(11,987)	(56,058)	(43,141)
Undistributed (Distributed in excess of) earnings:				
Common stockholders	(2,290)	34,382	35,822	(88,431)
Convertible Non-controlling Interests	(26)	481	558	(1,543)
Total undistributed (distributed in excess of) earnings attributable to common stockholders and Convertible Non-controlling Interests	\$ (2,316)	\$ 34,863	\$ 36,380	\$ (89,974)
Weighted average shares outstanding (basic and diluted):				
Weighted average shares of common stock outstanding	49,853,267	43,779,134	45,827,785	43,387,168
Weighted average Convertible Non-controlling Interest Units outstanding	680,066	613,319	674,964	635,836
Weighted average shares of common stock and Convertible Non-controlling Interest Units outstanding	50,533,333	44,392,453	46,502,749	44,023,004
Basic earnings per share of common stock and Convertible Non-controlling Interest Unit:				
Distributed	\$ 0.45	\$ 0.27	\$ 1.19	\$ 0.97
Undistributed (Distributed in excess of)	(0.04)	0.79	0.80	(2.03)
	\$ 0.41	\$ 1.06	\$ 1.99	\$ (1.06)
Diluted earnings per share of common stock and Convertible Non-controlling Interest Unit:				
Distributed	\$ 0.45	\$ 0.27	\$ 1.19	\$ 0.97
Undistributed (Distributed in excess of)	(0.04)	0.79	0.80	(2.03)
	\$ 0.41	\$ 1.06	\$ 1.99	\$ (1.06)

(1) For the three-month periods ended September 30, 2021 and 2020, excludes net income (loss) of \$1.2 million and \$0.9 million, respectively, attributable to joint venture partners, which have non-participating interests as described in Note 15. For the nine-month periods ended September 30, 2021 and 2020, excludes net income (loss) of \$3.4 million and \$2.8 million, respectively, attributable to joint venture partners, which have non-participating interests as described in Note 15.

18. Restricted Cash

The Company is required to maintain a specific cash balance in a segregated account pursuant to a flow consumer loan purchase and sale agreement. As of both September 30, 2021 and December 31, 2020, the Company's restricted cash balance related to the flow consumer loan purchase and sale agreement was \$0.2 million.

19. Offsetting of Assets and Liabilities

The Company generally records financial instruments at fair value as described in Note 2. Financial instruments are generally recorded on a gross basis on the Condensed Consolidated Balance Sheet. In connection with the vast majority of its derivative, reverse repurchase and repurchase agreements, and the related trading agreements, the Company and its counterparties are required to pledge collateral. Cash or other collateral is exchanged as required with each of the Company's counterparties in connection with open derivative positions, and reverse repurchase and repurchase agreements.

The following tables present information about certain assets and liabilities representing financial instruments as of September 30, 2021 and December 31, 2020. The Company has not entered into master netting agreements with any of its counterparties. Certain of the Company's reverse repurchase and repurchase agreements and financial derivative transactions are governed by underlying agreements that generally provide a right of net settlement, as well as a right of offset in the event of default or in the event of a bankruptcy of either party to the transaction.

September 30, 2021:

Description	Amount of Assets (Liabilities) Presented in the Condensed Consolidated Balance Sheet ⁽¹⁾	Financial Instruments Available for Offset	Financial Instruments Transferred or Pledged as Collateral ⁽²⁾⁽³⁾	Cash Collateral (Received) Pledged ⁽²⁾⁽³⁾	Net Amount
<i>(In thousands)</i>					
Assets					
Financial derivatives—assets	\$ 15,976	\$ (9,646)	\$ —	\$ (1,420)	\$ 4,910
Reverse repurchase agreements	38,062	(38,062)	—	—	—
Liabilities					
Financial derivatives—liabilities	(14,119)	9,646	—	3,267	(1,206)
Repurchase agreements	(2,105,836)	2,105,836	(56,955)	56,955	—

- (1) In the Company's Condensed Consolidated Balance Sheet, all balances associated with repurchase agreements, reverse repurchase agreements, and financial derivatives are presented on a gross basis.
- (2) For the purpose of this presentation, for each row the total amount of financial instruments transferred or pledged and cash collateral (received) or pledged may not exceed the applicable gross amount of assets or (liabilities) as presented here. Therefore, the Company has reduced the amount of financial instruments transferred or pledged as collateral related to the Company's repurchase agreements and cash collateral pledged on the Company's financial derivative liabilities. Total financial instruments transferred or pledged as collateral on the Company's repurchase agreements as of September 30, 2021 was \$2.4 billion. As of September 30, 2021, total cash collateral on financial derivative assets and liabilities excludes excess net cash collateral pledged (received) of \$1.7 million and \$26.4 million, respectively.
- (3) When collateral is pledged to or pledged by a counterparty, it is often pledged or posted with respect to all positions with such counterparty, and in such cases such collateral cannot be specifically identified as relating to a particular asset or liability. As a result, in preparing the above tables, the Company has made assumptions in allocating pledged or posted collateral among the various rows.

December 31, 2020:

Description	Amount of Assets (Liabilities) Presented in the Condensed Consolidated Balance Sheet ⁽¹⁾	Financial Instruments Available for Offset	Financial Instruments Transferred or Pledged as Collateral ⁽²⁾⁽³⁾	Cash Collateral (Received) Pledged ⁽²⁾⁽³⁾	Net Amount
<i>(In thousands)</i>					
Assets					
Financial derivatives—assets	\$ 15,479	\$ (12,579)	\$ —	\$ (1,404)	\$ 1,496
Reverse repurchase agreements	38,640	(38,640)	—	—	—
Liabilities					
Financial derivatives—liabilities	(24,553)	12,579	—	10,694	(1,280)
Repurchase agreements	(1,496,931)	1,496,931	(28,884)	28,884	—

- (1) In the Company's Condensed Consolidated Balance Sheet, all balances associated with repurchase agreements, reverse repurchase agreements, and financial derivatives are presented on a gross basis.
- (2) For the purpose of this presentation, for each row the total amount of financial instruments transferred or pledged and cash collateral (received) or pledged may not exceed the applicable gross amount of assets or (liabilities) as presented here. Therefore, the Company has reduced the amount of financial instruments transferred or pledged as collateral related to the Company's repurchase agreements and cash collateral pledged on the Company's financial derivative liabilities. Total financial instruments transferred or pledged as collateral on the Company's repurchase agreements as of December 31, 2020 was \$1.8 billion. As of December 31, 2020, total cash collateral on financial derivative assets and liabilities excludes excess net cash collateral pledged of \$4.5 million and \$10.3 million, respectively.
- (3) When collateral is pledged to or pledged by a counterparty, it is often pledged or posted with respect to all positions with such counterparty, and in such cases such collateral cannot be specifically identified as relating to a particular asset or liability. As a result, in preparing the above tables, the Company has made assumptions in allocating pledged or posted collateral among the various rows.

20. Counterparty Risk

The Company is exposed to concentrations of counterparty risk. It seeks to mitigate such risk by diversifying its exposure among various counterparties, when appropriate. The following table summarizes the Company's exposure to counterparty risk as of September 30, 2021 and December 31, 2020.

September 30, 2021:

	<u>Amount of Exposure</u>	<u>Number of Counterparties with Exposure</u>	<u>Maximum Percentage of Exposure to a Single Counterparty⁽¹⁾</u>
	<i>(In thousands)</i>		
Cash and cash equivalents	\$ 103,617	8	29.2 %
Collateral on repurchase agreements held by dealers ⁽²⁾	2,443,429	24	28.2 %
Due from brokers	89,983	22	30.6 %
Receivable for securities sold ⁽³⁾	26,992	3	49.3 %

(1) Each counterparty is a large creditworthy financial institution.

(2) Includes securities, loans, and REO as well as cash posted as collateral for repurchase agreements.

(3) Included in Investment related receivables on the Condensed Consolidated Balance Sheet.

December 31, 2020:

	<u>Amount of Exposure</u>	<u>Number of Counterparties with Exposure</u>	<u>Maximum Percentage of Exposure to a Single Counterparty⁽¹⁾</u>
	<i>(In thousands)</i>		
Cash and cash equivalents	\$ 111,647	8	40.1 %
Collateral on repurchase agreements held by dealers ⁽²⁾	1,860,059	24	15.3 %
Due from brokers	63,147	22	28.9 %
Receivable for securities sold ⁽³⁾	1,416	2	94.5 %

(1) Each counterparty is a large creditworthy financial institution.

(2) Includes securities, loans, and REO as well as cash posted as collateral for repurchase agreements.

(3) Included in Investment related receivables on the Condensed Consolidated Balance Sheet.

21. Commitments and Contingencies

The Company provides current directors and officers with a limited indemnification against liabilities arising in connection with the performance of their duties to the Company.

In the normal course of business the Company may also enter into contracts that contain a variety of representations, warranties, and general indemnifications. The Company's maximum exposure under these arrangements, including future claims that may be made against the Company that have not yet occurred, is unknown. The Company has not incurred any costs to defend lawsuits or settle claims related to these indemnification agreements. As of both September 30, 2021 and December 31, 2020, the Company has no liabilities recorded for these agreements.

The Company's maximum risk of loss from credit events on its securities (excluding Agency securities, which are guaranteed by the issuing government agency or government-sponsored enterprise), loans, and investments in unconsolidated entities is limited to the amount paid for such investment.

Commitments and Contingencies Related to Investments in Residential Mortgage Loans

In connection with certain of the Company's investments in residential mortgage loans, the Company has unfunded commitments in the amount of \$29.4 million and \$4.7 million as of September 30, 2021 and December 31, 2020, respectively.

Commitments and Contingencies Related to Investments in Mortgage Loan Originators

In connection with certain of its investments in mortgage loan originators, the Company has outstanding commitments and contingencies as described below.

As described in Note 13, the Company is party to a flow mortgage loan purchase and sale agreement with a mortgage loan originator. The Company has entered into two agreements whereby it guarantees the performance of this mortgage loan

originator under master repurchase agreements. The Company's maximum guarantees are capped at \$25.0 million. As of September 30, 2021 and December 31, 2020, the mortgage loan originator had \$10.4 million and \$5.3 million, respectively, of outstanding borrowings under the agreements guaranteed by the Company. The Company's obligations under these arrangements are deemed to be guarantees under ASC 460-10. The Company has elected the FVO for its guarantees, which are included in Accrued expenses and other liabilities on the Condensed Consolidated Balance Sheet. As of both September 30, 2021 and December 31, 2020, the estimated fair value of such guarantees was insignificant.

The Company is party to a flow mortgage loan purchase and sale agreement with a mortgage loan originator in which it holds an equity investment and as well as an investment in the Convertible Note, as discussed in Note 13. In addition, in May 2021, the Company committed to purchase \$650.0 million of eligible residential mortgage loans. As of September 30, 2021, the Company had unfunded commitments related to such investments in the amount of \$639.9 million.

Commitments and Contingencies Related to Corporate Loans

The Company has investments in certain corporate loans whereby the borrowers can request additional funds under the respective agreements. As of December 31, 2020, the Company had an unfunded commitment related to such investments in the amount of \$0.1 million; there was no unfunded commitment remaining as of September 30, 2021.

The Company has extended a line of credit whereby the borrower can draw funds up to \$1.0 million. As of September 30, 2021, the Company had unfunded commitments related to such line of credit in the amount of \$0.9 million.

22. Subsequent Events

On October 7, 2021, the Board of Directors approved a dividend in the amount of \$0.15 per share of common stock payable on November 26, 2021 to stockholders of record as of October 29, 2021, and a dividend in the amount of \$0.421875 per share of Series A Preferred Stock payable on November 1, 2021 to stockholders of record as of October 18, 2021.

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

On November 5, 2021, the Board of Directors approved a dividend in the amount of \$0.15 per share of common stock payable on December 27, 2021 to stockholders of record as of November 30, 2021.

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

Except where the context suggests otherwise, references in this Quarterly Report on Form 10-Q to "EFC," "we," "us," and "our" refer to Ellington Financial Inc. and its consolidated subsidiaries, including Ellington Financial Operating Partnership LLC, our operating partnership subsidiary, which we refer to as our "Operating Partnership." We conduct all of our operations and business activities through our Operating Partnership. Our "Manager" refers to Ellington Financial Management LLC, our external manager, "Ellington" refers to Ellington Management Group, L.L.C. and its affiliated investment advisory firms, including our Manager, and "Manager Group" refers collectively to officers and directors of EFC, and partners and affiliates of Ellington (including families and family trusts of the foregoing). In certain instances, references to our Manager and services to be provided to us by our Manager may also include services provided by Ellington and its other affiliates from time to time.

Special Note Regarding Forward-Looking Statements

When used in this 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 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 investments; market volatility; changes in the prepayment rates on the mortgage loans underlying the securities owned by us for which the principal and interest payments are guaranteed by a U.S. government agency or a U.S. government-sponsored entity; increased rates of default and/or decreased recovery rates on our assets; our ability to borrow to finance our assets; changes in government regulations affecting our business; our ability to maintain our exclusion from registration under the Investment Company Act of 1940, as amended, or the "Investment Company Act"; our ability to maintain our qualification as a real estate investment trust, or "REIT"; and risks associated with investing in real estate assets, including changes in business conditions and the general economy, such as those resulting from the economic effects related to the 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, 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 invest in a diverse array of real-estate-related and other financial assets, including residential and commercial mortgage loans, residential mortgage-backed securities, or "RMBS," commercial mortgage-backed securities, or "CMBS," consumer loans and asset-backed securities, or "ABS," including ABS backed by consumer loans, collateralized loan obligations, or "CLOs," non-mortgage- and mortgage-related derivatives, equity investments in loan origination companies, and other strategic investments. We are externally managed and advised by our Manager, an affiliate of Ellington. Ellington is a registered investment adviser with a 26-year history of investing in the Agency and credit markets.

We conduct all of our operations and business activities through the Operating Partnership. As of September 30, 2021, we have an ownership interest of approximately 98.8% in the Operating Partnership. The remaining ownership interest of approximately 1.2% in the Operating Partnership represents the interests in the Operating Partnership that are owned by an affiliate of our Manager, our directors, and certain current and former Ellington employees and their related parties, and is reflected in our financial statements as a non-controlling interest.

Our primary objective is to generate attractive, risk-adjusted total returns for our stockholders. We seek to attain this objective by utilizing an opportunistic strategy to make investments, without restriction as to ratings, structure, or position in the capital structure, that we believe compensate us appropriately for the risks associated with them rather than targeting a specific yield. Our evaluation of the potential risk-adjusted return of any potential investment typically involves weighing the potential returns of such investment under a variety of economic scenarios against the perceived likelihood of the various

scenarios. Potential investments subject to greater risk (such as those with lower credit ratings and/or those with a lower position in the capital structure) will generally require a higher potential return to be attractive in comparison to investment alternatives with lower potential return and a lower degree of risk. However, at any particular point in time, depending on how we perceive the market's pricing of risk both generally and across sectors, we may favor higher-risk assets or we may favor lower-risk assets, or a combination of the two, in the interests of portfolio diversification or other considerations.

Through September 30, 2021, our credit portfolio, which includes all of our investments other than RMBS for which the principal and interest payments are guaranteed by a U.S. government agency or a U.S. government-sponsored entity, or "Agency RMBS," has been the primary driver of our risk and return, and we expect that this will continue in the near- to medium-term. For more information on our targeted assets, see "—Our Targeted Asset Classes" below. We believe that Ellington's capabilities allow our Manager to identify attractive assets in these classes, value these assets, monitor and forecast the performance of these assets, and opportunistically hedge our risk with respect to these assets.

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

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

Subject to maintaining our qualification as a REIT, we opportunistically hedge our credit risk, interest rate risk, and foreign currency risk; however, at any point in time we may choose not to hedge all or a portion of these risks, and we will generally not hedge those risks that we believe are appropriate for us to take at such time, or that we believe would be impractical or prohibitively expensive to hedge.

We also use leverage in our credit strategy, albeit significantly less leverage than that used in our Agency RMBS strategy. Through September 30, 2021, we financed the vast majority of our Agency RMBS assets, and a portion of our credit assets, through repurchase agreements, which we sometimes refer to as "repos," which we account for as collateralized borrowings. We expect to continue to finance the vast majority of our Agency RMBS through the use of repos. In addition to financing assets through repos, we also enter into other secured borrowing transactions, which are accounted for as collateralized borrowings, to finance certain of our loan assets. We have also obtained, through the securitization markets, term financing for certain of our non-qualified mortgage, or "non-QM," loans, certain of our consumer loans, and certain of our leveraged corporate loans. Additionally, we have issued unsecured long-term debt.

As of September 30, 2021, outstanding borrowings under repos and Total other secured borrowings (which include Other secured borrowings and Other secured borrowings, at fair value, as presented on our Condensed Consolidated Balance Sheet) were \$3.1 billion, of which approximately 47%, or \$1.4 billion, relates to our Agency RMBS holdings. The remaining outstanding borrowings relate to our credit portfolio.

As of September 30, 2021, we also had \$86.0 million outstanding of unsecured long-term debt, maturing in September of 2022, or the "Senior Notes." The Senior Notes bear interest at a rate of 5.50%, subject to adjustment based on changes, if any, in the ratings of the Senior Notes. The indenture governing the Senior Notes contains a number of covenants, including several financial covenants. The Senior Notes are rated A by Egan-Jones Rating Company¹. See Note 11 of the notes to our condensed consolidated financial statements for further detail on the Senior Notes.

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

As of September 30, 2021, our book value per share of common stock, calculated using Total Stockholders' Equity less the aggregate liquidation preference of outstanding preferred stock, was \$18.35. Our debt-to-equity ratio was 2.9:1 as of September 30, 2021. Our debt-to-equity ratio does not account for liabilities other than debt financings and does not include debt associated with securitization transactions accounted for as sales. Our recourse debt-to-equity ratio was 1.8:1 as of September 30, 2021. Adjusted for unsettled purchases and sales, our debt-to-equity ratio and recourse debt-to-equity ratio were 2.9:1 and 1.9:1, respectively, as of September 30, 2021.

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

On August 6, 2021, we commenced an "at-the-market" offering program, or "ATM program," by entering into equity distribution agreements with third party sales agents under which we are authorized to offer and sell up to 10.0 million shares of common stock from time to time. Through commencement of the ATM program through September 30, 2021, we issued 1,549,900 shares of common stock under the ATM program which provided \$28.2 million of net proceeds after \$0.4 million of agent commissions and offering costs.

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

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

Our Targeted Asset Classes

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

Asset Class	Principal Assets
Agency RMBS	<ul style="list-style-type: none"> • Whole pool pass-through certificates; • Partial pool pass-through certificates; • Agency collateralized mortgage obligations, or "CMOs," including interest only securities, or "IOs," principal only securities, or "POs," inverse interest only securities, or "IIOs"; and
CLOs	<ul style="list-style-type: none"> • Retained tranches from CLO securitizations, including participating in the accumulation of the underlying assets for such securitization by providing capital to the vehicle accumulating assets; and • Other CLO debt and equity tranches.
CMBS and Commercial Mortgage Loans	<ul style="list-style-type: none"> • CMBS; and • Commercial mortgage loans and other commercial real estate debt.
Consumer Loans and ABS	<ul style="list-style-type: none"> • Consumer loans; • ABS, including ABS backed by consumer loans; and • Retained tranches from securitizations to which we have contributed assets.
Mortgage-Related Derivatives	<ul style="list-style-type: none"> • To-Be-Announced mortgage pass-through certificates, or "TBAs"; • Credit default swaps, or "CDS," on individual RMBS, on the ABX, CMBX and PrimeX indices and on other mortgage-related indices; and • Other mortgage-related derivatives.
Non-Agency RMBS	<ul style="list-style-type: none"> • RMBS backed by prime jumbo, Alt-A, non-QM, manufactured housing, and subprime mortgages; • RMBS backed by fixed rate mortgages, Adjustable rate mortgages, or "ARMs," Option-ARMs, and Hybrid ARMs; • RMBS backed by mortgages on single-family-rental properties; • RMBS backed by first lien and second lien mortgages; • Investment grade and non-investment grade securities; • Senior and subordinated securities; • IOs, POs, IIOs, and inverse floaters; • Collateralized debt obligations, or "CDOs"; • RMBS backed by European residential mortgages, or "European RMBS"; and • Retained tranches from securitizations in which we have participated.
Residential Mortgage Loans	<ul style="list-style-type: none"> • Residential non-performing mortgage loans, or "NPLs"; • Re-performing loans, or "RPLs," which generally are loans that were modified and/or formerly NPLs where the borrower has resumed making payments in some form or amount; • Residential "transition loans," such as residential bridge loans and residential "fix-and-flip" loans; • Non-QM loans; and • Retained tranches from securitizations to which we have contributed assets.
Strategic Investments in Loan Originators	<ul style="list-style-type: none"> • Strategic equity and/or debt investments in loan originators and mortgage-related entities;
Other	<ul style="list-style-type: none"> • Real estate, including commercial and residential real property; • Corporate debt and equity securities and corporate loans; • Mortgage servicing rights, or "MSRs"; • Credit risk transfer securities, or "CRTs"; and • Other non-mortgage-related derivatives.

Agency RMBS

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

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

CLOs

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

CMBS

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

The majority of CMBS utilize senior/subordinate structures, similar to those found in non-Agency RMBS. Subordination levels vary so as to provide for one or more AAA credit ratings on the most senior classes, with less senior securities rated investment grade and non-investment grade, including a first loss component which is typically unrated. This first loss component is commonly referred to as the "B-piece," which is the most subordinated (and therefore highest yielding and riskiest) tranche of a CMBS securitization. Much of our focus within the CMBS sector has been on B-pieces, but we also acquire other CMBS with more senior credit priority.

Commercial Mortgage Loans and Other Commercial Real Estate Debt

We acquire commercial mortgage loans, which are loans secured by liens on commercial properties, including hotel, industrial, multi-family, office and retail properties. Loans may be fixed or floating rate and will generally have maturities ranging from one to ten years. We typically acquire first lien loans but may also acquire subordinated loans. As of September 30, 2021, all of our commercial mortgage loans were first lien loans. Commercial real estate debt typically limits the borrower's right to freely prepay for a period of time through provisions such as prepayment fees, lockout, yield maintenance, or defeasance provisions. Some of the commercial mortgage loans that we acquire may be non-performing, underperforming, or otherwise distressed; these loans are typically acquired at a discount both to their unpaid principal balances and to the value of the underlying real estate.

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

Within both our loan acquisition and loan origination strategies, we generally focus on smaller balance loans and/or loan packages that are less-competitively-bid. These loans typically have balances that are less than \$20 million, and are secured by

real estate and, in some cases, a personal guarantee from the borrower.

Consumer Loans and ABS

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

TBAs and Other Mortgage-Related Derivatives

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

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

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

Non-Agency RMBS

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

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

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

Residential Mortgage Loans

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

and to date we have purchased the vast majority of our non-QM loans from this originator, although we could potentially purchase a greater share of non-QM loans from other sources in the future.

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

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

Strategic Equity Investments in Loan Originators

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

Other Investment Assets

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

Hedging Instruments

Interest Rate Hedging

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

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

Because fluctuations in short-term interest rates may expose us to fluctuations in the spread between the interest we earn on our investments and the interest we pay on our borrowings, we may seek to manage such exposure by entering into short positions in interest rate swaps. An interest rate swap is an agreement to exchange interest rate cash flows, calculated on a notional principal amount, at specified payment dates during the life of the agreement. Typically, one party pays a fixed interest rate and receives a floating interest rate and the other party pays a floating interest rate and receives a fixed interest rate. Each party's payment obligation is computed using a different interest rate. In an interest rate swap, the notional principal is generally not exchanged.

Credit Risk Hedging

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

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

Foreign Currency Hedging

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

Trends and Recent Market Developments

Market Overview

- The U.S. Federal Reserve, or the "Federal Reserve," continued its accommodative monetary policy in the third quarter of 2021. At both its July and September meetings, the Federal Reserve maintained its target range of 0.00%–0.25% for the federal funds rate, and also maintained its directions to the Open Market Desk to increase its holdings of U.S. Treasury securities by \$80 billion per month, and of Agency RMBS by \$40 billion per month. In addition, in July, the Federal Reserve announced the establishment of a standing repurchase agreement facility to support financing markets. Finally, minutes from the September meeting noted that "no decision to proceed with a moderation of asset purchases was made at the meeting, but participants generally assessed that, provided that the economic recovery remained broadly on track, a gradual tapering process that concluded around the middle of next year would likely be appropriate. Participants noted that if a decision to begin tapering purchases occurred at the next meeting, the process of tapering could commence with the monthly purchase calendars beginning in either mid-November or mid-December."
- Interest rates declined in July before reversing course and rising in August and September. For the quarter, the 10-year U.S. Treasury yield rose 2 basis points to 1.49%, while the 2-year U.S. Treasury yield increased 3 basis points to 0.28%, and the yield spread between the 2-year and 10-year U.S. Treasury was essentially unchanged. Interest rate volatility remained relatively elevated for much of the third quarter, as measured by the MOVE Index.
- Mortgage rates also declined in July before reversing course and rising in August and September, in sympathy with long-term interest rates. For the quarter, the Freddie Mac survey 30-year mortgage rate increased by 3 basis points to 3.01%. Refinancing applications rose modestly during the quarter—after declining over the first half of 2021—with the Mortgage Bankers Association's Refinance Index increasing by 9% between July 2nd and October 1st. Overall Fannie Mae 30-year MBS prepayments decreased from a CPR of 24.6 in June 2021 to 22.2 in July, before returning to 24.6 in August and declining slightly to 24.1 in September.
- LIBOR rates, which drive many of our financing costs, remained very low in the third quarter of 2021. One-month and three-month LIBOR both declined by 2 basis points during the quarter, to 0.08% and 0.13%, respectively.
- Real GDP grew for the fifth-consecutive quarter, increasing at an estimated annualized rate of 2.0% in the third quarter of 2021. Meanwhile, the unemployment rate declined to 4.8% as of September 30th, from 5.9% at the end of the previous quarter.
- Forbearance rates on residential mortgages continued to decline in the third quarter of 2021. According to the Mortgage Bankers Association, the total forbearance rate decreased to 2.9% at September 26th, from 3.9% at June 27th.
- For the third quarter of 2021, the Bloomberg Barclays U.S. MBS Index generated a positive return of 0.10%, and an excess return (on a duration-adjusted basis) of 0.03% relative to the Bloomberg Barclays U.S. Treasury Index. The Bloomberg Barclays U.S. Corporate Bond Index was unchanged during the quarter, but generated a negative excess return of (0.15%); while the Bloomberg Barclays U.S. Corporate High Yield Bond Index generated a gain of 0.92% and an excess return of 0.89%.
- The strong performance of U.S. equities continued in July and August, with the S&P 500, Dow Jones Industrial Average, and NASDAQ hitting new highs in each month. However, the market retreated in September amidst concerns over rising interest rates, softening economic data, inflation, and continued supply-chain challenges, among other factors. In September, the S&P 500 posted its worst month since March 2020. For the third quarter, the S&P 500 rose 0.23%, the Dow Jones Industrial Average decreased 1.91%, and the NASDAQ fell 0.38%. The VIX volatility index was relatively stable throughout the third quarter, with occasional spikes. Meanwhile, London's FTSE 100 index increased 0.70% and the MSCI World global equity index fell 0.35% quarter over quarter.

Portfolio Overview and Outlook

The following tables summarize our investment portfolio as of September 30, 2021 and June 30, 2021.

Credit Portfolio⁽¹⁾

(\$ in thousands)	September 30, 2021		June 30, 2021	
	Fair Value	% of Total Long Credit Portfolio	Fair Value	% of Total Long Credit Portfolio
Dollar Denominated:				
CLOs ⁽²⁾	\$ 65,678	2.6 %	\$ 69,053	2.9 %
CMBS	13,604	0.5 %	45,872	2.0 %
Commercial mortgage loans and REO ⁽³⁾⁽⁴⁾	325,733	12.9 %	316,010	13.5 %
Consumer loans and ABS backed by consumer loans ⁽²⁾	138,568	5.5 %	138,471	5.9 %
Corporate debt and equity and corporate loans	26,373	1.0 %	27,939	1.2 %
Debt and equity investments in loan origination entities	106,406	4.2 %	106,159	4.5 %
Non-Agency RMBS	168,044	6.6 %	158,798	6.8 %
Residential mortgage loans and REO ⁽³⁾	1,658,879	65.5 %	1,447,202	61.8 %
Non-Dollar Denominated:				
CLOs ⁽²⁾	3,746	0.1 %	3,804	0.2 %
Consumer loans and ABS backed by consumer loans	101	— %	166	— %
Corporate debt and equity	14	— %	26	— %
RMBS ⁽⁵⁾	26,960	1.1 %	28,717	1.2 %
Total Long Credit Portfolio	\$ 2,534,106	100.0 %	\$ 2,342,217	100.0 %
Less: Non-retained tranches of consolidated securitization trusts	845,754		982,984	
Total Long Credit Portfolio excluding non-retained tranches of consolidated securitization trusts	\$ 1,688,352		\$ 1,359,233	

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

Agency RMBS Portfolio

(\$ in thousands)	September 30, 2021		June 30, 2021	
	Fair Value	% of Long Agency Portfolio	Fair Value	% of Long Agency Portfolio
Long Agency RMBS:				
Fixed Rate	\$ 1,424,516	92.7 %	\$ 1,333,676	90.4 %
Floating Rate	10,880	0.7 %	27,093	1.8 %
Reverse Mortgages	63,534	4.1 %	75,934	5.1 %
IOs	38,077	2.5 %	39,045	2.7 %
Total Long Agency RMBS	\$ 1,537,007	100.0 %	\$ 1,475,748	100.0 %

Our total long credit portfolio grew by 24% in the third quarter, to \$1.688 billion as of September 30, 2021, from \$1.359 billion as of June 30, 2021, as we deployed proceeds from our July equity offering. The majority of the growth occurred in the non-QM and residential transition loan strategies, while our portfolio of small balance commercial mortgage loans and non-Agency RMBS also expanded. These increases were partially offset by loan payoffs and opportunistic sales of CMBS and CLOs during the quarter

Our long Agency RMBS portfolio also increased during the quarter, by 4% to \$1.537 billion as of September 30, 2021, from \$1.476 billion as of June 30, 2021.

As of September 30, 2021, we had cash and cash equivalents of \$103.6 million, along with unencumbered assets of approximately \$648.9 million.

Credit Portfolio Performance Summary

We had strong performance from most of our primary credit strategies in the third quarter, and similar to the prior quarter, strong net interest income and substantial net realized and unrealized gains drove results. Our loan strategies—including non-QM, residential transition, small balance commercial mortgage, and consumer loans—generated high returns on equity driven primarily by net interest income, while performance in the CMBS, CLO, and non-Agency RMBS strategies was also excellent, driven primarily by net realized and unrealized gains. Finally, despite a record quarter of originations, Longbridge Financial, LLC, a reverse mortgage originator in which we have an equity investment, had a net loss for the quarter. The loss at Longbridge Financial was driven by mark-to-market losses on its MSR portfolio due to yield spread widening and elevated prepayment speeds in the reverse mortgage sector, and this loss detracted from our results.

Supplemental Credit Portfolio Information

The table below details certain information regarding our investments in commercial mortgage loans as of September 30, 2021:

(\$ in thousands)	Unpaid Principal Balance	Premium (Discount)	Amortized Cost	Gross Unrealized		Fair Value	Weighted Average		Yield ⁽²⁾ (Years)
				Gains	Losses		Coupon	Yield ⁽²⁾	
Commercial mortgage loans, held-for-investment ⁽¹⁾	\$ 352,936	\$ (1,042)	\$ 351,894	\$ 1,517	\$ (175)	\$ 353,236	7.65 %	7.57 %	

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

(2) Excludes commercial mortgage loans, in non-accrual status, with a fair value of \$40.0 million.

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

The table below summarizes our interests in commercial mortgage loans by property type of the underlying real estate collateral, as a percentage of total outstanding unpaid principal balance, as of September 30, 2021:

Property Type	September 30, 2021
Multifamily ⁽¹⁾	47.7 %
Industrial ⁽¹⁾	17.5 %
Hotel	12.7 %
Mixed Use	10.6 %
Retail	3.9 %
Other ⁽¹⁾	7.6 %
	<u>100.0 %</u>

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

The table below summarizes our interests in residential mortgage loans by loan type and REO resulting from the foreclosure of residential mortgage loans as of September 30, 2021:

Property Type	September 30, 2021	
	Unpaid Principal Balance	Fair Value
	<i>In thousands</i>	
Non-QM loans	\$ 1,374,773	\$ 1,430,437
Residential transition loans	199,144	199,138
Other residential loans	28,631	27,126
Total residential mortgage loans	<u>\$ 1,602,548</u>	<u>\$ 1,656,701</u>
Residential REO ⁽¹⁾		2,178
Total residential mortgage loans and residential REO ⁽¹⁾		<u>\$ 1,658,879</u>

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

In early 2020, there was a significant nationwide increase in loan delinquencies, forbearances, deferments, and modifications, as a result of the economic impacts of COVID-19. While we saw the effects of this in some of our portfolios, the effects moderated considerably during the second half of 2020. As of September 30, 2021, there were no material incremental effects from COVID-related forbearance or deferment activity in our non-QM, residential transition, consumer, or small balance commercial mortgage loan portfolios.

The following table provides additional details about our investments in unconsolidated entities as of September 30, 2021:

Investment in Unconsolidated Entity	Description	Fair Value
Loan Originators:		
Entity Type		
Longbridge Financial, LLC	Reverse Mortgage Loan Originator	\$ 65,694
LendSure Mortgage Corp.	Residential Mortgage Loan Originator	27,144
Other	Residential Mortgage Loan and Consumer Loan Originators	10,568
		<u>103,406</u>
Other Unconsolidated Entities:		
Underlying Product Type		
Co-investments with Ellington affiliate(s)	Commercial Mortgage Loans	23,318
Equity investments in securitization-related risk retention vehicles	Consumer Loans	11,698
Other	Various	3,597
		<u>38,613</u>
		<u>\$ 142,019</u>

Agency RMBS Portfolio Performance Summary

Our Agency strategy had modestly positive results during a quarter in which the Agency RMBS sector had mixed performance. In July and early August, interest rates continued to fall and volatility increased, causing Agency RMBS to underperform U.S. Treasuries. Moving into the latter half of the quarter, interest rates began to increase and volatility declined, and toward the end of the quarter, Agency yield spreads tightened as the market got more clarity on the Federal Reserve's tapering plan. Incrementally higher mortgage rates—particularly in September—led to reduced expectations for prepayment rates and boosted higher-coupon RMBS, while the anticipated withdrawal of Federal Reserve purchases negatively impacted lower-coupon RMBS.

Net interest income in our Agency portfolio, strong performance from our Agency interest-only securities, and net gains on our higher-coupon specified pools exceeded net losses on our lower-coupon holdings and reverse mortgage portfolio. On the hedging side, net losses on TBA short positions, particularly on higher coupons, slightly exceeded net gains on interest-rate swaps and U.S. Treasury hedges.

Average pay-ups on our specified pools decreased to 1.04% as of September 30, 2021, from 1.10% as of June 30, 2021, as new purchases during the quarter mainly consisted of pools with lower pay-ups. Pay-ups are price premiums for specified pools relative to their TBA counterparts.

During the third quarter, we continued to hedge interest rate risk, primarily through the use of interest rate swaps, and short positions in TBAs, U.S. Treasury securities, and futures. The size of our short TBA position increased quarter over quarter relative to our other hedging instruments, as measured by 10-year equivalents. In addition, we continued to maintain a long TBA portfolio concentrated in lower coupons.

As of both September 30, 2021 and June 30, 2021, the weighted average net pass-through rate on our fixed-rate specified pools was 3.1%. Portfolio turnover for our Agency strategy, as measured by sales and excluding paydowns, was approximately 9% for the three-month period ended September 30, 2021.

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

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

	Three-Month Period Ended				
	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020
Three-Month Constant Prepayment Rates ⁽¹⁾	21.6%	21.7%	23.4%	24.4%	22.0%

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

The following table provides details about the composition of our portfolio of fixed-rate specified pools (excluding those backed by reverse mortgages) as of September 30, 2021 and June 30, 2021:

	September 30, 2021				June 30, 2021			
	Coupon (%)	Current Principal		Weighted Average Loan Age (Months)	Current Principal		Weighted Average Loan Age (Months)	
		Fair Value			Fair Value			
		<i>(In thousands)</i>		<i>(In thousands)</i>				
Fixed-rate Agency RMBS:								
15-year fixed-rate mortgages:								
	1.50–1.99	\$ 5,101	\$ 5,186	8	\$ 5,387	\$ 5,514	5	
	2.00–2.49	58,368	60,577	8	48,818	50,747	6	
	2.50–2.99	62,447	65,376	21	58,335	61,225	19	
	3.00–3.49	69,022	72,889	12	72,871	76,963	9	
	3.50–3.99	16,514	17,711	74	19,530	20,981	63	
	4.00–4.49	4,766	5,085	63	5,494	5,877	59	
	4.50–4.99	2,951	3,107	133	3,332	3,520	130	
Total 15-year fixed-rate mortgages		219,169	229,931	21	213,767	224,827	19	
20-year fixed-rate mortgages:								
	2.00–2.49	2,815	2,877	10	2,953	3,032	7	
	2.50–2.99	45,671	47,626	11	46,551	48,634	8	
	4.50–4.99	407	450	94	414	442	91	
Total 20-year fixed-rate mortgages		48,893	50,953	12	49,918	52,108	9	
30-year fixed-rate mortgages:								
	2.00–2.49	15,809	15,914	5	6,116	6,198	5	
	2.50–2.99	449,537	465,503	6	360,496	374,603	4	
	3.00–3.49	219,897	232,680	17	208,395	219,847	17	
	3.50–3.99	129,157	139,077	44	128,704	138,094	47	
	4.00–4.49	133,535	145,379	53	147,797	159,995	51	
	4.50–4.99	87,400	95,979	54	90,879	99,529	52	
	5.00–5.49	39,757	44,014	60	47,974	53,023	54	
	5.50–5.99	3,393	3,882	63	3,419	3,942	61	
	6.00–6.49	1,037	1,204	112	1,301	1,510	95	
Total 30-year fixed-rate mortgages		1,079,522	1,143,632	25	995,081	1,056,741	26	
Total fixed-rate Agency RMBS		\$ 1,347,584	\$ 1,424,516	24	\$ 1,258,766	\$ 1,333,676	24	

Our net Agency premium as a percentage of the fair value of our specified pool holdings is one metric that we use to measure the overall prepayment risk of our specified pool portfolio. Net Agency premium represents the total premium (excess of market value over outstanding principal balance) on our specified pool holdings less the total premium on related net short TBA positions. The lower our net Agency premium, the less we believe that our specified pool portfolio is exposed to market-

wide increases in Agency RMBS prepayments. Our net Agency premium as a percentage of fair value of our specified pool holdings was approximately 2.4% and 3.0% as of September 30, 2021 and June 30, 2021, respectively. These figures take into account the net short TBA positions that we use to hedge our specified pool holdings, which had a notional value of \$632.4 million and a fair value of \$677.3 million as of September 30, 2021, as compared to a notional value of \$601.1 million and a fair value of \$640.1 million as of June 30, 2021. Excluding these TBA hedging positions, our Agency premium as a percentage of fair value was approximately 5.4% and 5.7% as of September 30, 2021 and June 30, 2021, respectively. Our Agency premium percentage and net Agency premium percentage may fluctuate from period to period based on a variety of factors, including market factors such as interest rates and mortgage rates, and, in the case of our net Agency premium percentage, based on the degree to which we hedge prepayment risk with short TBA positions. We believe that our focus on purchasing pools with specific prepayment characteristics provides a measure of protection against prepayments.

Financing

The following table details our borrowings outstanding and debt-to-equity ratios as of September 30, 2021 and June 30, 2021:

(\$ in thousands)	As of	
	September 30, 2021	June 30, 2021
Recourse⁽¹⁾ Borrowings:		
Repurchase Agreements	\$ 1,886,094	\$ 1,696,285
Other Secured Borrowings	51,727	52,237
Senior Notes, at par	86,000	86,000
Total Recourse Borrowings	\$ 2,023,821	\$ 1,834,522
Debt-to-Equity Ratio Based on Total Recourse Borrowings ⁽¹⁾	1.8:1	1.9:1
Debt-to-Equity Ratio Based on Total Recourse Borrowings Excluding U.S. Treasury Securities	1.8:1	1.9:1
Non-Recourse⁽²⁾ Borrowings:		
Repurchase Agreements	\$ 219,742	\$ 220,464
Other Secured Borrowings	39,254	34,137
Other Secured Borrowings, at fair value ⁽³⁾	872,306	1,003,037
Total Recourse and Non-Recourse Borrowings	\$ 3,155,123	\$ 3,092,160
Debt-to-Equity Ratio Based on Total Recourse and Non-Recourse Borrowings	2.9:1	3.2:1
Debt-to-Equity Ratio Based on Total Recourse and Non-Recourse Borrowings Excluding U.S. Treasury Securities	2.9:1	3.2:1

(1) As of September 30, 2021 and June 30, 2021, excludes borrowings at certain unconsolidated entities that are recourse to us. Including such borrowings, our debt-to-equity ratio based on total recourse borrowings was 1.9:1 and 2.0:1 as of September 30, 2021 and June 30, 2021, respectively.

(2) All of our non-recourse borrowings are secured by collateral. In the event of default under a non-recourse borrowing, the lender has a claim against the collateral but not any of the Operating Partnership's other assets. In the event of default under a recourse borrowing, the lender's claim is not limited to the collateral (if any).

(3) Relates to our non-QM loan securitizations, where we have elected the fair value option on the related debt.

Our debt-to-equity ratio including repos, Total other secured borrowings, and our Senior Notes, but excluding repos on U.S. Treasury securities, decreased to 2.9:1 as of September 30, 2021 as compared to 3.2:1 as of June 30, 2021, as borrowings related to new purchases were partially offset by paydowns of non-recourse borrowings related to our non-QM securitizations, and as total equity increased. In addition, excluding repos on U.S. Treasury securities, our recourse debt-to-equity ratio decreased slightly to 1.8:1 as of September 30, 2021, from 1.9:1 as of June 30, 2021. Our recourse debt-to-equity ratio, adjusted for unsettled purchases and sales, was 1.9:1 as of both September 30, 2021 and June 30, 2021.

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

Our financing costs include interest expense related to our repo borrowings, Total other secured borrowings, and Senior Notes. Historically, the interest rates on our repo borrowings and Other secured borrowings have been highly correlated with, and often have been explicitly indexed to, certain benchmark interest rates such as LIBOR or the Secured Overnight Financing Rate, or "SOFR." For the three-month period ended September 30, 2021, our average cost of funds decreased to 1.15%, as compared to 1.33% for the three-month period ended June 30, 2021. The period-over-period decline in our average cost of funds was primarily due to lower financing rates on our credit borrowings.

Critical Accounting Estimates

Our interim unaudited condensed consolidated financial statements include the accounts of Ellington Financial Inc., its Operating Partnership, its subsidiaries, and variable interest entities, or "VIEs," for which we are deemed to be the primary beneficiary. All intercompany balances and transactions have been eliminated. Certain of our critical accounting policies require us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. 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 the experience of our Manager and Ellington and analysis of historical and current market data in order to arrive at what we believe to be reasonable estimates. See Note 2 of the notes to our condensed consolidated financial statements for a complete discussion of our significant accounting policies. We have identified our most critical accounting policies to be the following:

Valuation: We have elected the fair value option for the vast majority of our assets and liabilities for which such election is permitted, as provided for under ASC 825, *Financial Instruments* ("ASC 825"). For financial instruments that are traded in an "active market," the best measure of fair value is the quoted market price. However, many of our financial instruments are not traded in an active market. Therefore, management generally uses third-party valuations when available. If third-party valuations are not available, management uses other valuation techniques, such as the discounted cash flow methodology. Summary descriptions, for various categories of financial instruments, of the valuation methodologies management uses in determining fair value of our financial instruments are detailed in Note 2 of the notes to our condensed 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 condensed consolidated financial statements for more information on valuation techniques used by management in the valuation of our assets and liabilities.

Purchases and Sales of Investments and Investment Income: Purchase and sales transactions are generally recorded on trade date. Realized and unrealized gains and losses are calculated based on identified cost. We generally amortize premiums and accrete discounts on our fixed-income investments using the effective interest method.

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

Income Taxes: We made an election to be taxed as a REIT for U.S. federal income tax purposes commencing with our taxable year ended December 31, 2019. As a REIT, we generally are not subject to corporate-level federal and state income tax on net income we distribute to our stockholders within the prescribed timeframes. To qualify as a REIT, we must meet a number of organizational and operational requirements, including distributing at least 90% of our taxable income to our stockholders. 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 elected to treat certain domestic and foreign subsidiaries as TRSs, and may in the future elect to treat other current or future subsidiaries as TRSs. In general, a TRS may hold assets and engage in activities that we cannot hold or engage in directly and generally may engage in any real estate or non-real estate-related business. A domestic TRS may, but is not required to, declare dividends to us; such dividends will be included in our taxable income/(loss) and may necessitate a distribution to our stockholders. Conversely, if we retain earnings at the level of a domestic TRS, such earnings will increase the book equity of the consolidated entity. A domestic TRS is subject to U.S. federal, state, and local corporate income taxes. We have elected and may elect in the future to treat certain of our foreign corporate subsidiaries as TRSs and, accordingly, taxable income generated by these TRSs may not be subject to U.S. federal, state, and local corporate income taxation, but generally will be included in our income on a current basis as Subpart F income, whether or not distributed. However, certain of our foreign subsidiaries may be subject to income taxes in the relevant foreign jurisdictions. Our financial results are generally not expected to reflect provisions for current or deferred income taxes, except for any activities conducted through one or more TRSs that are subject to corporate income taxation.

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.

See the notes to our condensed consolidated financial statements for additional details on income taxes.

Recent Accounting Pronouncements

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

Financial Condition

The following table summarizes the fair value our investment portfolio⁽¹⁾ as of September 30, 2021 and December 31, 2020.

<i>(In thousands)</i>	September 30, 2021	December 31, 2020
Long:		
Credit:		
Dollar Denominated:		
CLO ⁽²⁾	\$ 65,678	\$ 181,229
CMBS	13,604	117,652
Commercial Mortgage Loans and REO ⁽³⁾⁽⁵⁾	325,733	269,287
Consumer Loans and ABS backed by Consumer Loans ⁽²⁾	138,568	112,077
Corporate Debt and Equity and Corporate Loans	26,373	12,606
Debt and Equity Investments in Loan Origination Entities ⁽⁴⁾	106,406	79,536
Non-Agency RMBS	168,044	154,492
Residential Mortgage Loans and REO ⁽³⁾	1,658,879	1,188,731
Non-Dollar Denominated:		
CLO ⁽²⁾	3,746	6,108
Consumer Loans and ABS backed by Consumer Loans	101	306
Corporate Debt and Equity	14	28
RMBS ⁽⁶⁾	26,960	51,388
Agency:		
Fixed-Rate Specified Pools	1,424,516	807,704
Floating-Rate Specified Pools	10,880	6,454
IOs	38,077	47,656
Reverse Mortgage Pools	63,534	97,629
Total Long	\$ 4,071,113	\$ 3,132,883
Short:		
Credit:		
Dollar Denominated:		
Corporate Debt and Equity	\$ —	\$ (218)
Government Debt:		
Non-Dollar Denominated	(30,294)	(38,424)
Total Short	\$ (30,294)	\$ (38,642)

(1) For more detailed information about the investments in our portfolio, please see the notes to the condensed consolidated financial statements.

(2) Includes equity investments in securitization-related vehicles.

(3) REO is not eligible to elect the fair value option as described in Note 2 of the notes to the condensed consolidated financial statements and, as a result, is included at the lower of cost or fair value.

(4) Includes corporate loan to a loan origination entity in which we hold an equity investment.

(5) Includes investments in unconsolidated entities holding small balance commercial mortgage loans and REO.

(6) Includes an investment in an unconsolidated entity holding European RMBS.

The following table summarizes our financial derivatives portfolio⁽¹⁾⁽²⁾ as of September 30, 2021.

(In thousands)	Notional			Net Fair Value
	Long	Short	Net	
Mortgage-Related Derivatives:				
CDS on MBS and MBS Indices	\$ 589	\$ (13,208)	\$ (12,619)	\$ 1,864
Total Net Mortgage-Related Derivatives				1,864
Corporate-Related Derivatives:				
CDS on Corporate Bonds and Corporate Bond Indices	2,206	(26,022)	(23,816)	(1,882)
Options	30,000	—	30,000	146
Warrants ⁽³⁾	1,897	—	1,897	938
Total Net Corporate-Related Derivatives				(798)
Interest Rate-Related Derivatives:				
TBAs	291,283	(923,651)	(632,368)	(682)
Interest Rate Swaps	246,599	(1,430,497)	(1,183,898)	(234)
U.S. Treasury Futures ⁽⁴⁾	1,900	(221,400)	(219,500)	1,347
Total Interest Rate-Related Derivatives				431
Other Derivatives:				
Foreign Currency Forwards ⁽⁵⁾	—	(16,725)	(16,725)	360
Total Net Other Derivatives				360
Net Total				\$ 1,857

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

(2) In the table above, fair value of certain derivative transactions are shown on a net basis. The accompanying financial statements separate derivative transactions as either assets or liabilities. As of September 30, 2021, derivative assets and derivative liabilities were \$16.0 million and \$(14.1) million, respectively, for a net fair value of \$1.9 million, as reflected in "Net Total" above.

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

(4) Notional value represents the total face amount of U.S. Treasury securities underlying all contracts held. As of September 30, 2021, a total of 19 long and 1,965 short U.S. Treasury futures contracts were held.

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

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

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

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

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

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

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

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

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

As of September 30, 2021, our Condensed Consolidated Balance Sheet reflected total assets of \$4.4 billion and total liabilities of \$3.3 billion. As of December 31, 2020, our Condensed Consolidated Balance Sheet reflected total assets of \$3.4 billion and total liabilities of \$2.5 billion. Our investments in securities, loans, and unconsolidated entities, financial derivatives, and real estate owned included in total assets were \$4.1 billion and \$3.1 billion as of September 30, 2021 and December 31, 2020, respectively. Our investments in securities sold short and financial derivatives included in total liabilities were \$44.4 million and \$63.2 million as of September 30, 2021 and December 31, 2020, respectively. As of both September 30, 2021 and December 31, 2020, investments in securities sold short consisted principally of short positions in sovereign bonds. We primarily use short positions in sovereign bonds and U.S. Treasury securities to hedge the risk of rising interest rates and foreign currency risk.

Typically, we hold a net short position in TBAs. The amounts of net short TBAs, as well as of other hedging instruments, may fluctuate according to the size of our investment portfolio as well as according to how we view market dynamics as favoring the use of one hedging instrument or another. As of September 30, 2021 and December 31, 2020, we had a net short notional TBA position of \$632.4 million and \$354.1 million, respectively. The size of the net short notional TBA position increased in conjunction with the increased size of our Agency RMBS portfolio. In addition, we increased the notional amount of long TBAs held for investment as of September 30, 2021 as compared to December 31, 2020.

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

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

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

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

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

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

We have entered into repos to finance many of our assets. We account for our repos as collateralized borrowings. As of September 30, 2021 indebtedness outstanding on our repos was approximately \$2.1 billion. As of September 30, 2021, our assets financed with repos consisted of Agency RMBS of \$1.5 billion and credit assets of \$924.7 million. As of September 30, 2021, outstanding indebtedness under repos was \$1.4 billion for Agency RMBS and \$669.0 million for credit assets. As of December 31, 2020 indebtedness outstanding on our repos was approximately \$1.5 billion. As of December 31, 2020, our assets financed with repos consisted of Agency RMBS of \$947.0 million and credit assets of \$884.2 million. As of December 31, 2020, outstanding indebtedness under repos was \$921.9 million for Agency RMBS and \$575.1 million for credit assets.

In addition to our repos, as of September 30, 2021 we had Total other secured borrowings of \$963.3 million, used to finance \$1.056 billion of non-QM loans, consumer loans and ABS backed by consumer loans, and small balance commercial mortgage loans. This compares to Total other secured borrowings of \$806.0 million as of December 31, 2020, used to finance \$906.4 million of non-QM loans, consumer loans and ABS backed by consumer loans, and small balance commercial mortgage loans. In addition to our secured borrowings, we had \$86.0 million of Senior Notes outstanding as of both September 30, 2021 and December 31, 2020.

As of September 30, 2021 and December 31, 2020 our debt-to-equity ratio was 2.9:1 and 2.6:1, respectively. Excluding repos on U.S. Treasury securities, our recourse debt-to-equity ratio was 1.8:1 as of September 30, 2021 as compared to 1.6:1 as of December 31, 2020. See the discussion in "*Liquidity and Capital Resources*" below for further information on our borrowings.

Equity

As of September 30, 2021, our equity increased by approximately \$173.7 million to \$1.095 billion from \$921.6 million as of December 31, 2020. The increase principally consisted of net income of \$101.7 million, net proceeds from the issuance of shares of common stock of \$141.3 million, after underwriters' discounts and commissions and offering costs, and contributions from our non-controlling interests of \$11.5 million. These increases were partially offset by common and preferred dividends of \$61.9 million and distributions to non-controlling interests of \$20.3 million. Stockholders' equity, which excludes the non-controlling interests related to the minority interest in the Operating Partnership as well as the minority interests of our joint venture partners, was \$1.063 billion as of September 30, 2021.

Results of Operations for the Three- and Nine-Month Periods Ended September 30, 2021 and 2020

The following table summarizes our results of operations for the three- and nine-month periods ended September 30, 2021 and 2020:

<i>(In thousands except per share amounts)</i>	Three-Month Period Ended		Nine-Month Period Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Interest Income (Expense)				
Interest income	\$ 40,146	\$ 43,075	\$ 126,115	\$ 134,463
Interest expense	(10,604)	(12,937)	(33,111)	(49,713)
Net interest income	29,542	30,138	93,004	84,750
Other Income (Loss)				
Realized and unrealized gains (losses) on securities and loans, net	3,147	25,654	13,633	(67,753)
Realized and unrealized gains (losses) on financial derivatives, net	(627)	(1,918)	10,621	(27,811)
Realized and unrealized gains (losses) on real estate owned, net	622	104	(1,498)	(341)
Other, net	2,986	(2,747)	9,310	(1,503)
Total other income (loss)	6,128	21,093	32,066	(97,408)
Expenses				
Base management fee to affiliate (Net of fee rebates of \$395, \$201, \$784, and \$853, respectively) ⁽¹⁾	3,675	2,981	10,308	8,330
Incentive fee to affiliate	5,255	—	12,412	—
Other investment related expenses	2,879	3,578	12,565	12,805
Other operating expenses	4,438	3,919	12,716	11,508
Total expenses	16,247	10,478	48,001	32,643
Net Income (Loss) before Income Tax Expense (Benefit) and Earnings (Losses) from Investments in Unconsolidated Entities	19,423	40,753	77,069	(45,301)
Income tax expense (benefit)	(2,009)	2,494	3,149	3,490
Earnings (losses) from investments in unconsolidated entities	2,549	11,443	27,786	10,590
Net Income (Loss)	23,981	49,702	101,706	(38,201)
Net income (loss) attributable to non-controlling interests	1,476	1,559	4,809	1,894
Dividends on preferred stock	1,941	1,940	5,822	5,822
Net Income (Loss) Attributable to Common Stockholders	\$ 20,564	\$ 46,203	\$ 91,075	\$ (45,917)
Net Income (Loss) Per Common Share	\$ 0.41	\$ 1.06	\$ 1.99	\$ (1.06)

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

Core Earnings

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

Core Earnings is a supplemental non-GAAP financial measure. We believe that the presentation of Core Earnings provides a consistent measure of operating performance by excluding the impact of gains and losses and other adjustments listed above from operating results. We believe that Core Earnings provides information useful to investors because it is a

metric that we use to assess our performance and to evaluate the effective net yield provided by our portfolio. In addition, we believe that presenting Core Earnings enables our investors to measure, evaluate, and compare our operating performance to that of our peers. However, because Core Earnings is an incomplete measure of our financial results and differs from net income (loss) computed in accordance with U.S. GAAP, it should be considered as supplementary to, and not as a substitute for, net income (loss) computed in accordance with U.S. GAAP.

The following table reconciles, for the three- and nine-month periods ended September 30, 2021 and 2020, Core Earnings to the line on the our Condensed Consolidated Statement of Operations entitled Net Income (Loss), which we believe is the most directly comparable U.S. GAAP measure.

	Three-Month Period Ended		Nine-Month Period Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
<i>(In thousands, except per share amounts)</i>				
Net income (loss)	\$ 23,981	\$ 49,702	\$ 101,706	\$ (38,201)
Income tax expense (benefit)	(2,009)	2,494	3,149	3,490
Net income (loss) before income tax expense (benefit)	21,972	52,196	104,855	(34,711)
Adjustments:				
Realized (gains) losses on securities and loans, net	(6,359)	(1,446)	(8,627)	2,335
Realized (gains) losses on financial derivatives, net	1,782	1,620	(4,438)	25,702
Realized (gains) losses on real estate owned, net	50	18	63	(121)
Unrealized (gains) losses on securities and loans, net	3,212	(24,208)	(5,006)	65,418
Unrealized (gains) losses on financial derivatives, net	(1,155)	298	(6,183)	2,109
Unrealized (gains) losses on real estate owned, net	(672)	(122)	1,435	462
Other realized and unrealized (gains) losses, net ⁽¹⁾	(1,133)	4,217	(3,901)	5,850
Net realized gains (losses) on periodic settlements of interest rate swaps	(1,069)	(1,150)	(1,808)	(1,900)
Net unrealized gains (losses) on accrued periodic settlements of interest rate swaps	252	516	(47)	541
Incentive fee to affiliate	5,255	—	12,412	—
Non-cash equity compensation expense	244	186	717	532
Negative (positive) component of interest income represented by Catch-up Premium Amortization Adjustment	2,944	(319)	(10)	4,440
Debt issuance costs related to Other secured borrowings, at fair value	—	—	3,704	2,075
Non-recurring expenses	471	143	719	143
(Earnings) losses from investments in unconsolidated entities ⁽²⁾	647	(10,895)	(19,845)	(8,489)
Total Core Earnings	26,441	21,054	74,040	64,386
Dividends on preferred stock	1,941	1,940	5,822	5,822
Core Earnings attributable to non-controlling interests	1,544	1,148	4,200	3,683
Core Earnings Attributable to Common Stockholders	\$ 22,956	\$ 17,966	\$ 64,018	\$ 54,881
Core Earnings Attributable to Common Stockholders, per share	\$ 0.46	\$ 0.41	\$ 1.40	\$ 1.26

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

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

Results of Operations for the Three-Month Periods Ended September 30, 2021 and 2020

Net Income (Loss) Attributable to Common Stockholders

For the three-month period ended September 30, 2021 we had net income (loss) attributable to common stockholders of \$20.6 million compared to \$46.2 million for the three-month period ended September 30, 2020. The period-over-period decrease in our results of operations was primarily due to a decrease in realized and unrealized gains on securities and loans, net, and earnings from investments in unconsolidated entities as well as an increase in incentive fees incurred.

Interest Income

Interest income was \$40.1 million for the three-month period ended September 30, 2021, as compared to \$43.1 million for the three-month period ended September 30, 2020. Interest income for both periods included coupon payments received and accrued on our holdings, the net accretion and amortization of purchase discounts and premiums on those holdings, and interest on our cash balances, including those balances held by our counterparties as collateral.

For the three-month period ended September 30, 2021, interest income from our credit portfolio was \$34.7 million, as compared to \$36.4 million for the three-month period ended September 30, 2020. This period-over-period decrease was primarily due to lower average asset yields, partially offset by a larger credit portfolio for the three-month period ended September 30, 2021.

For the three-month period ended September 30, 2021, interest income from our Agency RMBS was \$5.2 million, as compared to \$6.7 million for the three-month period ended September 30, 2020. This period-over-period decrease was due to lower average asset yields, partially offset by a larger Agency portfolio for the three-month period ended September 30, 2021.

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 September 30, 2021 and 2020:

(In thousands)	Credit ⁽¹⁾			Agency ⁽¹⁾			Total ⁽¹⁾		
	Interest Income	Average Holdings	Yield	Interest Income	Average Holdings	Yield	Interest Income	Average Holdings	Yield
Three-month period ended September 30, 2021	\$ 34,666	\$ 2,168,359	6.39 %	\$ 5,246	\$ 1,474,354	1.42 %	\$ 39,912	\$ 3,642,713	4.38 %
Three-month period ended September 30, 2020	\$ 36,354	\$ 1,974,414	7.37 %	\$ 6,663	\$ 835,533	3.19 %	\$ 43,017	\$ 2,809,947	6.12 %

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

Some of the variability in our interest income and portfolio yields is due to the Catch-up Premium Amortization Adjustment. For the three-month period ended September 30, 2021, we had a negative Catch-up Premium Amortization Adjustment of \$(2.9) million which decreased our interest income. Comparatively, for the three-month period ended September 30, 2020 we had a positive Catch-up Premium Amortization Adjustment of \$0.3 million which increased our interest income. Excluding the Catch-up Premium Amortization Adjustment, the weighted average yield of our Agency portfolio and our total portfolio was 2.22% and 4.71%, respectively, for the three-month period ended September 30, 2021. Excluding the Catch-up Premium Amortization Adjustment, the weighted average yield of our Agency portfolio and our total portfolio was 3.04% and 6.08%, respectively, for the three-month period ended September 30, 2020.

Interest Expense

Interest expense primarily includes interest on funds borrowed under repos and Total other secured borrowings, interest on our Senior Notes, coupon interest on securities sold short, the related net accretion and amortization of purchase discounts and premiums on those short holdings, and interest on our counterparties' cash collateral held by us. Our total interest expense decreased to \$10.6 million for the three-month period ended September 30, 2021, as compared to \$12.9 million for the three-month period ended September 30, 2020. The decline in interest expense was the result of a significant decrease in borrowing rates on both our Agency and credit assets.

The table below summarizes the components of interest expense for the three-month periods ended September 30, 2021 and 2020.

(In thousands)	Three-Month Period Ended	
	September 30, 2021	September 30, 2020
Repos and Total other secured borrowings	\$ 8,684	\$ 11,585
Senior Notes	1,248	1,248
Securities sold short ⁽¹⁾	613	20
Other ⁽²⁾	59	84
Total	\$ 10,604	\$ 12,937

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

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

The following table summarizes our aggregate secured borrowings, including repos and Total other secured borrowings, for the three-month periods ended September 30, 2021 and 2020.

Collateral for Secured Borrowing	Three-Month Period Ended					
	September 30, 2021			September 30, 2020		
	Average Borrowings	Interest Expense	Average Cost of Funds	Average Borrowings	Interest Expense	Average Cost of Funds
<i>(In thousands)</i>						
Credit ⁽¹⁾	\$ 1,577,246	\$ 8,060	2.03 %	\$ 1,356,028	\$ 10,817	3.17 %
Agency RMBS	1,408,058	624	0.18 %	876,995	768	0.35 %
Subtotal ⁽¹⁾	2,985,304	8,684	1.15 %	2,233,023	11,585	2.06 %
U.S. Treasury Securities	441	—	0.10 %	25	—	(0.02)%
Total	\$ 2,985,745	\$ 8,684	1.15 %	\$ 2,233,048	\$ 11,585	2.06 %
Average One-Month LIBOR			0.09 %			0.16 %
Average Six-Month LIBOR			0.15 %			0.31 %

(1) Excludes U.S. Treasury Securities.

Among other instruments, we use interest rate swaps to hedge against the risk of rising interest rates. If we were to include as a component of our cost of funds the amortization of upfront payments and the actual and accrued periodic payments on our interest rate swaps used to hedge our assets, our total average cost of funds would increase to 1.31% and 2.24% for the three-month periods ended September 30, 2021 and 2020, respectively. Excluding the Catch-up Premium Amortization Adjustment, our net interest margin, defined as the yield on our portfolio of yield-bearing targeted assets less our cost of funds (including amortization of upfront payments and actual and accrued periodic payments on interest rate swaps as described above), was 3.40% and 3.84% for the three-month periods ended September 30, 2021 and 2020, respectively. These metrics do not include costs associated with other instruments that we use to hedge interest rate risk, such as TBAs and futures.

Base Management Fees

For the three-month period ended September 30, 2021, the gross base management fee, which is based on total equity at the end of each quarter, was \$4.1 million, and our Manager credited us with rebates on our base management fee of \$0.4 million, resulting in a net base management fee of \$3.7 million. For the three-month period ended September 30, 2020, the gross base management fee was \$3.2 million, and our Manager credited us with rebates on our base management fee of \$0.2 million, resulting in a net base management fee of \$3.0 million. For each period, the base management fee rebates related to those of our CLO investments for which Ellington or one of its affiliates earned CLO management fees. The increase in the net base management fee period over period was due to a larger capital base at September 30, 2021.

Incentive Fees

In addition to the base management fee, our Manager is also entitled to a quarterly incentive fee if our performance (as measured by adjusted net income, as defined in the management agreement) over the relevant rolling four quarter calculation period (including any opening loss carryforward) exceeds a defined return hurdle for the period. For the three-month period ended September 30, 2021, the incentive fee was \$5.3 million. There was no incentive fee for the three-month period ended September 30, 2020, since on a rolling four quarter basis, our income did not exceed the prescribed hurdle amount. Because our operating results can vary materially from one period to another, incentive fee expense can be highly variable.

Other Investment Related Expenses

Other investment related expenses consist of servicing fees on our mortgage and consumer loans, as well as various other expenses and fees directly related to our financial assets and certain financial liabilities carried at fair value. For the three-month periods ended September 30, 2021 and 2020 other investment related expenses were \$2.9 million and \$3.6 million, respectively. The decrease in other investment related expenses was primarily due to a decrease in servicing expenses on our consumer loan portfolios, partially offset by an increase in various other expenses related to our residential mortgage loan portfolio.

Other Operating Expenses

Other operating expenses consist of professional fees, compensation expense related to our dedicated or partially dedicated personnel, and various other operating expenses necessary to run our business. Other operating expenses exclude management and incentive fees, interest expense, and other investment related expenses. Other operating expenses were \$4.4 million for the three-month period ended September 30, 2021 as compared to \$3.9 million for the three-month period ended

September 30, 2020. The increase in other operating expenses for the three-month period ended September 30, 2021 was primarily due to an increase in compensation expense.

Other Income (Loss)

Other income (loss) consists of net realized and unrealized gains (losses) on securities and loans, financial derivatives, and real estate owned. Other, net, another component of Other income (loss), includes rental income and income related to loan originations, as well as realized gains (losses) on foreign currency transactions and unrealized gains (losses) on foreign currency remeasurement and Other Secured Borrowings, at fair value. For the three-month period ended September 30, 2021, other income (loss) was \$6.1 million, consisting primarily of \$3.1 million of net realized and unrealized gains on our securities and loans, \$3.0 million of Other, net, which primarily comprises other non-interest income related to our loan portfolios, and \$0.6 million of net realized and unrealized gains on real estate owned. These gains were partially offset by net realized and unrealized losses on our financial derivatives of \$(0.6) million. Net realized and unrealized gains of \$3.1 million on our securities and loans primarily resulted from net realized and unrealized gains on CLOs and CMBS, partially offset by net realized and unrealized losses on Agency RMBS and non-QM loans. The net realized and unrealized gains on our CLOs and CMBS were driven by tighter yield spreads and opportunistic sales, while the net realized and unrealized losses on Agency RMBS were related to underperformance of lower-coupon holdings and net unrealized losses on our non-QM loans were due to higher interest rates and wider yield spreads during the quarter. Net realized and unrealized losses on our financial derivatives of \$(0.6) million were primarily related to net realized and unrealized losses on TBAs and total return swaps, partially offset by net realized and unrealized gains on interest rate swaps and futures.

For the three-month period ended September 30, 2020, other income (loss) was \$21.1 million, consisting primarily of net realized and unrealized gains of \$25.7 million on our securities and loans, partially offset by net realized and unrealized losses on our financial derivatives of \$(1.9) million, and Other, net of \$(2.7) million. Net realized and unrealized gains of \$25.7 million on our securities and loans primarily resulted from net realized and unrealized gains on our non-QM loans, non-Agency RMBS, CMBS, CLOs, and asset-backed securities backed by consumer loans, partially offset by net realized and unrealized losses on consumer loans. These gains were primarily due to a tightening in credit yield spreads as liquidity continued to improve in these markets. Net realized and unrealized losses of \$(1.9) million on our financial derivatives was primarily related to net realized and unrealized losses on CDS on corporate bond indices, forwards, CDS on corporate bonds, and total return swaps, partially offset by net realized and unrealized gains on TBAs and interest rate swaps. Other, net of \$(2.7) million primarily comprised net unrealized losses on Other Secured Borrowings, at fair value, partially offset by other income related to our loan portfolios.

Income Tax Expense (Benefit)

Income tax expense (benefit) was \$(2.0) million for the three-month period ended September 30, 2021, as compared to \$2.5 million for the three-month period ended September 30, 2020. The reversal in income tax expense (benefit) for the three-month period ended September 30, 2021 was primarily due to a decrease in current and deferred tax liabilities related to net unrealized losses on investments held in a domestic TRS for the three-month period ended September 30, 2021, as compared to unrealized gains on investments held in a domestic TRS for the three-month period ended September 30, 2020.

Earnings (Losses) from Investments in Unconsolidated Entities

We have elected the fair value option for our equity investments in unconsolidated entities. Earnings (losses) from investments in unconsolidated entities was \$2.5 million for the three-month period ended September 30, 2021, as compared to \$11.4 million for the three-month period ended September 30, 2020. Earnings from investments in unconsolidated entities for the three-month period ended September 30, 2021 were primarily due to net realized and unrealized gains on our investments in entities holding commercial mortgage loans and REO, in which we co-invest with other Ellington affiliates, and unrealized gains on an equity investment in a securitization-related risk retention vehicle. Such gains were partially offset by net unrealized losses on our investments in mortgage loan originators. For the three-month period ended September 30, 2020, Earnings from investments in unconsolidated entities was primarily due to unrealized gains on our investments in mortgage originators.

Results of Operations for the Nine-Month Periods Ended September 30, 2021 and 2020

Net Income (Loss) Attributable to Common Stockholders

For the nine-month period ended September 30, 2021 we had net income (loss) attributable to common stockholders of \$91.1 million compared to \$(45.9) million for the nine-month period ended September 30, 2020. The period-over-period reversal in our results of operations was primarily due to net realized and unrealized gains on securities and loans, net realized and unrealized gains on financial derivatives, and earnings from investments in unconsolidated entities in the current period, as

compared to losses on our securities, loans, and financial derivatives in the prior period, which were primarily the result of the market and economic disruptions caused by the COVID-19 pandemic in early 2020.

Interest Income

Interest income was \$126.1 million for the nine-month period ended September 30, 2021, as compared to \$134.5 million for the nine-month period ended September 30, 2020. Interest income for both periods included coupon payments received and accrued on our holdings, the net accretion and amortization of purchase discounts and premiums on those holdings, and interest on our cash balances, including those balances held by our counterparties as collateral.

For the nine-month period ended September 30, 2021, interest income from our credit portfolio was \$102.0 million, as compared to \$111.4 million for the nine-month period ended September 30, 2020. This period-over-period decrease was primarily due to lower average asset yields, partially offset by the larger size of the credit portfolio for the nine-month period ended September 30, 2021.

For the nine-month period ended September 30, 2021, interest income from our Agency RMBS was \$23.3 million, as compared to \$22.1 million for the nine-month period ended September 30, 2020. This period-over-period increase was due to the larger size of the Agency portfolio, partially offset by lower average asset yields, for the nine-month period ended September 30, 2021.

The following table details our interest income, average holdings of yield-bearing assets, and weighted average yield based on amortized cost for the nine-month periods ended September 30, 2021 and 2020:

(In thousands)	Credit ⁽¹⁾			Agency ⁽¹⁾			Total ⁽¹⁾		
	Interest Income	Average Holdings	Yield	Interest Income	Average Holdings	Yield	Interest Income	Average Holdings	Yield
Nine-month period ended September 30, 2021	\$ 102,015	\$ 2,062,442	6.60 %	\$ 23,326	\$ 1,380,854	2.25 %	\$ 125,341	\$ 3,443,296	4.85 %
Nine-month period ended September 30, 2020	\$ 111,377	\$ 1,941,332	7.65 %	\$ 22,116	\$ 1,196,610	2.46 %	\$ 133,493	\$ 3,137,942	5.67 %

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

Some of the variability in our interest income and portfolio yields is due to the Catch-up Premium Amortization Adjustment. For the nine-month period ended September 30, 2021 we had a positive Catch-up Premium Amortization Adjustment of \$10 thousand, which increased our interest income. In contrast, for the nine-month period ended September 30, 2020 we had a negative Catch-up Premium Amortization Adjustment of \$(4.4) million, which decreased our interest income. Excluding the Catch-up Premium Amortization Adjustment, the weighted average yield of our Agency portfolio and our total portfolio was 2.25% and 4.85%, respectively, for the nine-month period ended September 30, 2021. Excluding the Catch-up Premium Amortization Adjustment, the weighted average yield of our Agency portfolio and our total portfolio was 2.96% and 5.86%, respectively, for the nine-month period ended September 30, 2020.

Interest Expense

Interest expense primarily includes interest on funds borrowed under repos and Total other secured borrowings, interest on our Senior Notes, coupon interest on securities sold short, the related net accretion and amortization of purchase discounts and premiums on those short holdings, and interest on our counterparties' cash collateral held by us. Our total interest expense decreased to \$33.1 million for the nine-month period ended September 30, 2021, as compared to \$49.7 million for the nine-month period ended September 30, 2020. The decline in interest expense was the result of a significant decrease in borrowing rates on both our Agency and credit assets.

The table below summarizes the components of interest expense for the nine-month periods ended September 30, 2021 and 2020.

	Nine-Month Period Ended	
	September 30, 2021	September 30, 2020
<i>(In thousands)</i>		
Repos and Total other secured borrowings	\$ 27,870	\$ 45,377
Senior Notes	3,745	3,745
Securities sold short ⁽¹⁾	932	450
Other ⁽²⁾	564	141
Total	\$ 33,111	\$ 49,713

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

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

The following table summarizes our aggregate secured borrowings, including repos and Total other secured borrowings, for the nine-month periods ended September 30, 2021 and 2020.

Collateral for Secured Borrowing	Nine-Month Period Ended					
	September 30, 2021			September 30, 2020		
	Average Borrowings	Interest Expense	Average Cost of Funds	Average Borrowings	Interest Expense	Average Cost of Funds
<i>(In thousands)</i>						
Credit ⁽¹⁾	\$ 1,472,463	\$ 25,836	2.35 %	\$ 1,389,000	\$ 34,132	3.28 %
Agency RMBS	1,344,165	2,034	0.20 %	1,176,191	11,241	1.28 %
Subtotal ⁽¹⁾	2,816,628	27,870	1.32 %	2,565,191	45,373	2.36 %
U.S. Treasury Securities	258	—	0.06 %	513	4	0.96 %
Total	\$ 2,816,886	\$ 27,870	1.32 %	\$ 2,565,704	\$ 45,377	2.36 %
Average One-Month LIBOR			0.10 %			0.65 %
Average Six-Month LIBOR			0.18 %			0.84 %

(1) Excludes U.S. Treasury Securities.

Among other instruments, we use interest rate swaps to hedge against the risk of rising interest rates. If we were to include as a component of our cost of funds the amortization of upfront payments and the actual and accrued periodic payments on our interest rate swaps used to hedge our assets, our total average cost of funds would increase to 1.46% and 2.45% for the nine-month periods ended September 30, 2021 and 2020, respectively. Excluding the Catch-up Premium Amortization Adjustment, our net interest margin, defined as the yield on our portfolio of yield-bearing targeted assets less our cost of funds (including amortization of upfront payments and actual and accrued periodic payments on interest rate swaps as described above), was 3.39% and 3.41% for the nine-month periods ended September 30, 2021 and 2020, respectively. These metrics do not include costs associated with other instruments that we use to hedge interest rate risk, such as TBAs and futures.

Base Management Fees

For the nine-month period ended September 30, 2021, the gross base management fee, which is based on total equity at the end of each quarter, was \$11.1 million, and our Manager credited us with rebates on our base management fee of \$0.8 million, resulting in a net base management fee of \$10.3 million. For the nine-month period ended September 30, 2020, the gross base management fee was \$9.2 million, and our Manager credited us with rebates on our base management fee of \$0.9 million, resulting in a net base management fee of \$8.3 million. For each period, the base management fee rebates related to those of our CLO investments for which Ellington or one of its affiliates earned CLO management fees. The increase in the net base management fee period over period was due to a larger capital base at each quarter end in 2021, as compared to the respective quarter ends in 2020.

Incentive Fees

In addition to the base management fee, our Manager is also entitled to a quarterly incentive fee if our performance (as measured by adjusted net income, as defined in the management agreement) over the relevant rolling four quarter calculation period (including any opening loss carryforward) exceeds a defined return hurdle for the period. For the nine-month period ended September 30, 2021, the incentive fee was \$12.4 million. There was no incentive fee for the nine-month period ended September 30, 2020, since for each quarter during that period, our income did not exceed the prescribed hurdle amount on a

rolling four quarter basis. Because our operating results can vary materially from one period to another, incentive fee expense can be highly variable.

Other Investment Related Expenses

Other investment related expenses consist of servicing fees on our mortgage and consumer loans, as well as various other expenses and fees directly related to our financial assets and certain financial liabilities carried at fair value. For the nine-month periods ended September 30, 2021 and 2020 other investment related expenses were \$12.6 million and \$12.8 million, respectively. The decrease in other investment related expenses was primarily due to a decrease in servicing expenses on our consumer loan portfolios partially offset by an increase in debt issuance costs related to our non-QM loan securitizations, as well as an increase in various other expenses related to our residential mortgage loan portfolio.

Other Operating Expenses

Other operating expenses consist of professional fees, compensation expense related to our dedicated or partially dedicated personnel, and various other operating expenses necessary to run our business. Other operating expenses exclude management and incentive fees, interest expense, and other investment related expenses. Other operating expenses were \$12.7 million for the nine-month period ended September 30, 2021 as compared to \$11.5 million for the nine-month period ended September 30, 2020. The increase in other operating expenses for the nine-month period ended September 30, 2021 was primarily due to an increase in compensation expense.

Other Income (Loss)

Other income (loss) consists of net realized and unrealized gains (losses) on securities and loans, financial derivatives, and real estate owned. Other, net, another component of Other income (loss), includes rental income and income related to loan originations, as well as realized gains (losses) on foreign currency transactions and unrealized gains (losses) on foreign currency remeasurement and Other Secured Borrowings, at fair value. For the nine-month period ended September 30, 2021, other income (loss) was \$32.1 million, consisting primarily of \$13.6 million of net realized and unrealized gains on our securities and loans, \$10.6 million of net realized and unrealized gains on our financial derivatives, and \$9.3 million of Other, net, which primarily comprises other non-interest income related to our loan portfolios. Net realized and unrealized gains of \$13.6 million on our securities and loans primarily resulted from net realized and unrealized gains on CMBS and CLOs, partially offset by net realized and unrealized losses on Agency RMBS. The net realized and unrealized gains on our CMBS and CLOs were driven by tighter yield spreads, while the net realized and unrealized losses in the Agency portfolio were due to wider yield spreads. Net realized and unrealized gains of \$10.6 million on our financial derivatives were primarily related to net realized and unrealized gains on interest rate swaps, short TBAs, futures, and forwards, as long-term interest rates increased during the period, partially offset by net realized and unrealized losses on CDS on corporate bond indices and total return swaps.

For the nine-month period ended September 30, 2020, other income (loss) was \$(97.4) million, consisting primarily of net realized and unrealized losses of \$(67.8) million on our securities and loans and net realized and unrealized losses on our financial derivatives of \$(27.8) million. Net realized and unrealized losses of \$(67.8) million on our securities and loans primarily resulted from net unrealized losses on CLOs, non-Agency RMBS, CMBS, and consumer loans and ABS backed by consumer loans, partially offset by net unrealized gains on Agency RMBS and non-QM loans. These unrealized losses were primarily due to the market and economic disruptions caused by the COVID-19 pandemic. Net realized and unrealized losses of \$(27.8) million on our financial derivatives was primarily related to net realized and unrealized losses on interest rate swaps, TBAs, futures, and total return swaps, partially offset by net realized and unrealized gains on CDS on asset-backed indices, CDS on corporate bond indices, and CDS on corporate bonds.

Income Tax Expense (Benefit)

Income tax expense (benefit) was \$3.1 million for the nine-month period ended September 30, 2021, as compared to \$3.5 million for the nine-month period ended September 30, 2020. The income tax expense in both periods was related to net realized and unrealized gains on investments held in a domestic TRS.

Earnings (Losses) from Investments in Unconsolidated Entities

We have elected the fair value option for our equity investments in unconsolidated entities. Earnings (losses) from investments in unconsolidated entities was \$27.8 million for the nine-month period ended September 30, 2021, as compared to \$10.6 million for the nine-month period ended September 30, 2020. The increase in earnings from investments in unconsolidated entities primarily relates to an increase in unrealized gains on investments in loan originators period over period, an increase in net realized and unrealized gains on our investments in entities holding commercial mortgage loans and REO, in

which we co-invest with other Ellington affiliates, and unrealized gains on an equity investment in a securitization-related risk retention vehicle for the nine-month period ended September 30, 2021.

Liquidity and Capital Resources

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

The following summarizes our borrowings under repos by remaining maturity:

<i>(In thousands)</i>	September 30, 2021		December 31, 2020	
	Outstanding Borrowings	% of Total	Outstanding Borrowings	% of Total
Remaining Days to Maturity				
30 Days or Less	\$ 395,780	18.8 %	\$ 303,351	20.3 %
31 - 60 Days	235,407	11.2 %	469,695	31.4 %
61 - 90 Days	394,898	18.7 %	327,012	21.8 %
91 - 120 Days	60,787	2.9 %	89,931	6.0 %
121 - 150 Days	196,073	9.3 %	69,104	4.6 %
151 - 180 Days	90,435	4.3 %	70,920	4.7 %
181 - 364 Days	698,522	33.2 %	72,670	4.9 %
> 364 Days	33,934	1.6 %	94,248	6.3 %
	<u>\$ 2,105,836</u>	<u>100.0 %</u>	<u>\$ 1,496,931</u>	<u>100.0 %</u>

Repos involving underlying investments that were sold prior to September 30, 2021 for settlement following September 30, 2021, are shown using their contractual maturity dates even though such repos may be expected to be terminated early upon settlement of the sale of the underlying investment.

The amounts borrowed under our repo agreements are generally subject to the application of "haircuts." A haircut is the percentage discount that a repo lender applies to the market value of an asset serving as collateral for a repo borrowing, for the purpose of determining whether such repo borrowing is adequately collateralized. As of September 30, 2021, the weighted average contractual haircut applicable to the assets that serve as collateral for our outstanding repo borrowings (excluding repo borrowings related to U.S. Treasury securities) was 25.4% with respect to credit assets, 5.5% with respect to Agency RMBS assets, and 13.2% overall. As of December 31, 2020 these respective weighted average contractual haircuts were 33.0%, 6.0%, and 19.1%. The decrease in the weighted average contractual haircut on our overall portfolio is primarily due to lower haircuts on repo borrowings related to our Credit portfolio and to a lesser extent from the higher share of our outstanding borrowings on Agency assets at September 30, 2021 as compared to December 31, 2020.

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

As of September 30, 2021 and December 31, 2020, we had \$2.1 billion and \$1.5 billion, respectively, of borrowings outstanding under our repos. As of September 30, 2021, the remaining terms on our repos ranged from 1 day to 730 days, with a weighted average remaining term of 147 days. Our repo borrowings were with a total of 24 counterparties as of September 30, 2021. As of September 30, 2021, our repos had a weighted average borrowing rate of 0.80%. As of September 30, 2021, our repos had interest rates ranging from 0.10% to 3.75%. As of December 31, 2020, the remaining terms on our repos ranged from

4 days to 516 days, with a weighted average remaining term of 94 days. Our repo borrowings were with a total of 24 counterparties as of December 31, 2020. As of December 31, 2020, our repos had a weighted average borrowing rate of 1.20%. As of December 31, 2020, our repos had interest rates ranging from 0.20% to 5.00%. Investments transferred as collateral under repos had an aggregate fair value of \$2.4 billion and \$1.8 billion as of September 30, 2021 and December 31, 2020, respectively.

Historically, the interest rates of our repos have been highly correlated with, and often have been explicitly indexed to, certain benchmark interest rates such as LIBOR or SOFR. It is expected that amounts due upon maturity of our repos will be funded primarily through the roll/re-initiation of repos and, if we are unable or unwilling to roll/re-initiate our repos, through free cash and proceeds from the sale of securities.

We have continued to extend and improve our sources of financing and leverage in 2021. In addition to adding two new loan financing facilities and extending the terms of other financing facilities, we completed two non-QM loan securitizations during the nine-month period ended September 30, 2021, and a third non-QM loan securitization subsequent to the third quarter.

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

Quarter Ended	Borrowings Outstanding at Quarter End	Average Borrowings Outstanding <i>(In thousands)</i>	Maximum Borrowings Outstanding at Any Month End
September 30, 2021	\$ 2,105,836	\$ 1,958,411	\$ 2,175,918
June 30, 2021	1,916,749	1,971,441	2,062,580
March 31, 2021	1,909,511	1,736,912	1,909,511
December 31, 2020	1,496,931	1,408,935	1,496,931
September 30, 2020	1,439,984	1,368,191	1,551,147
June 30, 2020 ⁽¹⁾	1,294,549	1,520,985	1,542,577
March 31, 2020 ⁽²⁾	2,034,225	2,440,982	2,485,496
December 31, 2019 ⁽³⁾	2,445,300	2,119,394	2,445,300
September 30, 2019	2,056,422	1,796,310	2,056,422
June 30, 2019	1,715,506	1,769,909	1,962,866
March 31, 2019	1,550,016	1,471,592	1,550,016
December 31, 2018	1,498,849	1,509,819	1,595,118

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

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

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

In addition to our borrowings under repos, we have entered into various other types of transactions to finance certain of our investments, including non-QM loans and REO, commercial mortgage loans, and consumer loans and ABS backed by consumer loans; such transactions are accounted for as collateralized borrowings. As of September 30, 2021 and December 31, 2020, we had outstanding borrowings related to such transactions in the amount of \$963.3 million and \$806.0 million, respectively, which is reflected under the captions "Other secured borrowings" and "Other secured borrowings, at fair value" on the Condensed Consolidated Balance Sheet. As of September 30, 2021 and December 31, 2020, the fair value of non-QM loans, consumer loans and ABS backed by consumer loans, and small balance commercial mortgage loans collateralizing our Total other secured borrowings was \$1.056 billion and \$906.4 million, respectively. See Note 11 in the notes to our condensed consolidated financial statements for further information on our other secured borrowings.

As of both September 30, 2021 and December 31, 2020, we had \$86.0 million outstanding of Senior Notes, maturing in September 2022 and bearing interest at a rate of 5.50%, subject to adjustment based on changes, if any, in the ratings of the Senior Notes. See Note 11 in the notes to our condensed consolidated financial statements for further detail on the Senior Notes.

As of September 30, 2021, we had an aggregate amount at risk under our repos with 24 counterparties of approximately \$337.6 million, and as of December 31, 2020, we had an aggregate amount at risk under our repos with 24 counterparties of approximately \$363.1 million. Amounts at risk represent the excess, if any, for each counterparty of the fair value of collateral held by such counterparty over the amounts outstanding under repos. If the amounts outstanding under repos with a particular

counterparty are greater than the collateral held by the counterparty, there is no amount at risk for the particular counterparty. Amount at risk as of September 30, 2021 and December 31, 2020 does not include approximately \$3.7 million and \$4.2 million, respectively, of net accrued interest receivable, which is defined as accrued interest on securities held as collateral less interest payable on cash borrowed.

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

As of September 30, 2021, we had an aggregate amount at risk under our derivative contracts, excluding TBAs, with 10 counterparties of approximately \$27.9 million. We also had \$12.0 million of initial margin for cleared over-the-counter, or "OTC," derivatives posted to central clearinghouses as of that date. As of December 31, 2020, we had an aggregate amount at risk under our derivatives contracts, excluding TBAs, with eight counterparties of approximately \$11.2 million. We also had \$7.2 million of initial margin for cleared OTC derivatives posted to central clearinghouses as of that date. Amounts at risk under our derivatives contracts represent the excess, if any, for each counterparty of the fair value of our derivative contracts plus our collateral held directly by the counterparty less the counterparty's collateral held by us. If a particular counterparty's collateral held by us is greater than the aggregate fair value of the financial derivatives plus our collateral held directly by the counterparty, there is no amount at risk for the particular counterparty.

We purchase and sell TBAs and Agency pass-through certificates on a when-issued or delayed delivery basis. The delayed delivery for these securities means that these transactions are more prone to market fluctuations between the trade date and the ultimate settlement date, and therefore are more vulnerable, especially in the absence of margining arrangements with respect to these transactions, to increasing amounts at risk with the applicable counterparties. As of September 30, 2021, in connection with our forward settling TBA and Agency pass-through certificates, we had an aggregate amount at risk with 9 counterparties of approximately \$4.8 million. As of December 31, 2020, in connection with our forward settling TBA and Agency pass-through certificates, we had an aggregate amount at risk with six counterparties of approximately \$4.1 million. Amounts at risk in connection with our forward settling TBA and Agency pass-through certificates represent the excess, if any, for each counterparty of the net fair value of the forward settling transactions plus our collateral held directly by the counterparty less the counterparty's collateral held by us. If a particular counterparty's collateral held by us is greater than the aggregate fair value of the forward settling transactions plus our collateral held directly by the counterparty, there is no amount at risk for the particular counterparty.

We held cash and cash equivalents of approximately \$103.6 million and \$111.6 million as of September 30, 2021 and December 31, 2020, respectively.

On June 13, 2018, our Board of Directors approved the adoption of a share repurchase program under which we are authorized to repurchase up to 1.55 million shares of common stock. 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 under 10b5-1 plans. Repurchases are at our discretion, subject to applicable law, share availability, price and our financial performance, among other considerations. In addition to making discretionary repurchases, we from time to time use 10b5-1 plans to increase the number of trading days available to implement these repurchases. From inception of the current repurchase plan through August 6, 2021, we repurchased 701,965 shares at an average price per share of \$13.36 and a total cost of \$9.4 million, and have authorization to repurchase an additional 848,035 common shares. We did not purchase any shares during the nine-month period ended September 30, 2021.

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

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

Nine-Month Period Ended September 30, 2021

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

Nine-Month Period Ended September 30, 2020

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

On October 7, 2021, the Board of Directors approved a dividend in the amount of \$0.15 per share of common stock payable on November 26, 2021 to stockholders of record as of October 29, 2021. On November 5, 2021, the Board of Directors approved a dividend in the amount of \$0.15 per share of common stock payable on December 27, 2021 to stockholders of record as of November 30, 2021.

The following table sets forth the dividend distributions authorized by the Board of Directors during the nine-month periods ended September 30, 2021 and 2020 and payable to holders of our Series A Preferred Stock:

Declaration Date	Dividend Per Share		Dividend Amount		Record Date	Payment Date
			<i>(In thousands)</i>			
July 8, 2021	\$	0.421875	\$	1,941	July 19, 2021	July 30, 2021
April 4, 2021		0.421875		1,941	April 19, 2021	April 30, 2021
January 8, 2021		0.421875		1,941	January 19, 2021	February 1, 2021
July 8, 2020		0.421875		1,941	July 20, 2020	July 30, 2020
April 7, 2020		0.421875		1,941	April 17, 2020	April 30, 2020

On October 7, 2021, the Board of Directors approved a dividend in the amount of \$0.421875 per share of Series A Preferred Stock payable on November 1, 2021 to stockholders of record as of October 18, 2021.

On August 6, 2021, we commenced an "at-the-market" offering program, or "ATM program," by entering into equity distribution agreements with third party sales agents under which we are authorized to offer and sell up to 10.0 million shares of common stock from time to time. From commencement of the ATM program through September 30, 2021, we issued 1,549,900 shares of common stock under the ATM program, which provided \$28.2 million of net proceeds after \$0.4 million of agent commissions and offering costs. Through November 5, 2021, we have issued 1,549,900 shares of common stock under the ATM program.

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

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

For the nine-month period ended September 30, 2021, our operating activities provided net cash in the amount of \$58.8 million and our investing activities used net cash in the amount of \$1.222 billion. Our repo activity used to finance many of our investments (including repayments of amounts borrowed under our repos) provided net cash of \$620.1 million. We received \$599.3 million in proceeds from the issuance of Total other secured borrowings and we used \$137.2 million for principal payments on our Total other secured borrowings. Thus our operating and investing activities, when combined with our repo financings and Other secured borrowings (net of repayments), used net cash of \$81.4 million for the nine-month period ended September 30, 2021. We received proceeds from the issuance of common stock, net of underwriters' discounts and commissions and offering costs paid, of \$141.1 million, and we received contributions from non-controlling interests of \$10.7 million. We used \$58.5 million to pay dividends and \$20.3 million for distributions to non-controlling interests (our joint venture partners). As a result there was a decrease in our cash holdings of \$8.0 million, from \$111.8 million as of December 31, 2020 to \$103.8 million as of September 30, 2021.

For the nine-month period ended September 30, 2020, our operating activities provided net cash in the amount of \$82.5 million and our investing activities provided net cash in the amount of \$713.5 million. Our repo activity used to finance many of our investments (including repayments of amounts borrowed under our repos) used net cash of \$975.6 million. We received \$251.3 million in proceeds from the issuance of Total other secured borrowings and we used \$59.9 million for principal payments on Other secured borrowings. Thus our operating and investing activities, when combined with our repo financings and Other secured borrowings (net of repayments), provided net cash of \$11.7 million for the nine-month period ended September 30, 2020. We received proceeds from the issuance of common stock, net of offering costs paid, of \$95.3 million and contributions from non-controlling interests provided cash of \$9.1 million. We used \$50.6 million to pay dividends, \$8.0 million for distributions to non-controlling interests (our joint venture partners), and \$3.1 million to repurchase common stock. As a result there was an increase in our cash holdings of \$54.5 million, from \$72.5 million as of December 31, 2019 to \$127.0 million as of September 30, 2020.

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

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

Contractual Obligations and Commitments

We are a party to a management agreement with our Manager. Pursuant to that agreement, our Manager is entitled to

receive a base management fee, an incentive fee, reimbursement of certain expenses and, in certain circumstances, a termination fee. Such fees and expenses do not have fixed and determinable payments. For a description of the management agreement provisions, see Note 13 to our condensed consolidated financial statements.

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

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

Off-Balance Sheet Arrangements

As of September 30, 2021, we did not have any material relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed any obligations of unconsolidated entities nor do we have any commitment to provide funding to any such entities that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or resources that would be material to an investor in our securities. As such, we are not materially exposed to any market, credit, liquidity, or financing risk that could arise if we had engaged in such relationships.

At September 30, 2021 we have not entered into any repurchase agreements for which delivery of the borrowed funds is not scheduled until after period end.

Inflation

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The primary components of our market risk at September 30, 2021 are related to credit risk, prepayment risk, and interest rate risk. We seek to actively manage these and other risks and to acquire and hold assets that we believe justify bearing those risks, and to maintain capital levels consistent with those risks.

Credit Risk

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

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

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

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

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

Default Risk

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

Severity Risk

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

Prepayment Risk

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

Interest Rate Risk

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations, and other factors beyond our control. We are subject to interest rate risk in connection with most of our assets and liabilities. For some securities in our portfolio, the coupon interest rates on, and therefore also the values of, such securities are highly sensitive to interest rate movements, such as inverse floating rate RMBS, which benefit from falling interest rates. Historically, the interest rates of our repurchase agreements have been highly correlated with, and often have been explicitly indexed to, certain benchmark interest rates such as LIBOR or SOFR. Whenever one of our repo borrowings matures, it will generally be replaced with a new repo borrowing based on market interest rates prevailing at such time. Subject to maintaining our qualification as a REIT and our exclusion from registration under the Investment Company Act, we opportunistically hedge our interest rate risk by entering into interest rate swaps, TBAs, U.S. Treasury securities, Eurodollar futures, U.S. Treasury futures, and other instruments. In general, such hedging instruments are used to mitigate the interest rate risk arising from the mismatch between the duration of our financed assets and the duration of the liabilities used to finance such assets. The majority of this mismatch currently relates to our Agency RMBS.

The following sensitivity analysis table shows the estimated impact on the value of our portfolio segregated by certain identified categories as of September 30, 2021, assuming a static portfolio and immediate and parallel shifts in interest rates from current levels as indicated below.

<i>(In thousands)</i>	Estimated Change for a Decrease in Interest Rates by				Estimated Change for an Increase in Interest Rates by			
	50 Basis Points		100 Basis Points		50 Basis Points		100 Basis Points	
	Market Value	% of Total Equity	Market Value	% of Total Equity	Market Value	% of Total Equity	Market Value	% of Total Equity
Agency RMBS—Fixed Pools and IOs excluding TBAs	\$ 19,256	1.76 %	\$ 28,139	2.57 %	\$ (29,632)	(2.71)%	\$ (69,637)	(6.36)%
Non-Agency RMBS, CMBS, ABS and Loans	10,021	0.92 %	16,679	1.52 %	(13,383)	(1.22)%	(30,129)	(2.75)%
U.S. Treasury Securities, and Interest Rate Swaps, Options, and Futures	(23,654)	(2.16)%	(47,984)	(4.38)%	22,979	2.10 %	45,282	4.13 %
Long TBAs	7,377	0.67 %	12,359	1.13 %	(9,771)	(0.89)%	(21,937)	(2.00)%
Short TBAs	(10,174)	(0.93)%	(13,980)	(1.28)%	16,543	1.51 %	39,454	3.60 %
Other Mortgage-Related Derivatives	1	— %	3	— %	(1)	— %	(1)	— %
Corporate Securities and Derivatives on Corporate Securities	7	— %	14	— %	(7)	— %	(15)	— %
Repurchase Agreements, Reverse Repurchase Agreements, and Senior Notes	(1,433)	(0.13)%	(1,430)	(0.13)%	3,824	0.35 %	8,009	0.73 %
Total	\$ 1,401	0.13 %	\$ (6,200)	(0.57)%	\$ (9,448)	(0.86)%	\$ (28,974)	(2.65)%

The preceding analysis does not show sensitivity to changes in interest rates for instruments for which we believe that the effect of a change in interest rates is not material to the value of the overall portfolio and/or cannot be accurately estimated. In particular, this analysis excludes certain of our holdings of corporate securities and derivatives on corporate securities, and reflects only sensitivity to U.S. interest rates.

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

The above analysis utilizes assumptions and estimates based on management's judgment and experience, and relies on financial models, which are inherently imperfect; in fact, different models can produce different results for the same securities. While the table above reflects the estimated impacts of immediate parallel interest rate increases and decreases on specific categories of instruments in our portfolio, we actively trade many of the instruments in our portfolio, and therefore our current or future portfolios may have risks that differ significantly from those of our September 30, 2021 portfolio estimated above.

Moreover, the impact of changing interest rates on fair value can change significantly when interest rates change by a greater amount than the hypothetical shifts assumed above. Furthermore, our portfolio is subject to many risks other than interest rate risks, and these additional risks may or may not be correlated with changes in interest rates. For all of the foregoing reasons and others, the table above is for illustrative purposes only and actual changes in interest rates would likely cause changes in the actual fair value of our portfolio that would differ from those presented above, and such differences might be significant and adverse. See "*Special Note Regarding Forward-Looking Statements.*"

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 September 30, 2021. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2021.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2021 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 "Part I, Item 1A. Risk Factors—We, Ellington, or its affiliates may be subject to regulatory inquiries and proceedings, or other legal proceedings" of our Annual Report on Form 10-K for the year ended December 31, 2020, as amended.

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, 2020, as amended. 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 2. Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities

On July 30, 2021, we issued 37,373 shares of our common stock to our Manager for payment of 10% of the incentive fee incurred. This issuance was exempt from the registration requirements of the Securities Act based on the exemption provided by Section 4(a)(2) of the Securities Act.

On September 13, 2021, we issued 5,710 common shares in exchange for limited liability company interests ("OP LTIP Units") held by one of our directors. This issuance was exempt from the registration requirements of the Securities Act based on the exemption provided by Section 4(a)(2) of the Securities Act.

On September 14, 2021, we granted 4,066 OP LTIP Units to Ronald I. Simon, Ph.D., 4,066 OP LTIP units to Edward Resendez, 4,066 OP LTIP units to Lisa Mumford, and 4,066 OP LTIP units to Stephen J. Dannhauser, as compensation for serving as directors.

OP LTIP Units may be converted, upon lapse of the applicable vesting restrictions, at the election of the holder, or at any time at our election, into limited liability company interests of the Operating Partnership designated as common units ("Common Units") on a one-for-one basis. Subject to certain conditions, the Common Units are redeemable by the holder for an equivalent number of our common shares or for the cash value of such common shares, at our election. These grants were made pursuant to our 2017 Equity Incentive Plan and such grants were exempt from the registration requirements of the Securities Act based on the exemption provided in Section 4(a)(2) of the Securities Act.

Item 6. Exhibits

<u>Exhibit</u>	<u>Description</u>
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes – Oxley Act of 2002
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes – Oxley Act of 2002
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

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

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: November 9, 2021

ELLINGTON FINANCIAL INC.
By: /s/ LAURENCE PENN
Laurence Penn
Chief Executive Officer
(Principal Executive Officer)

Date: November 9, 2021

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

Date: November 9, 2021

/s/ Laurence Penn

Laurence Penn
Chief Executive Officer
(Principal Executive Officer)

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

I, JR Herlihy, certify that:

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

Date: November 9, 2021

/s/ JR Herlihy

JR Herlihy

Chief Financial Officer

(Principal Financial and Accounting Officer)

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

In connection with the Quarterly Report of Ellington Financial Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Laurence Penn, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: November 9, 2021

/s/ Laurence Penn

Laurence Penn
Chief Executive Officer
(Principal Executive Officer)

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

In connection with the Quarterly Report of Ellington Financial Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, JR Herlihy, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: November 9, 2021

/s/ JR Herlihy
JR Herlihy
Chief Financial Officer
(Principal Financial and Accounting Officer)
